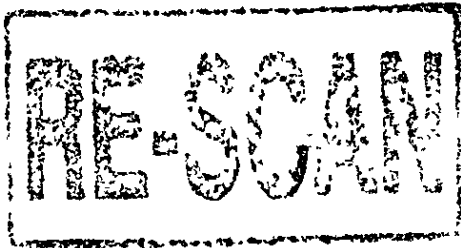


AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited)

Directors' Report and Financial Statements

for the Year Ended 31 December 2012



24/10/13

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Registration number 4324878

~~463~~ ~~24-10-13~~

AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited)
Directors' Report for the Year Ended 31 December 2012

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

Directors of the company

The directors who held office during the year were as follows

T Freyman (resigned 1 January 2013)

C Soenderby (resigned 1 January 2013)

M Smith (resigned 1 January 2013)

S Hudson (resigned 1 January 2013)

The following directors were appointed after the year end

W Chase (appointed 1 January 2013)

M Regan (appointed 1 January 2013)

G White (appointed 1 January 2013)

Principal activity

The company's principal activity is that of a holding company. During 2012 the company's subsidiary, Abbott Australasia Pty Ltd, spun off the company's research based pharmaceutical products division into a new company, Abbvie Pty Limited. On the 27th June 2012 the company changed its name to Abbvie Australasia Holdings Limited.

On 22 June 2012 the company reduced its share capital by cancelling 100 ordinary shares of £1 each and cancelling the share premium account of the company £18,520,000 and increasing the distributable reserves of the company by £18,520,100.

During August 2012, the company distributed a dividend in specie the shareholding of Abbott Australasia Pty Ltd to Abbott Holding (Gibraltar) Ltd, at its book value of £18,520,000.

During July 2012 the company subscribed for 23,000,000 ordinary shares of 1 AUD, in Abbvie Pty Ltd. Then during August 2012, the immediate parent company Abbvie (Gibraltar) Ltd made a capital contribution to the company of £15,278,000.

Business review

Fair review of the business

As shown in the company's profit and loss account, the loss after tax for the year was £13,000 (2011 £31,745,000 profit).

Principal risks and uncertainties

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

Directors' liabilities

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.

AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited)

Directors' Report for the Year Ended 31 December 2012

..... continued

Disclosure of information to the auditors

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

Reappointment of auditors

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

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



K Poots
Company secretary

AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited)

Statement of Directors' Responsibilities

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

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

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

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

**Independent Auditor's Report to the Members of
AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited)**

We have audited the financial statements of AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited) for the year ended 31 December 2012, set out on pages 6 to 12 which comprise the profit and loss account, the balance sheet and related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on the financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its loss 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.

Independent Auditor's Report to the Members of
AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited)
..... continued

Matters on which we are required to report by exception

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

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



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

24 September 2013

AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited)
Profit and Loss Account for the
Year Ended 31 December 2012

	Note	2012 £ 000	2011 £ 000
Turnover		-	-
Administrative expenses		<u>(13)</u>	<u>(10)</u>
Operating loss		(13)	(10)
Income from shares in group undertakings		-	31,749
Other interest receivable and similar income		<u>-</u>	<u>6</u>
(Loss)/profit on ordinary activities before taxation		<u>(13)</u>	<u>31,745</u>
(Loss)/profit for the financial year	10	<u><u>(13)</u></u>	<u><u>31,745</u></u>

Turnover and operating profit derive wholly from continuing operations

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

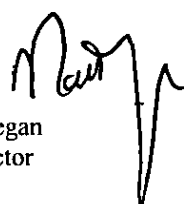
AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited)

(Registration number: 4324878)

Balance Sheet at 31 December 2012

	Note	2012 £ 000	2011 £ 000
Fixed assets			
Investments	5	<u>15,278</u>	<u>18,520</u>
Current assets			
Debtors	6	86	85
Cash at bank and in hand		<u>39</u>	<u>51</u>
		125	136
Creditors Amounts falling due within one year	7	<u>(15)</u>	<u>(13)</u>
Net current assets		<u>110</u>	<u>123</u>
Net assets		<u>15,388</u>	<u>18,643</u>
Capital and reserves			
Called up share capital	8	-	-
Share premium account	10	-	18,520
Other distributable reserves	10	15,278	-
Profit and loss account	10	<u>110</u>	<u>123</u>
Shareholders' funds	11	<u>15,388</u>	<u>18,643</u>

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


M Regan
Director

AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited)

Notes to the Financial Statements for the Year Ended 31 December 2012

1 Accounting policies

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

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

Exemption from preparing group accounts

The company has taken exemption from preparing group accounts as it is included in consolidated accounts for a larger group which are drawn up as full consolidated audited accounts which are filed at Companies House

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

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment

Interest Income

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

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

Income from shares in group undertakings

Dividend income from subsidiary companies is recognised on the date the directors of the subsidiary declare the dividend

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. Deferred tax is not discounted

Foreign currency

Foreign currency transactions are translated into sterling at the rates ruling at the transaction date. Amounts payable or receivable in foreign currency are translated into sterling at the rate ruling at the balance sheet date, or where appropriate, at the rate of exchange in a related forward exchange contract. Any gains or losses are reported as exchange differences in the profit and loss account

AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited)
Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

2 Auditor's remuneration

	2012 £ 000	2011 £ 000
Audit of the financial statements	<u>5</u>	<u>5</u>

3 Staff Costs

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

4 Taxation

Tax on (loss)/profit on ordinary activities

	2012 £ 000	2011 £ 000
Total current tax	<u>-</u>	<u>-</u>

Factors affecting current tax charge for the year

Tax on (loss)/profit on ordinary activities for the year is higher 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
(Loss)/profit on ordinary activities before taxation	(13)	31,745
Corporation tax at standard rate	(3)	8,412
Dividends not subject to UK Corporation tax	-	(8,413)
Losses carried forward	2	2
Losses brought forward	-	(1)
Group relief surrendered to other group companies	1	-
Total current tax	<u>-</u>	<u>-</u>

AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited)
Notes to the Financial Statements for the Year Ended 31 December 2012

..... *continued*

5 Investments held as fixed assets

Shares in group undertakings and participating interests

	Subsidiary undertakings £ 000	Total £ 000
Cost		
At 1 January 2012	18,520	18,520
Additions	15,278	15,278
Disposals	<u>(18,520)</u>	<u>(18,520)</u>
At 31 December 2012	<u>15,278</u>	<u>15,278</u>
Net book value		
At 31 December 2012	<u><u>15,278</u></u>	<u><u>15,278</u></u>

Details of undertakings

The company has investments in the following subsidiary

	Country of Incorporation	Principal Activity	Share Class	Holding
Abbvie Pty Ltd	Australia	Healthcare	Ordinary	100%

6 Debtors

	2012 £ 000	2011 £ 000
Amounts owed by group undertakings	<u>86</u>	<u>85</u>

7 Creditors: Amounts falling due within one year

	2012 £ 000	2011 £ 000
Amounts owed to group undertakings	3	1
Other creditors	<u>12</u>	<u>12</u>
	<u><u>15</u></u>	<u><u>13</u></u>

8 Share capital

Allotted, called up and fully paid

31 December 2012 £000	31 December 2011 £000

AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited)
Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

1 ordinary share (2011 101) of £1 each

- -

9 Dividends

2012
£ 000 2011
£ 000

Dividends paid

Current year interim dividend paid

18,520 31,735

Interim dividend paid of £18,520,000 (2011 £314,208) per ordinary share

10 Reserves

	Share premium account £ 000	Other reserves £ 000	Profit and loss account £ 000	Total £ 000
At 1 January 2012	18,520	-	123	18,643
Loss for the year	-	-	(13)	(13)
Dividends	-	-	(18,520)	(18,520)
Other reserve movements	<u>(18,520)</u>	<u>15,278</u>	<u>18,520</u>	<u>15,278</u>
At 31 December 2012	<u>-</u>	<u>15,278</u>	<u>110</u>	<u>15,388</u>

11 Reconciliation of movement in shareholders' funds

	2012 £ 000	2011 £ 000
(Loss)/profit attributable to the members of the company	(13)	31,745
Capital contributions in the year	15,278	-
Dividends	<u>(18,520)</u>	<u>(31,735)</u>
Net (reduction)/addition to shareholders' funds	(3,255)	10
Shareholders' funds at 1 January	<u>18,643</u>	<u>18,633</u>
Shareholders' funds at 31 December	<u>15,388</u>	<u>18,643</u>

12 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

AbbVie Australasia Holdings Limited (formerly Abbott Australasia Holdings Limited)

Notes to the Financial Statements for the Year Ended 31 December 2012

..... continued

13 Control

The company is controlled by the immediate parent company Abbvie (Gibraltar) Limited, incorporated in Gibraltar. The smallest and the largest group in which the results 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 Inc, 100 Abbott Park Road, Abbott Park, IL 60064-6400, USA.

14 Post balance sheet events

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

THESE GROUP ACCOUNTS FORM
PART OF THE ACCOUNTS OF
COMPANY 4324878



abbvie

2012 ANNUAL REPORT ON FORM 10-K

2013 NOTICE OF ANNUAL MEETING
AND PROXY STATEMENT

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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AbbVie Inc. and Subsidiaries
Combined Statements of Earnings

years ended December 31 (in millions, except per share data)	2012	2011	2010
Net sales	\$18,380	\$17,444	\$15,638
Cost of products sold	4,508	4,639	4,293
Selling, general and administrative	4,989	5,894	3,820
Research and development	2,778	2,618	2,495
Acquired in-process research and development	288	673	313
Total operating costs and expenses	12,563	13,824	10,921
Operating earnings	5,817	3,620	4,717
Interest expense, net	84	(20)	(28)
Net foreign exchange (gain) loss	17	(30)	(30)
Other (income) expense, net	(9)	2	(61)
Earnings before income tax	5,725	3,668	4,836
Income tax expense	450	235	658
Net earnings	\$ 5,275	\$ 3,433	\$ 4,178
Per share data			
Basic and diluted earnings per share(a)	\$ 3.35	\$ 2.18	\$ 2.65

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

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

AbbVie Inc. and Subsidiaries**Combined Statements of Comprehensive Income**

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

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

AbbVie Inc. and Subsidiaries

Combined Statements of Cash Flows

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

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

AbbVie Inc. and Subsidiaries
Combined Balance Sheets

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

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

AbbVie Inc. and Subsidiaries

Combined Statements of Parent Company Equity

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

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

AbbVie Inc. and Subsidiaries

Notes to Combined Financial Statements

Note 1 Basis of Presentation

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

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

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

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

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

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

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

Note 2 Summary of Significant Accounting Policies

Use of Estimates

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

Revenue Recognition

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

Research and Development Costs

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

Advertising

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

Pension and Post-Employment Benefits

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

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

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

Income Taxes

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

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

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

Cash and Equivalents

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

Investments

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

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

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

Accounts Receivable

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

Inventories

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

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

Property and Equipment

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

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

Litigation

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

Product Liability

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

Business Combinations

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

Goodwill and Intangible Assets

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

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

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

Acquired In-Process Research and Development

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

Foreign Currency Translation

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

Derivatives

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

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

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

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

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

Earnings per Share

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

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

years ended December 31 (in millions, except per share amounts)	2012	2011	2010
Net earnings	\$5,275	\$3,433	\$4,178
Basic and diluted earnings per common share	3.35	2.18	2.65
Basic and diluted average shares outstanding	1,577	1,577	1,577

Note 3 Supplemental Financial Information

Interest Expense, net

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

Other (Income) Expense

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

Accounts Payable and Accrued Liabilities

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

Long-Term Liabilities

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

Accumulated Other Comprehensive Income (Loss)

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

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

Note 4 Acquisitions, Collaborations and Other Arrangements

In 2012, 2011 and 2010, cash outflows related to acquisitions, collaborations and other arrangements totaled \$688 million, \$273 million and \$2.6 billion, respectively. AbbVie recorded IPR&D charges of \$288 million, \$673 million and \$313 million in 2012, 2011 and 2010, respectively. The following are the more significant acquisitions and investments, including licensing and collaboration agreements, some of which require contingent milestone payments.

Acquisitions

Solvay SA Pharmaceuticals

In February 2010, AbbVie acquired Solvay and certain other product rights for approximately \$1.9 billion, in cash, plus contingent payments of up to EUR 100 million per year if certain sales milestones are met in 2011, 2012 and 2013. The total consideration was valued at \$2.2 billion, which includes the \$1.9 billion cash payment plus the estimated fair value of the milestone-based contingent payments of approximately \$290 million. The estimated fair value of the contingent consideration was based on the estimated probability of achieving the specified sales milestones discounted based on the expected timing of payment. Subsequent changes to the fair value of contingent payments are recognized in earnings.

This transaction provides AbbVie with a complementary pharmaceutical product portfolio including the U.S. rights to AndioGel and Creon, worldwide rights to Duodopa, and various research and development projects. AbbVie acquired control of this business on February 15, 2010, and the financial results of the acquired operations are included in these financial statements beginning on that date. Net sales of the acquired operations were approximately \$1.1 billion in 2010. Had the Solvay acquisition taken place on January 1, 2010, combined net sales and net earnings would not have been significantly different from reported amounts. The acquisition was funded with cash and short-term investments.

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

(in billions)	
Acquired intangible assets, non-deductible	\$ 1.8
IPR&D, non-deductible	0.5
Goodwill, non-deductible	0.4
Deferred income taxes	(0.5)
Total consideration	\$ 2.2

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

Facet Biotech Corporation

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

Collaborations and Other Arrangements

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

Reata Pharmaceuticals, Inc

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

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

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

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

Seattle Genetics, Inc

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

Action Pharma A/S

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

Galapagos NV

In February 2012, AbbVie recorded a charge to IPR&D of \$150 million as a result of entering into a global collaboration with Galapagos NV to develop and commercialize a next-generation, oral Janus Kinase 1 (JAK1) inhibitor in Phase II development with the potential to treat multiple autoimmune diseases. Additional payments of approximately \$1.2 billion could be required for the achievement of certain development, regulatory and commercial milestones under this agreement

Biotest AG

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

Neurocrine Biosciences, Inc

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

Note 5 Goodwill and Intangible Assets

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

The following table summarizes AbbVie's intangible assets:

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

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

Note 6 Restructuring Plans

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

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

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

Solvay Plans

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

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

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

Note 7 Debt, Credit Facilities, and Commitments and Contingencies

Long-Term Debt

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

(in millions)	Effective interest rate in 2012(a)	2012
Floating rate notes due 2015	1.13%	500
1.2% notes due 2015	1.24%	3,500
1.75% notes due 2017	1.82%	4,000
2.0% notes due 2018	2.12%	1,000
2.9% notes due 2022	3.01%	3,100
4.4% notes due 2042	4.50%	2,600
Other	—	104
Fair value hedges and unamortized bond discounts	—	(152)
Total long-term debt and lease obligations		14,652
Current portion		22
Noncurrent portion		\$14,630

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

In November 2012, AbbVie issued \$14.7 billion aggregate principal amount of senior notes. Approximately \$3.0 billion of these senior notes were issued to Abbott as partial consideration for the transfer of assets from Abbott to AbbVie. AbbVie used part of the net proceeds from the sale of senior notes (other than the senior notes issued to Abbott) to finance the payment made in November 2012.

of a \$10.2 billion distribution to Abbott, as provided by the terms of the separation agreement. The debt was guaranteed by Abbott until AbbVie separated from Abbott on January 1, 2013.

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

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

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

Short-Term Borrowings

At December 31, 2012, short-term borrowings included \$1.0 billion of commercial paper borrowings. The weighted-average interest rate on short-term borrowings was 0.4% at December 31, 2012. AbbVie has a \$2.0 billion unsecured bank credit facility agreement, which backs the commercial paper program, and matures in July 2017. Abbott was relieved of its obligations under the credit facility upon separation of AbbVie from Abbott on January 1, 2013, and AbbVie became the sole obligor of this facility. The credit facility enables the company to borrow funds on an unsecured basis at floating interest rates. At December 31, 2012, the company was in compliance with its credit facility covenants. Compensating balances and commitment fees are not material.

Leases

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

Future Minimum Lease Payments and Long-Term Debt Maturities

as of and for the years ended December 31 (in millions)

2013	\$ 22
2014	15
2015	4,012
2016	9
2017	4,000
Later years	6,746
Total obligations and commitments	14,804
Fair value hedges and unamortized bond discounts	(152)
Current and long-term debt and lease obligations	\$14,652

Contingencies and Guarantees

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

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

Note 8 Financial Instruments and Fair Value Measures

Risk Management Policy

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

Financial Instruments

Various AbbVie foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany transactions denominated in a currency other than the functional currency of the local entity. These contracts, totaling \$1.0 billion and \$249 million at December 31, 2012 and 2011, respectively, are designated as cash flow hedges and are recorded at fair value. Accumulated gains and losses as of December 31, 2012 will be included in cost of products sold at the time the products are sold, generally through the next twelve months.

The company enters into foreign currency forward exchange contracts to manage its exposure to foreign currency denominated trade payables and receivables and intercompany loans. The contracts are marked-to-market, and resulting gains or losses are reflected in income and are generally offset by losses or gains on the foreign currency exposure being managed. At December 31, 2012 and 2011, AbbVie held \$4.3 billion and \$3.0 billion, respectively, of such foreign currency forward exchange contracts.

AbbVie was a party to interest rate hedge contracts, designated as fair value hedges, totaling \$8.0 billion at December 31, 2012. The effect of the hedge is to change a fixed-rate interest obligation to a floating rate for that portion of the debt. AbbVie recorded the contracts at fair value and adjusted the carrying amount of the fixed-rate debt by an offsetting amount.

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

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

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

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

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

Fair Value Measures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Concentrations of Risk

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

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

Note 9 Post-Employment Benefits

Abbott Sponsored Plans

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

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

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

AbbVie Sponsored Plans

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

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

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

The projected benefit obligations (PBO) in the table above included \$1.1 billion and \$405 million at December 31, 2012 and 2011, respectively, related to international defined benefit pension plans which are generally not funded, in accordance with local regulations. Benefit payments for those plans are funded from company assets.

For plans reflected in the table above, the accumulated benefit obligations (ABO) were \$1.5 billion and \$620 million at December 31, 2012 and 2011, respectively. For those plans reflected in the table above in which the ABO exceeded plan assets at December 31, 2012, the ABO, PBO and aggregate plan assets were \$951 million, \$1.0 billion and \$278 million, respectively.

Amounts Recognized in AOCI and OCI

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

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

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

Net Periodic Benefit Cost

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

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

	2012	2011
Discount rate	4.0%	5.1%
Rate of compensation increases	3.9%	4.2%

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

Weighted-Average Assumptions Used in Determining Net Periodic Benefit Cost

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

Pension Plan Assets

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

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

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

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

- (c) Primarily separate actively managed pooled investment accounts that are benchmarked to the MSCI emerging market and various local indices
- (d) Index funds (50 percent in 2012 and 45 percent in 2011) and separate actively managed accounts (50 percent in 2012 and 55 percent in 2011)
- (e) Index funds (20 percent in 2012 and 40 percent in 2011) and separate actively managed accounts (80 percent in 2012 and 60 percent in 2011)
- (f) Primarily funds invested by managers that have a global mandate with the flexibility to allocate capital broadly across a wide range of asset classes and strategies including, but not limited to equities, fixed income, commodities, interest rate futures, currencies and other securities to outperform an agreed upon benchmark with specific return and volatility targets
- (g) Primarily investments in liquid commodity future contracts, private energy funds, cash and cash equivalents

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

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

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

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

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

Expected Pension and Other Post-Employment Payments

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

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

Other

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

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

Note 10 Stock-Based Compensation

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

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

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

Stock Compensation Expense

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

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

Stock Options

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

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

years ended December 31	2012	2011	2010
Risk-free interest rate	1.2%	2.7%	2.9%
Average life of options (years)	6.0	6.0	6.0
Volatility	21.0%	21.0%	22.0%
Dividend yield	3.6%	4.1%	3.2%
Fair value per stock option	\$6.80	\$6.23	\$9.24

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

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

(options in thousands, aggregate intrinsic value in millions)	Options	Weighted average exercise price	Weighted average remaining life (in years)	Aggregate intrinsic value
Outstanding at December 31, 2011	25,783	\$49.77	4.1	
Granted	944	62.54		
Exercised	(13,347)	49.62		
Lapsed	(95)	53.88		
Outstanding at December 31, 2012	13,285	\$50.80	3.7	\$196
Exercisable at December 31, 2012	12,329	\$50.09	3.6	\$190

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

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

RSA's & RSUs

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

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

(share units in thousands)	Share units	Weighted average grant date fair value
Nonvested shares December 31, 2011	4,710	\$50.29
Granted	2,749	56.07
Vested	(2,164)	51.23
Lapsed	(251)	48.62
Nonvested shares December 31, 2012	5,044	\$53.12

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

Note 11 Income Taxes

Earnings Before Income Taxes

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

Income Taxes

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

Effective Tax Rate Reconciliation

years ended December 31 (in millions)	2012	2011	2010
Statutory tax rate	35.0%	35.0%	35.0%
Benefit of lower tax rates and tax exemptions, primarily in Puerto Rico	(23.5)	(25.4)	(22.5)
Resolution of certain tax positions pertaining to prior years	(3.4)	(11.2)	—
Effect of non-deductible litigation loss accrual	0.6	12.9	—
Puerto Rico excise tax credit	(1.2)	(3.2)	—
State taxes, net of federal benefit	0.1	0.3	0.2
All other, net	0.3	(2.0)	0.9
Effective tax rate	7.9%	6.4%	13.6%

Income taxes in 2012 and 2011 included the recognition of tax benefits totaling approximately \$195 million and \$410 million, respectively, as a result of favorable resolutions of various tax positions pertaining to prior years. Income taxes in 2011 also reflected the non-deductibility of a litigation reserve. Excluding these discrete items, the effective tax rates were less than the statutory U.S. federal income tax rate of 35 percent principally due to the benefit of lower statutory tax rates and tax exemptions in Puerto Rico and other foreign taxing jurisdictions, which reduced the tax rates by 23.5, 25.4 and 22.5 percentage points in 2012, 2011 and 2010, respectively.

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

At December 31, 2012, U.S. income taxes have not been provided on approximately \$19.4 billion of undistributed foreign earnings as these earnings have been indefinitely reinvested for continued use in foreign operations. It is not practicable to determine the amount of deferred income taxes not provided on these earnings.

Deferred Tax Assets and Liabilities

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

Unrecognized Tax Benefits

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

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

Note 12 Litigation

There are a number of patent disputes with third parties who claim AbbVie's products infringe their patents. On February 21, 2012, the U.S. Supreme Court denied Centocor Inc.'s and New York University's petition to review a February 2011 Federal Circuit Court of Appeals decision reversing a \$1.67 billion judgment in favor of Centocor and New York University on a patent they claimed AbbVie's HUMIRA infringed. This decision concludes the case.

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

government sought to determine whether any of these activities violated civil and/or criminal laws, including the Federal False Claims Act, the Food, Drug and Cosmetic Act, and the Anti-Kickback Statute in connection with Medicare and/or Medicaid reimbursement to third parties. The state Attorneys General offices sought to determine whether any of these activities violated various state laws, including state consumer fraud/protection statutes. AbbVie recorded charges of \$1.5 billion in the third quarter of 2011 and \$100 million in the first quarter of 2012 related to civil and criminal claims arising from this matter. In May 2012, AbbVie reached resolution of all Depakote-related federal claims, Medicaid-related claims with 49 states and the District of Columbia, and consumer protection claims with 45 states and the District of Columbia. In 2012, AbbVie paid approximately \$1.6 billion for the settlement. The payments were material to AbbVie's cash flows in 2012.

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

Note 13 Related Party Transactions with Abbott

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

Note 14 Segment and Geographic Area Information

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

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

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

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

Long-lived assets, consisting of net property and equipment in the United States and Puerto Rico, totaled approximately \$1.6 billion and \$1.5 billion as of December 31, 2012 and 2011, respectively.

Note 15 Quarterly Financial Data (unaudited)

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of AbbVie Inc

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

We conducted our audits in accordance with auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

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

/s/ Deloitte & Touche LLP

Chicago, Illinois
March 15, 2013

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

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

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

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Internal Control Over Financial Reporting

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

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

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

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

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

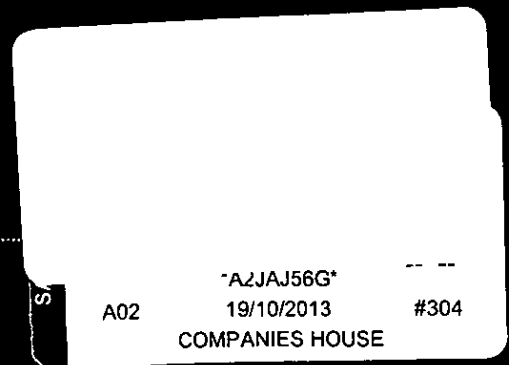
ITEM 9B. OTHER INFORMATION

None

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	\$35,168,721
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	35,996	(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			
Goodwill	8,588,285	9,989,636	12,151,628
Deferred Income Taxes and Other Assets	15,774,127	15,705,380	15,930,077
	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

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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)

	2012	2011	2010
Long term investments			
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

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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	\$8,788	\$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 Primal 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 \$365, \$770 and \$1,150, respectively, related to the acquisition of Primal 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			Balance Sheet Caption	Fair Value — Liabilities			Balance Sheet Caption
	2012	2011	2010		2012	2011	2010	
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 expenses and receivables	11	2	10	Other accrued liabilities
Others not designated as hedges	98	165	109	n/a	615	680	650	Short-term borrowings
Debt designated as a hedge of net investment in a foreign subsidiary	—	—	—					
	\$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			Income Statement Caption
	2012	2011	2010	2012	2011	2010	
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			
	Outstanding Balances	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2012				
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			
	Outstanding Balances	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2012				
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:

<i>(dollars in millions)</i>	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:

<i>(dollars in millions)</i>	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 its 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 relatively 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 net 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 separation related costs in 2012 and for cost reduction initiatives and integration.

(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.

(dollars in millions)	2012	2011	2010
Total Reportable Segment Assets			
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

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.

Notes to Consolidated Financial Statements

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 Neurocrne 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 nutritional 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:

<i>(dollars in millions)</i>	
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:

<i>(dollars in millions)</i>	
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)

<i>(dollars in millions except per share data)</i>	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	58	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)	86	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		
	Contract Amount	Weighted Average Exchange Rate	Fair and Carrying Value Receivable/(Payable)	Contract Amount	Weighted Average Exchange Rate	Fair and Carrying Value Receivable/(Payable)
<i>(dollars in millions)</i>						
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 *Tivicor* 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.

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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			
	Domestic Nutritionals and WIC Rebates	Medicaid and Medicare Rebates	Pharmacy Benefit Manager Rebates	Wholesaler Charge backs
<i>(dollars in millions)</i>				
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 % Change	Components of 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	5.8	(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.

Financial Review

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)	Percent		Percent		Percent	
	2012	Change	2011	Change	2010	Change
Proprietary Pharmaceuticals —						
Total U.S.						
Proprietary sales	\$10,158	7	\$9,455	8	\$8,744	12
<i>HUMIRA</i>	4,376	28	3,427	19	2,872	14
<i>TRILIPIX/TriCor</i>	1,098	(20)	1,372	1	1,355	1
<i>Niaspan</i>	911	(7)	976	5	927	8
<i>AndroGel</i>	1,152	32	874	35	649	n/m
<i>Lupron</i>	569	5	540	12	483	(11)
<i>Synthroid</i>	551	6	522	16	451	9
<i>Creon</i>	353	7	332	35	246	n/m
<i>Kaletra</i>	280	(14)	326	(10)	363	(19)
Total International						
Proprietary sales	7,854	3	7,625	15	6,645	16
<i>HUMIRA</i>	4,889	9	4,505	23	3,676	24
<i>Kaletra</i>	733	(13)	844	(5)	892	(3)
<i>Lupron</i>	231	(14)	270	2	265	2
Total Established						
Pharmaceuticals —	5,121	(4)	5,355	20	4,461	52
<i>Clarithromycin</i>	501	(9)	551	6	521	(11)
<i>TriCor and Lipanthyl</i> (fenofibrate)	292	(5)	308	24	248	n/m
<i>Creon</i>	306	4	296	58	187	n/m
<i>Serc</i>	205	(12)	233	30	180	n/m
<i>Duphaston</i>	259	16	223	64	136	n/m
<i>Synthroid</i>	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) —						
<i>Xience</i>	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 Nutritionals sales in 2012 reflect market share gains for *Similac* and unit growth for *PediaSure*. The increase in 2012 U.S. Adult Nutritionals sales reflects unit growth for the *Ensura* 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 nutritional 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

<i>(dollars in millions)</i>	
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.

Financial Review

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, proprietary 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.

Financial Review

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 Insulin* 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.

Financial Review

(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

<i>(dollars in millions)</i>	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.

<i>(dollars in millions)</i>	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	245
Operating lease obligations	795	146	234	170	—	—
Capitalized auto lease obligations	92	31	61	—	—	17
Purchase commitments (a)	3,154	3,048	88	1	—	—
Other long-term liabilities reflected on the consolidated balance sheet --						
Benefit plan obligations	5,126	—	1,024	1,149	2,953	155
Other	3,869	—	3,682	32	—	—
Total (b)	\$39,439	\$4,064	\$10,128	\$6,281	\$18,966	245

(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.

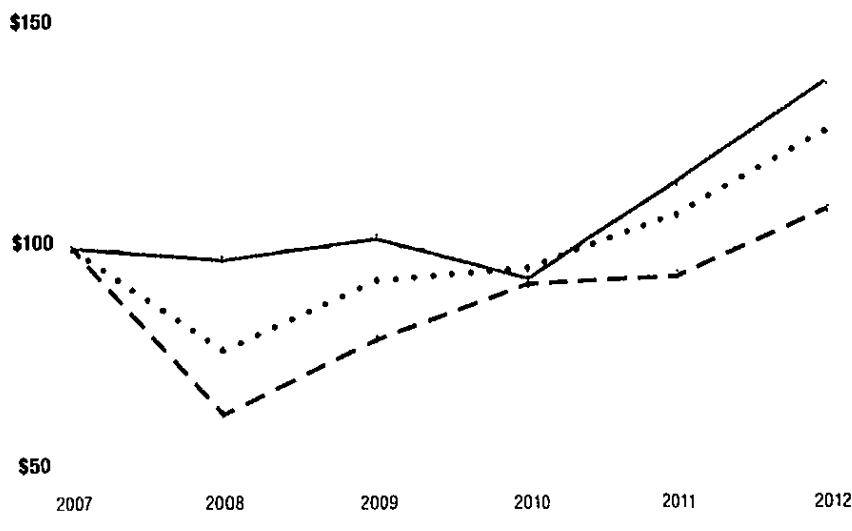
In 2011, Abbott began recording the annual fee imposed by health care reform legislation on companies that sell branded prescription drugs to specified government programs. The amount of the annual fee is based on the ratio of certain of Abbott's sales as compared to the total such sales of all covered 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 & Pooers 500 Health Care Index.

- Abbott Laboratories
- - - S&P 500 Index
- • • S&P 500 Health Care

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	\$12,069.5	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	4,382.3	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	4,125.6	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	28,787.5	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 pre-tax 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.