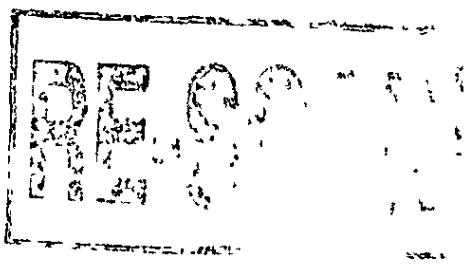
Abbott (UK) Finance Limited

Directors' Report and Financial Statements

for the Year Ended 31 December 2012



Registration number 3949843

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Abbott (UK) Finance 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

M Smith

C Soenderby (resigned 1 January 2013)

S Hudson

Principal activity
The principal activity of the company is that of a finance company to other Abbott Laboratories group companies There have not been any significant changes in the company's principal activities in the year under review The directors are not aware, at the date of this report, of any likely major changes in the company's activities next year

Business review

Fair review of the business
The profit after tax for the period was £2,646,000 (2011 £2,273,000)

Principal risks and uncertainties
The company has significant financial resources which are subject to interest rate risk The directors believe that the company is well placed to manage its business risk 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 year 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 auditors Deloitte LLP are deemed to be reappointed under section 487(2) of the Companies Act 2006

Approved by the Board on 23 September 2013 and signed on its behalf by

K Gogay
Company secretary

Abbott (UK) Finance 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 Abbott (UK) Finance Limited

We have audited the financial statements of Abbott (UK) Finance Limited for the year ended 31 December 2012, set out on pages 5 to 10 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 2), 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

23 September 2013

Abbott (UK) Finance Limited
Profit and Loss Account for the
Year Ended 31 December 2012

	Note	2012 £ 000	2011 £ 000
Turnover		-	-
Operating profit/(loss)		-	-
Other interest receivable and similar income	3	2,646	2,273
Profit on ordinary activities before taxation		2,646	2,273
Profit for the financial year	8	2,646	2,273

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

Abbott (UK) Finance Limited

(Registration number: 3949843)

Balance Sheet at 31 December 2012

	Note	2012 £ 000	2011 £ 000
Current assets			
Debtors	6	56,238	53,592
Debtors - over 1 yr		128,302	128,302
Net assets		184,540	181,894
Share capital and reserves			
Called up share capital		-	-
Other reserves	8	108,000	108,000
Profit and loss account	8	76,540	73,894
Shareholders' funds	9	184,540	181,894

Approved by the Board on 23 September 2013 and signed on its behalf by

M Smith
Director

1 Accounting policies

A summary of the principal accounting policies, all of which have been applied consistently throughout the period and the preceding year is as follows -

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 the 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 differences can be deducted

Interest Income

Interest income is due to the company on cash deposits with affiliated companies or third party banks Interest income is calculated on a daily basis and accrued monthly

2 Auditor's remuneration

Auditor remuneration of £4,000 (2011 £4,000) is borne by the immediate parent company, Abbott (UK) Holdings Limited

3 Other interest receivable and similar income

	2012 £ 000	2011 £ 000
Interest from group companies	2,646	2,273

4 Staff costs

During the current period and prior year all the directors were paid by other affiliates within the Abbott Laboratories group of companies They received no emoluments from the company The company has no other employees

5 Taxation

Tax on profit on ordinary activities

	2012 £ 000	2011 £ 000
Total current tax	-	-

Factors affecting current tax charge for the year

Tax on profit on ordinary activities for the year is lower than (2011 - lower than) 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	2,646	2,273
Corporation tax at standard rate	648	602
Group relief - losses surrendered from affiliated companies	(648)	(602)
Total current tax	-	-

6 Debtors

	2012 £ 000	2011 £ 000
Amounts owed by group undertakings	184,540	181,894

Debtors includes £128,302,000 (2011 - £128,302,000) receivable after more than one year

7 Share capital

Allotted, issued and unpaid

	31 December 2012 £ 000	31 December 2011 £ 000
100 ordinary shares of £1 each	-	-

8 Reserves

	Other reserves £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2012	108,000	73,894	181,894
Profit for the year	-	2,646	2,646
At 31 December 2012	108,000	76,540	184,540

9 Reconciliation of movement in shareholders' funds

	2012 £ 000	2011 £ 000
Profit attributable to the members of the company	2,646	2,273
Net addition to shareholders' funds	2,646	2,273
Shareholders' funds at 1 January	181,894	179,621
Shareholders' funds at 31 December	184,540	181,894

10 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

11 Control

The company is controlled by the immediate parent company Abbott (UK) Holdings Limited The smallest and largest group into which the results of Abbott (UK) Finance 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

2012 Financial Report

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Consolidated Statement of Earnings

(dollars and shares in thousands except per share data)

Year Ended December 31	2012	2011	2010
Net Sales	$39,873,910	$38,851,259	$35,166,721
Cost of products sold	15,119,718	15,540,580	14,665,192
Research and development	4,322,182	4,129,414	3,724,424
Acquired in-process and collaborations research and development	288,000	672,500	313,200
Selling, general and administrative	12,059,495	12,756,817	10,376,324
Total Operating Cost and Expenses	31,789,395	33,099,311	29,079,140
Operating Earnings	8,084,515	5,751,948	6,087,581
Interest expense	592,403	530,141	553,135
Interest (income)	(79,225)	(85,196)	(105,453)
Net loss on extinguishment of debt	1,350,973	–	–
Net foreign exchange (gain) loss	(8,044)	(50,271)	(10,924)
Other (income) expense, net	(34,206)	158,632	(62,011)
Earnings Before Taxes	6,262,614	5,198,642	5,712,834
Taxes on Earnings	299,694	470,193	1,086,662
Net Earnings	$ 5,962,920	$ 4,728,449	$ 4,626,172
Basic Earnings Per Common Share	$ 3 76	$ 3 03	$ 2 98
Diluted Earnings Per Common Share	$ 3 72	$ 3 01	$ 2 96
Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share	1,575,378	1,557,643	1,546,400
Dilutive Common Stock Options and Awards	16,460	9,746	9,622
Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options and Awards	1,591,838	1,567,389	1,556,022
Outstanding Common Stock Options Having No Dilutive Effect	1,166	26,789	29,403

The accompanying notes to consolidated financial statements are an integral part of this statement

Consolidated Statement of Comprehensive Income

(dollars in thousands)

Year Ended December 31	2012	2011	2010
Net Earnings	$5,962,920	$ 4,728,449	$ 4,626,172
Foreign currency translation (loss) adjustments	(6,826)	(817,539)	(2,290,256)
Net actuarial (losses) and prior service cost and credits and amortization of net actuarial losses and prior service cost and credits, net of taxes of $(276,076) in 2012, $(391,528) in 2011 and $(70,389) in 2010	(864,935)	(510,444)	(59,447)
Unrealized (losses) gains on marketable equity securities, net of taxes of $(4,079) in 2012, $8,338 in 2011 and $61 in 2010	(7,066)	14,442	106
Net adjustments for derivative instruments designated as cash flow hedges, net of taxes of $(29,417) in 2012, $19,857 in 2011 and $20,567 in 2010	(117,666)	83,202	128,677
Other Comprehensive (loss)	(996,493)	(1,230,339)	(2,220,920)
Comprehensive Income	$4,966,427	$ 3,498,110	$ 2,405,252

Supplemental Accumulated Other Comprehensive Income Information, net of tax as of December 31			
Cumulative foreign currency translation loss (gain) adjustments	$ 79,353	$ 72,527	$ (745,012)
Net actuarial losses and prior service cost and credits	3,595,554	2,730,619	2,220,175
Cumulative unrealized (gains) on marketable equity securities	(31,363)	(38,429)	(23,987)
Cumulative (gains) on derivative instruments designated as cash flow hedges	(49,866)	(167,532)	(84,330)

The accompanying notes to consolidated financial statements are an integral part of this statement

Consolidated Statement of Cash Flows

(dollars in thousands)

Year Ended December 31	2012	2011	2010
Cash Flow From (Used in) Operating Activities			
Net earnings	$ 5,962,920	$ 4,728,449	$ 4,626,172
Adjustments to reconcile earnings to net cash from operating activities —			
Depreciation	1,363,673	1,395,371	1,207,450
Amortization of intangible assets	1,419,534	1,648,523	1,416,855
Share-based compensation	433,114	382,602	387,183
Acquired in-process and collaborations research and development	288,000	672,500	313,200
Investing and financing (gains) losses, net	356,020	141,565	126,337
Net loss on extinguishment of debt	1,350,973	—	—
Trade receivables	36,996	(670,152)	(394,665)
Inventories	(417,053)	(129,621)	139,857
Prepaid expenses and other assets	(35,298)	413,266	553,145
Trade accounts payable and other liabilities	(134,209)	1,789,652	572,533
Income taxes	(1,309,269)	(1,402,078)	(212,086)
Net Cash From Operating Activities	9,314,401	8,970,077	8,735,981
Cash Flow From (Used in) Investing Activities			
Acquisitions of businesses and technologies, net of cash acquired	(1,227,473)	(672,500)	(9,433,243)
Acquisitions of property and equipment	(1,795,289)	(1,491,500)	(1,015,075)
Purchases of investment securities	(11,997,654)	(5,109,987)	(805,932)
Proceeds from sales of investment securities	8,936,406	5,648,720	954,361
Release of (deposit of) restricted funds	—	1,870,000	(1,870,000)
Other	2,722	16,099	(18,426)
Net Cash (Used in) From Investing Activities	(6,081,288)	260,832	(12,188,315)
Cash Flow From (Used in) Financing Activities			
Proceeds from issuance of (repayments of) short-term debt and other	783,868	(1,964,685)	(203,854)
Proceeds from issuance of long-term debt and debt with maturities over 3 months	14,700,000	1,000,000	4,000,000
Repayments of long-term debt and debt with maturities over 3 months	(11,071,178)	(3,012,426)	(1,673,998)
Purchases of common shares	(2,364,240)	(77,007)	(866,825)
Proceeds from stock options exercised, including income tax benefit	1,850,454	968,759	328,411
Dividends paid	(3,182,811)	(2,938,096)	(2,671,475)
Net Cash From (Used in) Financing Activities	716,093	(6,023,455)	(1,087,741)
Effect of exchange rate changes on cash and cash equivalents	40,137	(43,005)	(620,893)
Net Increase (Decrease) in Cash and Cash Equivalents	3,989,343	3,164,449	(5,160,968)
Cash and Cash Equivalents, Beginning of Year	6,812,820	3,648,371	8,809,339
Cash and Cash Equivalents, End of Year	$ 10,802,163	$ 6,812,820	$ 3,648,371
Supplemental Cash Flow Information			
Income taxes paid	$ 1,366,581	$ 1,781,602	$ 809,710
Interest paid	575,895	544,559	580,168

The accompanying notes to consolidated financial statements are an integral part of this statement

Consolidated Balance Sheet

(dollars in thousands)

December 31	2012	2011	2010
Assets			
Current Assets			
Cash and cash equivalents	$10,802,163	$ 6,812,820	$ 3,648,371
Investments, primarily bank time deposits and U S treasury bills	4,371,821	1,284,539	1,803,079
Restricted funds, primarily U S treasury bills	—	—	1,872,490
Trade receivables, less allowances of —			
2012 $405,921, 2011 $420,579, 2010 $388,564	7,612,860	7,683,920	7,184,034
Inventories			
Finished products	2,345,455	2,220,527	2,058,735
Work in process	628,874	432,358	383,580
Materials	817,984	631,364	746,419
Total inventories	3,792,313	3,284,249	3,188,734
Deferred income taxes	2,986,216	2,700,540	3,076,051
Other prepaid expenses and receivables	1,757,210	2,002,706	1,544,770
Total Current Assets	31,322,583	23,768,774	22,317,529
Investments	273,595	378,225	302,049
Property and Equipment, at Cost			
Land	604,462	633,917	648,988
Buildings	4,259,240	4,467,387	4,334,236
Equipment	13,110,833	12,216,388	11,813,618
Construction in progress	954,352	698,873	577,460
	18,928,887	18,016,565	17,374,302
Less accumulated depreciation and amortization	10,865,840	10,142,610	9,403,346
Net Property and Equipment	8,063,047	7,873,955	7,970,956
Intangible Assets, net of amortization	8,588,285	9,989,636	12,151,628
Goodwill	15,774,127	15,705,380	15,930,077
Deferred Income Taxes and Other Assets	3,213,307	2,560,923	1,901,613
	$67,234,944	$60,276,893	$60,573,852

Consolidated Balance Sheet

(dollars in thousands)

December 31	2012	2011	2010
Liabilities and Shareholders' Investment			
Current Liabilities			
Short-term borrowings	$ 2,081,839	$ 2,347,859	$ 4,349,796
Trade accounts payable	1,796,990	1,721,127	1,535,759
Salaries, wages and commissions	1,427,765	1,260,121	1,328,665
Other accrued liabilities	6,787,995	7,854,994	6,014,772
Dividends payable	221,340	754,284	680,749
Income taxes payable	655,424	514,947	1,307,723
Current portion of long term debt	308,823	1,026,896	2,044,970
Total Current Liabilities	13,280,176	15,480,228	17,262,434
Long-term Debt	18,085,302	12,039,822	12,523,517
Post-employment Obligations and Other Long-term Liabilities	9,056,234	8,230,698	8,022,770
Commitments and Contingencies			
Shareholders' Investment			
Preferred shares, one dollar par value			
Authorized — 1,000,000 shares, none issued	–	–	–
Common shares, without par value			
Authorized — 2,400,000,000 shares			
Issued at stated capital amount —			
Shares 2012 1,675,930,484,			
2011 1,638,870,201, 2010 1,619,689,876	11,754,552	9,817,134	8,744,703
Common shares held in treasury, at cost —			
Shares 2012 99,262,992,			
2011 68,491,382, 2010 72,705,928	(5,590,909)	(3,687,478)	(3,916,823)
Earnings employed in the business	24,150,996	20,907,362	19,215,768
Accumulated other comprehensive income (loss)	(3,593,678)	(2,597,185)	(1,366,846)
Total Abbott Shareholders' Investment	26,720,961	24,439,833	22,676,802
Noncontrolling Interests in Subsidiaries	92,271	86,312	88,329
Total Shareholders' Investment	26,813,232	24,526,145	22,765,131
	$67,234,944	$60,276,893	$60,573,852

The accompanying notes to consolidated financial statements are an integral part of this statement

Consolidated Statement of Shareholders' Investment

(dollars in thousands except per share data)

Year Ended December 31	2012	2011	2010
Common Shares			
Beginning of Year			
Shares 2012 1,638,870,201, 2011 1,619,689,876, 2010 1,612,683,987	$ 9,817,134	$ 8,744,703	$ 8,257,873
Issued under incentive stock programs			
Shares 2012 37,060,283, 2011 19,180,325, 2010 7,005,889	1,853,574	954,148	316,071
Share-based compensation	434,601	382,326	388,493
Issuance of restricted stock awards	(350,757)	(264,043)	(217,734)
End of Year			
Shares 2012 1,675,930,484, 2011 1,638,870,201, 2010 1,619,689,876	$11,754,552	$ 9,817,134	$ 8,744,703
Common Shares Held In Treasury			
Beginning of Year			
Shares 2012 68,491,382, 2011 72,705,928, 2010 61,516,398	$ (3,687,478)	$ (3,916,823)	$ (3,310,347)
Issued under incentive stock programs			
Shares 2012 6,691,748, 2011 4,638,841, 2010 4,166,200	362,764	249,876	224,237
Purchased			
Shares 2012 37,463,358, 2011 424,295, 2010 15,355,730	(2,266,195)	(20,531)	(830,713)
End of Year			
Shares 2012 99,262,992, 2011 68,491,382, 2010 72,705,928	$ (5,590,909)	$ (3,687,478)	$ (3,916,823)
Earnings Employed in the Business			
Beginning of Year	$20,907,362	$19,215,768	$17,342,694
Net earnings	5,962,920	4,728,449	4,626,172
Cash dividends declared on common shares			
(per share — 2012 $1 67, 2011 $1 92, 2010 $1 76)	(2,649,866)	(3,011,631)	(2,731,584)
Effect of common and treasury share transactions	(69,420)	(25,224)	(21,514)
End of Year	$24,150,996	$20,907,362	$19,215,768
Accumulated Other Comprehensive Income (Loss)			
Beginning of Year	$ (2,597,185)	$ (1,366,846)	$ 854,074
Other comprehensive income (loss)	(996,493)	(1,230,339)	(2,220,920)
End of Year	$ (3,593,678)	$ (2,597,185)	$ (1,366,846)
Noncontrolling Interests in Subsidiaries			
Beginning of Year	$ 86,312	$ 88,329	$ 43,102
Noncontrolling Interests' share of income,			
business combinations, net of distributions and share repurchases	5,959	(2,017)	45,227
End of Year	$ 92,271	$ 86,312	$ 88,329

The accompanying notes to consolidated financial statements are an integral part of this statement

Notes to Consolidated Financial Statements

Note 1 — Summary of Significant Accounting Policies

Nature of Business — Abbott's principal business is the discovery, development, manufacture and sale of a broad line of health care products

In October 2011, Abbott announced a plan to separate into two publicly traded companies, one in diversified medical products and the other in research-based pharmaceuticals To accomplish the separation, Abbott created a new company, AbbVie Inc for its research-based pharmaceuticals business which consists primarily of Abbott's Proprietary Pharmaceutical Products segment On January 1, 2013, Abbott distributed all of the outstanding shares of AbbVie Inc to Abbott's shareholders As a result of the distribution, AbbVie is now an independent company trading under the symbol "ABBV" Beginning in the first quarter of 2013, the historical results of the research-based pharmaceuticals business will be reflected in Abbott's consolidated financial statements as discontinued operations

Concentration of Risk and Guarantees — Due to the nature of its operations, Abbott is not subject to significant concentration risks relating to customers, products or geographic locations, except that three U S wholesalers accounted for 23 percent of trade receivables as of December 31, 2012 and 2010 and 22 percent of trade receivables as of December 31, 2011 In addition, governmental accounts in Italy, Spain, Greece and Portugal accounted for 16 percent, 23 percent, and 21 percent of total net trade receivables as of December 31, 2012, 2011, and 2010, respectively Product warranties are not significant

Abbott has no material exposures to off-balance sheet arrangements, no special purpose entities, nor activities that include non-exchange-traded contracts accounted for at fair value Abbott has periodically entered into agreements in the ordinary course of business, such as assignment of product rights, with other companies which has resulted in Abbott becoming secondarily liable for obligations that Abbott was previously primarily liable Since Abbott no longer maintains a business relationship with the other parties, Abbott 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 Abbott periodically acquires a business or product rights in which Abbott agrees to pay contingent consideration based on attaining certain thresholds or based on the occurrence of certain events

Basis of Consolidation and Change in Accounting Principle — Prior to January 1, 2011, the accounts of foreign subsidiaries were consolidated based on a fiscal year ended November 30 due to the time needed to consolidate these subsidiaries Effective January 1, 2011, the one month lag in the consolidation of the accounts of foreign subsidiaries was eliminated and the year-end of foreign subsidiaries was changed to December 31 Abbott believes that the change in accounting principle related to the elimination of the one month reporting lag is preferable because it results in more contemporaneous reporting of the results of foreign subsidiaries In accordance with applicable accounting literature, a change in subsidiaries year-end is treated as a change in accounting principle and requires retrospective application The cumulative effect of the change was an increase in retained earnings of $289 million as of January 1, 2009 and a corresponding decrease in other long-term liabilities The impact of the change was not material to the results of operations for the previously reported annual and interim periods after January 1, 2009, and thus, those results have not been revised A charge of $137 million was recorded to Other (income) expense, net in 2011 to recognize the cumulative immaterial impacts to 2009 and 2010 Had the financial statements been revised, net sales, operating earnings and net earnings in 2010 would have decreased by $21 million, $195 million and $175 million, respectively

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 other post-employment benefits, valuation of intangible assets, litigation, derivative financial instruments, and inventory and accounts receivable exposures

Revenue Recognition — Revenue from product sales is recognized upon passage of title and risk of loss to customers 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 In certain of Abbott's businesses, primarily within diagnostics and medical optics, Abbott participates in selling arrangements that include multiple deliverables (e g , instruments, reagents, procedures, and service agreements) Under these arrangements, Abbott recognizes revenue upon delivery of the product or performance of the service and allocates the revenue based on the relative selling price of each deliverable, which is based primarily on vendor specific objective evidence Sales of product rights for marketable products are recorded as revenue upon disposition of the rights Revenue from license of product rights, or for performance of research or selling activities, is recorded over the periods earned

Income Taxes — Deferred income taxes are provided for the tax effect of differences between the tax bases of assets and liabilities and their reported amounts in the financial statements at the enacted statutory rate to be in effect when the taxes are paid U S income taxes are provided on those earnings of foreign subsidiaries which are intended to be remitted to the parent company Deferred income taxes are not provided on undistributed earnings reinvested indefinitely in foreign subsidiaries as working capital and plant and equipment Interest and penalties on income tax obligations are included in taxes on income

Earnings Per Share — Unvested restricted stock that contain non-forfeitable rights to dividends are treated as participating securities and are included in the computation of earnings per share under the two-class method Under the two-class method, net earnings are allocated between common shares and participating securities Net earnings allocated to common shares in 2012, 2011 and 2010 were $5 917 billion, $4 714 billion and $4 613 billion, respectively

Pension and Post-Employment Benefits — Abbott accrues for the actuarially determined cost of pension and post-employment benefits over the service attribution periods of the employees Abbott must develop long-term assumptions, the most significant of which are the

Notes to Consolidated Financial Statements

health care cost trend rates, discount rates and the expected return on plan assets Differences between the expected long-term return on plan assets and the actual return are amortized over a five-year period Actuarial losses and gains are amortized over the remaining service attribution periods of the employees under the corridor method

Fair Value Measurements — For assets and liabilities that are measured using quoted prices in active markets, total fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs Assets and liabilities that are measured using significant other observable inputs are valued by reference to similar assets or liabilities, adjusted for contract restrictions and other terms specific to that asset or liability For these items, a significant portion of fair value is derived by reference to quoted prices of similar assets or liabilities in active markets For all remaining assets and liabilities, fair value is derived using a fair value model, such as a discounted cash flow model or Black-Scholes model Purchased intangible assets are recorded at fair value The fair value of significant purchased intangible assets is based on independent appraisals Abbott uses a discounted cash flow model to value intangible assets 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 Intangible assets, goodwill and indefinite-lived intangible assets are reviewed for impairment at least on a quarterly and annual basis, respectively

Share-Based Compensation — The value of stock options and restricted stock awards and units 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

Litigation — Abbott accounts for litigation losses in accordance with FASB ASC No 450, "Contingencies " Under ASC No 450, loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded Legal fees are recorded as incurred

Cash, Cash Equivalents and Investments — Cash equivalents consist of bank time deposits and U S treasury bills with original maturities of three months or less Investments in marketable equity securities and certain investments in debt 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 are recorded at cost Investments in other debt securities are classified as held-to-maturity, as management has both the intent and ability to hold these securities to maturity, and are reported at cost, net of any unamortized premium or discount Income relating to these securities is reported as interest income

Abbott reviews the carrying value of investments each quarter to determine whether an other than temporary decline in market value exists Abbott considers factors affecting the investee, factors affecting the industry the investee operates in and general equity market trends Abbott considers the length of time an investment's market value has been below carrying value and the near-term prospects for recovery to carrying value When Abbott determines that an other than temporary decline has occurred, the investment is written down with a charge to Other (income) expense, net

Trade Receivable Valuations — Accounts receivable are stated at their net realizable value The allowance against gross trade receivables 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 charged off after all reasonable means to collect the full amount (including litigation, where appropriate) have been exhausted

Inventories — Inventories are stated at the lower of cost (first-in, first-out basis) or market Cost includes material and conversion costs

Property and Equipment — Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets The following table shows estimated useful lives of property and equipment

Classification	Estimated Useful Lives
Buildings	10 to 50 years (average 27 years)
Equipment	3 to 20 years (average 11 years)

Product Liability — Abbott 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 Product liability losses are self-insured

Research and Development Costs — Internal research and development 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 arrangements, the milestone payment obligations are expensed when the milestone results are achieved

Acquired In Process and Collaborations Research and Development (IPR&D) — The initial costs of rights to IPR&D projects obtained 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

Note 2 — Supplemental Financial Information

(dollars in millions)

Long-term Investments	2012	2011	2010
Equity securities	$213	$317	$240
Other	61	61	62
Total	$274	$378	$302

The loss on the extinguishment of debt of $1 35 billion relates to the early redemption of $7 7 billion of long-term notes The loss consists of the premium paid on the notes and the write off of deferred financing costs totaling $1 83 billion and was partially offset by a gain of $479 million related to the unwinding of interest rate swaps related to a portion of the debt Other (income) expense, net, for 2012 includes

Notes to Consolidated Financial Statements

income of approximately $60 million from the resolution of a contractual agreement and a loss of approximately $62 million for the impairment of certain equity securities As discussed in Note 1, Other (income) expense, net, for 2011 includes a charge of $137 million to recognize the cumulative immaterial impacts to 2009 and 2010 relating to the change in year end for foreign subsidiaries In addition, Other (income) expense, net, for 2011 includes $56 million of fair value adjustments and accretion in the contingent consideration related to the acquisition of Solvay's pharmaceutical business Other (income) expense, net, for 2012, 2011 and 2010 also includes ongoing contractual payments from Takeda associated with the conclusion of the TAP joint venture

(dollars in millions)

Other Accrued Liabilities	2012	2011	2010
Accrued rebates payable to government agencies	$1,020	$1,049	$ 900
Accrued other rebates (a)	1,079	1,030	862
All other (b)	4,689	5,776	4,253
Total	$6,788	$7,855	$6 015

(a) Accrued wholesaler chargeback rebates of $300, $239 and $216 at December 31 2012 2011 and 2010 respectively are netted in trade receivables because Abbott's customers are invoiced at a higher catalog price but only remit to Abbott their contract price for the products The 2011 balances have been revised to reflect a reclassification of certain amounts from Accrued other rebates to All other

(b) 2011 includes $1,509 related to a previously disclosed government investigation and $400 for acquired in process research and development 2012 2011 and 2010 includes acquisition consideration payable of $400 related to the acquisition of Piramal Healthcare Limited's Healthcare Solutions business

(dollars in millions)

Post employment Obligations and Other Long term Liabilities	2012	2011	2010
Defined benefit pension plans and post employment medical and dental plans for significant plans	$4,557	$3,301	$2 425
Deferred income taxes	710	703	1,112
All other (c)	3 789	4,227	4 486
Total	$9,056	$8,231	$8,023

(c) 2012 2011 and 2010 includes acquisition consideration payable of $385 $770 and $1 150 respectively related to the acquisition of Piramal Healthcare Limited's Healthcare Solutions business

The judgment entered by the U S District Court for the Eastern District of Texas against Abbott in its litigation with New York University and Centocor, Inc required Abbott to secure the judgment in the event that its appeal to the Federal Circuit court was unsuccessful in overturning the district court's decision In the first quarter of 2010, Abbott deposited $1 87 billion with an escrow agent and considered these assets to be restricted On February 23, 2011, the Federal Circuit reversed the district court's final judgment and found Centocor's patent invalid On April 25, 2011 Centocor petitioned the Federal Circuit to rehear and reconsider the decision In June 2011 the Federal Circuit denied Centocor's petition and the restrictions on the funds were lifted

Note 3 — Financial Instruments, Derivatives and Fair Value Measures

Certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U S dollar These contracts, totaling $1 6 billion at December 31, 2012 and 2011 and $1 3 billion at December 31, 2010 are designated as cash flow hedges of the variability of the cash flows due to changes in foreign exchange rates 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 amount of hedge ineffectiveness was not significant in 2012, 2011 and 2010

Abbott enters into foreign currency forward exchange contracts to manage currency exposures for foreign currency denominated third-party trade payables and receivables, and for intercompany loans and trade accounts payable where the receivable or payable is denominated in a currency other than the functional currency of the entity For intercompany loans, the contracts require Abbott to sell or buy foreign currencies, primarily European currencies and Japanese yen, in exchange for primarily U S dollars and other European currencies For intercompany and trade payables and receivables, the currency exposures are primarily the U S dollar, European currencies and Japanese yen At December 31, 2012, 2011 and 2010, Abbott held $18 2 billion, $15 7 billion and $10 8 billion, respectively, of such foreign currency forward exchange contracts

Abbott has designated foreign denominated short-term debt as a hedge of the net investment in a foreign subsidiary of approximately $615 million, $680 million and $650 million as of December 31, 2012, 2011 and 2010, respectively Accordingly, changes in the fair value of this debt due to changes in exchange rates are recorded in Accumulated other comprehensive income (loss), net of tax

Abbott is a party to interest rate hedge contracts totaling $9 5 billion, $6 8 billion and $7 3 billion at December 31, 2012, 2011 and 2010, respectively, to manage its exposure to changes in the fair value of fixed-rate debt These contracts are designated as fair value hedges of the variability of the fair value of fixed-rate debt due to changes in the long-term benchmark interest rates The effect of the hedge is to change a fixed-rate interest obligation to a variable rate for that portion of the debt Abbott records the contracts at fair value and adjusts the carrying amount of the fixed-rate debt by an offsetting amount No hedge ineffectiveness was recorded in income in 2012, 2011 and 2010 for these hedges

Gross unrealized holding gains on available-for-sale equity securities totaled $51 million, $64 million and $40 million at December 31, 2012, 2011 and 2010, respectively

Notes to Consolidated Financial Statements

The following table summarizes the amounts and location of certain derivative financial instruments as of December 31

(dollars in millions)	Fair Value — Assets				Fair Value — Liabilities			
	2012	2011	2010	Balance Sheet Caption	2012	2011	2010	Balance Sheet Caption
Interest rate swaps designated as fair value hedges	$185	$598	$138	Deferred income taxes and other assets	$ 80	$ —	$ 36	Post-employment obligations and other long-term liabilities
Foreign currency forward exchange contracts —								
Hedging instruments	22	115	16	Other prepaid	11	2	10	Other accrued
Others not designated as hedges	98	165	109	expenses and receivables	135	179	120	liabilities
Debt designated as a hedge of net investment in a foreign subsidiary	—	—	—	n/a	615	680	650	Short-term borrowings
	$305	$878	$263		$841	$861	$816	

The following table summarizes the activity for foreign currency forward exchange contracts designated as cash flow hedges, debt designated as a hedge of net investment in a foreign subsidiary and the amounts and location of income (expense) and gain (loss) reclassified into income and for certain other derivative financial instruments The amount of hedge ineffectiveness was not significant in 2012, 2011 and 2010 for these hedges

(dollars in millions)	Gain (loss) Recognized in Other Comprehensive Income (loss)			Income (expense) and Gain (loss) Reclassified into Income			
	2012	2011	2010	2012	2011	2010	Income Statement Caption
Foreign currency forward exchange contracts designated as cash flow hedges	$ 2	$ 65	$170	$138	$ (26)	$ 63	Cost of products sold
Debt designated as a hedge of net investment in a foreign subsidiary	65	(30)	(75)	—	—	—	n/a
Interest rate swaps designated as fair value hedges	n/a	n/a	n/a	62	488	248	Interest expense
Foreign currency forward exchange contracts not designated as hedges	n/a	n/a	n/a	108	(11)	155	Net foreign exchange (gain) loss

The interest rate swaps are designated as fair value hedges of the variability of the fair value of fixed rate debt due to changes in the long-term benchmark interest rates The hedged debt is marked to market, offsetting the effect of marking the interest rate swaps to market

The carrying values and fair values of certain financial instruments as of December 31 are shown in the table below The carrying values of all other financial instruments approximate their estimated fair values The counterparties to financial instruments consist of select major international financial institutions Abbott does not expect any losses from nonperformance by these counterparties

(dollars in millions)	2012		2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term Investment Securities						
Equity securities	$ 213	$ 213	$ 317	$ 317	$ 240	$ 240
Other	61	56	61	42	62	43
Total Long term Debt	(18 394)	(19,588)	(13,067)	(15,129)	(14,568)	(15 723)
Foreign Currency Forward Exchange Contracts						
Receivable position	120	120	280	280	125	125
(Payable) position	(146)	(146)	(181)	(181)	(130)	(130)
Interest Rate Hedge Contracts						
Receivable position	185	185	598	598	146	146
(Payable) position	(80)	(80)	—	—	(36)	(36)

Notes to Consolidated Financial Statements

The following table summarizes the bases used to measure certain assets and liabilities at fair value on a recurring basis in the balance sheet

(dollars in millions)		Basis of Fair Value Measurement		
December 31, 2012	Outstanding Balances	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs
Equity securities	$ 76	$76	$ –	$ –
Interest rate swap financial instruments	185	–	185	–
Foreign currency forward exchange contracts	120	–	120	–
Total Assets	$ 381	$76	$ 305	$ –
Fair value of hedged long term debt	$ 9,632	$ –	$9,632	$ –
Interest rate swap financial instruments	80	–	80	–
Foreign currency forward exchange contracts	146	–	146	–
Contingent consideration related to business combinations	323	–	–	323
Total Liabilities	$10,181	$ –	$9,858	$323
December 31, 2011				
Equity securities	$ 93	$93	$ –	$ –
Interest rate swap financial instruments	598	–	598	–
Foreign currency forward exchange contracts	280	–	280	–
Total Assets	$ 971	$93	$ 878	$ –
Fair value of hedged long-term debt	$ 7,427	$ –	$7,427	$ –
Foreign currency forward exchange contracts	181	–	181	–
Contingent consideration related to business combinations	423	–	–	423
Total Liabilities	$ 8,031	$ –	$7,608	$423
December 31, 2010				
Equity securities	$ 75	$75	$ –	$ –
Interest rate swap financial instruments	146	–	146	–
Foreign currency forward exchange contracts	125	–	125	–
Total Assets	$ 346	$75	$ 271	$ –
Fair value of hedged long term debt	$ 7,444	$ –	$7,444	$ –
Interest rate swap financial instruments	36	–	36	–
Foreign currency forward exchange contracts	130	–	130	–
Contingent consideration related to business combinations	365	–	–	365
Total Liabilities	$ 7 975	$ –	$7,610	$365

The fair value of the debt was determined based on the face value of the debt adjusted for the fair value of the interest rate swaps, which is based on a discounted cash flow analysis The fair value of the contingent consideration was determined based on an independent appraisal adjusted for the time value of money, exchange and other changes in fair value

Notes to Consolidated Financial Statements

Note 4 — Post-Employment Benefits

Retirement plans consist of defined benefit, defined contribution and medical and dental plans Information for Abbott's major defined benefit plans and post-employment medical and dental benefit plans is as follows

(dollars in millions)	Defined Benefit Plans			Medical and Dental Plans		
	2012	2011	2010	2012	2011	2010
Projected benefit obligations, January 1	$ 8,963	$ 8,606	$ 6,852	$ 1,657	$ 1 673	$ 1 705
Service cost — benefits earned during the year	376	332	288	61	55	60
Interest cost on projected benefit obligations	447	446	421	81	88	101
Losses (gains), primarily changes in discount rates, plan design changes, law changes and differences between actual and estimated health care costs	1,412	608	565	148	(104)	(153)
Benefits paid	(302)	(294)	(289)	(63)	(62)	(74)
Acquisition of Solvay's pharmaceuticals business	—	—	1,045	—	—	28
Settlement	—	(776)	—	—	—	—
Other, primarily foreign currency translation	108	41	(276)	5	7	6
Projected benefit obligations, December 31	$11,004	$ 8 963	$ 8,606	$ 1,889	$ 1,657	$ 1,673
Plans' assets at fair value, January 1	$ 6,961	$ 7,451	$ 5,812	$ 389	$ 396	$ 341
Actual return on plans' assets	878	29	782	48	5	55
Company contributions	379	394	525	40	40	74
Benefits paid	(302)	(294)	(289)	(60)	(52)	(74)
Acquisition of Solvay's pharmaceuticals business	—	—	763	—	—	—
Settlement	—	(776)	—	—	—	—
Other, primarily foreign currency translation	33	157	(142)	—	—	—
Plans' assets at fair value, December 31	$ 7,949	$ 6,961	$ 7 451	$ 417	$ 389	$ 396
Projected benefit obligations greater than plans assets, December 31	$ (3,055)	$(2,002)	$(1,155)	$(1,472)	$(1,268)	$(1 277)
Long term assets	$ 69	$ 66	$ 27	$ —	$ —	$ —
Short-term liabilities	(39)	(35)	(34)	—	—	—
Long term liabilities	(3,085)	(2 033)	(1,148)	(1,472)	(1,268)	(1,277)
Net liability	$ (3,055)	$(2,002)	$(1,155)	$(1 472)	$(1,268)	$(1,277)
Amounts Recognized in Accumulated Other Comprehensive Income (loss)						
Actuarial losses, net	$ 4,742	$ 3 822	$ 2,879	$ 701	$ 601	$ 713
Prior service cost (credits)	71	25	30	(322)	(364)	(406)
Total	$ 4,813	$ 3,847	$ 2,909	$ 379	$ 237	$ 307

The projected benefit obligations for non-U S defined benefit plans was $3 1 billion, $2 3 billion and $3 0 billion at December 31, 2012, 2011 and 2010, respectively The accumulated benefit obligations for all defined benefit plans was $9 4 billion, $7 7 billion and $7 5 billion at December 31, 2012, 2011 and 2010, respectively For plans where the accumulated benefit obligations exceeded plan assets at December 31, 2012, 2011 and 2010, the aggregate accumulated benefit obligations were $7 9 billion, $6 7 billion and $2 0 billion, respectively, the projected benefit obligations were $9 3 billion, $7 9 billion and $2 2 billion, respectively, and the aggregate plan assets were $6 2 billion, $5 8 billion and $1 1 billion, respectively

In connection with the separation of AbbVie from Abbott on January 1, 2013, Abbott will transfer certain liabilities and assets of both defined benefit pension plans and medical and dental plans The estimated amount of the accumulated benefit obligations, projected benefit obligations, fair value of assets and deferred gains and losses to be assumed by AbbVie are $3 9 billion, $4 5 billion, $3 1 billion and $1 9 billion, respectively, for defined benefit plans The estimated amount of the accumulated benefit obligations and deferred gains and losses to be assumed by AbbVie are $501 million and $114 million, respectively, for medical and dental plans

During 2011, $776 million of assets and liabilities of a plan sponsored by Abbott Healthcare BV, a Dutch subsidiary of Abbott Laboratories, were irrevocably transferred to a Dutch insurance company in full settlement of that plan The assets were used to purchase an annuity contract to fulfill the plan's obligations

(dollars in millions)	Defined Benefit Plans			Medical and Dental Plans		
	2012	2011	2010	2012	2011	2010
Service cost — benefits earned during the year	$ 376	$ 332	$ 288	$ 61	$ 55	$ 60
Interest cost on projected benefit obligations	447	446	421	81	88	101
Expected return on plans assets	(611)	(608)	(571)	(33)	(34)	(31)
Settlement	—	40	—	—	—	—
Amortization of actuarial losses	235	163	136	34	38	38
Amortization of prior service cost (credits)	4	4	4	(42)	(42)	(22)
Total cost	$ 451	$ 377	$ 278	$101	$105	$146

Notes to Consolidated Financial Statements

Other comprehensive income (loss) for 2012 includes amortization of actuarial losses and prior service cost of $235 million and $4 million, respectively, and net actuarial losses of $1 2 billion for defined benefit plans and amortization of actuarial losses and prior service credits of $34 million and $42 million, respectively, and net actuarial losses of $134 million for medical and dental plans Other comprehensive income (loss) for 2011 includes amortization of actuarial losses and prior service cost of $163 million and $4 million, respectively, and net actuarial losses of $1 1 billion for defined benefit plans and amortization of actuarial losses and prior service credits of $38 million and $42 million, respectively, and net actuarial gains of $66 million for medical and dental plans Other comprehensive income (loss) for 2010 includes amortization of actuarial losses and prior service cost of $136 million and $4 million, respectively, and net actuarial losses of $305 million for defined benefit plans and amortization of actuarial losses and prior service credits of $38 million and $22 million, respectively, and net actuarial gains of $177 million for medical and dental plans The pretax amount of actuarial losses and prior service cost (credits) included in Accumulated other comprehensive income (loss) at December 31, 2012 that is expected to be recognized in the net periodic benefit cost in 2013 is $175 million and $5 million, respectively, for defined benefit pension plans and $25 million and $(23) million, respectively, for medical and dental plans

The weighted average assumptions used to determine benefit obligations for defined benefit plans and medical and dental plans are as follows

	2012	2011	2010
Discount rate	4 3%	5 0%	5 4%
Expected aggregate average long term change in compensation	5 3%	5 3%	5 1%

The weighted average assumptions used to determine the net cost for defined benefit plans and medical and dental plans are as follows

	2012	2011	2010
Discount rate	5 0%	5 4%	5 8%
Expected return on plan assets	8 0%	7 8%	7 8%
Expected aggregate average long term change in compensation	5 3%	5 1%	4 9%

The assumed health care cost trend rates for medical and dental plans at December 31 were as follows

	2012	2011	2010
Health care cost trend rate assumed for the next year	7 %	7 %	7 %
Rate that the cost trend rate gradually declines to	5 %	5 %	5 %
Year that rate reaches the assumed ultimate rate	2019	2019	2016

The discount rates used to measure liabilities were determined based on high-quality fixed income securities that match the duration of the expected retiree benefits The health care cost trend rates represent Abbott's expected annual rates of change in the cost of health care benefits and is a forward projection of health care costs as of the measurement date A one-percentage point increase/(decrease) in the assumed health care cost trend rate would increase/(decrease) the accumulated post-employment benefit obligations as of December 31, 2012, by $274 million/$(222) million, and the total of the service and interest cost components of net post-employment health care cost for the year then ended by approximately $24 million/$(19) million

The following table summarizes the bases used to measure defined benefit plans' assets at fair value

(dollars in millions)		Basis of Fair Value Measurement		
December 31, 2012	Outstanding Balances	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs
Equities				
U S large cap (a)	$1,731	$1,731	$ —	$ —
U S mid cap (b)	461	140	321	—
International (c)	1,558	677	881	—
Fixed income securities				
U S government securities (d)	843	545	298	—
Corporate debt instruments (e)	704	427	277	—
Non-U S government securities (f)	373	101	272	—
Other (g)	23	18	5	—
Absolute return funds (h)	1,941	425	825	691
Commodities (i)	208	9	161	38
Other (j)	107	104	—	3
	$7,949	$4,177	$3,040	$732
December 31, 2011				
Equities				
U S large cap (a)	$1,470	$1,449	$ 21	$ —
U S mid cap (b)	423	152	271	—
International (c)	1,217	485	732	—
Fixed income securities				
U S government securities (d)	857	370	487	—
Corporate debt instruments (e)	527	223	304	—
Non U S government securities (f)	450	228	222	—
Other (g)	45	21	24	—
Absolute return funds (h)	1,709	334	751	624
Commodities (i)	183	8	165	10
Other (j)	80	78	—	2
	$6 961	$3 348	$2,977	$636
December 31, 2010				
Equities				
U S large cap (a)	$1,523	$1 499	$ 24	$ —
U S mid cap (b)	437	162	275	—
International (c)	1 552	758	794	—
Fixed income securities				
U S government securities (d)	793	355	438	—
Corporate debt instruments (e)	524	237	286	1
Non U S government securities (f)	758	172	586	—
Other (g)	40	20	19	1
Absolute return funds (h)	1,426	258	582	586
Commodities (i)	242	5	234	3
Other (j)	156	156	—	—
	$7 451	$3,622	$3,238	$591

Notes to Consolidated Financial Statements

(a) A mix of index funds that track the S&P 500 (50 percent in 2012 and 45 percent in 2011 and 2010) and separate actively managed equity accounts that are benchmarked to the Russell 1000 (50 percent in 2012 and 55 percent in 2011 and 2010)

(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 and MSCI emerging market indices

(d) Index funds not actively managed (50 percent in 2012 and 45 percent in 2011 and 2010) and separate actively managed accounts (50 percent in 2012 and 55 percent in 2011 and 2010)

(e) Index funds not actively managed (20 percent in 2012 40 percent in 2011 and 15 percent in 2010) and separate actively managed accounts (80 percent in 2012, 60 percent in 2011 and 85 percent in 2010)

(f) Primarily United Kingdom, Japan and Irish government-issued bonds

(g) Primarily mortgage backed securities

(h) 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

(i) Primarily investments in liquid commodity future contracts and private energy funds

(j) Primarily 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 Private energy funds are valued at the NAV provided by the partnership on a one-quarter lag adjusted for known cash flows and significant events through the reporting date

The following table summarizes the change in the value of assets that are measured using significant unobservable inputs

(dollars in millions)	2012	2011	2010
January 1	$636	$591	$530
Transfers in (out of) from other categories	2	(1)	(37)
Actual return on plan assets			
Assets on hand at year end	59	(14)	41
Assets sold during the year	(4)	(1)	(2)
Purchases, sales and settlements, net	39	61	59
December 31	$732	$636	$591

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 The plans do not directly hold any securities of Abbott There are no known significant concentrations of risk in the plans' assets Abbott's medical and dental plans' assets are invested in a similar mix as the pension plan 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

Abbott funds its domestic pension plans according to IRS funding limitations International pension plans are funded according to similar regulations Abbott funded $379 million in 2012, $394 million in 2011 and $525 million in 2010 to defined pension plans Abbott expects pension funding for its main domestic pension plan of $170 million in 2013 The projected decrease reflects the separation of AbbVie from Abbott and the transfer of certain assets and liabilities to AbbVie

Total benefit payments expected to be paid to participants, giving effect to the separation of AbbVie from Abbott, which includes payments funded from company assets as well as paid from the plans, are as follows

(dollars in millions)	Defined Benefit Plans	Medical and Dental Plans
2013	$ 173	$ 78
2014	183	80
2015	197	83
2016	211	87
2017	224	90
2018 to 2022	1,367	510

The Abbott Stock Retirement Plan is the principal defined contribution plan Abbott's contributions to this plan were $150 million in 2012, $151 million in 2011 and $147 million in 2010

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

Note 5 — Taxes on Earnings

Taxes on earnings reflect the annual effective rates, including charges for interest and penalties Deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts The $620 million domestic loss before taxes in 2012 includes Abbott's $1 35 billion net loss on the early extinguishment of debt and approximately $395 million of separation related expenses U S income taxes are provided on those earnings of foreign subsidiaries which are intended to be remitted to the parent company Abbott does not record deferred income taxes on earnings reinvested indefinitely in foreign subsidiaries Undistributed earnings reinvested indefinitely in foreign subsidiaries as working capital and plant and equipment aggregated $40 0 billion at December 31, 2012 It is not practicable to determine the amount of deferred income taxes not provided on these earnings In the U S , Abbott's federal income tax returns through 2009 are settled except for one item, and the income tax returns for years after 2009 are open There are numerous other income tax jurisdictions for which tax returns are not yet settled, none of which are individually significant Reserves for interest and penalties are not significant

Notes to Consolidated Financial Statements

Earnings before taxes, and the related provisions for taxes on earnings, were as follows

(dollars in millions)

Earnings Before Taxes	2012	2011	2010
Domestic	$ (620)	$ 364	$ (275)
Foreign	6,883	4,835	5,988
Total	$ 6,263	$ 5,199	$ 5,713

Taxes on Earnings	2012	2011	2010
Current			
Domestic	$ 198	$ (586)	$ 1,462
Foreign	1,230	1,187	835
Total current	1,428	601	2 297
Deferred			
Domestic	(483)	162	(1,068)
Foreign	(645)	(293)	(142)
Total deferred	(1,128)	(131)	(1,210)
Total	$ 300	$ 470	$ 1,087

Differences between the effective income tax rate and the U S statutory tax rate were as follows

	2012	2011	2010
Statutory tax rate on earnings	35 0%	35 0%	35 0%
Benefit of lower foreign tax rates and tax exemptions	(24 9)	(22 9)	(19 4)
Resolution of certain tax positions pertaining to prior years	(6 5)	(11 2)	—
Effect of non deductible litigation reserve	0 6	9 1	—
State taxes net of federal benefit	0 1	(0 4)	0 4
All other net	0 5	(0 6)	3 0
Effective tax rate on earnings	4 8%	9 0%	19 0%

As of December 31, 2012, 2011 and 2010, total deferred tax assets were $7 4 billion, $6 3 billion and $6 1 billion, respectively, and total deferred tax liabilities were $2 6 billion, $2 9 billion and $3 0 billion, respectively Abbott has incurred losses in a foreign jurisdiction where realization of the future economic benefit is so remote that the benefit is not reflected as a deferred tax asset Valuation allowances for recorded deferred tax assets were not significant The tax effect of the differences that give rise to deferred tax assets and liabilities were as follows

(dollars in millions)	2012	2011	2010
Compensation and employee benefits	$ 1,936	$ 1,658	$ 1,327
Trade receivable reserves	557	492	525
Inventory reserves	211	212	293
Deferred intercompany profit	1,095	711	255
State income taxes	197	227	233
Depreciation	(75)	(164)	(64)
Acquired In process research and development and other accruals and reserves not currently deductible	3,278	2,886	3,401
Other, primarily the excess of book basis over tax basis of intangible assets	(2,447)	(2 636)	(2,905)
Total	$ 4,752	$ 3,386	$ 3,065

The following table summarizes the gross amounts of unrecognized tax benefits without regard to reduction in tax liabilities or additions to deferred tax assets and liabilities if such unrecognized tax benefits were settled

(dollars in millions)	2012	2011	2010
January 1	$2,123	$2,724	$2,172
Increase due to current year tax positions	673	588	635
Increase due to prior year tax positions	62	282	171
Decrease due to prior year tax positions	(438)	(824)	(94)
Settlements	(163)	(647)	(160)
December 31	$2,257	$2,123	$2,724

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is approximately $2 0 billion Abbott believes that it is reasonably possible that the recorded amount of gross unrecognized tax benefits may decrease by $550 million to $650 million, including cash adjustments, within the next twelve months as a result of concluding various domestic and international tax matters

Note 6 — Segment and Geographic Area Information

Abbott's principal business is the discovery, development, manufacture and sale of a broad line of health care products Abbott's products are generally sold directly to retailers, wholesalers, hospitals, health care facilities, laboratories, physicians' offices and government agencies throughout the world Effective January 1, 2012, certain international operations were transferred from the Established Pharmaceutical Products segment to the Proprietary Pharmaceutical Products segment The segment information below has been adjusted to reflect this reorganization Abbott's reportable segments are as follows

Proprietary Pharmaceutical Products—Worldwide sales of a broad line of proprietary pharmaceutical products

Established Pharmaceutical Products—International sales of a broad line of branded generic pharmaceutical products

Nutritional Products—Worldwide sales of a broad line of adult and pediatric nutritional products

Diagnostic Products—Worldwide sales of diagnostic systems and tests for blood banks, hospitals, commercial laboratories and alternate-care testing sites For segment reporting purposes, the Core Laboratories Diagnostics, Molecular Diagnostics, Point of Care and Ibis diagnostic divisions are aggregated and reported as the Diagnostic Products segment

Vascular Products—Worldwide sales of coronary, endovascular, structural heart, vessel closure and other medical device products

Non-reportable segments include the Diabetes Care and Medical Optics segments

Abbott's underlying accounting records are maintained on a legal entity basis for government and public reporting requirements Segment disclosures are on a performance basis consistent with internal management reporting Intersegment transfers of inventory are recorded at standard cost and are not a measure of segment operating earnings The cost of some corporate functions and the cost of certain

Notes to Consolidated Financial Statements

employee benefits are charged to segments at predetermined rates that approximate cost Remaining costs, if any, are not allocated to segments For acquisitions prior to 2006, substantially all intangible assets and related amortization are not allocated to segments In addition, no intangible assets or related amortization are allocated to the Established Pharmaceutical Products segment The following segment information has been prepared in accordance with the internal accounting policies of Abbott, as described above, and are not presented in accordance with generally accepted accounting principles applied to the consolidated financial statements

(dollars in millions)	Net Sales to External Customers (a)			Operating Earnings (a)			Depreciation and Amortization			Additions to Long term Assets			Total Assets		
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
Proprietary Pharmaceuticals	$18,012	$17,080	$15,389	$ 7,948	$ 7,202	$6,592	$ 622	$ 639	$ 553	$ 256	$ 168	$2,779	$12,026	$10,974	$11,421
Established Pharmaceuticals (b)	5,121	5,355	4,461	1,237	1,254	938	156	169	148	237	183	2,804	5,704	6,986	6,730
Nutritionals	6,471	6,006	5,532	1,019	797	777	191	183	177	458	205	163	3,583	3,241	3 244
Diagnostics	4 292	4,126	3 794	804	766	559	315	339	244	349	409	319	3,907	3,429	3,462
Vascular	3,071	3,333	3,194	902	980	910	195	233	252	69	148	528	5,301	5,272	5,390
Total Reportable Segments	36,967	35,900	32,370	$11,910	$10,999	$9 776	$1,479	$1,563	$1,374	$1,369	$1,113	$6,593	$30,521	$29 902	$30,247
Other	2,907	2,951	2,797												
Net Sales	$39,874	$38,851	$35,167												

(a) Net sales and operating earnings were unfavorably affected by the relatively stronger U S dollar in 2012 and were favorably affected by the rela ively weaker U S dollar in 2011 and 2010

(b) Additions to long term assets in 2010 for the Established Pharmaceutical Products segment include goodwill of $2 797

(dollars in millions)	2012	2011	2010
Total Reportable Segment Operating Earnings	$11,910	$10 999	$ 9,776
Corporate functions and benefit plans costs	(651)	(529)	(558)
Non reportable segments	335	276	139
Net interest expense	(513)	(445)	(448)
Net loss on extinguishment of debt	(1 351)	—	—
Acquired in process and collaborations research and development	(288)	(673)	(313)
Share-based compensation	(433)	(383)	(387)
Other, net (c)	(2,746)	(4 046)	(2 496)
Consolidated Earnings Before Taxes	$ 6 263	$ 5,199	$ 5,713

(c) Other ne', for 2011 includes a charge of $1 509 related to a previously disclosed government investigation Other net for 2012, 2011 and 2010 includes charges of $1 309 $402 and $881 respectively for separa'ion rela'ed cos's in 2012 and for cost reduction initiatives and in'egration

(dollars in millions)	2012	2011	2010
Total Reportable Segment Assets	$30,521	$29 902	$30,247
Cash, investments and restricted funds	15,448	8,476	7,626
Current deferred income taxes	2,986	2,701	3 076
Non-reportable segments	4,413	4 173	5 385
All other, net primarily goodwill and intangible assets not allocated to reportable segments	13,867	15,025	14 240
Total Assets	$67 235	$60,277	$60,574

(dollars in millions)	Net Sales to External Customers (d)			Long term Assets		
	2012	2011	2010	2012	2011	2010
United States	$16,784	$16 014	$15,194	$15,244	$15,867	$16,769
Japan	2,441	2 342	2,025	1 169	1,225	1,172
Germany	1 740	1,759	1,846	6,173	5 909	5,950
The Netherlands	1,883	2,108	2,001	532	462	312
Italy	1 127	1,189	1 144	222	229	242
Canada	1,253	1 098	1,036	352	237	224
France	1,167	1,297	1 216	220	214	87
Spain	942	1,063	1,066	314	293	291
United Kingdom	1 049	971	888	1,345	1,273	1,272
India	933	931	501	3 467	3,160	3 791
All Other Countries	10 555	10,079	8,250	6,874	7,639	8,146
Consolidated	$39,874	$38 851	$35,167	$35,912	$36,508	$38,256

(d) Sales by country are based on the country that sold the product

Notes to Consolidated Financial Statements

Note 7 — Litigation and Environmental Matters

Abbott has been identified as a potentially responsible party for investigation and cleanup costs at a number of locations in the United States and Puerto Rico under federal and state remediation laws and is investigating potential contamination at a number of company-owned locations. Abbott has recorded an estimated cleanup cost for each site for which management believes Abbott has a probable loss exposure. No individual site cleanup exposure is expected to exceed $4 million, and the aggregate cleanup exposure is not expected to exceed $15 million.

There are a number of patent disputes with third parties who claim Abbott's products infringe their patents. On February 21, 2012, the United States 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 Abbott's *HUMIRA* infringed. This decision concludes the case.

The United States Department of Justice, through the United States Attorney for the Western District of Virginia, and various state Attorneys General investigated Abbott'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. Abbott 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, Abbott 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, Abbott paid approximately $1.6 billion for the settlement. The payments were material to Abbott's cash flows in 2012.

Abbott estimates the range of possible loss for its legal proceedings and environmental exposures to be from approximately $70 million to $100 million. The recorded accrual balance at December 31, 2012 for these proceedings and exposures was approximately $80 million. This accrual represents management's best estimate of probable loss, as defined by FASB ASC No. 450, "Contingencies." Within the next year, legal proceedings may occur that may result in a change in the estimated loss accrued by Abbott. While it is not feasible to predict the outcome of all such proceedings and exposures with certainty, management believes that their ultimate disposition should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations.

Note 8 — Incentive Stock Program

The 2009 Incentive Stock Program authorizes the granting of nonqualified stock options, replacement stock options, restricted stock awards, restricted stock units, performance awards, foreign benefits and other share-based awards. Stock options, replacement stock options and restricted stock awards and units comprise the majority of benefits that have been granted and are currently outstanding under this program and a prior program. In 2012, Abbott granted 1,931,213 stock options, 2,124,743 replacement stock options, 1,134,062 restricted stock awards and 7,056,609 restricted stock units under this program. The purchase price of shares under option must be at least equal to the fair market value of the common stock on the date of grant, and the maximum term of an option is 10 years. Options vest equally over three years except for replacement options, which vest in six months. Options granted before January 1, 2005 included a replacement feature. Except for options outstanding that have a replacement feature, options granted after December 31, 2004 do not include a replacement feature. When an employee tenders mature shares to Abbott upon exercise of a stock option, a replacement stock option may be granted equal to the amount of shares tendered. Replacement options are granted at the then current market price for a term that expires on the date of the underlying option grant.

Upon a change in control of Abbott, all outstanding stock options become fully exercisable, and all terms and conditions of all restricted stock awards and units are deemed satisfied. Restricted stock awards generally vest between 3 and 5 years and for restricted stock awards that vest over 5 years, no more than one third of the award vests in any one year upon Abbott reaching a minimum return on equity target. Restricted stock units vest over three years and upon vesting, the recipient receives one share of Abbott stock for each vested restricted stock unit. The aggregate fair market value of restricted stock awards and units is recognized as expense over the service period. Restricted stock awards and settlement of vested restricted stock units are issued out of treasury shares. Abbott generally issues new shares for exercises of stock options. Abbott does not have a policy of purchasing its shares relating to its share-based programs.

At December 31, 2012, approximately 155 million shares were reserved for future grants. Subsequent to year-end, the reserve was reduced by approximately 25 million shares for stock options and restricted stock awards and units granted by the Board of Directors. In connection with the separation of AbbVie from Abbott on January 1, 2013, Abbott employees, including those employees transferring to AbbVie, holding stock options or restricted stock awards or units as of December 31, 2012 generally received one AbbVie stock option for each Abbott stock option held and one AbbVie restricted stock award or unit for each Abbott award or unit held. For Abbott stock options, the exercise price of an Abbott option was adjusted to reflect the effect of the separation. The per share data presented below has not been adjusted to reflect this adjustment on the per share amounts.

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The number of restricted stock awards and units outstanding and the weighted-average grant-date fair value at December 31, 2011 and December 31, 2012 was 14,698,595 and $50 29 and 15,506,416 and $53 17, respectively The number of restricted stock awards and units, and the weighted-average grant-date fair value, that were granted, vested and lapsed during 2012 were 8,190,671 and $56 74, 6,774,145 and $51 32 and 608,705 and $52 32, respectively The fair market value of restricted stock awards and units vested in 2012, 2011 and 2010 was $385 million, $237 million and $203 million, respectively

	Options Outstanding			Exercisable Options		
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
December 31, 2011	85,439,279	$50 52	4 7	81,734,460	$50 51	4 5
Granted	4,055,956	60 91				
Exercised	(40,923,624)	49 73				
Lapsed	(380,717)	60 63				
December 31, 2012	48,190 894	$51 98	4 0	43,052 057	$51 36	3 7

The aggregate intrinsic value of options outstanding and exercisable at December 31, 2012 was $679 million and $633 million, respectively The total intrinsic value of options exercised in 2012, 2011 and 2010 was $528 million, $94 million and $77 million, respectively The total unrecognized compensation cost related to all share-based compensation plans at December 31, 2012 amounted to approximately $174 million, giving effect to the separation of AbbVie from Abbott, which is expected to be recognized over the next three years

Total non-cash compensation expense charged against income in 2012, 2011 and 2010 for share-based plans totaled approximately $433 million, $383 million and $385 million, respectively, and the tax benefit recognized was approximately $132 million, $116 million and $119 million, respectively Compensation cost capitalized as part of inventory is not significant

The fair value of an option granted in 2012, 2011 and 2010 was $6 80, $6 23, and $9 24, respectively The fair value of an option grant was estimated using the Black-Scholes option-pricing model with the following assumptions

	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%

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

Note 9 — Debt and Lines of Credit

The following is a summary of long-term debt at December 31

(dollars in millions)	2012	2011	2010
5 15% Notes, due 2012	$ —	$ —	$ 1,000
1 95% Yen Notes, due 2013	—	321	299
4 35% Notes, due 2014	—	500	500
1 2% Notes due 2015 (1)	3 500	—	—
Variable Rate Notes, due 2015 (1)	500	—	—
2 7% Notes, due 2015	—	750	750
5 875% Notes due 2016	—	2,000	2 000
1 75% Notes, due 2017 (1)	4,000	—	—
5 6% Notes, due 2017	—	1,500	1 500
2 0% Notes, due 2018 (1)	1 000	—	—
5 125% Notes, due 2019	947	2,000	2,000
4 125% Notes, due 2020	597	1,000	1,000
2 9% Notes, due 2022 (1)	3,100	—	—
6 15% Notes, due 2037	547	1,000	1 000
6 0% Notes, due 2039	515	1 000	1,000
5 3% Notes, due 2040	694	1,250	1 250
4 4% Notes due 2042 (1)	2,600	—	—
Other, including fair value adjustments relating to interest rate hedge contracts designated as fair value hedges	85	719	225
Total net of current maturities	18,085	12 040	12,524
Current maturities of long term debt	309	1,027	2,045
Total carrying amount	$18 394	$13 067	$14,569

(1) These notes were issued by AbbVie Inc in November 2012 With the separation of AbbVie on January 1 2013 Abbott no longer has any obligations related to this debt

In 2012, Abbott redeemed $7 7 billion of its outstanding notes Abbott incurred a cost of $1 35 billion to extinguish this debt, net of gains from the unwinding of interest rate swaps related to the debt In 2012, AbbVie Inc , a wholly owned subsidiary of Abbott, issued $14 7 billion of long term debt with maturities ranging from 3 to 30 years The debt issued by AbbVie Inc was guaranteed by Abbott with the guarantee expiring when AbbVie Inc separated from Abbott on January 1, 2013

After the separation of AbbVie from Abbott on January 1, 2013, principal payments required on long-term debt outstanding and retained by Abbott are $309 million in 2013 and $3 3 billion in 2019 and thereafter

Notes to Consolidated Financial Statements

At December 31, 2012, Abbott's long term debt rating was A+ by Standard & Poor's Corporation and A1 by Moody's Investors Service In the third quarter 2012, Abbott replaced unused lines of credit of $3 0 billion and $3 7 billion that were to expire in October 2012 and in 2013, respectively, with two five-year credit facilities totaling $7 0 billion that support commercial paper borrowing arrangements One of the credit facilities totaling $2 0 billion will support AbbVie commercial paper borrowings after separation and expired for Abbott at the separation of AbbVie from Abbott on January 1, 2013 Abbott's weighted-average interest rate on short-term borrowings was 0 4% at December 31, 2012, 2011 and 2010

Note 10 – Business Combinations, Technology Acquisitions and Related Transactions

On September 8, 2010, Abbott acquired Piramal Healthcare Limited's Healthcare Solutions business, a leader in the Indian branded generics market, for $2 2 billion, in cash, plus additional payments of $400 million annually in 2011, 2012, 2013 and 2014 Abbott recorded a $1 6 billion liability for the present value of the additional payments at the acquisition date The acquisition was financed with cash The allocation of the fair value of the acquisition resulted in the recording of $2 7 billion of deductible acquired intangible assets and $1 0 billion of deductible goodwill Acquired intangible assets consist primarily of trade names, customer relationships and associated rights and are amortized over an average of 19 years

In February 2010, Abbott acquired Solvay's pharmaceuticals business (Solvay Pharmaceuticals) for approximately $6 1 billion, in cash, plus additional payments of up to EUR 100 million per year if certain sales milestones are met in 2011, 2012 and 2013 Contingent consideration of approximately $290 million was recorded The acquisition of Solvay Pharmaceuticals provided Abbott with a large and complementary portfolio of pharmaceutical products and expands Abbott's presence in key global emerging markets Abbott 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 for the acquired operations for 2010 were approximately $3 1 billion Pretax loss of the acquired operations, including acquisition, integration and restructuring expenses, for 2010 was approximately $395 million The acquisition was funded with cash and short-term investments The allocation of the fair value of the acquisition resulted in the recording of $2 2 billion of non-deductible goodwill, $4 1 billion of non-deductible intangible assets, $500 million of non-deductible acquired in process research and development assets, net tangible assets of $700 million and deferred income taxes of $1 1 billion Acquired intangible assets consist primarily of product rights for currently marketed products and are amortized over 2 to 14 years (average of 11 years) Acquired in-process research and development projects are accounted for as indefinite lived intangible assets until regulatory approval or discontinuation The net tangible assets acquired consist primarily of trade accounts receivable of approximately $675 million, inventory of approximately $390 million, property and equipment of approximately $725 million, net of assumed liabilities, primarily trade accounts payable, accrued compensation and other liabilities

Had the acquisition of Solvay Pharmaceuticals taken place on January 1, 2010, unaudited pro forma net sales, net earnings and diluted earnings per share for 2010 would have been $35 8 billion, $4 6 billion and $2 96, respectively The pro forma information includes adjustments for amortization of intangible assets and fair value adjustments to acquisition-date inventory as well as acquisition, integration and restructuring expenses The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the assumed date

In March 2010, Abbott acquired STARLIMS Technologies for approximately $100 million, in cash, net of cash held by STARLIMS, providing Abbott with leading products and expertise to build its position in laboratory informatics A substantial portion of the fair value of the acquisition has been allocated to goodwill and amortizable intangible assets In April 2010, Abbott acquired the outstanding shares of Facet Biotech Corporation for approximately $430 million, in cash, net of cash held by Facet The acquisition enhanced Abbott's early- and mid-stage pharmaceutical pipeline, including a biologic for multiple sclerosis and compounds that complement Abbott's oncology program A substantial portion of the fair value of the acquisition was allocated to acquired in process research and development that is accounted for as an indefinite-lived intangible asset until regulatory approval or discontinuation

Except for the acquisition of Solvay Pharmaceuticals, had the above acquisitions taken place on January 1 of the previous year, consolidated net sales and income would not have been significantly different from reported amounts

Abbott's Proprietary Pharmaceutical Products segment has entered into various collaboration research and development agreements In 2012, Abbott acquired AP214, a drug under development for the prevention of acute kidney injury associated with major cardiac surgery in patients at increased risk, and as a result of this transaction, Abbott recorded a charge to acquired in-process and collaborations research and development of $110 million In addition, in 2012, Abbott entered into a global collaboration to develop and commercialize an oral, next-generation JAK1 inhibitor in Phase II development with the potential to treat multiple autoimmune diseases, and as a result of this transaction Abbott recorded a charge to acquired in-process and collaborations research and development of $150 million Additional payments of approximately $1 2 billion could be required for the achievement of certain development, regulatory and commercial milestones under this agreement Under another collaboration, Abbott was granted the rights in 2012 to utilize up to three antibody drug conjugate compounds and Abbott recorded a charge to acquired in-process and collaborations research and development of $28 million Additional payments of approximately $220 million for each licensed compound could be required for the achievement of certain development, regulatory and commercial milestones under this agreement In connection with the acquisition of Solvay Pharmaceuticals, the achievement of a certain sales milestone resulted in a payment of approximately $134 million in the first quarter of 2012 for which a liability was previously established

During 2010 and 2011, Abbott entered into a series of transactions with Reata Pharmaceuticals which included (1) a collaboration agreement for the joint development and commercialization of second generation oral antioxidant inflammation modulators resulting in a charge to acquired in-process and collaborations research and development of $400 million in 2011, (2) an agreement to acquire licensing rights outside the U S , excluding certain Asian markets, to bardoxolone methyl, a product in development for the treatment of chronic kidney disease resulting in a charge to acquired in-process and collaborations research

Notes to Consolidated Financial Statements

and development of $238 million in 2010 and (3) the acquisition of equity interests in Reata of $62 million each in 2011 and 2010 In 2011, certain milestones were achieved in the development for the treatment of chronic kidney disease and charges to acquired in-process and collaborations research and development of $188 million were recorded In the first quarter of 2012, $50 million of research and development expense was recorded related to the achievement of a clinical development milestone under the license agreement The license agreement requires additional payments of up to $150 million if certain development and regulatory milestones associated with the chronic kidney disease compound are achieved

On October 17, 2012 Reata informed Abbott that it is discontinuing the Phase III clinical study for bardoxolone methyl for chronic kidney disease Reata and Abbott 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, Abbott recorded a charge of approximately $50 million for the impairment of the equity investment in Reata

In 2011, Abbott entered into an agreement with Biotest AG to develop and commercialize a treatment for rheumatoid arthritis and psoriasis resulting in a charge to acquired in-process and collaborations research and development of $85 million Additional payments totaling up to $395 million based on projected regulatory approval timelines could be required for the achievement of certain development, regulatory and commercial milestones under this agreement In 2010, Abbott entered into an agreement with Neurocrine Biosciences to develop and commercialize a product for the treatment of endometriosis resulting in a charge to acquired in-process and collaborations research and development of $75 million Additional payments of approximately $500 million could be required for the achievement of certain development, regulatory and commercial milestones under this agreement

Note 11 – Goodwill and Intangible Assets

Abbott recorded goodwill of approximately $3 4 billion in 2010 related to the acquisitions of Solvay's pharmaceuticals business, Piramal Healthcare Limited's Healthcare Solutions business, Facet Biotech and STARLIMS Technologies Goodwill related to the Solvay, Piramal and Facet acquisitions was allocated to the pharmaceutical products segments In addition, in 2010, Abbott paid $250 million to Boston Scientific as a result of the approval to market the Xience V drug eluting stent in Japan, resulting in an increase in goodwill in the Vascular Products segment Foreign currency translation and other adjustments increased (decreased) goodwill in 2012, 2011 and 2010 by $69 million, $(225) million and $(879) million, respectively The amount of goodwill related to reportable segments at December 31, 2012 was $6 3 billion for the Proprietary Pharmaceutical Products segment, $3 0 billion for the Established Pharmaceutical Products segment, $209 million for the Nutritional Products segment, $385 million for the Diagnostic Products segment, and $2 7 billion for the Vascular Products segment There were no significant reductions of goodwill relating to impairments or disposal of all or a portion of a business

The gross amount of amortizable intangible assets, primarily product rights and technology was $17 6 billion, $17 5 billion and $17 3 billion as of December 31, 2012, 2011 and 2010, respectively, and accumulated amortization was $9 7 billion, $8 3 billion and $6 5 billion as of December 31, 2012, 2011 and 2010, respectively Indefinite-lived intangible assets, which relate to in-process research and development acquired in a business combination, were approximately $691 million, $814 million and $1 4 billion at December 31, 2012, 2011 and 2010, respectively In 2012 and 2011, Abbott recorded impairment charges of $82 million and $174 million, respectively, for certain research and development assets due to changes in the projected development and regulatory timelines for the projects The 2012 charge relates to a non-reportable segment and in 2011, $125 million related to a non-reportable segment and $49 million related to the Other category in Abbott's segment reporting Discounted cash flow analysis was used to analyze fair value and the charges are included in research and development expenses The estimated annual amortization expense for intangible assets recorded at December 31, 2012, adjusted for the separation of AbbVie from Abbott, is approximately $800 million in 2013, $675 million in 2014, $590 million in 2015, $605 million in 2016 and $565 million in 2017 Intangible asset amortization is included in Cost of products sold in the consolidated statement of earnings Amortizable intangible assets are amortized over 2 to 30 years (average 11 years)

Note 12 – Restructuring Plans

In 2012, Abbott management approved plans to streamline various commercial operations in order to reduce costs and improve efficiencies in Abbott's core diagnostics, established pharmaceutical and nutritionals businesses Abbott recorded employee related severance charges of approximately $167 million in 2012 Additional charges of approximately $22 million were also recorded in 2012, primarily for asset impairments Approximately $70 million is recorded in Cost of products sold and approximately $119 million as Selling, general and administrative expense As of December 31, 2012, no significant cash payments have been made relating to these actions

In 2011 and prior years, Abbott management approved plans to realign its worldwide pharmaceutical and vascular manufacturing operations and selected domestic and international commercial and research and development operations in order to reduce costs In 2011 and 2010, Abbott recorded charges of approximately $194 million and $56 million, respectively, reflecting the impairment of manufacturing facilities and other assets, employee severance and other related charges Approximately $76 million in 2011 is classified as Cost of products sold, $69 million as Research and development and $49 million as Selling, general and administrative Approximately $56 million in 2010 is classified as Cost of products sold The following summarizes the activity for these restructurings

(dollars in millions)	
Accrued balance at January 1, 2010	$ 145
2010 restructuring charges	56
Payments impairments and other adjustments	(124)
Accrued balance at December 31, 2010	77
2011 restructuring charges	194
Payments, impairments and other adjustments	(94)
Accrued balance at December 31 2011	177
Payments and other adjustments	(48)
Accrued balance at December 31, 2012	$ 129

Notes to Consolidated Financial Statements

An additional $110 million, $25 million and $13 million were recorded in 2012, 2011 and 2010, respectively, relating to these restructurings, primarily for accelerated depreciation

In 2012 and 2010, Abbott management approved restructuring plans primarily related to the acquisition of Solvay's pharmaceuticals business These plans streamline operations, improve efficiencies and reduce costs in certain Solvay sites and functions as well as in certain Abbott and Solvay commercial organizations in various countries In 2012, Abbott recorded a charge of approximately $150 million for employee severance and contractual obligations, primarily related to the exit from a research and development facility Approximately $142 million is recorded as Research and development and $8 million as Selling, general and administrative In 2010, Abbott recorded charges to Cost of products sold, Research and development and Selling, general and administrative of approximately $99 million, $152 million and $272 million, respectively The following summarizes the activity for these restructurings

(dollars in millions)	
2010 restructuring charge	$523
Payments, impairments and other adjustments	(113)
Accrued balance at December 31, 2010	410
Payments and other adjustments	(302)
Accrued balance at December 31 2011	108
Restructuring charges	150
Payments and other adjustments	(143)
Accrued balance at December 31, 2012	$115

An additional $38 million, $102 million and $12 million were recorded in 2012, 2011 and 2010, respectively, relating to these restructurings, primarily for additional employee severance and accelerated depreciation

In 2011 and 2008, Abbott management approved plans to streamline global manufacturing operations, reduce overall costs, and improve efficiencies in Abbott's core diagnostic business In 2011, a charge of $28 million was recorded in Cost of products sold The following summarizes the activity for these restructurings

(dollars in millions)	
Accrued balance at January 1, 2010	$98
Payments and other adjustments	(10)
Accrued balance at December 31, 2010	88
2011 restructuring charge	28
Payments and other adjustments	(37)
Accrued balance at December 31, 2011	79
Payments and other adjustments	(23)
Accrued balance at December 31, 2012	$56

In addition, charges of approximately $16 million, $42 million and $60 million were recorded in 2012, 2011 and 2010, primarily for accelerated depreciation and product transfer costs

Note 13 – Quarterly Results (Unaudited)

(dollars in millions except per share data)	2012	2011	2010
First Quarter			
Net Sales	$9,456 6	$9 040 9	$7,698 4
Gross Profit	5,731 7	5,181 9	4,363 2
Net Earnings	1,242 1	863 8	1,003 0
Basic Earnings Per Common Share (a)	79	56	65
Diluted Earnings Per Common Share (a)	78	55	64
Market Price Per Share-High	61 49	49 45	56 79
Market Price Per Share Low	53 96	45 07	52 21
Second Quarter			
Net Sales	$9,807 1	$9,616 3	$8,826 0
Gross Profit	6,169 8	5,745 8	5,282 1
Net Earnings	1,724 6	1,942 8	1 291 7
Basic Earnings Per Common Share (a)	1 09	1 24	83
Diluted Earnings Per Common Share (a)	1 08	1 23	83
Market Price Per Share High	64 47	54 24	53 25
Market Price Per Share-Low	59 04	49 05	45 26
Third Quarter			
Net Sales	$9,773 3	$9,816 7	$8,674 5
Gross Profit	6,075 2	5 843 4	4,933 4
Net Earnings	1,942 8	303 2	890 7
Basic Earnings Per Common Share (a)	1 22	19	58
Diluted Earnings Per Common Share (a)	1 21	19	57
Market Price Per Share High	70 41	53 60	52 86
Market Price Per Share Low	63 51	46 29	44 59
Fourth Quarter			
Net Sales	$10,836 9	$10 377 4	$9,967 8
Gross Profit	6,777 5	6,539 6	5,922 8
Net Earnings	1,053 4	1 618 7	1,440 8
Basic Earnings Per Common Share (a)	66	1 03	93
Diluted Earnings Per Common Share (a)	66	1 02	92
Market Price Per Share High	72 47	56 44	53 75
Market Price Per Share Low	62 62	48 96	46 03

(a) The sum of the quarters basic earnings per share for 2011 and 2010 and diluted earnings per share for 2012 and 2011 do not add to the full year earnings per share amounts due to rounding

Management Report on Internal Control Over Financial Reporting

The management of Abbott Laboratories is responsible for establishing and maintaining adequate internal control over financial reporting Abbott's internal control system was designed to provide reasonable assurance to the company's management and board of directors regarding the preparation and fair presentation of published financial statements

All internal control systems, no matter how well designed, have inherent limitations Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation

Abbott's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2012 In making this assessment, it used the criteria set forth in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission Based on our assessment, we believe that, as of December 31, 2012, the company's internal control over financial reporting was effective based on those criteria

Abbott's independent registered public accounting firm has issued an audit report on their assessment of the effectiveness of the company's internal control over financial reporting This report appears on page 47

Miles D White
Chairman of the Board and Chief Executive Officer

Thomas C Freyman
Executive Vice President, Finance and Chief Financial Officer

Greg W Linder
Vice President and Controller

February 15, 2013

Reports of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Abbott Laboratories

We have audited the accompanying consolidated balance sheets of Abbott Laboratories and subsidiaries (the "Company") as of December 31, 2012, 2011, and 2010, and the related consolidated statements of earnings, comprehensive income, shareholders' investment, and cash flows for the years then ended. These 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2012, 2011, and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, on January 1, 2013, the Company distributed all of the outstanding shares of AbbVie Inc., which encompasses the Company's research-based pharmaceuticals business, to the Company's shareholders. As also discussed in Note 1, in 2011 the Company changed the year end of its foreign subsidiaries from a November 30 fiscal year end to a December 31 calendar year end.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP
Chicago, Illinois
February 15, 2013

To the Board of Directors and Shareholders of Abbott Laboratories

We have audited the internal control over financial reporting of Abbott Laboratories and subsidiaries (the "Company") as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2012 and our report dated February 15, 2013 expresses an unqualified opinion on those financial statements and includes an explanatory paragraph regarding the distribution of the shares of AbbVie Inc. to the Company's shareholders and the Company's change to the year end of its foreign subsidiaries.

Deloitte & Touche LLP
Chicago, Illinois
February 15, 2013

Financial Instruments and Risk Management

Market Price Sensitive Investments

Abbott holds available-for-sale equity securities from strategic technology acquisitions The market value of these investments was approximately $76 million and $93 million as of December 31, 2012 and 2011, respectively Abbott monitors these investments for other than temporary declines in market value, and charges impairment losses to income when an other than temporary decline in value occurs A hypothetical 20 percent decrease in the share prices of these investments would decrease their fair value at December 31, 2012 by approximately $15 million (A 20 percent decrease is believed to be a reasonably possible near-term change in share prices)

Non-Publicly Traded Equity Securities

Abbott holds equity securities from strategic technology acquisitions that are not traded on public stock exchanges The carrying value of these investments was approximately $137 million and $224 million as of December 31, 2012 and 2011, respectively No individual investment is recorded at a value in excess of $30 million Abbott monitors these investments for other than temporary declines in market value, and charges impairment losses to income when an other than temporary decline in estimated value occurs

Interest Rate Sensitive Financial Instruments

At December 31, 2012 and 2011, Abbott had interest rate hedge contracts totaling $9 5 billion and $6 8 billion, respectively, to manage its exposure to changes in the fair value of debt The effect of these hedges is to change the fixed interest rate to a variable rate Abbott does not use derivative financial instruments, such as interest rate swaps, to manage its exposure to changes in interest rates for its investment securities At December 31, 2012, Abbott had $1 3 billion of domestic commercial paper outstanding with an average annual interest rate of 0 32% with an average remaining life of 17 days The fair value of long-term debt at December 31, 2012 and 2011 amounted to $19 6 billion and $15 1 billion, respectively (average interest rates of 2 9%) with maturities through 2042 At December 31, 2012 and 2011, the fair value of current and long-term investment securities amounted to approximately $4 6 billion and $1 7 billion, respectively A hypothetical 100-basis point change in the interest rates would not have a material effect on cash flows, income or market values (A 100-basis point change is believed to be a reasonably possible near-term change in rates)

Foreign Currency Sensitive Financial Instruments

Certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U S dollar These contracts are designated as cash flow hedges of the variability of the cash flows due to changes in foreign currency exchange rates and are marked-to-market with the resulting gains or losses reflected in Accumulated other comprehensive income (loss) Gains or losses will be included in Cost of products sold at the time the products are sold, generally within the next twelve months At December 31, 2012 and 2011, Abbott held $1 6 billion of such contracts, which all mature in the following calendar year

Abbott enters into foreign currency forward exchange contracts to manage its exposure to foreign currency denominated intercompany loans and trade payables and third-party trade payables and receivables 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, Abbott held $18 2 billion and $15 7 billion, respectively, of such contracts, which mature in the next twelve months

Abbott has designated foreign denominated short-term debt of approximately $615 million and approximately $680 million as of December 31, 2012 and 2011, respectively, as a hedge of the net investment in a foreign subsidiary Accordingly, changes in the fair value of this debt due to changes in exchange rates are recorded in Accumulated other comprehensive income (loss), net of tax

The following table reflects the total foreign currency forward contracts outstanding at December 31, 2012 and 2011

	2012			2011		
(dollars in millions)	Contract Amount	Weighted Average Exchange Rate	Fair and Carrying Value Receivable/ (Payable)	Contract Amount	Weighted Average Exchange Rate	Fair and Carrying Value Receivable/ (Payable)
Receive primarily U S Dollars in exchange for the following currencies						
Euro	$11,349	1 317	$ (4)	$10,526	1 329	$102
British Pound	1,318	1 621	1	1,501	1 571	3
Japanese Yen	2,624	81 2	9	2 458	80 3	(3)
Canadian Dollar	332	992	1	280	1 026	(2)
All other currencies	4 169	N/A	(33)	2,544	N/A	(1)
Total	$19,792		$(26)	$17,309		$ 99

Financial Review

Abbott's revenues are derived primarily from the sale of a broad line of health care products under short-term receivable arrangements Patent protection and licenses, technological and performance features, and inclusion of Abbott's products under a contract or by a pharmacy benefit manager most impact which products are sold, price controls, competition and rebates most impact the net selling prices of products, and foreign currency translation impacts the measurement of net sales and costs Abbott's primary products are nutritional products, prescription pharmaceuticals, diagnostic testing products and vascular products

In October 2011, Abbott announced a plan to separate into two publicly traded companies, one in diversified medical products and the other in research-based pharmaceuticals To accomplish the separation, Abbott created a new company, AbbVie Inc ("AbbVie") for its research-based pharmaceuticals business which consists primarily of Abbott's Proprietary Pharmaceutical Products segment On January 1, 2013, Abbott distributed all of the outstanding shares of AbbVie to Abbott's shareholders As a result of the distribution, AbbVie is now an independent company trading under the symbol "ABBV" Beginning in the first quarter of 2013, the historical results of the research-based pharmaceuticals business will be reflected in Abbott's consolidated financial statements as discontinued operations

Prior to the separation of AbbVie, sales in international markets were approximately 60 percent of consolidated net sales Post-separation, sales outside the U S are expected to comprise approximately 70 percent of net sales

Continued robust growth of *HUMIRA* in a broad range of indications, the acquisitions of Solvay's pharmaceuticals business (Solvay Pharmaceuticals) and Piramal Healthcare Limited's Healthcare Solutions business, sales growth and margin improvement in the nutritional and diagnostics businesses, a government investigation of Abbott's sales and marketing activities related to *Depakote*, and the challenging economic and fiscal environment in many countries around the world have impacted Abbott's sales, costs and financial position over the last three years

Pharmaceutical research and development was focused over the last three years on therapeutic areas that included immunology, oncology, neuroscience, pain management, hepatitis C (HCV), chronic kidney disease and women's health In addition, Abbott acquired the rights to various in-process pharmaceutical research and development projects including the development of second-generation oral antioxidant inflammation modulators and an oral, next-generation JAK1 inhibitor with the potential to treat multiple autoimmune diseases

In 2003, Abbott began the worldwide launch of *HUMIRA* for rheumatoid arthritis, followed by launches for six additional indications in the U S and eight additional indications in the European Union *HUMIRA*'s worldwide sales increased to $9 3 billion in 2012 compared to $7 9 billion in 2011, and $6 5 billion in 2010 Generic competition for *TriCor* began in the fourth quarter of 2012 Austerity measures implemented by several European countries reduced healthcare spending and affected pharmaceutical pricing over the last three years The U S proprietary pharmaceuticals business was negatively affected by the 2010 U S health care reform legislation which resulted in rebate changes beginning in 2010 and the payment of an annual fee beginning in 2011

In February 2010, Abbott acquired Solvay Pharmaceuticals which provided Abbott with a large and complementary portfolio of pharmaceutical products and expanded Abbott's presence in key global emerging markets The acquisition added approximately $3 1 billion to Abbott's 2010 net sales, primarily outside the U S In September 2010, Abbott completed the acquisition of Piramal's Healthcare Solutions business, propelling Abbott to market leadership in the Indian pharmaceutical market and further accelerating the company's growth in emerging markets Abbott recorded expense of approximately $262 million in 2012, $345 million in 2011 and $710 million in 2010 related to the integration of the Solvay business and restructuring plans to streamline operations, improve efficiencies and reduce costs primarily in certain Solvay sites and functions

In May 2012, Abbott 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 Abbott recorded charges related to this matter of $1 5 billion in 2011 and $100 million in 2012, of which approximately $1 6 billion was paid in 2012

In Abbott's worldwide nutritional products business, sales were positively impacted by demographics such as an aging population and an increasing rate of chronic disease in developed markets and the rise of a middle class in many emerging markets, as well as by numerous new product introductions that leveraged Abbott's strong brands At the same time, manufacturing and distribution process changes and other cost reductions drove margin improvements across the business

In Abbott's worldwide diagnostics business, margin improvement continued to be a key focus and operating margins increased from 14 7 percent of sales in 2010 to 18 7 percent in 2012

Over the last three years, Abbott continued to build its *Xience* drug-eluting stent franchise with the receipt of approval to market *Xience Xpedition* in various countries, including U S approval in the fourth quarter of 2012 as well as the launches of *Xience nano* and *Xience PRIME* in the U S in 2011, and *Xience PRIME* and *Xience V* in Japan in April 2012 and January 2010, respectively *Xience*, which includes *Xience V*, *PRIME*, *nano* and *Xpedition*, ended 2012 as the market-leading drug eluting stent globally In 2011, the third party distributor of the Promus product began transitioning away from the product and that supply agreement ended in 2012 The effect of the winding down of the agreement will continue into the first quarter of 2013

In 2010, the U S government passed health care reform legislation which included an increase in Medicaid rebate rates and the extension of the rebate to drugs provided through Medicaid managed care organizations beginning in 2010 The legislation also imposed annual fees which pharmaceutical manufacturers began paying in 2011 and medical device companies will begin paying in 2013, as well as additional rebates related to the Medicare Part D "donut hole" beginning in 2011 In addition to a 2010 one-time charge of approximately $60 million to reduce deferred tax assets associated with retiree health care liabilities related to the Medicare Part D retiree drug subsidy, the legislation's negative impact on Abbott's performance grew from more than $200 million in 2010 to approximately $400 million per year in 2011 and 2012 The $400 million annual impact included approximately

Financial Review

$100 million for the annual pharmaceutical manufacturer fee This fee is not tax-deductible and is included in selling, general and administrative expenses With the separation of AbbVie at the beginning of 2013, Abbott no longer sells pharmaceutical products in the U S and therefore is no longer subject to the annual pharmaceutical fee or the additional rebates Beginning in 2013, Abbott will begin paying the 2 3 percent medical device tax under U S health care reform legislation This tax will be included in selling, general and administrative expenses and the amount of the tax is not expected to be material

In the fourth quarter of 2012, Abbott extinguished $7 7 billion of long-term debt and incurred a charge of $1 35 billion related to the early repayment, net of gains from the unwinding of interest rate swaps related to the debt Abbott's short- and long-term debt totaled $20 5 billion at December 31, 2012 This balance includes $1 billion of short-borrowings and $14 7 billion of long-term debt that was issued by AbbVie Inc in 2012 After the separation of AbbVie on January 1, 2013, Abbott has no remaining obligations related to this $15 7 billion of debt At December 31, 2012, Abbott's long-term debt rating was A+ by Standard and Poor's Corporation and A1 by Moody's Investors Service Operating cash flows in excess of capital expenditures and cash dividends have partially funded acquisitions over the last three years

In 2013, Abbott will focus on several key initiatives In the nutritional business, Abbott will continue to build its product portfolio with the introduction of new science-based products, expand in high-growth emerging markets and implement additional margin improvement initiatives In the established pharmaceuticals business, which includes international sales of branded generic products, Abbott will continue to focus on obtaining additional product approvals across numerous countries and expanding its presence in emerging markets In the diagnostics business, Abbott will focus on the development of next-generation instruments and other advanced technologies, expansion in emerging markets, and further improvements in the segment's operating margin In the vascular business, Abbott will continue to focus on marketing products in the *Xience* and endovascular franchises, increasing international *MitraClip* sales, and obtaining regulatory review of the *MitraClip* device in the U S as well as further clinical development of *ABSORB*, its bioresorbable vascular scaffold (BVS) device and a further roll-out of *ABSORB* in numerous countries In Abbott's other segments, Abbott will focus on developing differentiated technologies in higher growth markets

Critical Accounting Policies

Sales Rebates – In 2012, approximately 56 percent of Abbott's consolidated gross revenues were subject to various forms of rebates and allowances that Abbott recorded as reductions of revenues at the time of sale Most of these rebates and allowances are in the Proprietary Pharmaceutical Products segment and the Nutritional Products segment Abbott provides rebates to pharmacy benefit management companies, state agencies that administer the federal Medicaid program, insurance companies that administer Medicare drug plans, state agencies that administer the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), wholesalers, group purchasing organizations, and other government agencies and private entities Rebate amounts are usually based upon the volume of purchases using contractual or statutory prices for a product Factors used in the rebate calculations include the identification of which products have been sold subject to a rebate, which customer or government agency price terms apply, and the estimated lag time between sale and payment of a rebate Using historical trends, adjusted for current changes, Abbott estimates the amount of the rebate that will be paid, and records the liability as a reduction of gross sales when Abbott records its sale of the product Settlement of the rebate generally occurs from two to eight months after sale Abbott regularly analyzes the historical rebate trends and makes adjustments to reserves for changes in trends and terms of rebate programs Rebates and chargebacks charged against gross sales in 2012, 2011 and 2010 amounted to approximately $6 2 billion, $5 5 billion and $4 9 billion, respectively, or 22 9 percent, 22 2 percent and 23 1 percent, respectively, based on gross sales of approximately $26 9 billion, $24 8 billion and $21 1 billion, respectively, subject to rebate A one-percentage point increase in the percentage of rebates to related gross sales would decrease net sales by approximately $269 million in 2012 Abbott considers a one-percentage point increase to be a reasonably likely increase in the percentage of rebates to related gross sales Other allowances charged against gross sales were approximately $542 million, $409 million and $415 million for cash discounts in 2012, 2011 and 2010, respectively, and $365 million, $490 million and $537 million for returns in 2012, 2011 and 2010, respectively Cash discounts are known within 15 to 30 days of sale, and therefore can be reliably estimated Returns can be reliably estimated because Abbott's historical returns are low, and because sales returns terms and other sales terms have remained relatively unchanged for several periods

Management analyzes the adequacy of ending rebate accrual balances each quarter In the domestic nutritional business, management uses both internal and external data available to estimate the level of inventory in the distribution channel Management has access to several large customers' inventory management data, and for other customers, utilizes data from a third party that measures time on the retail shelf These sources allow management to make reliable estimates of inventory in the distribution channel Except for a transition period before or after a change in the supplier for the WIC business in a state, inventory in the distribution channel does not vary substantially Management also estimates the states' processing lag time based on claims data In addition, internal processing time is a factor in estimating the accrual In the WIC business, the state where the sale is made, which is the determining factor for the applicable price, is reliably determinable Estimates are required for the amount of WIC sales within each state where Abbott has the WIC business External data sources utilized for that estimate are participant data from the U S Department of Agriculture (USDA), which administers the WIC program, participant data from some of the states, and internally administered market research The USDA has been making its data available for many years Internal data includes historical redemption rates and pricing data At December 31, 2012, Abbott had WIC business in 22 states

Financial Review

In the domestic proprietary pharmaceutical business, the most significant charges against gross sales are for Medicaid and Medicare Rebates, Pharmacy Benefit Manager Rebates and Wholesaler Chargebacks In order to evaluate the adequacy of the ending accrual balances, management uses both internal and external data to estimate the level of inventory in the distribution channel and the rebate claims processing lag time External data sources used to estimate the inventory in the distribution channel include inventory levels periodically reported by wholesalers and third party market data purchased by Abbott Management estimates the processing lag time based on periodic sampling of claims data To estimate the price rebate percentage, systems and calculations are used to track sales by product by customer and to estimate the contractual or statutory price Abbott's systems and calculations have developed over time as rebates have become more significant, and Abbott believes they are reliable

The following table is an analysis of the four largest rebate accruals, which comprise approximately 70 percent of the consolidated rebate provisions charged against revenues in 2012 Remaining rebate provisions charged against gross sales are not significant in the determination of operating earnings

		Domestic Proprietary Pharmaceutical Products		
(dollars in millions)	Domestic Nutritionals WIC Rebates	Medicaid and Medicare Rebates	Pharmacy Benefit Manager Rebates	Wholesaler Chargebacks
Balance at January 1, 2010	$ 153	$ 352	$ 239	$ 160
Provisions	616	899	841	1,162
Payments	(640)	(617)	(670)	(1,163)
Balance at December 31, 2010	129	634	410	159
Provisions	575	985	831	1,361
Payments	(568)	(899)	(735)	(1,349)
Balance at December 31, 2011	136	720	506	171
Provisions	657	1,077	830	1,645
Payments	(670)	(990)	(840)	(1,592)
Balance at December 31 2012	$ 123	$ 807	$ 496	$ 224

Historically, adjustments to prior years' rebate accruals have not been material to net income Abbott employs various techniques to verify the accuracy of claims submitted to it, and where possible, works with the organizations submitting claims to gain insight into changes that might affect the rebate amounts For Medicaid, Medicare and other government agency programs, the calculation of a rebate involves interpretations of relevant regulations, which are subject to challenge or change in interpretation

Income Taxes – Abbott operates in numerous countries where its income tax returns are subject to audits and adjustments Because Abbott operates globally, the nature of the audit items are often very complex, and the objectives of the government auditors can result in a tax on the same income in more than one country Abbott employs internal and external tax professionals to minimize audit adjustment amounts where possible In accordance with the accounting rules relating to the measurement of tax contingencies, in order to recognize an uncertain tax benefit, the taxpayer must be more likely than not of sustaining the position, and the measurement of the benefit is calculated as the largest amount that is more than 50 percent likely to be realized upon resolution of the benefit Application of these rules requires a significant amount of judgment In the U S , Abbott's federal income tax returns through 2009 are settled except for one item, and the income tax returns for years after 2009 are open Abbott does not record deferred income taxes on earnings reinvested indefinitely in foreign subsidiaries

Pension and Post-Employment Benefits – Abbott offers pension benefits and post-employment health care to many of its employees Abbott engages outside actuaries to assist in the determination of the obligations and costs under these programs Abbott must develop long-term assumptions, the most significant of which are the health care cost trend rates, discount rates and the expected return on plan assets The discount rates used to measure liabilities were determined based on high-quality fixed income securities that match the duration of the expected retiree benefits The health care cost trend rates represent Abbott's expected annual rates of change in the cost of health care benefits and is a forward projection of health care costs as of the measurement date A difference between the assumed rates and the actual rates, which will not be known for decades, can be significant in relation to the obligations and the annual cost recorded for these programs Low asset returns due to poor market conditions and low interest rates have significantly increased actuarial losses for these plans At December 31, 2012, pretax net actuarial losses and prior service costs and (credits) recognized in Accumulated other comprehensive income (loss) for Abbott's defined benefit plans and medical and dental plans were losses of $4 8 billion and $379 million, respectively 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 Note 4 to the consolidated financial statements describes the impact of a one-percentage point change in the health care cost trend rate, however, there can be no certainty that a change would be limited to only one percentage point

Valuation of Intangible Assets – Abbott has acquired and continues to acquire significant intangible assets that Abbott records at fair value Transactions involving the purchase or sale of intangible assets occur with some frequency between companies in the health care field and valuations are usually based on a discounted cash flow analysis The discounted cash flow model requires assumptions about the timing

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and amount of future net cash flows, risk, the cost of capital, terminal values and market participants Each of these factors can significantly affect the value of the intangible asset Abbott engages independent valuation experts who review Abbott's critical assumptions and calculations for acquisitions of significant intangibles Abbott reviews definite-lived intangible assets for impairment each quarter using an undiscounted net cash flows approach 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 Where cash flows cannot be identified for an individual asset, the review is applied at the lowest group level for which cash flows are identifiable Goodwill and indefinite-lived intangible assets, which relate to in-process research and development acquired in a business combination, are reviewed for impairment annually or when an event that could result in an impairment occurs At December 31, 2012, goodwill and intangibles amounted to $15 8 billion and $8 6 billion, respectively, and amortization expense for intangible assets amounted to $1 4 billion in 2012 There were no impairments of goodwill in 2012, 2011 or 2010 In 2012 and 2011, Abbott recorded impairment charges of $82 million and $174 million, respectively, for certain research and development assets due to changes in the projected development and regulatory timelines for the projects

Litigation – Abbott accounts for litigation losses in accordance with FASB Accounting Standards Codification No 450, "Contingencies " Under ASC No 450, loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded These estimates are often initially developed substantially earlier than the ultimate loss is known, and the estimates are refined each accounting period as additional information becomes known Accordingly, Abbott is often initially unable to develop a best estimate of loss, and therefore the minimum amount, which could be zero, is recorded As information becomes known, either the minimum loss amount is increased, resulting in additional loss provisions, or a best estimate can be made, also resulting in additional loss provisions Occasionally, a best estimate amount is changed to a lower amount when events result in an expectation of a more favorable outcome than previously expected Abbott estimates the range of possible loss to be from approximately $70 million to $100 million for its legal proceedings and environmental exposures Accruals of approximately $80 million have been recorded at December 31, 2012 for these proceedings and exposures These accruals represent management's best estimate of probable loss, as defined by FASB ASC No 450, "Contingencies "

Results of Operations

Sales

The following table details the components of sales growth by reportable segment for the last three years

	Total	Components of Change %		
	% Change	Price	Volume	Exchange
Total Net Sales				
2012 vs 2011	2 6	1 7	3 8	(2 9)
2011 vs 2010	10 5	1 2	6 5	2 8
2010 vs 2009	14 3	(0 1)	13 2	1 2
Total U S				
2012 vs 2011	4 8	5 6	(0 8)	–
2011 vs 2010	5 4	4 4	1 0	–
2010 vs 2009	6 8	0 7	6 1	–
Total International				
2012 vs 2011	1 1	(1 0)	7 1	(5 0)
2011 vs 2010	14 3	(1 2)	10 6	4 9
2010 vs 2009	20 7	(0 8)	19 3	2 2
Proprietary Pharmaceutical Products Segment				
2012 vs 2011	5 5	4 5	3 7	(2 7)
2011 vs 2010	11 0	3 5	5 2	2 3
2010 vs 2009	13 6	0 3	12 7	0 6
Established Pharmaceutical Products Segment				
2012 vs 2011	(4 4)	(1 3)	3 4	(6 5)
2011 vs 2010	20 0	(1 7)	17 4	4 3
2010 vs 2009	51 7	(0 3)	49 1	2 9
Nutritional Products Segment				
2012 vs 2011	7 7	4 5	4 2	(1 0)
2011 vs 2010	8 6	3 0	3 6	2 0
2010 vs 2009	4 7	1 7	1 2	1 8
Diagnostic Products Segment				
2012 vs 2011	4 0	(1 4)	8 7	(3 3)
2011 vs 2010	8 8	(1 1)	6 5	3 4
2010 vs 2009	6 0	0 1	4 3	1 6
Vascular Products Segment				
2012 vs 2011	(7 9)	(5 2)	(0 4)	(2 3)
2011 vs 2010	4 4	(4 3)	5 5	3 2
2010 vs 2009	18 6	(4 7)	22 3	1 0

Total Net Sales in 2012 reflect unit growth, partially offset by the impact of unfavorable foreign exchange The decrease in 2012 Vascular Products sales is partially due to the winding down of royalty and supply agreements related to certain third-party products, including Promus Excluding this royalty and supply agreement revenue in both periods and the unfavorable effect of exchange, Vascular Products sales increased 3 4 percent in 2012 In 2011 and 2010, Total Net, Total U S , Total International, Proprietary Pharmaceutical Products segment and Established Pharmaceutical Products segment sales reflect the acquisition of Solvay's pharmaceuticals business on February 15, 2010 and unit growth, while the relatively weaker U S dollar favorably impacted international sales across all segments Total Net, Total International and Established Pharmaceutical Products segment sales growth in 2011 also reflects the acquisition of Piramal Healthcare Limited's Healthcare Solution business in September 2010

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A comparison of significant product and product group sales is as follows Percent changes are versus the prior year and are based on unrounded numbers

(dollars in millions)	2012	Percent Change	2011	Percent Change	2010	Percent Change
Proprietary Pharmaceuticals —						
Total U S						
Proprietary sales	$10,158	7	$9,455	8	$8,744	12
HUMIRA	4,376	28	3,427	19	2,872	14
TRILIPIX/TriCor	1,098	(20)	1 372	1	1 355	1
Niaspan	911	(7)	976	5	927	8
AndroGel	1,152	32	874	35	649	n/m
Lupron	569	5	540	12	483	(11)
Synthroid	551	6	522	16	451	9
Creon	353	7	332	35	246	n/m
Kaletra	280	(14)	326	(10)	363	(19)
Total International						
Proprietary sales	7,854	3	7,625	15	6,645	16
HUMIRA	4,889	9	4 505	23	3 676	24
Kaletra	733	(13)	844	(5)	892	(3)
Lupron	231	(14)	270	2	265	2
Total Established						
Pharmaceuticals —	5,121	(4)	5 355	20	4,461	52
Clarithromycin	501	(9)	551	6	521	(11)
TriCor and *Lipanthyl* (fenofibrate)	292	(5)	308	24	248	n/m
Creon	306	4	298	58	187	n/m
Serc	205	(12)	233	30	180	n/m
Duphaston	259	16	223	64	136	n/m
Synthroid	105	1	103	9	95	19
Nutritionals —						
U S Pediatric Nutritionals	1,445	14	1,268	5	1,208	(7)
International Pediatric Nutritionals	2,080	8	1,926	15	1,676	9
U S Adult Nutritionals	1,452	6	1 368	2	1,345	6
International Adult Nutritionals	1,484	4	1,427	13	1 268	15
Diagnostics — Immunochemistry	3,279	4	3,150	8	2,904	4
Vascular Products (1) —						
Xience	1 599	3	1,558	14	1,370	40
Other Coronary Products	598	(1)	605	9	555	5
Endovascular	452	1	449	9	414	5

n/m — Percent change is not meaningful

(1) Other Coronary Products include primarily guidewires and balloon catheters Endovascular includes vessel closure carotid stents and other peripheral products

Excluding the negative effect of exchange, Total International Proprietary sales increased 8 9 percent in 2012 In Proprietary Pharmaceuticals, a generic version of *TriCor* entered the U S market in the fourth quarter of 2012 Total Established Pharmaceutical Products sales decreased in 2012 due to the negative effect of exchange and decreased sales of *Clarithromycin* and *Serc* due to, in part, pricing pressures in Europe, partially offset by growth in emerging markets Excluding the effect of exchange, Total Established Pharmaceutical Products sales increased 2 1 percent U S Pediatric Nutritional sales in 2012 reflect market share gains for *Similac* and unit growth for *PediaSure* The increase in 2012 U S Adult Nutritional sales reflects unit growth for the *Ensure* and *Glucerna* products International Pediatric and Adult Nutritionals sales increases over the three years were due primarily to volume growth in developing countries and were negatively impacted in 2012 by the effect of the relatively stronger U S dollar

The increases in U S Proprietary product sales in 2011 and 2010 are primarily due to increased sales of *HUMIRA* and the acquisition of Solvay Pharmaceuticals in February 2010, partially offset by decreased sales of *Depakote*, *Zemplar*, and *Kaletra* The increases in Established Pharmaceutical sales in 2011 and 2010 are primarily due to the acquisitions of Solvay Pharmaceuticals and Piramal and growth in emerging markets U S Pediatric Nutritionals sales in 2011 and 2010 were affected by the voluntary recall of certain Similac-brand powder infant formulas in September 2010 and the subsequent recovery in market share in 2011 International Proprietary Pharmaceuticals, International Adult Nutritionals and Immunochemistry sales were positively impacted by the effect of the relatively weaker U S dollar in 2011 and 2010 Abbott has periodically sold product rights to non-strategic products and has recorded the related gains in net sales in accordance with Abbott's revenue recognition policies as discussed in Note 1 to the consolidated financial statements Related net sales were approximately $58 million in 2010, while there were no significant sales in 2012 and 2011

The expiration of licenses and patent protection and generic competition can affect the future revenues and operating income of Abbott There are currently no significant patent or license expirations in the next three years that are expected to affect Abbott after the separation of AbbVie

Operating Earnings

Gross profit margins were 62 1 percent of net sales in 2012, 60 0 percent in 2011 and 58 3 percent in 2010 The increase in the gross profit margin in 2012 was impacted by improved gross margins across all reportable segments as a result of cost reduction initiatives, the impact of exchange and favorable product mix The increase in the gross profit margin in 2011 was due, in part, to improved margins in the established pharmaceutical, diagnostics and diabetes businesses and was partially offset by the unfavorable effect of exchange on the profit margin ratio The increase in the gross profit margin in 2010 was due, in part, to improved margins in the established pharmaceutical, vascular, diabetes, diagnostics and nutritional businesses and the favorable effect of exchange on the gross profit margin ratio

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In the U S , states receive price rebates from manufacturers of infant formula under the federally subsidized Special Supplemental Nutrition Program for Women, Infants, and Children There are also rebate programs for pharmaceutical products in numerous countries These rebate programs continue to have a negative effect on the gross profit margins of the Nutritional, Proprietary Pharmaceutical and Established Pharmaceutical Products segments

Research and development expense was $4 322 billion in 2012, $4 129 billion in 2011 and $3 724 billion in 2010 and represented increases of 4 7 percent in 2012, 10 9 percent in 2011 and 35 7 percent in 2010 Excluding charges related to the Solvay restructurings announced in September 2010, research and development expense increased 6 2 percent in 2011 and 29 4 percent in 2010 The 2010 increase, exclusive of the effects of the restructuring charges, reflects the acquisitions of Solvay's pharmaceuticals business in February 2010 and Facet Biotech in April 2010 The increases in 2012, 2011 and 2010 also reflect continued pipeline spending, including programs in biologics, hepatitis C and diagnostics The majority of research and development expenditures over the three years were concentrated on pharmaceutical products $2 9 billion of Abbott's 2012 research and development expenses related to Abbott's pharmaceutical products, of which $2 2 billion was directly allocated to the Proprietary Pharmaceutical Products segment In 2012, research and development expenditures totaled $367 million for the Vascular Products segment, $382 million for the Diagnostics Products segment, $275 million for the Established Pharmaceutical Products segment and $186 million for the Nutritional Products segment

Selling, general and administrative expenses decreased 5 5 percent in 2012 and increased 22 9 percent in 2011 and 23 4 percent in 2010 2012 includes approximately $405 million related to the separation of AbbVie from Abbott and a $100 million litigation charge related to the government investigation related to *Depakote* while 2011 includes a litigation charge of $1 5 billion related to the *Depakote* investigation Excluding separation costs, litigation charges and Solvay-related restructuring and integration costs, selling, general and administrative expenses increased 4 6 percent in 2012 and 6 7 percent in 2011 Excluding charges related to Solvay restructuring and integration projects, selling, general and administrative expenses in 2010 increased 18 2 percent This increase, exclusive of the effects of the restructuring and integration charges, reflects the acquisitions of Solvay's pharmaceuticals business in 2010 and Advanced Medical Optics, Inc in 2009 and higher provisions for litigation in 2010 The remaining increases in selling, general and administrative expenses over the three year period were due primarily to increased selling and marketing support for new and existing products, including continued spending for *HUMIRA*, inflation, and in 2011, the impact of the pharmaceutical fee imposed by U S healthcare reform legislation

Restructurings

In 2012, Abbott management approved plans to streamline various commercial operations in order to reduce costs and improve efficiencies in Abbott's core diagnostics, established pharmaceutical and nutritionals businesses Abbott recorded employee related severance charges of approximately $167 million in 2012 Additional charges of approximately $22 million were also recorded in 2012, primarily for asset impairments Approximately $70 million is recorded in Cost of products sold and approximately $119 million as Selling, general and administrative expense As of December 31, 2012, no significant cash payments have been made relating to these actions

In 2011 and prior years, Abbott management approved plans to realign its worldwide pharmaceutical and vascular manufacturing operations and selected domestic and international commercial and research and development operations in order to reduce costs In 2011 and 2010, Abbott recorded charges of approximately $194 million and $56 million, respectively, reflecting the impairment of manufacturing facilities and other assets, employee severance and other related charges Approximately $76 million in 2011 is classified as Cost of products sold, $69 million as Research and development and $49 million as Selling, general and administrative Approximately $56 million in 2010 is classified as Cost of products sold The following summarizes the activity for these restructurings

(dollars in millions)	
Accrued balance at January 1, 2010	$ 145
2010 restructuring charges	56
Payments, impairments and other adjustments	(124)
Accrued balance at December 31, 2010	77
2011 restructuring charges	194
Payments, impairments and other adjustments	(94)
Accrued balance at December 31, 2011	177
Payments and other adjustments	(48)
Accrued balance at December 31, 2012	$ 129

An additional $110 million, $25 million and $13 million were recorded in 2012, 2011 and 2010, respectively, relating to these restructurings, primarily for accelerated depreciation

In 2012 and 2010, Abbott management approved restructuring plans primarily related to the acquisition of Solvay's pharmaceuticals business These plans streamline operations, improve efficiencies and reduce costs in certain Solvay sites and functions as well as in certain Abbott and Solvay commercial organizations in various countries In 2012, Abbott recorded a charge of approximately $150 million for employee severance and contractual obligations, primarily related to the exit from a research and development facility Approximately $142 million is recorded as Research and development and $8 million as Selling, general and administrative In 2010, Abbott recorded charges to Cost of products sold, Research and development and Selling, general and administrative of approximately $99 million, $152 million and $272 million, respectively The following summarizes the activity for these restructurings

(dollars in millions)	
2010 restructuring charge	$ 523
Payments, impairments and other adjustments	(113)
Accrued balance at December 31, 2010	410
Payments and other adjustments	(302)
Accrued balance at December 31, 2011	108
Restructuring charges	150
Payments and other adjustments	(143)
Accrued balance at December 31, 2012	$ 115

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An additional $38 million, $102 million and $12 million were recorded in 2012, 2011 and 2010, respectively, relating to these restructurings, primarily for additional employee severance and accelerated depreciation

In 2011 and 2008, Abbott management approved plans to streamline global manufacturing operations, reduce overall costs, and improve efficiencies in Abbott's core diagnostic business In 2011, a charge of $28 million was recorded in Cost of products sold The following summarizes the activity for these restructurings

(dollars in millions)	
Accrued balance at January 1, 2010	$ 98
Payments and other adjustments	(10)
Accrued balance at December 31, 2010	88
2011 restructuring charge	28
Payments and other adjustments	(37)
Accrued balance at December 31, 2011	79
Payments and other adjustments	(23)
Accrued balance at December 31, 2012	$ 56

In addition, charges of approximately $16 million, $42 million and $60 million were recorded in 2012, 2011 and 2010, primarily for accelerated depreciation and product transfer costs

Interest expense and Interest (income)

In 2012, interest expense increased primarily due to bridge facility fees related to the separation of AbbVie from Abbott In 2011, interest expense decreased due to lower debt levels Interest income in 2012 and 2011 decreased as a result of lower rates In 2010, interest expense increased due primarily to increased debt levels Interest income decreased in 2010 due to lower investment balances

Change in Accounting Principle and Other (income) expense, net

Prior to January 1, 2011, the accounts of foreign subsidiaries were consolidated based on a fiscal year ended November 30 due to the time needed to consolidate these subsidiaries Effective January 1, 2011, the one month lag in the consolidation of the accounts of foreign subsidiaries was eliminated and the year-end of foreign subsidiaries was changed to December 31 Abbott believes that the change in accounting principle related to the elimination of the one month reporting lag is preferable because it results in more contemporaneous reporting of the results of foreign subsidiaries In accordance with applicable accounting literature, a change in subsidiaries' year-end is treated as a change in accounting principle and requires retrospective application The cumulative effect of the change was an increase in retained earnings of $289 million as of January 1, 2009 and a corresponding decrease in other long term liabilities The impact of the change was not material to the results of operations for the previously reported annual and interim periods after January 1, 2009, and thus, those results have not been revised A charge of $137 million was recorded to Other (income) expense, net in 2011 to recognize the cumulative immaterial impacts to 2009 and 2010 Had the financial statements been revised, net sales, operating earnings and net earnings in 2010 would have decreased by $21 million, $195 million and $175 million, respectively

Other (income) expense, net, for 2012 includes income of approximately $60 million from the resolution of a contractual agreement and a loss of approximately $62 million for the impairment of certain equity securities Other (income) expense, net, for 2011 includes $56 million of fair value adjustments and accretion in the contingent consideration related to the acquisition of Solvay's pharmaceutical business Other (income) expense, net, for 2012, 2011 and 2010 also includes ongoing contractual payments from Takeda associated with the conclusion of the TAP joint venture

Net Loss on Extinguishment of Debt

In the fourth quarter of 2012, Abbott extinguished $7 7 billion of long-term debt Abbott incurred a cost of $1 35 billion to extinguish this debt, net of gains from the unwinding of interest rate swaps related to the debt

Taxes on Earnings

The income tax rates on earnings were 4 8 percent in 2012, 9 0 percent in 2011 and 19 0 percent in 2010 Taxes on earnings in 2012 reflect the $493 million effect of the tax rate applied to Abbott's net debt extinguishment loss as well as the recognition of $408 million of tax benefits as a result of the favorable resolution of various tax positions pertaining to a prior year, which also decreased the gross amount of unrecognized tax benefits by approximately $560 million Taxes on earnings in 2011 reflect the effect of the tax rate applied to a litigation reserve and the recognition of $580 million of tax benefits as a result of the favorable resolution of various tax positions pertaining to prior years, which also decreased the gross amount of unrecognized tax benefits by approximately $1 3 billion Exclusive of these discrete items, the effective rates are lower than the U S federal statutory rate of 35 percent due primarily to the benefit of lower foreign tax rates and tax exemptions that reduced the tax rates by 24 9, 22 9, and 19 4 percentage points in 2012, 2011 and 2010, respectively The tax rate reductions are primarily derived from operations in Puerto Rico, Switzerland, Ireland and Singapore where Abbott benefits from a combination of favorable statutory tax rules, tax rulings, grants, and exemptions See Note 5 to the consolidated financial statements for a full reconciliation of the effective tax rate to the U S federal statutory rate

As a result of the American Taxpayer Relief Act of 2012 signed into law in January 2013, Abbott expects to record a tax benefit of approximately $100 million in the first quarter of 2013 for the retroactive extension of the research tax credit and the look-through rules of section 954(c)(6) of the Internal Revenue Code to the beginning of 2012 Excluding this and any other discrete items, Abbott expects to apply an annual effective rate of approximately 21 percent

As a result of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act which were signed into law in 2010, Abbott recorded a charge of approximately $60 million in 2010 to reduce deferred tax assets associated with retiree health care liabilities related to the Medicare Part D retiree drug subsidy

In October 2010, Puerto Rico enacted legislation that assesses a tax beginning in 2011 on certain products manufactured in Puerto Rico The tax is levied on gross intercompany purchases from Puerto Rican entities and is included in inventory costs In 2012 and 2011, cost of goods sold included $187 million and $111 million, respectively, related to this tax The tax is creditable for U S income tax purposes

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Research and Development Programs

Abbott currently has numerous pharmaceutical, medical and nutritional products in development

Research and Development Process

In the Proprietary Pharmaceuticals segment, the research and development process generally begins with discovery research which focuses on the identification of a molecule that has a desired effect against a given disease If preclinical testing of an identified compound proves successful, the compound moves into clinical development which generally includes the following phases

- Phase I — involves the first human tests in a small number of healthy volunteers to assess tolerability and potential dosing
- Phase II — tests the molecule's efficacy against the disease in a small group of patients
- Phase III — tests a molecule that demonstrates favorable results in the earlier phases in a significantly larger patient population to further demonstrate efficacy and safety based on regulatory criteria

The clinical trials from all of the development phases provide the data required to prepare and submit a New Drug Application (NDA), a Biological License Application (BLA) or other submission for regulatory approval to the U S Food and Drug Administration (FDA) or similar government agencies outside the U S The specific requirements (e g , scope of clinical trials) for obtaining regulatory approval vary across different countries and geographic regions

The research and development process from discovery through a new drug launch typically takes 8 - 12 years and can be even longer There is a significant amount of uncertainty inherent in the research and development of new pharmaceutical products and there is no guarantee when, or if, a molecule will receive the regulatory approval required to launch a new drug or indication

In addition to the development of new products and new formulations, propretary pharmaceutical research and development projects also may include Phase IV trials, sometimes called post-marketing studies For such projects, clinical trials are designed and conducted to collect additional data regarding, among other parameters, the benefits and risks of an approved drug

In the Established Pharmaceuticals segment, the development process focuses on the geographic expansion and continuous improvement of the segment's existing products to provide benefits to patients and customers As Established Pharmaceuticals does not actively pursue primary research, development usually begins with work on existing products or after the acquisition of an advanced stage licensing opportunity

Depending upon the product, the phases of development may include

- Drug product development
- Phase I bioequivalence studies to compare a future Established Pharmaceutical's brand with an already marketed compound with the same active pharmaceutical ingredient (API)
- Phase II studies to test the efficacy of benefits in a small group of patients
- Phase III studies to broaden the testing to a wider population that reflects the actual medical use
- Phase IV and other post-marketing studies to obtain new clinical use data on existing products within approved indications

The specific requirements (e g scope of clinical trials) for obtaining regulatory approval vary across different countries and geographic regions The process may range from one year for a bioequivalence study project to 6 or more years for complex formulations, new indications, or geographic expansion in specific countries such as China

In the Diagnostics segment, the phases of the research and development process include

- Discovery which focuses on identification of a product that will address a specific therapeutic area, platform, or unmet clinical need,
- Concept/Feasibility during which the materials and manufacturing processes are evaluated, testing may include product characterization and analysis is performed to confirm clinical utility, and
- Development during which extensive testing is performed to demonstrate that the product meets specified design requirements and that the design specifications conform to user needs and intended uses

As with pharmaceutical products, the regulatory requirements for diagnostic products vary across different countries and geographic regions In the U S , the FDA classifies diagnostic products into classes (I, II, or III) and the classification determines the regulatory process for approval While the Diagnostics segment has products in all three classes, the vast majority of its products are categorized as Class I or Class II Submission of a separate regulatory filing is not required for Class I products Class II devices typically require pre-market notification to the FDA through a regulatory filing known as a 510(k) submission Most Class III products are subject to the FDA's Pre-Marketing Approval (PMA) requirements Other Class III products, such as those used to screen blood, require the submission and approval of a BLA

In the EU, diagnostic products are also categorized into different categories and the regulatory process, which is governed by the European In Vitro Diagnostic Medical Device Directive, depends upon the category Certain product categories require review and approval by an independent company, known as a Notified Body, before the manufacturer can affix a CE mark to the product to show compliance with the Directive Other products only require a self-certification process

In the Vascular segment, the research and development process begins with research on a specific technology that is evaluated for feasibility and commercial viability If the research program passes that hurdle, it moves forward into development The development process includes evaluation and selection of a product design, completion of clinical trials to test the product's safety and efficacy, and validation of the manufacturing process to demonstrate its repeatability and ability to consistently meet pre-determined specifications

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Similar to the diagnostic products discussed above, in the U S , vascular products are classified as Class I, II, or III Most of Abbott's vascular products are classified as Class II devices that follow the 510(k) regulatory process or Class III devices that are subject to the PMA process

In the EU, vascular products are also categorized into different classes and the regulatory process, which is governed by the European Medical Device Directive, varies by class Each product must bear a CE mark to show compliance with the Directive Some products require submission of a design dossier to the appropriate regulatory authority for review and approval prior to CE marking of the device For other products, the company is required to prepare a technical file which includes testing results and clinical evaluations but can self-certify its ability to apply the CE mark to the product Outside the U S and the EU, the regulatory requirements vary across different countries and regions

After approval and commercial launch of some vascular products, post-market trials may be conducted either due to a conditional requirement of the regulatory market approval or with the objective of proving product superiority

In the Nutritional segment, the research and development process generally focuses on identifying and developing ingredients and products that address the nutritional needs of particular populations (e g , infants, athletes) or patients (e g , people with diabetes) Depending upon the country and/or region, if claims regarding a product's efficacy will be made, clinical studies typically must be conducted Most other product development, such as a product form change from liquid to powder, generally does not necessitate clinical studies

In the U S , the FDA requires that it be notified of proposed new formulations and formulation or packaging changes related to infant formula products Prior to the launch of an infant formula or product packaging change, the company is required to obtain the FDA's confirmation that it has no objections to the proposed product or packaging For other nutrition products, notification or pre-approval from the FDA is not required unless the product includes a new food additive In some countries, regulatory approval may be required for certain nutritional products, including infant formula and medical nutritional products

Areas of Focus

In 2013 and beyond, Abbott's significant areas of therapeutic focus will include the following

Established Pharmaceuticals – Abbott is actively working on plans for about 20 - 30 key brands Depending on the product, the development activities focus on new data, markets, formulations, combinations, or indications Abbott focuses on building country-specific portfolios made up of global and local pharmaceutical brands that best meet each local market's needs Over the next several years, Established Pharmaceuticals will work to expand the market for many of its products through registrations across multiple geographies, including key emerging markets

Vascular – Ongoing projects in the pipeline include

- *Xience Xpedition*, our next-generation drug-eluting stent (DES) with enhanced deliverability and an expanded size matrix It utilizes the *Xience PRIME* stent, everolimus and biocompatible coating technology but incorporates new catheter technology for improved deliverability *Xience Xpedition* received U S regulatory approval in December 2012 and is also available in Europe and parts of Asia and Latin America Abbott expects to launch the product in additional markets in 2013
- *Absorb*, the world's first drug eluting bioresorbable vascular scaffold (BVS) device for the treatment of coronary artery disease that is gradually resorbed into the vessel wall In January 2013 Abbott initiated the ABSORB III clinical trial which is designed to enroll approximately 2,250 patients of which the majority will be in the U S The data from this trial will be used to support the U S regulatory filing of Absorb In 2011 Abbott released five-year data from its ABSORB clinical trial, which showed efficacy and safety results consistent with the four-year data In 2011 after receiving CE Mark approval for Absorb, Abbott initiated a randomized, controlled clinical trial to further study the device in an expanded population in Europe In 2010, Abbott initiated the ABSORB EXTEND clinical trial which will enroll up to 1,000 patients with more complex coronary artery disease
- *MitraClip* device for the treatment of mitral regurgitation – Abbott's *MitraClip* system which is on the market in Europe and in parts of Asia and Latin America is currently under review for approval by the FDA An amended filing to the FDA was submitted in December 2011 A FDA panel is expected to review the filing in the first half of 2013
- Coronary and endovascular core product projects, including new coronary and endovascular guide wires The *Absolute Pro* and *Omnilink Elite* stent systems, both for the treatment of iliac artery disease, a form of peripheral artery disease that affects the lower extremities, were launched in the U S in 2012

Medical Optics – Abbott is developing a number of new products for patients undergoing cataract surgery, which are designed to improve physician efficiency and patient outcomes Abbott has developed advanced intraocular lenses (IOLs) that address astigmatism as well as presbyopia The Tecnis brand monofocal Toric IOL, which is sold in Europe, is currently undergoing U S regulatory review A multifocal version of the Toric IOL was launched in a number of international markets in 2012 A preloaded IOL insertion system that is designed to improve surgeon efficiency is also currently under regulatory review in the U S , the product was launched in Europe in 2012 Abbott is continuing the development activities required to obtain U S approval for an enhanced version of the Synchrony IOL which is designed to mimic the eye's natural ability to change focus and deliver improved vision at all distances, this product was launched in Europe in late 2012 Abbott has also developed a new diagnostic instrument and laser treatment planning software which is designed to improve visual outcomes After the receipt of CE Mark approval in November 2011, this instrument and software were launched in Europe in 2012 A PMA filing for U S regulatory approval of this product was submitted in 2012

Financial Review

Molecular Diagnostics – Various new molecular in vitro diagnostic (IVD) products, including oncology and infectious disease assays and a next generation instrument system are in various stages of development and commercialization Abbott's companion diagnostic test for an ALK gene rearrangement test for non-small-cell lung cancer has been approved in more than 40 countries around the world In 2012, companion diagnostic efforts were expanded to include collaborative efforts with multiple major pharmaceutical companies In the U S , an assay to genotype HCV-infected patients to aid in the choice of an appropriate therapy was submitted for regulatory approval Additional assays for infectious diseases including MTb and MTb drug resistance are in development

Core Laboratory Diagnostics – Abbott is working on the development of assays in various areas including infectious disease, cardiac care, fertility and metabolics, and on next-generation blood screening, hematology, and immunochemistry instrument systems Abbott is also focusing on near-term launches of automation solutions, such as its next-generation track system, ACCELERATOR a3600 to increase efficiency in laboratories

Diabetes Care – In the first quarter of 2012, Abbott obtained U S regulatory approval for its *FreeStyle Insul inx* blood glucose monitoring system that includes a touch-screen interface and other features designed to support the insulin-using patient After receiving CE Mark for this system in May 2011 and Health Canada approval in October 2011, Abbott is continuing to provide R&D support as the product is launched in additional markets Development is also continuing on an updated hospital blood glucose monitoring system for which a filing for approval is projected to be submitted in the U S during the first half of 2013 Abbott is also developing a next-generation monitoring system under the Precision product platform and for which Abbott anticipates submitting filings for approval in various markets in the second half of 2013

Nutrition – Abbott is focusing its research and development spend on six benefit platforms that span the pediatric, adult and performance nutrition areas immunity, cognition, lean body mass, inflammation, metabolism and tolerance Numerous new products that build on advances in these benefit platforms are currently under development and are expected to be launched over the coming years

Given the diversity of Abbott's business, its intention to remain a broad-based healthcare company and the numerous sources for potential future growth, no individual project is expected to be material to cash flows or results of operations over the next five years Factors considered included research and development expenses projected to be incurred for the project over the next year relative to Abbott's total research and development expenses as well as qualitative factors, such as marketplace perceptions and impact of a new product on Abbott's overall market position There were no delays in Abbott's 2012 research and development activities that are expected to have a material impact on operations

While the aggregate cost to complete the numerous projects currently in development is expected to be material, the total cost to complete will depend upon Abbott's ability to successfully complete each project, the rate at which each project advances, and the ultimate timing for completion Given the potential for significant delays and the high rate of failure inherent in the research and development of new pharmaceutical and medical device products and technologies, it is not possible to accurately estimate the total cost to complete all projects currently in development After the separation of AbbVie, Abbott plans to manage its portfolio of projects to achieve research and development spend equal to approximately 6 percent to 7 percent of sales each year Abbott does not regularly accumulate or make management decisions based on the total expenses incurred for a particular development phase in a given period

Business Combinations, Technology Acquisitions and Related Transactions

On September 8, 2010, Abbott acquired Piramal Healthcare Limited's Healthcare Solutions business, a leader in the Indian branded generics market, for $2 2 billion, in cash, plus additional payments of $400 million annually in 2011, 2012, 2013 and 2014 Abbott recorded a $1 6 billion liability for the present value of the additional payments at the acquisition date The acquisition was financed with cash The allocation of the fair value of the acquisition resulted in the recording of $2 7 billion of deductible acquired intangible assets and $1 0 billion of deductible goodwill Acquired intangible assets consist primarily of trade names, customer relationships and associated rights and are amortized over an average of 19 years

In February 2010, Abbott acquired Solvay's pharmaceuticals business (Solvay Pharmaceuticals) for approximately $6 1 billion, in cash, plus additional payments of up to EUR 100 million per year if certain sales milestones are met In 2011, 2012 and 2013 Contingent consideration of approximately $290 million was recorded The acquisition of Solvay Pharmaceuticals provided Abbott with a large and complementary portfolio of pharmaceutical products and expands Abbott's presence in key global emerging markets Abbott 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 for the acquired operations for 2010 were approximately $3 1 billion Pretax loss of the acquired operations, including acquisition, integration and restructuring expenses, for 2010 was approximately $395 million The acquisition was funded with cash and short-term investments The allocation of the fair value of the acquisition resulted in the recording of $2 2 billion of non-deductible goodwill, $4 1 billion of non-deductible intangible assets, $500 million of non-deductible acquired in-process research and development assets, net tangible assets of $700 million and deferred income taxes of $1 1 billion Acquired intangible assets consist primarily of product rights for currently marketed products and are amortized over 2 to 14 years

(average of 11 years) Acquired in-process research and development projects are accounted for as indefinite lived intangible assets until regulatory approval or discontinuation The net tangible assets acquired consist primarily of trade accounts receivable of approximately $675 million, inventory of approximately $390 million, property and equipment of approximately $725 million, net of assumed liabilities, primarily trade accounts payable, accrued compensation and other liabilities

Had the acquisition of Solvay Pharmaceuticals taken place on January 1, 2010, unaudited pro forma net sales, net earnings and diluted earnings per share for 2010 would have been $35 8 billion, $4 6 billion and $2 96, respectively The pro forma information includes adjustments for amortization of intangible assets and fair value adjustments to acquisition-date inventory as well as acquisition, integration and restructuring expenses The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the assumed date

In March 2010, Abbott acquired STARLIMS Technologies for approximately $100 million, in cash, net of cash held by STARLIMS, providing Abbott with leading products and expertise to build its position in laboratory informatics A substantial portion of the fair value of the acquisition has been allocated to goodwill and amortizable intangible assets In April 2010, Abbott acquired the outstanding shares of Facet Biotech Corporation for approximately $430 million, in cash, net of cash held by Facet The acquisition enhanced Abbott's early- and mid-stage pharmaceutical pipeline, including a biologic for multiple sclerosis and compounds that complement Abbott s oncology program A substantial portion of the fair value of the acquisition was allocated to acquired in-process research and development that is accounted for as an indefinite-lived intangible asset until regulatory approval or discontinuation

Except for the acquisition of Solvay Pharmaceuticals, had the above acquisitions taken place on January 1 of the previous year, consolidated net sales and income would not have been significantly different from reported amounts

Abbott's Proprietary Pharmaceutical Products segment has entered into various collaboration research and development agreements In 2012, Abbott acquired AP214, a drug under development for the prevention of acute kidney injury associated with major cardiac surgery in patients at increased risk, and as a result of this transaction, Abbott recorded a charge to acquired in-process and collaborations research and development of $110 million In addition, in 2012, Abbott entered into a global collaboration to develop and commercialize an oral, next-generation JAK1 inhibitor in Phase II development with the potential to treat multiple autoimmune diseases, and as a result of this transaction Abbott recorded a charge to acquired in-process and collaborations research and development of $150 million Additional payments of approximately $1 2 billion could be required for the achievement of certain development, regulatory and commercial milestones under this agreement Under another collaboration, Abbott was granted the rights in 2012 to utilize up to three antibody-drug conjugate compounds and Abbott recorded a charge to acquired in-process and collaborations research and development of $28 million Additional payments of approximately $220 million for each licensed compound could be required for the achievement of certain development, regulatory and commercial milestones under this agreement In connection with the acquisition of Solvay Pharmaceuticals, the achievement of a certain sales milestone resulted in a payment of approximately $134 million in the first quarter of 2012 for which a liability was previously established

During 2010 and 2011, Abbott entered into a series of transactions with Reata Pharmaceuticals which included (1) a collaboration agreement for the joint development and commercialization of second generation oral antioxidant inflammation modulators resulting in a charge to acquired in-process and collaborations research and development of $400 million in 2011, (2) an agreement to acquire licensing rights outside the U S , excluding certain Asian markets, to bardoxolone methyl, a product in development for the treatment of chronic kidney disease resulting in a charge to acquired in-process and collaborations research and development of $238 million in 2010 and (3) the acquisition of equity interests in Reata of $62 million each in 2011 and 2010 In 2011, certain milestones were achieved in the development for the treatment of chronic kidney disease and charges to acquired in-process and collaborations research and development of $188 million were recorded In the first quarter of 2012, $50 million of research and development expense was recorded related to the achievement of a clinical development milestone under the license agreement The license agreement requires additional payments of up to $150 million if certain development and regulatory milestones associated with the chronic kidney disease compound are achieved

On October 17, 2012 Reata informed Abbott that it is discontinuing the Phase III clinical study for bardoxolone methyl for chronic kidney disease Reata and Abbott 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, Abbott recorded a charge of approximately $50 million for the impairment of the equity investment in Reata

In 2011, Abbott entered into an agreement with Biotest AG to develop and commercialize a treatment for rheumatoid arthritis and psoriasis resulting in a charge to acquired in-process and collaborations research and development of $85 million Additional payments totaling up to $395 million based on projected regulatory approval timelines could be required for the achievement of certain development, regulatory and commercial milestones under this agreement In 2010, Abbott entered into an agreement with Neurocrine Biosciences to develop and commercialize a product for the treatment of endometriosis resulting in a charge to acquired in process and collaborations research and development of $75 million Additional payments of approximately $500 million could be required for the achievement of certain development, regulatory and commercial milestones under this agreement

Financial Review

Goodwill

At December 31, 2012, goodwill recorded as a result of business combinations totaled $15 8 billion Goodwill is reviewed for impairment annually or when an event that could result in an impairment occurs The results of the last impairment test indicated that the fair value of each reporting unit was substantially in excess of its carrying value except for the Medical Optics unit While the fair value of the Medical Optics business exceeds its carrying value, extended economic pressure on government-reimbursed cataract procedures in Europe and on the global LASIK surgery business as well as longer regulatory approval timelines for products currently under development could result in a valuation in the future where the fair value of the Medical Optics unit has declined below its carrying value, thereby triggering the requirement to estimate the implied fair value of the goodwill and measure for impairment

Financial Condition

Cash Flow

Net cash from operating activities amounted to $9 3 billion, $9 0 billion and $8 7 billion in 2012, 2011 and 2010, respectively Trade accounts payable and other liabilities in Net cash from operating activities in 2012 includes the payment of approximately $1 5 billion related to a litigation accrual recorded in 2011 This was partially offset by increases in other liabilities, primarily restructuring reserves Income taxes payable in 2012 and 2011 includes $408 million and $580 million, respectively, of tax benefits related to the favorable resolution of various tax positions pertaining to prior years While substantially all cash and cash equivalents at December 31, 2012 that will be retained by Abbott after the separation and all cash and cash equivalents at December 31, 2011 and 2010 is considered reinvested indefinitely in foreign subsidiaries, Abbott does not expect such reinvestment to affect its liquidity and capital resources If these funds were needed for operations in the U S , Abbott would be required to accrue and pay U S income taxes to repatriate these funds Abbott believes that it has sufficient sources of liquidity to support its assumption that the disclosed amount of undistributed earnings at December 31, 2012 can be considered to be reinvested indefinitely Abbott funded $379 million in 2012, $394 million in 2011 and $525 million in 2010 to defined pension plans Abbott expects pension funding for its main domestic pension plan of $170 million in 2013, the decrease primarily reflects the separation of AbbVie and the transfer of certain plan assets and liabilities to AbbVie Abbott expects annual cash flow from operating activities to continue to exceed Abbott's capital expenditures and cash dividends

For 2010, the reductions in cash and cash equivalents due to the effect of exchange rate changes was primarily driven by the impact of changes in the value of the U S dollar compared to the euro on non-dollar denominated cash and cash equivalents While future fluctuations in the value of the U S dollar against foreign currencies could have a substantial effect on the dollar value of Abbott's cash and cash equivalents, such fluctuations are not expected to materially impact Abbott's liquidity

Debt and Capital

At December 31, 2012, Abbott's long-term debt rating was A+ by Standard & Poor's Corporation and A1 by Moody's Investors Service In 2012, Abbott replaced unused lines of credit of $3 0 billion and $3 7 billion that were to expire in October 2012 and in 2013, respectively, with two five-year credit facilities totaling $7 0 billion that support commercial paper borrowing arrangements One of the credit facilities totaling $2 0 billion will support AbbVie commercial paper borrowings after separation and expired for Abbott at the separation of AbbVie from Abbott on January 1, 2013

In 2012, Abbott redeemed $7 7 billion of long-term notes in preparation for the separation of AbbVie from Abbott and repaid $1 billion of long-term notes that were due in 2012 In addition, AbbVie Inc , a wholly owned subsidiary of Abbott, issued $14 7 billion of long-term notes that were guaranteed by Abbott until AbbVie's separation from Abbott on January 1, 2013 In 2011, Abbott repaid $2 0 billion of long-term notes using primarily short-term borrowings Under a registration statement filed with the Securities and Exchange Commission in February 2009, Abbott issued $3 0 billion of long term debt in the second quarter of 2010 with maturity dates in 2015, 2020 and 2040 and interest rates of 2 7 percent, 4 125 percent and 5 3 percent, respectively The debt due in 2015 was extinguished in 2012 Proceeds from this debt were used to pay down short-term borrowings

In October 2008, the board of directors authorized the purchase of up to $5 billion of Abbott's common shares from time to time Under this authorization, 37 0 million and 14 8 million shares were purchased in 2012 and 2010 at a cost of approximately $2 2 billion and $800 million, respectively No shares were purchased under this authorization in 2011 Abbott plans to purchase shares from time to time in 2013

The judgment entered in 2009 by the U S District Court for the Eastern District of Texas against Abbott in its litigation with New York University and Centocor, Inc required Abbott to secure the judgment In the event that its appeal to the Federal Circuit court was unsuccessful in overturning the district court's decision In the first quarter of 2010, Abbott deposited $1 87 billion with an escrow agent and considered these assets to be restricted On February 23, 2011, the Federal Circuit reversed the district court's final judgment and found Centocor's patent invalid On April 25, 2011, Centocor petitioned the Federal Circuit to rehear and reconsider the decision In June 2011 the Federal Circuit denied Centocor's petition and the restrictions on the funds were lifted

Financial Review

Working Capital

Working capital was $18 0 billion at December 31, 2012, $8 3 billion at December 31, 2011 and $5 1 billion at December 31, 2010 The increase in working capital in 2012 was due primarily to higher cash generated from operating activities and higher cash and investments as a result of the net issuance of long-term debt in connection with the separation of AbbVie from Abbott The increase in working capital in 2011 was due primarily to higher cash generated from operating activities and lower debt levels The decrease in working capital in 2010 was due primarily to cash and investments used to acquire Solvay's pharmaceuticals business and Piramal Healthcare Limited's Healthcare Solutions business

Substantially all of Abbott's trade receivables in Italy, Spain, Portugal, and Greece are with governmental health systems Given the economic conditions and sovereign debt issues in these countries, the time it takes to collect outstanding receivables increased in 2011 In 2012, collection times improved relative to 2011 with the exception of Greece Outstanding net governmental receivables in these countries at December 31, 2012 were

(dollars in millions)	Net Receivables	Percentage Over One Year Past Due
Italy	$564	16 2
Spain	431	0 8
Portugal	121	28 4
Greece	88	29 6

With the exception of Greece, Abbott historically has collected almost all of the outstanding receivables in these countries Abbott continues to monitor the credit worthiness of customers located in these and other geographic areas and establishes an allowance against a trade receivable when it is probable that the balance will not be collected In addition to closely monitoring economic conditions and budgetary and other fiscal developments in these countries, Abbott regularly communicates with its customers regarding the status of receivable balances, including their payment plans and obtains positive confirmation of the validity of the receivables Abbott also monitors the potential for and periodically has utilized factoring arrangements to mitigate credit risk although the receivables included in such arrangements have historically not been a material amount of total outstanding receivables If government funding were to become unavailable in these countries or if significant adverse changes in their reimbursement practices were to occur, Abbott may not be able to collect the entire balance

Capital Expenditures

Capital expenditures of $1 8 billion in 2012, $1 5 billion in 2011 and $1 0 billion in 2010 were principally for upgrading and expanding manufacturing, research and development, and administrative support facilities in all segments, investments in information technology, and laboratory instruments placed with customers

Contractual Obligations

The table below summarizes Abbott's estimated contractual obligations as of December 31, 2012 The amounts do not reflect the separation of AbbVie from Abbott on January 1, 2013 After the separation of AbbVie from Abbott on January 1, 2013, principal payments required on long-term debt outstanding and retained by Abbott are $309 million in 2013 and $3 3 billion in 2019 and thereafter Payments on long-term debt to be made by AbbVie, including interest, total approximately $19 6 billion

(dollars in millions)	Payment Due By Period				
	Total	2013	2014-2015	2016 2017	2018 and Thereafter
Long term debt, including current maturities and future interest payments	$26,403	$ 839	$ 5,039	$4,929	$15,596
Operating lease obligations	795	146	234	170	245
Capitalized auto lease obligations	92	31	61	—	—
Purchase commitments (a)	3,154	3 048	88	1	17
Other long term liabilities reflected on the consolidated balance sheet —					
Benefit plan obligations	5 126	—	1,024	1,149	2,953
Other	3,869	—	3,682	32	155
Total (b)	$39,439	$4 064	$10,128	$6,281	$18,966

(a) Purchase commitments are for purchases made in the normal course of business to meet operational and capital expenditure requirements

(b) Unrecognized tax benefits totaling $2 0 billion are excluded from the table above as Abbott is unable to reasonably estimate the period of cash settlement with the respective taxing authorities on such items

Financial Review

Contingent Obligations

Abbott has periodically entered into agreements in the ordinary course of business, such as assignment of product rights, with other companies which has resulted in Abbott becoming secondarily liable for obligations that Abbott was previously primarily liable Since Abbott no longer maintains a business relationship with the other parties, Abbott 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 In addition, Abbott periodically acquires a business or product rights in which Abbott agrees to pay contingent consideration based on attaining certain thresholds or based on the occurrence of certain events

Legislative Issues

In 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act (collectively referred to herein as "health care reform legislation") were signed into law in the U S Health care reform legislation included an increase in the basic Medicaid rebate rate from 15 1 percent to 23 1 percent and extended the rebate to drugs provided through Medicaid managed care organizations

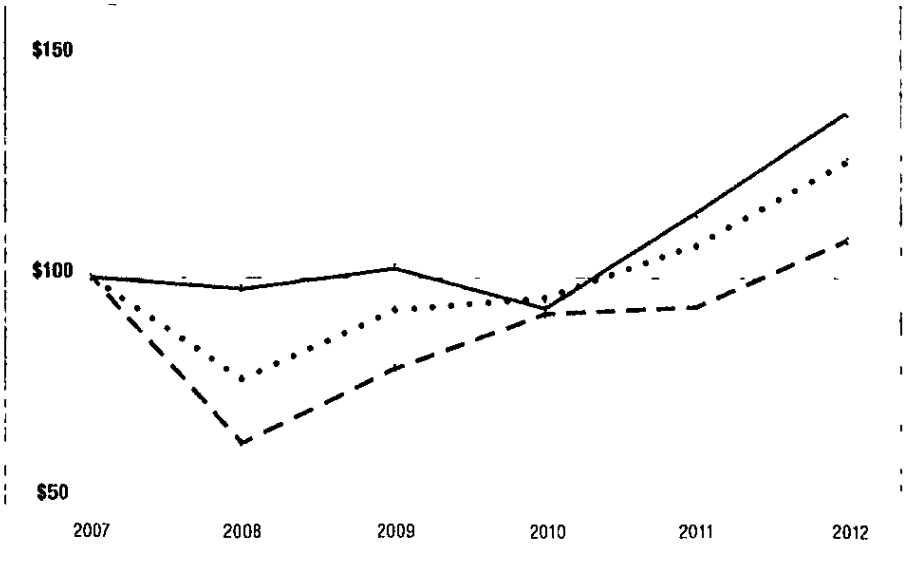
Beginning in 2013, health care reform legislation will eliminate the federal income tax deduction for prescription drug expenses of retirees for which Abbott receives reimbursement under the Medicare Part D retiree drug subsidy program As a result, Abbott recorded a charge of approximately $60 million in the first quarter 2010 to reduce deferred tax assets associated with retiree health care liabilities

In 2011, Abbott began recording the annual fee imposed by health care reform legislation on companies that sell branded prescription drugs to specified government programs The amount of the annual fee is based on the ratio of certain of Abbott's sales as compared to the total such sales of all covered entities multiplied by a fixed dollar amount specified in the legislation by year In 2011, additional rebates were incurred related to the Medicare Part D coverage gap "donut hole " Beginning in 2013, Abbott will record the 2 3 percent excise tax imposed by health care reform legislation on the sale of certain medical devices in the U S

Abbott's primary markets are highly competitive and subject to substantial government regulations throughout the world Abbott expects debate to continue over the availability, method of delivery, and payment for health care products and services It is not possible to predict the extent to which Abbott or the health care industry in general might be adversely affected by these factors in the future A more complete discussion of these factors is contained in Item 1, Business, and Item 1A, Risk Factors, to the Annual Report on Form 10-K

Private Securities Litigation Reform Act of 1995 – A Caution Concerning Forward-Looking Statements

Under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Abbott cautions investors that any forward-looking statements or projections made by Abbott, including those made in this document, are subject to risks and uncertainties that may cause actual results to differ materially from those projected Economic, competitive, governmental, technological and other factors that may affect Abbott's operations are discussed in Item 1A, Risk Factors, to the Annual Report on Form 10-K



Performance Graph

This graph compares the change in Abbott's cumulative total shareholder return on its common shares with the Standard & Poor's 500 Index and the Standard & Poor's 500 Health Care Index

Assuming $100 invested on 12/31/07 with dividends reinvested

Summary of Selected Financial Data

(dollars in millions, except per share data)

Year Ended December 31	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Summary of Operations											
Net Sales	$39 873 9	38,851 3	35,166 7	30,764 7	29 527 6	25,914 2	22,476 3	22 337 8	19 680 0	17,280 3	15,279 5
Cost of products sold	$15 119 7	15 540 6	14,665 2	13,209 3	12 612 0	11 422 0	9 815 1	10,641 1	8,884 2	7,774 2	6,820 5
Research and development (a)	$ 4,322 2	4 129 4	3,724 4	2,743 7	2,688 1	2,505 6	2 255 3	1,821 2	1,696 8	1 623 8	1,474 5
Selling general and administrative	$12,059 5	12,756 8	10,376 3	8,405 9	8 435 6	7,408 0	6,349 7	5,496 1	4 921 8	4,808 1	3 724 9
Operating earnings	$ 8,084 5	5 751 9	6,087 6	6,235 7	5,693 8	4,578 5	2,042 2	4 362 3	3 898 3	2,974 0	3,151 9
Interest expense	$ 592 4	530 1	553 1	519 7	528 5	593 1	416 2	241 4	200 2	188 3	238 9
Interest income	$ 79 2	(85 2)	(105 5)	(137 8)	(201 2)	(136 8)	(123 8)	(87 7)	(51 1)	(41 9)	(33 5)
Other (income), net (b)	$ 1 316 8	158 6	(62 0)	(1,375 5)	(489 7)	(347 5)	(526 5)	(411 3)	(376 4)	(559 5)	(374 4)
Earnings from continuing operations before taxes	$ 6,262 6	5 198 6	5 712 8	7,193 8	5,856 3	4,469 6	2,276 4	4,619 9	4,125 8	3,387 2	3 321 0
Taxes on earnings from continuing operations	$ 299 7	470 2	1,086 7	1 447 9	1 122 1	863 3	559 6	1,247 9	949 8	882 4	774 0
Earnings from continuing operations	$ 5 962 9	4,728 4	4,626 2	5 745 8	4 734 2	3 606 3	1,716 8	3 372 1	3,175 8	2,504 7	2,547 0
Basic earnings per share from continuing operations	$ 3 76	3 03	2 98	3 71	3 06	2 34	1 12	2 17	2 03	1 60	1 63
Diluted earnings per share from continuing operations	$ 3 72	3 01	2 96	3 69	3 03	2 31	1 12	2 16	2 02	1 59	1 62
Financial Position											
Working capital	$18,042 4	8,288 5	5 055 1	10,264 4	5,106 8	4,939 5	(669 3)	3,970 5	3,908 8	2,650 9	2,119 6
Long term investments	$ 273 6	378 2	302 0	1 132 9	1 073 7	1,125 3	1,229 9	134 0	145 8	406 4	250 8
Net property and equipment	$ 8 063 0	7,874 0	7 971 0	7 619 5	7 219 2	7,518 1	6,946 4	6 003 1	6,007 9	6 281 8	5,828 1
Total assets	$67,234 9	60,276 9	60,573 9	52 581 6	42,419 2	39,713 9	36,178 2	29,141 2	28,767 5	26 039 3	23,592 7
Long term debt	$18 085 3	12,039 8	12 523 5	11 266 3	8 713 3	9,487 8	7,009 7	4,571 5	4,787 9	3 452 3	4,274 0
Shareholders' investment	$26 813 2	24,526 1	22,765 1	23,187 4	17 518 7	17 823 9	14,054 2	14 415 3	14 325 8	13,072 3	10 664 6
Return on shareholders' investment from continuing operations	% 23 2	20 0	20 4	28 4	26 9	22 7	12 1	23 5	23 8	22 6	28 0
Book value per share	$ 17 01	15 62	14 53	14 76	11 26	11 47	9 14	9 37	9 18	8 36	6 82
Other Statistics											
Gross profit margin	% 62 1	60 0	58 3	57 1	57 3	55 9	56 3	52 4	54 9	55 0	55 4
Research and development to net sales	% 10 8	10 6	10 6	8 9	9 1	9 7	10 0	8 2	8 6	9 4	9 7
Net cash from operating activities of continuing operations	$ 9 314 4	8 970 1	8,736 0	7 275 2	6 994 6	5 183 8	5 262 1	5 047 4	4 306 0	3,385 2	3 653 5
Capital expenditures	$ 1 795 3	1 491 5	1,015 1	1,089 0	1 287 7	1 656 2	1,337 8	1 207 5	1 291 6	1 050 1	1,105 4
Cash dividends declared per common share	$ 1 67	1 92	1 76	1 60	1 44	1 30	1 18	1 10	1 04	0 98	0 94
Common shares outstanding (in thousands)	1 576 667	1,570,379	1,546 984	1 551 168	1 552 433	1 549 910	1,537,243	1,539 235	1,560 024	1,564,518	1 563,068
Number of common shareholders	60 476	62 939	64,413	67 461	69,733	73 176	77 727	82 237	88 582	91 212	94,687
Number of employees	92,939	91,922	91 440	72 868	68 838	68 697	66,663	59,735	60 617	58,181	57,819
Sales per employee (in dollars)	$ 429 033	422 655	384,588	422 198	428 943	377,225	337 163	373 948	324,662	297 010	264,265
Market price per share – high	$ 72 47	56 44	56 79	57 39	61 09	59 50	49 87	50 00	47 63	47 15	58 00
Market price per share – low	$ 53 96	45 07	44 59	41 27	45 75	48 75	39 18	37 50	38 26	33 75	29 80
Market price per share – close	$ 65 50	56 23	47 91	53 99	53 37	56 15	48 71	39 43	46 65	46 60	40 00

(a) In 2012 2011 2010 2009 2006 2005 2004, 2003 2002 and 2001 Abbott also recorded pretax charges of $288 $673 $313 $170 $2 014 $17, $279 $100 $108 and $1 330 respectively for acquired in process research and development

(b) 2012 includes $1 350 for the net loss on extinguishment of debt