2015 ANNUAL REPORT

Abbott

Abbott is a global, diversified healthcare company devoted to improving life through the development of products and technologies that span the breadth of healthcare. With a portfolio of leading, science-based offerings in diagnostics, medical devices, nutritionals and branded generic pharmaceuticals, Abbott is well positioned for sustained success, delivering consistent growth, expanding margins, strong cash flow and steadily increasing returns to shareholders.

**TABLE OF CONTENTS**



**« ON THE COVER:**

**NATALIA VILCHES SALAS**
**SANTIAGO, CHILE**
**VALCOTE ER**

Civil Engineering student Natalia Vilches Salas *(front)* doesn't let epilepsy stand in the way of her active life and busy school schedule. She takes Abbott's *Valcote* to help control her symptoms, allowing her to pursue the things she loves, like playing the guitar, hiking the Andes Mountains and kayaking with her friend, Daniela Palma Carrasco.

**MILES D. WHITE**
CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER

## DEAR FELLOW SHAREHOLDER:

2015 demonstrated our company's fundamental ability to execute. In a year characterized by heavy macroeconomic headwinds, we delivered strong underlying growth in the top tier of our peer group.

## OUR OPERATING ENVIRONMENT

Abbott's response to those economic forces underscores the strength of our business, the unusual flexibility provided by our broad and well-balanced business diversity, and our proven ability to navigate challenging waters.

The primary factor in our business environment in 2015 was the strong U.S. dollar. This is, of course, not a new phenomenon and is one that will continue to be felt in 2016. While we've grown accustomed to this and know well how to manage for it, this effect was greater in 2015 than in the earlier years of this strong-dollar cycle. For instance, in 2013 the impact of exchange reduced our top line by 2.1 percent and by 2.5 percent in 2014. Last year its impact was 8.3 percent. Our business diversity, strong positions, and management acumen allowed us to manage this significant headwind.

Another major current during 2015 was concern about emerging economies. While it's true that the growth of these markets has slowed, they continue to grow at double the rate of developed markets and, thus, still present by far the best growth opportunity in the world today. We have long experience managing through the ups and downs of international markets and we remain confident in their potential over the long term.

The third major factor was price inflation in a record market for mergers and acquisitions. That we did no major new deals in 2015 in no way suggests that we are not as strategically attuned and ambitious as ever. We fully intend to continue building the company through focused, enhancing acquisitions, as we have continually over the past 17 years. We'll remain active and prudent — mindful of finding the right balance of strategic fit, timing, and returns that will benefit shareholders over the long term. We believe we found just such an opportunity in our recent agreement to acquire Alere, the leader in point-of-care diagnostics.

## OUR FORMULA FOR SUCCESS

This was the environment we navigated in 2015 *en route* to delivering another successful year. We're able to do this year after year on the basis of foundational strengths that give us the ability to execute our strategies, adjust as necessary, and seize the opportunities we choose to pursue. As detailed in this report, our company is:

### BALANCED

Well-managed diversity has been our core strategy for many years, and we work hard to maintain it in all of the major dimensions of our business. This both offers us the widest range of opportunities and safeguards us from over reliance on any particular part of our business.

*Business Portfolio:* Abbott is composed of four large and strong core businesses: Nutrition, Diagnostics, Medical Devices and Established Pharmaceuticals. Together, they cover the entire spectrum of healthcare and people of all ages. This gives us the opportunity to participate in a broader

**ABBOTT CONTINUOUSLY SHAPES ITS BUSINESS FOR SUSTAINED SUCCESS, ALIGNING ITS PORTFOLIO WITH SPECIFIC MARKET NEEDS AND PROVIDING SHAREHOLDERS WITH RELIABLE GROWTH AND INCOME.**

### Advancing Science

Abbott is investing in innovation that addresses some of the world's most pressing medical needs

### Navigating Risk

A broad portfolio and global presence help reduce the impact of challenges in any one market segment or geographic region

### Focusing on Growth Opportunities

We're growing our presence in markets where the opportunities and needs are high and our experience and expertise are paving the way

### Meeting Local Needs

We are globally aligned and locally driven to address the specific health challenges of the communities in which we live and work

**"WE'VE ACHIEVED A NEW LEVEL OF COMPETITIVENESS OVER THE PAST THREE YEARS AS WE'VE RESHAPED THE COMPANY."**

range of technological and socio-economic developments than other, more narrowly-focused companies.

*Markets:* We now derive half of our revenue from more developed economies and half from emerging markets, providing us a very effective combination of dynamism and stability.

*Customers:* Our business today is evenly divided between traditional healthcare payors and consumers. This provides balance between products that are obtained through third parties and those that customers are ready and willing to pay for themselves.

In all these fundamental aspects of our business, then, we have access to new opportunities and the flexibility to pursue them, as well as protection from exposure to the fluctuations of single markets.

## GLOBAL

With our deep international experience, we're unfazed by passing market jitters over the state of individual economies or sectors. As always, we take the long view. We know that the currency winds will again eventually shift in our favor. And, more importantly, we believe in the long-term potential of today's emerging markets and the billions of people to whom they're bringing opportunity and access to healthcare.

As we've proven in years past, we have the resources, the patience, and the ability to succeed in these markets under all circumstances, and to be there and ready with favorable positions and relationships when growth again accelerates.

## ALIGNED

In all of our businesses, Abbott is well positioned to address the most relevant needs and capture and build on emerging trends — technological or demographic, social or economic. We continually shape our business to ensure that it remains ready and able to provide what our customers need.

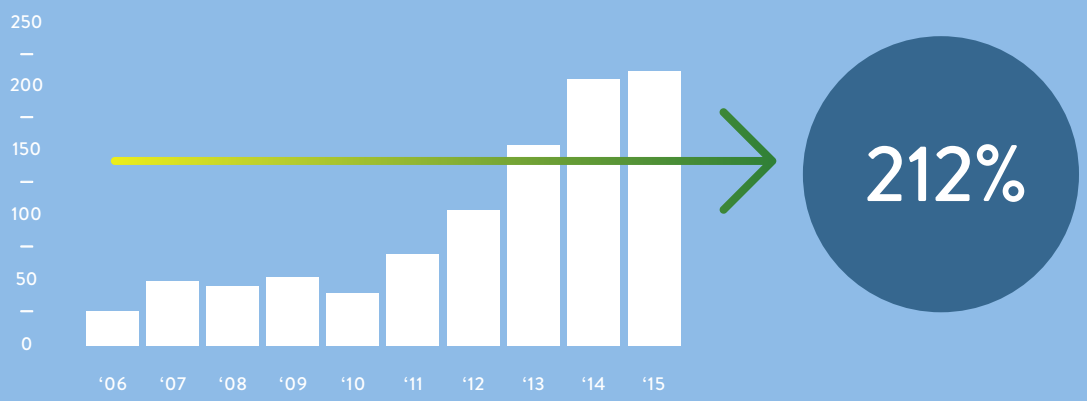
## LEADING

Abbott has long been a leader in many ways: in developing new technologies, in growing market-leading products, and in business practices from corporate governance to human resources to global citizenship.

What all of these come down to is competitiveness — the desire to be the best. That drive has motivated this enterprise since it was just Dr. Abbott making new and better medications by hand. That's how we've delivered the second highest total shareholder return of all the companies on the S&P 500 Index since it assumed its modern form in 1957.

And we've achieved a new level of competitiveness over the past three years as we've reshaped the company. We're now leaner and more efficient

## 10-YEAR SHAREHOLDER VALUE CREATION




*Shareholders who have owned Abbott since the end of 2005 have seen a 212% increase in the value of their investment, more than double the performance of the S&P 500 and almost twice that of the Dow Jones Industrial index.*

than we've been in decades, resulting in the improved margins that have allowed us to deliver our strong results despite today's economic headwinds.

## FINANCIAL PERFORMANCE

Our 2015 sales growth was 9 percent globally, excluding the impact of exchange. Due to our sharpened competitiveness, these sales produced adjusted earnings-per-share growth of 9 percent. We again raised our dividend, by more than 8 percent. This marks the 92nd consecutive year in which we've paid a dividend, and the 44th consecutive year that dividends have risen, maintaining our longstanding position on the S&P 500 Dividend Aristocrats Index.

## LIFE. TO THE FULLEST.

What we saw in 2015, then, was a textbook Abbott performance. In navigating a challenging global environment, Abbott displayed the experience and know-how of a long-standing, long-term company, and the forward-looking ambition of a company that keeps itself young through a relentless focus on providing its customers what they need today and want for tomorrow.

That customer focus drives an important new dimension for Abbott: building our corporate brand identity. In 2015 we conducted our first-ever corporate consumer awareness campaign. Through this highly successful effort, almost a billion people around the world have learned more about our company and how it helps people live the best and healthiest lives they can.

That's what Abbott is here for. We demonstrated this again in 2015 by introducing new healthcare products and bringing them to more people around the world than ever before. By running our company in a thoughtful and responsible way we were named to the Dow-Jones Sustainability Indexes, the world's top recognition for leadership in responsible economic, environmental, and social performance, for the 11th consecutive year.

Taken as a whole, our performance, across the breadth of the company's activities, led investors and peer companies to name us our industry's Most Admired Company in *Fortune* magazine's annual ranking for the third year in a row. We intend to not just maintain, but to improve this high level of performance. Because, at Abbott, our work is too important to do it any other way.

**MILES D. WHITE**
CHAIRMAN OF THE BOARD AND
CHIEF EXECUTIVE OFFICER
MARCH 2, 2016

**IN 2015, ABBOTT DELIVERED TOP-TIER SALES AND EARNINGS GROWTH DESPITE A CHALLENGING CURRENCY ENVIRONMENT.**

**$20.4BN**
Total Sales

**+9.1%**
Sales growth excluding impact of exchange

# THIS IS ABBOTT

*Our solutions—across the spectrum of care and for all stages of life—help people live their best lives through better health.*

# LIFE.

**MILA TERESHINA**
**Moscow, Russia**
***Similac***

# *to the fullest.*

*People across the world share a simple goal. They want to live their fullest lives, achieve their highest potential, become their best possible selves. At Abbott, we help them do that, with innovative, high-quality products and services that help people live not just longer, but better.*

# BALANCED and broad-based









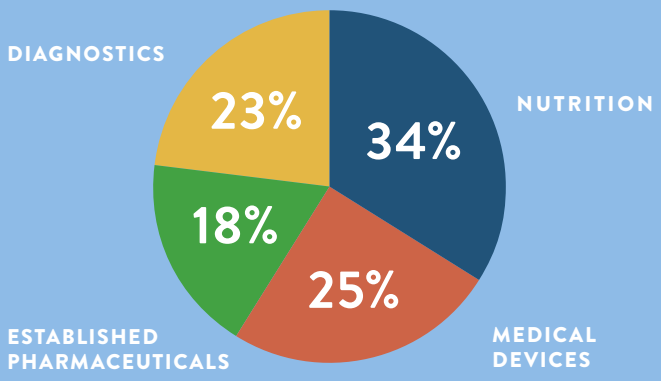
**10,000+**
**products**

## Our broad portfolio lets Abbott better address the needs of every market we serve




The breadth and balance of our product portfolio lets Abbott help more people, in more places, and gives us increased stability in an ever-changing world.

### OUR BUSINESS MIX




### OUR CUSTOMER MIX

**1/2**

of Abbott's sales are now direct to consumers

### OUR GEOGRAPHIC PRESENCE

Abbott's business is evenly split between developed and faster-growing markets

**50%**
Developed Markets

**50%**
Fast-Growing Markets

# GLOBALLY strong

**150+**

**Abbott has sales in more than 150 countries, serving every region of the world.**

# We're well established in the world's largest and fastest-growing markets, with strong positions that allow us to more effectively meet our customers' needs.

## STRENGTH IN MAJOR MARKETS

*Our presence in the markets that represent the majority of the world's gross domestic product lets us generate strong volume and cash flows.*

### PORTION OF TOTAL ABBOTT SALES*

- 31% United States
- 12% Western Europe
- 9% China
- 5% India
- 4% Japan

** Based upon country of final sale*

## WELL POSITIONED IN GROWTH MARKETS

*We have a decades-long presence in major fast-growing markets where increases in healthcare spending are outpacing economic growth.*

- India: 100+ years
- Brazil: Almost 80 years
- Russia: 40+ years
- China: 40+ years
- Vietnam: 20+ years

# ALIGNED with a changing world

## At every stage of life

*Our products are there to help from infancy through adulthood*

### Infants

Infant Formula
Diagnostics
Pharmaceuticals

### Children

Pediatric Nutrition
Diagnostics
Diabetes Care
Pharmaceuticals

### Adults

Adult Nutrition
Diagnostics
Vascular Devices
Vision Care
Diabetes Care
Pharmaceuticals

**ISAO ARITO**
Yokohama, Japan
*Tecnis Optiblue* Lens

# As the global population ages and economies expand, Abbott is well positioned to grow with the world's demand for healthcare.

## INCREASED INVESTMENT IN HEALTHCARE

*Fast-growing economies around the world tend to increase the percentage of their resources they devote to healthcare.*

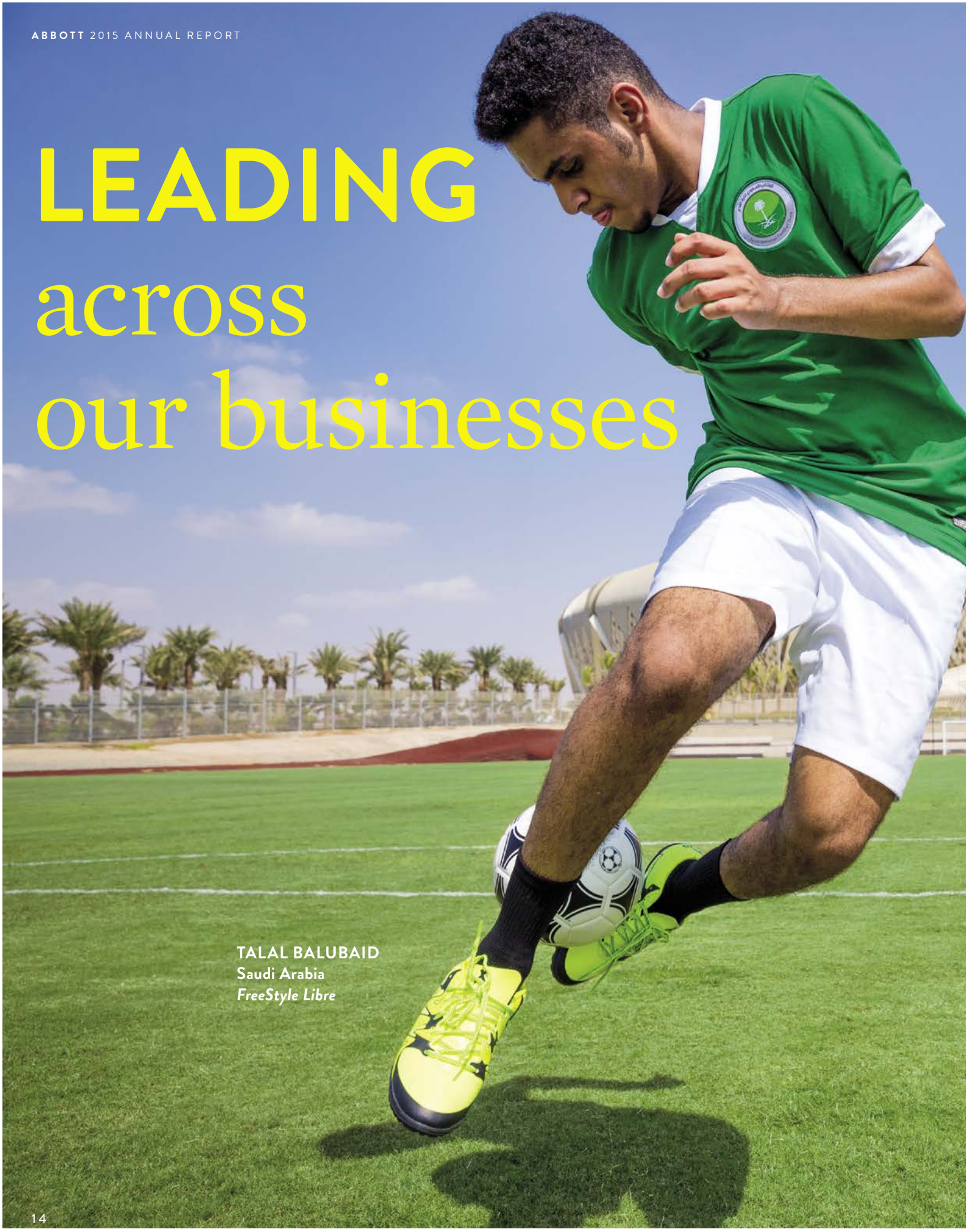
## AGING GLOBAL POPULATION

**>180%**

**MORE PEOPLE 65 AND OLDER BY 2050**

*As populations age, demand for healthcare increases. Abbott's expertise in many conditions associated with aging positions us well to benefit from this growth.*

# LEADING across our businesses



**TALAL BALUBAID**
Saudi Arabia
***FreeStyle Libre***


# Leaders set the agenda. With leading positions in each of our businesses, Abbott is well positioned to drive change and improve healthcare throughout the world.

## LEADING commercial presence

- Sales in more than 150 countries
- #2 pharmaceutical company in India
- Top-10 pharmaceutical company in Latin America and the #1 pharmaceutical company in Chile, Colombia and Peru

## LEADING innovation

Abbott research has resulted in next-generation products that have redefined the standard of care in several treatment areas.

## LEADING global brand

With a global profile that is more visible than ever, Abbott is building on a foundation of trust that we've built over our more than 125 years in business. Abbott was again the Most Admired Company in our industry in *Fortune* magazine's annual ranking.

# NUTRITION

## A SOLID FOUNDATION FOR A FULL LIFE

*Norie Zambrano has a busy life in Manila, Philippines, but she loves to explore the natural beauty that can be found just outside of town. Her schedule sometimes makes it challenging to eat right, so she keeps her strength up by supplementing her diet with* Ensure.

## BALANCED NUTRITION FOR A BUSY LIFE

Norie is a busy finance supervisor who loves spending time with her two active nieces. But following surgery three years ago, she felt noticeably less energetic and strong. After talking with her doctor, she began drinking *Ensure Gold* once a day to help build her strength back up, allowing her to become more physically fit. Today, at 52, she feels stronger and happier, and continues to lead a full, active life, travelling and spending time with her family.

Norie is just one of the new customers who are helping to make Asia an exciting growth region for Abbott. As is true all around the world, we're growing in Asia by offering a diverse product portfolio that's balanced between adult and pediatric nutrition.

## INVESTMENTS IN ASIA

In recent years, we've built our presence in the region through targeted investments in manufacturing, supply chain and research-and-development facilities. In 2015, we opened a new research-and-development pilot plant in Singapore that will allow us to more rapidly pair nutrition science innovation with local taste and texture preferences.

Looking ahead, our Nutrition business will benefit significantly from the aging of the global population, and increasing awareness of the role of nutrition in health and recovery from illness.

## ENSURE GOLD

*Norie relies on* Ensure Gold *because it provides complete nutrition to fill in the gaps in her diet, helping increase her strength and energy. It also contains prebiotics for better nutrient absorption[1], enhanced immunity and normal digestive function.*

## NUTRITION

# UNIQUELY BALANCED FOR GROWTH


At Abbott, we develop science-based nutrition products to help make every stage of life a healthy one.

We offer trusted brands like *Similac* infant formula and the complete nutrition of *PediaSure*, for children, and *Ensure*, for adults. We support the unique nutrition needs of people with chronic conditions, with products like *Glucerna*, for people with diabetes and *Nepro*, for dialysis patients.

**TARGETED STRATEGIES IN CHINA**

### In China, retail sales will be key to our continued success

**2015 BUSINESS HIGHLIGHTS**

- Launched *Similac Non-GMO* formula in the U.S.
- Launched *Eleva Organic*, the first organic infant formula product in China
- Launched *Similac QINTI* premium infant formula in China
- Continued to build our Adult Nutrition business in China with the launch of *Ensure* Red Date and Wheat flavors
- Launched a reformulated version of *EAS Myoplex*, our trusted brand of specialty nutrition products designed to help athletes train harder and smarter
- Launched seasonal *ZonePerfect* bars in the U.S.
- Opened pilot plant in Singapore to more rapidly and effectively address regional preferences

## ENSURE

# #1
## DOCTOR RECOMMENDED BRAND




### HEALTHY LIVING

Condition-specific products like *Glucerna*, along with healthy-living brands, like *EAS* and *ZonePerfect*, round out our Adult Nutrition portfolio

### RESPONSIVE TO CONSUMER PREFERENCE

In 2015, Abbott launched *Similac Non-GMO* for parents who prefer products made without genetically engineered ingredients

# 38
**NEW PRODUCT LAUNCHES IN 2015**

# >50%
Abbott represents more than half of all sales in the global Adult Nutrition segment and is focused on expanding the overall market for these innovative products.

# #1
*Similac* is the leading infant formula brand in the U.S.

Abbott has high-quality manufacturing facilities close to the customers we serve

# MEDICAL DEVICES

## INNOVATION IN ACTION

*Roberto Gullin, of Veneto, Italy, was an avid cyclist in excellent physical condition, so the chest pains he was experiencing took him by surprise. His doctor determined that Roberto had a blocked artery, which was treated using our* Absorb *device.*

Within weeks of being treated with Abbott's *Absorb* naturally dissolving stent for the heart, Roberto was back on his bike, enjoying the hills around his home.

*Absorb* is just one example of the innovation from our Medical Devices group, which includes our Vascular, Medical Optics and Diabetes Care businesses. These organizations share a common focus on leading-edge technological innovation that improves outcomes while lowering overall healthcare costs.

In addition to *Absorb*, our Vascular business also offers *MitraClip*, the world's first transcatheter mitral-valve repair device.

In our Vision business, our *Tecnis* family of lenses helps people with cataracts see better; our *Catalys* Precision Laser System helps surgeons provide cataract patients with more customized care; and our *iDesign Advanced WaveScan Studio* System measures and maps irregularities of the eye, creating a personalized LASIK treatment plan for people with myopia.

In Diabetes Care, our *FreeStyle Libre* Flash Glucose Monitoring system continues to gain acceptance in Europe. *FreeStyle Libre* is a revolutionary technology that eliminates the need for routine finger pricks for people with diabetes.[2]

In 2015, we also made excellent progress with Abbott Ventures, a new organization we've built to help expand the scope of our Devices business. We'll use this group to make targeted investments and strategic acquisitions, to build our new-product pipeline.

## ABSORB

*Roberto was treated using Abbott's* Absorb *naturally dissolving stent system, which opens blocked arteries in the heart before being absorbed, leaving behind a restored vessel in a natural state, free of a permanent metal implant.*

## MEDICAL DEVICES

# LEADING-EDGE TECHNOLOGIES THAT IMPROVE LIVES


We hold leadership positions across our medical device businesses — Vascular, Diabetes Care and Vision — where our next-generation technologies are helping people recover more quickly, monitor more accurately and see more clearly.

As the global population is aging and the incidence of chronic diseases is increasing, we're able to help more people, in more places, than ever before.

**DIABETES CARE**

**Abbott's revolutionary *FreeStyle Libre* Flash Glucose Monitoring system launched in Europe and the Middle East**

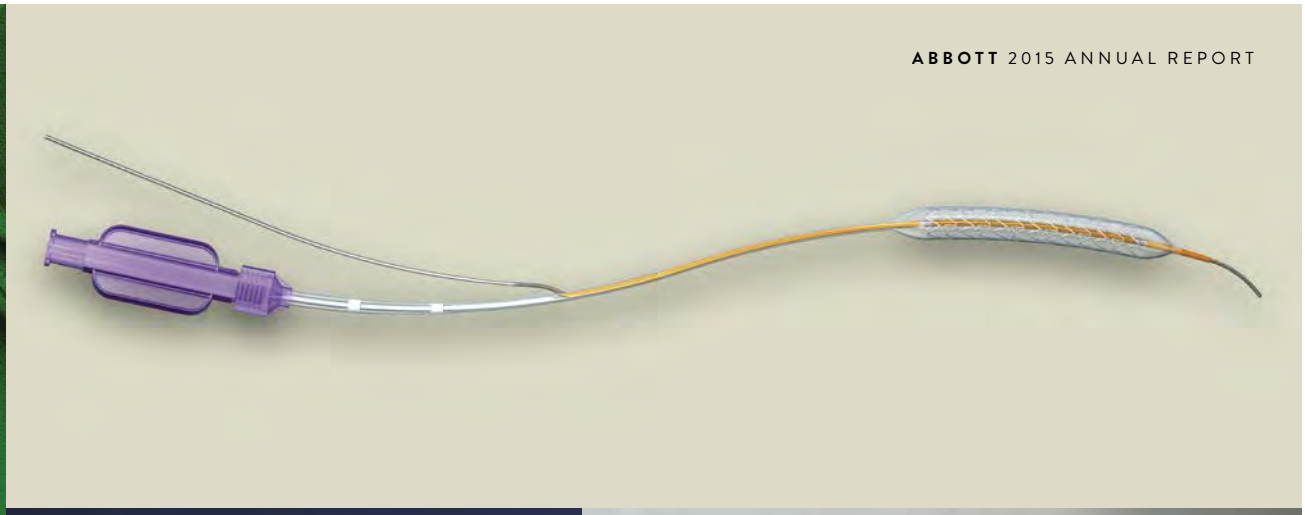
### 2015 BUSINESS HIGHLIGHTS

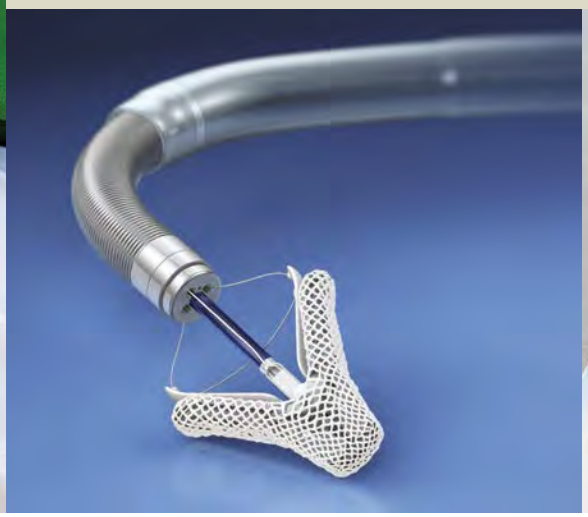
#### DIABETES CARE

- Launched *FreeStyle Precision Neo* Blood Glucose Monitoring system in the U.S., providing consumers an affordable, well-known brand in the over-the-counter segment of the market
- Received approval in India for *FreeStyle Libre Pro,* our flash-glucose-monitoring system designed for use in doctors' offices

#### VISION

- *Tecnis* Multifocal Lenses launched in the United States
- Received U.S. regulatory approval for *iDesign Advanced WaveScan Studio* System
- Launched two new phacoemulsification systems, designed to help facilitate cataract surgeries






**VASCULAR CARE**

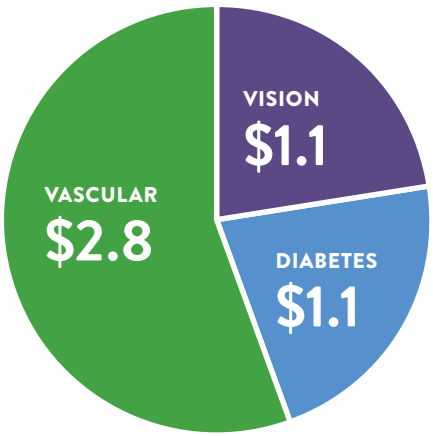
**Abbott's *MitraClip* is the only minimally-invasive mitral valve repair device available in the United States**

**VISION**

***Tecnis OptiBlue* was created specifically in response to customer-preference in Japan**

## VASCULAR / CARDIAC CARE

- Launched *Absorb GT1*, which employs an enhanced delivery system that makes it easier for doctors to use, in a number of markets outside the U.S.
- Acquired Tendyne Holdings, Inc., broadening Abbott's foundation as a leader in treatments for mitral-valve disease




**2015 SALES BY BUSINESS** (in billions)

# DIAGNOSTICS

## TIMELY INFORMATION TO IMPROVE THE QUALITY OF CARE

*Gina Walker of Chillicothe, Ohio, USA, is the proud mom of two very active kids. When she needed a blood transfusion following a medical emergency, she could feel confident in the safety of the procedure thanks to Abbott's* PRISMnEXT *blood-screening system.*

The blood donation that helped Gina was just one of millions screened every year by an Abbott system. We've been helping to protect the safety of the blood supply for more than 40 years, with systems like the *ABBOTT PRISMnEXT*, designed to enhance blood screening through automation and improved data management. Our blood transfusion instruments are used to screen the majority of the world's blood supply.

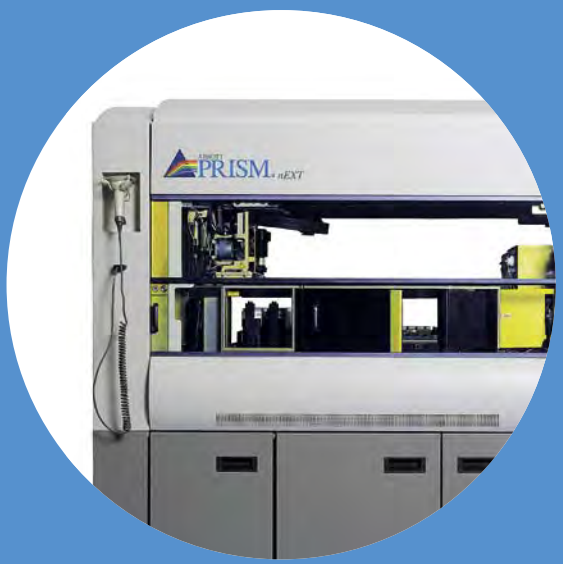
It's advancements like these that have helped Abbott maintain our position as a pioneer and leader in *in vitro* diagnostics. With a varied portfolio of sophisticated instruments, tests and technologies for screening and diagnosing diseases and monitoring general health, we help clinicians find and treat diseases earlier so patients can benefit from more-targeted treatment options.

As cost pressures and increased patient volumes put pressure on labs and the healthcare system, our high-volume platforms are developed to meet the lab's most pressing needs for speed, accuracy and efficiency.

We also have a leading point-of-care testing platform, a growing line of best-in-class molecular instruments and tests, and we're helping ensure the long-term success of our business with continued investment in our new-product pipeline. We expect to launch several new platforms in the coming years, offering more cost-effective, more efficient systems that promise to improve the performance of the healthcare system while also improving care.

## ABBOTT PRISM

*The blood that Gina received was screened with the* ABBOTT PRISMnEXT, *the world's leading blood-screening system thanks to its combination of speed, accuracy and process automation.*



## DIAGNOSTICS

# IMPROVING OUTCOMES WORLDWIDE


Abbott is a global leader in *in vitro* diagnostics, offering a broad portfolio spanning immunoassay, clinical chemistry, hematology, blood screening, molecular, point of care and informatics. Our diagnostics solutions are designed to improve decision-making and patient care across the entire healthcare system. Abbott develops and commercializes *in vitro* diagnostics instruments, tests and related automation and informatics solutions for use in hospitals, reference labs, physician offices, emergency departments, critical care and remote settings.

### CORE LABORATORY

**Abbott's focus on combining speed, accuracy and efficiency helps maintain our position as the world leader in immunoassay and blood screening**

### 2015 BUSINESS HIGHLIGHTS

- Acquired Omnilab, expanding lab informatics capabilities
- Announced a collaboration with Sekisui to offer coagulation testing solutions
- In February 2016, announced our intention to become the world leader in point-of-care testing by acquiring Alere Inc.
- Launched *i-STAT* Total ß-hCG test, allowing faster detection of early pregnancy in emergency situations
- Launched global campaign to inspire young people to become life-long blood donors
- Abbott scientists helped discover a previously unknown virus that may be linked to hepatitis C

## POINT OF CARE

**Abbott is a leader in Point of Care Diagnostics**

## MOLECULAR

**Abbott's *m2000* RealTime System provides automation, a broad assay menu, and other solutions to make laboratories more efficient**

**6**
**new systems in development**

**These new Abbott systems will improve care while creating greater efficiencies in the healthcare system**

### LEADING BRANDS ACROSS OUR DIAGNOSTICS BUSINESS

- ***ARCHITECT***
  Immunoassay and clinical chemistry systems and tests
- ***ABBOTT PRISM***
  Blood-screening system and reagents
- ***ACCELERATOR A3600***
  Advanced lab-automation system
- ***CELL-DYN***
  Hematology analyzers and reagents
- ***M2000***
  Molecular system and tests for infectious diseases
- ***IRIDICA***
  Breakthrough pathogen-identification system
- ***I-STAT***
  Point-of-Care testing system and tests

# ESTABLISHED PHARMACEUTICALS

## EXPANDING OUR IMPACT IN FAST-GROWING MARKETS

*Guillermo Santos Reyes of Santo Domingo, Dominican Republic, wears many hats — bank messenger, husband, father, and grandfather. There are a lot of people relying on him, so he relies on our* Controlip *brand fenofibrate to help control his cholesterol.*

In 2014, Guillermo was overweight and out of shape. Then he began to suffer chest pains. After a visit to his doctor revealed that he also had high cholesterol levels, Guillermo decided to make some changes. Today, Guillermo maintains a healthy body weight, watches what he eats, and stays active by regularly going to the gym, playing baseball with his sons, and chasing after his one-year-old granddaughter. He's working hard to stay healthy, and he's glad to have access to Abbott's high-quality medicines that help him do so.

*Controlip* is just one product in a portfolio that includes some of the world's most trusted brands and serves the world's fastest-growing markets.

## TRUSTED BRANDS WORLDWIDE

In this business, we're focused on building broad portfolios of medicines in therapeutic areas where we already have strong presence, where there is medical need, and where we believe we can have the greatest impact on patient health. In each of these areas, we'll continue to improve our offering with new formulations, new indications, and innovations in packaging.

In 2015, we completed the sale of our Developed Markets pharmaceuticals business to Mylan, and continued to build on our presence in Latin America and Russia, integrating the operations of CFR Pharmaceuticals and Veropharm, the two branded-generic pharmaceutical companies we acquired in 2014.

## CONTROLIP

*Guillermo uses* Controlip *(fenofibrate) to help lower his triglycerides and raise his HDL-c ("good" cholesterol). Unlike many medicines of this type,* Controlip *is formulated using NanoCrystal IR technology, allowing patients to take it at any time that's convenient for them.*

## ESTABLISHED PHARMACEUTICALS

# RESHAPED FOR ACCELERATED GROWTH


We're helping more people in the world's fastest-growing economies by bringing them high quality, branded generic pharmaceuticals that have been successfully treating patients for years.

We're tailoring our product offerings to the specific needs of the regions we serve, offering new formulations, delivery methods and packaging. Abbott has leadership positions in many of these geographies and is well aligned with the fundamentals driving long-term growth for healthcare in these regions.

### TRUSTED BRANDS

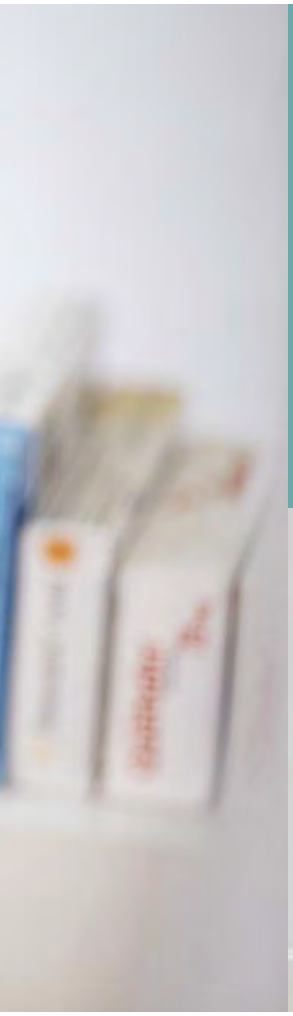
**People around the world rely on the quality of medications with Abbott's name on the label**

### 2015 BUSINESS HIGHLIGHTS

- Announced the creation of a pharmaceutical development center in Rio de Janeiro, Brazil
- Advanced integrations of 2014 acquisitions, Veropharm and CFR pharmaceuticals, strengthening Abbott's commercial, research, and manufacturing infrastructure in Russia and Latin America, respectively
- Completed sale of Developed Markets pharmaceuticals business to Mylan. Abbott is now completely focused on faster-growing markets

### CORE THERAPEUTIC AREAS

- Gastroenterology
- Women's Health
- Cardio-Metabolic
- Influenza Vaccine
- Pain/Central Nervous System
- Respiratory/ Anti-Infectives



# >1,500
## PRODUCTS IN OUR PORTFOLIO



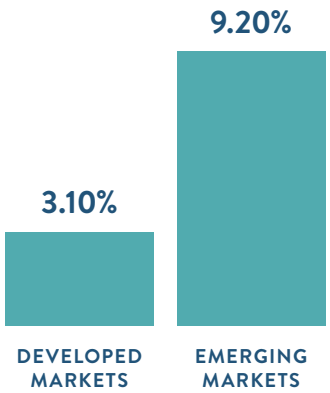
### LARGE PORTFOLIO

**Abbott's extensive portfolio of branded generic products lets us more easily tailor our product offering to the needs of specific markets**

### GLOBAL STRENGTH

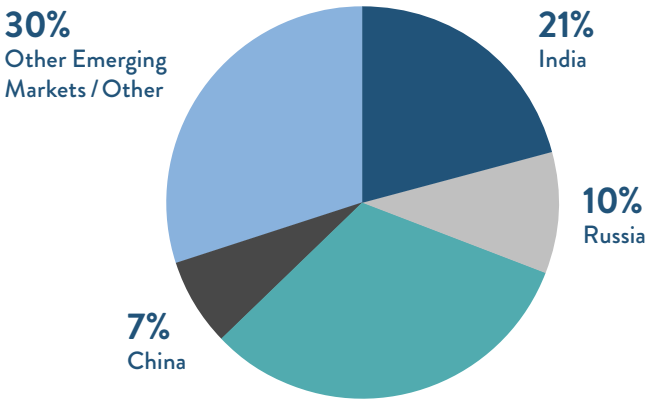
**Abbott has a pharmaceutical commercial presence in approximately 90 countries**

Focused on
Faster-Growing Markets




Pharmaceutical Market Growth Rates
Per IMS Market Prognosis Global 2015-2019

**BALANCED SALES IN FAST-GROWING MARKETS**



# 2015 FINANCIAL REPORT

## TABLE OF CONTENTS

## CONSOLIDATED STATEMENT OF EARNINGS

*(in millions except per share data)*

| Year Ended December 31 | 2015 | 2014 | 2013 |
|---|---|---|---|
| Net Sales | $20,405 | $20,247 | $19,657 |
| Cost of products sold, excluding amortization of intangible assets | 8,747 | 9,218 | 9,193 |
| Amortization of intangible assets | 601 | 555 | 588 |
| Research and development | 1,405 | 1,345 | 1,371 |
| Selling, general and administrative | 6,785 | 6,530 | 6,372 |
| Total Operating Cost and Expenses | 17,538 | 17,648 | 17,524 |
| Operating Earnings | 2,867 | 2,599 | 2,133 |
| Interest expense | 163 | 150 | 145 |
| Interest income | (105) | (77) | (67) |
| Net loss on extinguishment of debt | – | 18 | – |
| Net foreign exchange (gain) loss | (93) | (24) | 46 |
| Other (income) expense, net | (281) | 14 | (32) |
| Earnings from Continuing Operations Before Taxes | 3,183 | 2,518 | 2,041 |
| Taxes on Earnings from Continuing Operations | 577 | 797 | 53 |
| Earnings from Continuing Operations | 2,606 | 1,721 | 1,988 |
| Earnings from Discontinued Operations, net of taxes | 65 | 563 | 588 |
| Gain on sale of Discontinued Operations, net of taxes | 1,752 | – | – |
| Net Earnings from Discontinued Operations, net of taxes | 1,817 | 563 | 588 |
| Net Earnings | $ 4,423 | $ 2,284 | $ 2,576 |
| Basic Earnings Per Common Share— | | | |
| Continuing Operations | $ 1.73 | $ 1.13 | $ 1.27 |
| Discontinued Operations | 1.21 | 0.37 | 0.37 |
| Net Earnings | $ 2.94 | $ 1.50 | $ 1.64 |
| Diluted Earnings Per Common Share— | | | |
| Continuing Operations | $ 1.72 | $ 1.12 | $ 1.26 |
| Discontinued Operations | 1.20 | 0.37 | 0.36 |
| Net Earnings | $ 2.92 | $ 1.49 | $ 1.62 |
| Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share | 1,496 | 1,516 | 1,558 |
| Dilutive Common Stock Options | 10 | 11 | 16 |
| Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options | 1,506 | 1,527 | 1,574 |
| Outstanding Common Stock Options Having No Dilutive Effect | 1 | 1 | 1 |

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*(in millions)*

| Year Ended December 31 | 2015 | 2014 | 2013 |
|---|---|---|---|
| Net Earnings | $ 4,423 | $ 2,284 | $ 2,576 |
| Foreign currency translation (loss) adjustments | (2,013) | (2,206) | (239) |
| Net actuarial gains (losses) and prior service cost and credits and amortization of net actuarial losses and prior service cost and credits, net of taxes of $101 in 2015, $(459) in 2014 and $393 in 2013 | 252 | (917) | 882 |
| Unrealized gains (losses) on marketable equity securities, net of taxes of $104 in 2015, $(7) in 2014 and $(10) in 2013 | 64 | (12) | (18) |
| Net (losses) gains on derivative instruments designated as cash flow hedges, net of taxes of $(9) in 2015, $24 in 2014 and $(13) in 2013 | (35) | 94 | (53) |
| Other Comprehensive (Loss) Income | (1,732) | (3,041) | 572 |
| Comprehensive Income (Loss) | $ 2,691 | $ (757) | $ 3,148 |

| Supplemental Accumulated Other Comprehensive Income Information, net of tax as of December 31: | | | |
|---|---|---|---|
| Cumulative foreign currency translation (loss) adjustments | $(4,829) | $(2,924) | $ (718) |
| Net actuarial (losses) and prior service (cost) and credits | (1,958) | (2,229) | (1,312) |
| Cumulative unrealized gains on marketable equity securities | 65 | 1 | 13 |
| Cumulative gains on derivative instruments designated as cash flow hedges | 64 | 99 | 5 |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

*(in millions)*

| Year Ended December 31 | 2015 | 2014 | 2013 |
|---|---|---|---|
| Cash Flow From (Used in) Operating Activities: | | | |
| Net earnings | $ 4,423 | $ 2,284 | $ 2,576 |
| Adjustments to reconcile earnings to net cash from operating activities— | | | |
| Depreciation | 871 | 918 | 928 |
| Amortization of intangible assets | 601 | 630 | 791 |
| Share-based compensation | 292 | 246 | 262 |
| Investing and financing (gains) losses, net | (18) | 69 | 4 |
| Net loss on extinguishment of debt | — | 18 | — |
| Gain on sale of discontinued operations | (2,840) | — | — |
| Gain on sale of Mylan N.V. shares | (207) | — | — |
| Trade receivables | (171) | (195) | (113) |
| Inventories | (257) | (297) | (154) |
| Prepaid expenses and other assets | 57 | 30 | 131 |
| Trade accounts payable and other liabilities | (742) | (225) | (436) |
| Income taxes | 957 | 197 | (665) |
| Net Cash From Operating Activities | 2,966 | 3,675 | 3,324 |
| Cash Flow From (Used in) Investing Activities: | | | |
| Acquisitions of property and equipment | (1,110) | (1,077) | (1,145) |
| Acquisitions of businesses and technologies, net of cash acquired | (235) | (3,317) | (580) |
| Proceeds from business dispositions | 230 | 5 | — |
| Proceeds from the sale of Mylan N.V. shares | 2,290 | — | — |
| Purchases of investment securities | (4,933) | (1,507) | (10,064) |
| Proceeds from sales of investment securities | 4,112 | 5,624 | 7,839 |
| Other | 52 | 70 | 21 |
| Net Cash From (Used in) Investing Activities | 406 | (202) | (3,929) |
| Cash Flow From (Used in) Financing Activities: | | | |
| Proceeds from issuance of (repayments of) short-term debt and other | (1,281) | 1,343 | 2,086 |
| Proceeds from issuance of long-term debt and debt with maturities over 3 months | 2,485 | — | 9 |
| Repayments of long-term debt and debt with maturities over 3 months | (57) | (577) | (303) |
| Acquisition and contingent consideration payments related to business acquisitions | (17) | (400) | (495) |
| Transfer of cash and cash equivalents to AbbVie Inc. | — | — | (5,901) |
| Purchases of common shares | (2,237) | (2,195) | (1,605) |
| Proceeds from stock options exercised, including income tax benefit | 314 | 429 | 395 |
| Dividends paid | (1,443) | (1,342) | (882) |
| Net Cash (Used in) From Financing Activities | (2,236) | (2,742) | (6,696) |
| Effect of exchange rate changes on cash and cash equivalents | (198) | (143) | (26) |
| Net Increase (Decrease) in Cash and Cash Equivalents | 938 | 588 | (7,327) |
| Cash and Cash Equivalents, Beginning of Year | 4,063 | 3,475 | 10,802 |
| Cash and Cash Equivalents, End of Year | $ 5,001 | $ 4,063 | $ 3,475 |
| Supplemental Cash Flow Information: | | | |
| Income taxes paid | $ 631 | $ 448 | $ 1,039 |
| Interest paid | 166 | 146 | 148 |

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

## CONSOLIDATED BALANCE SHEET

*(dollars in millions)*

| December 31 | 2015 | 2014 |
|---|---|---|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 5,001 | $ 4,063 |
| Investments, primarily bank time deposits and U.S. treasury bills | 1,124 | 397 |
| Trade receivables, less allowances of—2015: $337; 2014: $310 | 3,418 | 3,586 |
| Inventories: | | |
| Finished products | 1,744 | 1,807 |
| Work in process | 316 | 278 |
| Materials | 539 | 558 |
| Total inventories | 2,599 | 2,643 |
| Other prepaid expenses and receivables | 1,908 | 1,975 |
| Current assets held for disposition | 105 | 892 |
| Total Current Assets | 14,155 | 13,556 |
| Investments | 4,041 | 229 |
| Property and Equipment, at Cost: | | |
| Land | 432 | 457 |
| Buildings | 2,769 | 2,968 |
| Equipment | 8,254 | 8,480 |
| Construction in progress | 928 | 727 |
| | 12,383 | 12,632 |
| Less: accumulated depreciation and amortization | 6,653 | 6,697 |
| Net Property and Equipment | 5,730 | 5,935 |
| Intangible Assets, net of amortization | 5,562 | 6,198 |
| Goodwill | 9,638 | 10,067 |
| Deferred Income Taxes and Other Assets | 2,119 | 3,288 |
| Non-current Assets Held for Disposition | 2 | 1,934 |
| | $41,247 | $41,207 |

## CONSOLIDATED BALANCE SHEET

*(dollars in millions)*

| December 31 | 2015 | 2014 |
|---|---|---|
| Liabilities and Shareholders' Investment | | |
| Current Liabilities: | | |
| Short-term borrowings | $ 3,127 | $ 4,382 |
| Trade accounts payable | 1,081 | 1,064 |
| Salaries, wages and commissions | 746 | 776 |
| Other accrued liabilities | 3,043 | 2,878 |
| Dividends payable | 383 | 362 |
| Income taxes payable | 430 | 270 |
| Current portion of long-term debt | 3 | 55 |
| Current liabilities held for disposition | 373 | 680 |
| Total Current Liabilities | 9,186 | 10,467 |
| Long-term Debt | 5,871 | 3,393 |
| Post-employment Obligations and other long-term liabilities | 4,864 | 5,600 |
| Non-current liabilities held for disposition | — | 108 |
| 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: 2015: 1,702,017,390; 2014: 1,694,929,949 | 12,734 | 12,383 |
| Common shares held in treasury, at cost— | | |
| Shares: 2015: 229,352,338; 2014: 186,894,515 | (10,622) | (8,678) |
| Earnings employed in the business | 25,757 | 22,874 |
| Accumulated other comprehensive income (loss) | (6,658) | (5,053) |
| Total Abbott Shareholders' Investment | 21,211 | 21,526 |
| Noncontrolling Interests in Subsidiaries | 115 | 113 |
| Total Shareholders' Investment | 21,326 | 21,639 |
| | $ 41,247 | $41,207 |

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

## CONSOLIDATED STATEMENT OF SHAREHOLDERS' INVESTMENT

*(in millions except shares and per share data)*

| Year Ended December 31 | 2015 | 2014 | 2013 |
|---|---|---|---|
| Common Shares: | | | |
| Beginning of Year | | | |
| Shares: 2015: 1,694,929,949; 2014: 1,685,827,096; 2013: 1,675,930,484 | $ 12,383 | $12,048 | $11,755 |
| Issued under incentive stock programs | | | |
| Shares: 2015: 7,087,441; 2014: 9,102,853; 2013: 9,896,612 | 289 | 404 | 393 |
| Share-based compensation | 292 | 245 | 261 |
| Issuance of restricted stock awards | (230) | (314) | (361) |
| End of Year | | | |
| Shares: 2015: 1,702,017,390; 2014: 1,694,929,949; 2013: 1,685,827,096 | $ 12,734 | $12,383 | $12,048 |
| Common Shares Held in Treasury: | | | |
| Beginning of Year | | | |
| Shares: 2015: 186,894,515; 2014: 137,728,810; 2013: 99,262,992 | $ (8,678) | $ (6,844) | $ (5,591) |
| Issued under incentive stock programs | | | |
| Shares: 2015: 5,381,586; 2014: 5,818,599; 2013: 5,718,575 | 250 | 283 | 310 |
| Purchased | | | |
| Shares: 2015: 47,839,409; 2014: 54,984,304; 2013: 44,184,393 | (2,194) | (2,117) | (1,563) |
| End of Year | | | |
| Shares: 2015: 229,352,338; 2014: 186,894,515; 2013: 137,728,810 | $(10,622) | $ (8,678) | $ (6,844) |
| Earnings Employed in the Business: | | | |
| Beginning of Year | $ 22,874 | $21,979 | $24,151 |
| Net earnings | 4,423 | 2,284 | 2,576 |
| Separation of AbbVie Inc. | – | – | (3,735) |
| Cash dividends declared on common shares (per share—2015: $0.98; 2014: $0.90; 2013: $0.64) | (1,464) | (1,363) | (1,002) |
| Effect of common and treasury share transactions | (76) | (26) | (11) |
| End of Year | $ 25,757 | $22,874 | $21,979 |
| Accumulated Other Comprehensive Income (Loss): | | | |
| Beginning of Year | $ (5,053) | $ (2,012) | $ (3,594) |
| Business dispositions / separation | 127 | – | 1,010 |
| Other comprehensive income (loss) | (1,732) | (3,041) | 572 |
| End of Year | $ (6,658) | $ (5,053) | $ (2,012) |
| Noncontrolling Interests in Subsidiaries: | | | |
| Beginning of Year | $ 113 | $ 96 | $ 92 |
| Noncontrolling Interests' share of income, business combinations, net of distributions and share repurchases | 2 | 17 | 4 |
| End of Year | $ 115 | $ 113 | $ 96 |

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.

*Changes in Presentation*—On February 27, 2015, Abbott completed the sale of its developed markets branded generics pharmaceuticals business to Mylan Inc. (Mylan) for equity ownership of a newly formed entity that combined Mylan's existing business and Abbott's developed markets pharmaceuticals business. Mylan N.V. is publicly traded. The sale was announced in July 2014. On February 10, 2015, Abbott completed the sale of its animal health business to Zoetis Inc. Abbott entered an agreement to sell this business in November 2014. The historical operating results of these businesses up to the date of sale are excluded from Earnings from Continuing Operations and are presented on the Earnings from Discontinued Operations line in Abbott's Consolidated Statement of Earnings. The assets and liabilities of these businesses were reported as held for disposition in Abbott's Consolidated Balance Sheet at December 31, 2014. The cash flows of these businesses up to the date of disposition are included in Abbott's Consolidated Statements of Cash Flows. See Note 3—Discontinued Operations for additional information.

*Basis of Consolidation*—The consolidated financial statements include the accounts of the parent company and subsidiaries, after elimination of intercompany transactions.

*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, including certain asset values that are based on significant unobservable inputs; valuation of intangible assets; litigation; derivative financial instruments; and inventory and accounts receivable exposures.

*Foreign Currency Translation*—The statements of earnings of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using average exchange rates for the period. The net assets of foreign subsidiaries whose functional currencies are other than the U.S. dollar are translated into U.S. dollars using exchange rates as of the balance sheet date. The U.S. dollar effects that arise from translating the net assets of these subsidiaries at changing rates are recorded in the foreign currency translation adjustment account, which is included in equity as a component of Accumulated other comprehensive income (loss). Transaction gains and losses are recorded on the Net foreign exchange (gain) loss line of the Consolidated Statement of Earnings.

*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.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model for accounting for revenue from contracts with customers and will supersede most existing revenue recognition guidance. The standard becomes effective for Abbott in the first quarter of 2018. Abbott is currently evaluating the effect, if any, that the standard will have on its consolidated financial statements and related disclosures.

*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.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires entities to classify all deferred tax assets and liabilities as non-current on the balance sheet. The standard may be adopted on either a prospective or retrospective basis. The standard is effective for fiscal years beginning after December 15, 2016, and early adoption is permitted. Effective December 31, 2015, Abbott adopted ASU 2015-17 and applied the new standard retrospectively. As a result of applying ASU 2015-17 to the previously reported Consolidated Balance Sheet as of December 31, 2014, Deferred income taxes within the Total Current Assets line decreased and the Deferred income taxes and other assets line increased by approximately $1.7 billion, respectively; Other accrued liabilities within the Total Current Liabilities line decreased by $65 million and the Post-employment obligations and other long-term liabilities line increased by $12 million. Reclassification of the deferred tax balances from current to noncurrent affected the netting of these balances as a deferred tax asset or liability in various jurisdictions.

*Earnings Per Share*—Unvested restricted stock units and awards 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

shares and participating securities. Earnings from Continuing Operations allocated to common shares in 2015, 2014 and 2013 were $2.595 billion, $1.713 billion and $1.979 billion, respectively. Net earnings allocated to common shares in 2015, 2014 and 2013 were $4.403 billion, $2.273 billion and $2.558 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 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 fair value of stock options and restricted stock awards and units are amortized over their requisite 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 two publicly traded companies, with a carrying value of approximately $104 million, are accounted for under the equity method of accounting. All other 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 are recorded at cost. Investments in 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 fair 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 fair 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 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

products. The fair value of IPR&D projects acquired in a business combination are capitalized and accounted for as indefinite-lived intangible assets until completed and are then amortized over the remaining useful life. Collaborations are not significant for continuing 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. Governmental accounts in Italy, Spain, Greece and Portugal accounted for 7 percent and 9 percent of total net trade receivables as of December 31, 2015 and 2014, 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.

### NOTE 2—SEPARATION OF ABBVIE INC.

On January 1, 2013, Abbott completed the separation of AbbVie Inc. (AbbVie), which was formed to hold Abbott's research-based proprietary pharmaceuticals business. Abbott and AbbVie entered into transitional services agreements prior to the separation pursuant to which Abbott and AbbVie provided to each other, on an interim transitional basis, various services. Transition services were provided for up to 24 months with an option for a one-year extension by the recipient. Services provided by Abbott included certain information technology and back office support. Billings by Abbott under these transitional services agreements were recorded as a reduction of the costs to provide the respective service in the applicable expense category in the Consolidated Statement of Earnings. This transitional support enabled AbbVie to establish its stand-alone processes for various activities that were previously provided by Abbott and did not constitute significant continuing support of AbbVie's operations.

For a small portion of AbbVie's operations, the legal transfer of AbbVie's assets (net of liabilities) did not occur with the separation of AbbVie on January 1, 2013 due to the time required to transfer marketing authorizations and other regulatory requirements in each of these countries. Under the terms of the separation agreement with Abbott, AbbVie is subject to the risks and entitled to the benefits generated by these operations and assets. The majority of these operations were transferred to AbbVie in 2013 and 2014. These assets and liabilities have been presented as held for disposition in the Consolidated Balance Sheet. At December 31, 2015, the assets and liabilities held for disposition consist of cash and trade accounts receivable of $54 million, inventories of $43 million, other assets of $10 million, and trade accounts payable and accrued liabilities of $373 million. Abbott has recorded a prepaid asset of $266 million for its obligation to transfer these net liabilities held for disposition to AbbVie.

Abbott has retained all liabilities for all U.S. federal and foreign income taxes on income prior to the separation, as well as certain non-income taxes attributable to AbbVie's business. AbbVie generally will be liable for all other taxes attributable to its business.

### NOTE 3—DISCONTINUED OPERATIONS

On February 27, 2015, Abbott completed the sale of its developed markets branded generics pharmaceuticals business to Mylan Inc. (Mylan) for 110 million shares (or approximately 22%) of a newly formed entity (Mylan N.V.) that combined Mylan's existing business and Abbott's developed markets branded generics pharmaceuticals business. Mylan N.V. is publicly traded. Historically, this business was included in Abbott's Established Pharmaceutical Products segment. Abbott retained its branded generics pharmaceuticals business in emerging markets. At the date of closing, the 110 million Mylan N.V. shares that Abbott received were valued at $5.77 billion and Abbott recorded an after-tax gain on the sale of the business of approximately $1.6 billion. The shareholder agreement with Mylan N.V. includes voting and other restrictions that prevent Abbott from exercising significant influence over the operating and financial policies of Mylan N.V.

At the close of this transaction Abbott and Mylan entered into a transition services agreement pursuant to which Abbott and Mylan are providing various back office support services to each other on an interim transitional basis. Transition services may be provided for up to 2 years. Charges by Abbott under this transition services agreement are recorded as a reduction of the costs to provide the respective service in the applicable expense category in the Consolidated Statement of Earnings. This transition support does not constitute significant continuing involvement in Mylan's operations. Abbott also entered into manufacturing supply agreements with Mylan related to certain products, with the supply term ranging from 3 to 10 years and requiring a 2 year notice prior to termination. The cash flows associated with these transition services and manufacturing supply agreements are not expected to be significant, and therefore, these cash flows are not direct cash flows of the disposed component under Accounting Standards Codification 205.

In April 2015, Abbott sold 40.25 million of the 110 million ordinary shares of Mylan N.V. received in the sale of the developed markets branded generics pharmaceuticals business to Mylan. Abbott recorded a pretax gain of $207 million on $2.29 billion in net proceeds from the sale of these shares. The gain is recognized in the Other (income) expense line of the Consolidated Statement of Earnings. As a result of this sale, Abbott's ownership interest in Mylan N.V. decreased to approximately 14%.

On February 10, 2015, Abbott completed the sale of its animal health business to Zoetis Inc. Abbott received cash proceeds of $230 million and reported an after tax gain on the sale of approximately $130 million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As a result of the disposition of the above businesses, the current and prior years' operating results of these businesses up to the date of sale are reported as part of discontinued operations on the Earnings from Discontinued Operations, net of taxes line in the Consolidated Statement of Earnings. Discontinued operations include an allocation of interest expense assuming a uniform ratio of consolidated debt to equity for all of Abbott's historical operations.

The operating results of Abbott's developed markets branded generics pharmaceuticals and animal health businesses as well as the income tax benefit related to the businesses transferred to AbbVie, which are being reported as discontinued operations are as follows:

| (in millions) Year Ended December 31 | 2015 | 2014 | 2013 |
|---|---|---|---|
| Net Sales | | | |
| Developed markets generics pharmaceuticals and animal health businesses | $256 | $2,076 | $2,191 |
| AbbVie | – | – | – |
| Total | $256 | $2,076 | $2,191 |
| Earnings Before Tax | | | |
| Developed markets generics pharmaceuticals and animal health businesses | $ 13 | $ 505 | $ 480 |
| AbbVie | – | – | – |
| Total | $ 13 | $ 505 | $ 480 |
| Net Earnings | | | |
| Developed markets generics pharmaceuticals and animal health businesses | $ 62 | $ 397 | $ 395 |
| AbbVie | 3 | 166 | 193 |
| Total | $ 65 | $ 563 | $ 588 |

The net earnings of discontinued operations include income tax benefits of $52 million in 2015, $58 million in 2014 and $108 million in 2013. 2015 includes $48 million of tax benefits related to the resolution of various tax positions related to prior years. 2014 and 2013 include $166 million and $193 million, respectively, of tax benefits as a result of the resolution of various tax positions related to AbbVie's operations for years prior to the separation.

The sale of the developed markets branded generics pharmaceuticals and animal health business in 2015 resulted in the recognition of a pretax gain of $2.840 billion, tax expense of $1.088 billion and an after tax gain of $1.752 billion. The tax provision includes $667 million of tax expense on certain current year funds earned outside the U.S. related to the developed markets branded generics pharmaceuticals businesses that were not designated as permanently reinvested overseas.

The assets of the operations held for disposition and the liabilities to be assumed in the disposition related to the businesses noted above, as well as the AbbVie assets and liabilities discussed in Note 2 are classified as held for disposition in the Consolidated Balance Sheet as of December 31, 2014. The held for disposition balances as of December 31, 2015, relate to AbbVie assets and liabilities. Prior period balance sheets are not adjusted when a business is designated as being held for sale. The cash flows associated with the developed markets branded generics pharmaceuticals and animal health businesses up to the date of disposition are included in Abbott's Consolidated Statement of Cash Flows. The following is a summary of the assets and liabilities held for disposition:

| (in millions) December 31 | 2015 | 2014 |
|---|---|---|
| Cash and Trade receivables, net | $ 54 | $ 501 |
| Total inventories | 43 | 254 |
| Prepaid expenses and other receivables | 8 | 137 |
| Current assets held for disposition | 105 | 892 |
| Net property and equipment | 1 | 125 |
| Intangible assets, net of amortization | – | 804 |
| Goodwill | – | 950 |
| Deferred income taxes and other assets | 1 | 55 |
| Non-current assets held for disposition | 2 | 1,934 |
| Total assets held for disposition | 107 | 2,826 |
| Trade accounts payable | 359 | 423 |
| Salaries, wages, commissions and other accrued liabilities | 14 | 257 |
| Current liabilities held for disposition | 373 | 680 |
| Post-employment obligations, deferred income taxes and other long-term liabilities | – | 108 |
| Total liabilities held for disposition | $373 | $ 788 |

### NOTE 4—SUPPLEMENTAL FINANCIAL INFORMATION

Other (income) expense, net, for 2015 primarily relates to a $207 million gain on the sale of a portion of Abbott's position in Mylan N.V. stock and $79 million of income resulting from a decrease in the fair value of contingent consideration related to a business acquisition. Abbott sold 40.25 million of the 110 million ordinary shares of Mylan N.V. received in the sale of the developed markets branded generics pharmaceuticals business to Mylan. Abbott received $2.29 billion in net proceeds from the sale of these shares. As a result of this sale, Abbott's ownership interest in Mylan N.V. decreased from approximately 22% to approximately 14%. Other (income) expense, net, for 2014 primarily relates to impairment charges related to non-publically traded equity securities partially offset by gains from the sales of equity securities. The loss on the extinguishment of debt of $18 million in 2014 relates to the early redemption of approximately $500 million of long-term notes.

The detail of various balance sheet components is as follows:

| (in millions) | 2015 | 2014 |
|---|---|---|
| Long-term Investments: | | |
| Equity securities | $4,014 | $212 |
| Other | 27 | 17 |
| Total | $4,041 | $229 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The long-term investments in equity securities as of December 31, 2015 include 69.7 million of ordinary shares of Mylan N.V. with a market value of $3.771 billion.

| (in millions) | 2015 | 2014 |
|---|---|---|
| Other Accrued Liabilities: | | |
| Accrued rebates payable to government agencies | $ 140 | $ 88 |
| Accrued other rebates (a) | 301 | 239 |
| All other | 2,602 | 2,551 |
| Total | $3,043 | $2,878 |

(a) Accrued wholesaler chargeback rebates of $170 million and $158 million at December 31, 2015 and 2014, 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.

| (in millions) | 2015 | 2014 |
|---|---|---|
| Post-employment Obligations and Other Long-term Liabilities: | | |
| Defined benefit pension plans and post-employment medical and dental plans for significant plans | $2,241 | $2,875 |
| Deferred income taxes | 808 | 872 |
| All other (b) | 1,815 | 1,853 |
| Total | $4,864 | $5,600 |

(b) 2015 and 2014 include approximately $600 million of net unrecognized tax benefits, as well as approximately $148 million and $220 million, respectively, of acquisition consideration payable.

Since January 2010, Venezuela has been designated as a highly inflationary economy under U.S. GAAP. In 2014 and 2015, the government of Venezuela operated multiple mechanisms to exchange bolivars into U.S. dollars. These mechanisms included the CENCOEX, SICAD, and SIMADI rates, which stood at 6.3, 13.5, and approximately 200, respectively, at December 31, 2015. In 2015, Abbott continued to use the CENCOEX rate of 6.3 Venezuelan bolivars to the U.S. dollar to report the results, financial position, and cash flows related to its operations in Venezuela since Abbott continued to qualify for this exchange rate to pay for the import of various products into Venezuela.

Revenue from operations in Venezuela represented approximately 2% of Abbott's total net sales and pre-tax income totaled approximately $200 million in 2015 and $175 million in 2014. Abbott's sales in Venezuela primarily relate to the Nutritional and Established Pharmaceuticals segments. Abbott had net monetary assets that are subject to revaluation in Venezuela of approximately $440 million at December 31, 2015. Such assets are comprised primarily of cash.

On February 17, 2016, the Venezuelan government announced that the three-tier exchange rate system will be reduced to two rates and the official rate for food and medicine imports will be adjusted from 6.3 to 10 bolivars per U.S. dollar. As a result of the new 10 bolivars per U.S. dollar exchange rate, Abbott's net monetary assets in Venezuela will be subject to revaluation during the quarter ending March 31, 2016, which will result in recognition of a foreign currency exchange loss in that period. Based on Abbott's net monetary assets subject to revaluation at December 31, 2015, remeasuring these assets at a rate of 10 bolivars per U.S. dollar would result in a foreign currency loss of approximately $165 million. Abbott cannot be certain that the Venezuelan government will not make further revisions to the official exchange rate in the future which could result in additional foreign currency losses.

### NOTE 5—ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of the changes in accumulated other comprehensive income from continuing operations, net of income taxes, are as follows:

| (in millions) | Cumulative Foreign Currency Translation Adjustments | Net Actuarial Losses and Prior Service Costs and Credits | Cumulative Unrealized Gains on Marketable Equity Securities | Cumulative Gains on Derivative Instruments Designated as Cash Flow Hedges | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2013 | $ (718) | $(1,312) | $ 13 | $ 5 | $(2,012) |
| Other comprehensive income (loss) before reclassifications | (2,206) | (970) | 4 | 106 | (3,066) |
| (Income) loss amounts reclassified from accumulated other comprehensive income (a) | – | 53 | (16) | (12) | 25 |
| Net current period comprehensive income (loss) | (2,206) | (917) | (12) | 94 | (3,041) |
| Balance at December 31, 2014 | (2,924) | (2,229) | 1 | 99 | (5,053) |
| Impact of business dispositions | 108 | 19 | – | – | 127 |
| Other comprehensive income (loss) before reclassifications | (2,013) | 145 | 202 | 89 | (1,577) |
| (Income) loss amounts reclassified from accumulated other comprehensive income (a) | – | 107 | (138) | (124) | (155) |
| Net current period comprehensive income (loss) | (2,013) | 252 | 64 | (35) | (1,732) |
| Balance at December 31, 2015 | $(4,829) | $(1,958) | $ 65 | $ 64 | $(6,658) |

(a) Reclassified amounts for foreign currency translation are recorded in the Consolidated Statement of Earnings as Net Foreign exchange loss (gain); gains (losses) on marketable equity securities are recorded as Other (income) expense and gains/losses related to cash flow hedges are recorded as Cost of product sold. Net actuarial losses and prior service cost is included as a component of net periodic benefit plan cost—see Note 13 for additional information.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 6—BUSINESS ACQUISITIONS

In August 2015, Abbott completed the acquisition of the equity of Tendyne Holdings, Inc. (Tendyne) that Abbott did not already own for approximately $225 million in cash plus additional payments up to $150 million to be made upon completion of certain regulatory milestones. The acquisition of Tendyne, which is focused on developing minimally invasive mitral valve replacement therapies, allows Abbott to broaden its foundation in the treatment of mitral valve disease. The preliminary allocation of the fair value of the acquisition resulted in non-deductible acquired in-process research and development of approximately $220 million, which is accounted for as an indefinite-lived intangible asset until regulatory approval or discontinuation, non-deductible goodwill of approximately $142 million, other assets of approximately $13 million, net deferred tax liabilities of approximately $80 million, and contingent consideration of approximately $70 million. The preliminary allocations of the fair value of the above acquisition will be finalized when the valuation is completed.

In September 2014, Abbott completed the acquisition of the controlling interest in CFR Pharmaceuticals S.A. (CFR) for approximately $2.9 billion in cash ($2.8 billion net of CFR cash on hand at closing). Including the assumption of approximately $570 million of debt, the total cost of the acquisition was $3.4 billion. The acquisition of CFR more than doubles Abbott's branded generics pharmaceutical presence in Latin America and further expands its presence in emerging markets. CFR's financial results are included in Abbott's financial statements beginning on September 26, 2014, the date that Abbott acquired control of this business. Abbott currently owns 99.9% of the outstanding ordinary shares of CFR. The fair value of the non-controlling interest at the acquisition date was approximately $3 million. The acquisition was funded with cash and cash equivalents and short-term investments. The final allocation of the fair value of the acquisition is shown in the table below.

| (in billions) | |
|---|---|
| Acquired intangible assets, non-deductible | $ 1.87 |
| Goodwill, non-deductible | 1.42 |
| Acquired net tangible assets | 0.03 |
| Deferred income taxes recorded at acquisition | (0.40) |
| Total final allocation of fair value | $ 2.92 |

Acquired intangible assets consist primarily of product rights for currently marketed products and are amortized over 12 to 16 years (weighted average of 15 years). The goodwill is primarily attributable to intangible assets that do not qualify for separate recognition. The goodwill is identifiable to the Established Pharmaceutical Products segment. The acquired tangible assets consist primarily of cash and cash equivalents of approximately $94 million, trade accounts receivable of approximately $180 million, inventory of approximately $169 million, other current assets of approximately $51 million, property and equipment of approximately $210 million, and other long-term assets of approximately $145 million. Assumed liabilities consist of borrowings of approximately $570 million, trade accounts payable and other current liabilities of approximately $240 million and other non-current liabilities of approximately $14 million. Net sales for CFR Pharmaceuticals totaled approximately $750 million in 2015.

In December 2014, Abbott acquired control of Veropharm, a leading Russian pharmaceutical company for approximately $315 million excluding assumed debt, plus a subsequent $5 million payment related to a working capital adjustment. Through this acquisition, Abbott establishes a manufacturing footprint in Russia and obtains a portfolio of medicines that is well aligned with Abbott's current pharmaceutical therapeutic areas of focus. Abbott acquired control of Veropharm through its purchase of Limited Liability Company Garden Hills, the holding company that owns approximately 98 percent of Veropharm. Including the assumption of approximately $90 million of debt and a non-controlling interest with a fair value of $5 million, the total value of the acquired business was approximately $415 million. The final allocation of the fair value of the acquisition resulted in definite-lived non-deductible intangible assets of approximately $100 million, non-deductible goodwill of approximately $140 million, and net deferred tax liabilities of approximately $25 million. Non-deductible goodwill is identifiable with the Established Pharmaceutical Products segment. Additionally, Abbott acquired property, plant, and equipment of approximately $150 million, accounts receivable of approximately $45 million, inventory of approximately $25 million, and net other liabilities of approximately $20 million. Acquired intangible assets consist of developed technology and are being amortized over 16 years. In 2015, Abbott acquired the remaining shares of Veropharm, increasing its ownership to 100 percent.

In December 2014, Abbott completed the acquisition of Topera, Inc. for approximately $250 million in cash, plus additional payments up to $300 million to be made upon completion of certain regulatory and sales milestones. The acquisition of Topera provides Abbott a foundational entry in the electrophysiology market. The final allocation of the fair value of the acquisition resulted in non-deductible acquired in-process research and development of approximately $60 million, which is accounted for as an indefinite-lived intangible asset until regulatory approval or discontinuation, non-deductible definite-lived intangible assets of approximately $215 million, non-deductible goodwill of approximately $145 million, net deferred tax liabilities of approximately $80 million, and contingent consideration of approximately $90 million. The fair value of the contingent consideration was determined based on an independent appraisal. Acquired intangible assets consist of developed technology and trademarks, and are being amortized over 17 years.

In August 2013, Abbott acquired 100 percent of IDEV Technologies, net of debt, for $310 million, in cash. The acquisition of IDEV Technologies expands Abbott's endovascular portfolio. The final allocation of the fair value of the acquisition resulted in non-deductible acquired in-process research and development of approximately $170 million which is accounted for as an indefinite-lived intangible asset until regulatory approval or discontinuation, non-deductible definite-lived intangible assets of approximately $66 million, non-deductible goodwill of approximately $112 million and net deferred tax liabilities of $47 million. Acquired intangible assets consist of developed technology and are being amortized over 11 years.

In August 2013, Abbott acquired 100 percent of OptiMedica for $260 million, in cash, plus additional payments up to $150 million to be made upon completion of certain development, regulatory

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and sales milestones. The acquisition of OptiMedica provides Abbott with an immediate entry point into the laser assisted cataract surgery market. The final allocation of the fair value of the acquisition resulted in non-deductible definite-lived intangible assets of approximately $160 million; non-deductible acquired in-process research and development of approximately $60 million, which is accounted for as an indefinite-lived intangible asset until regulatory approval or discontinuation; non-deductible goodwill of approximately $130 million, net deferred tax liabilities of $49 million and contingent consideration of approximately $70 million. The fair value of the contingent consideration was determined based on an independent appraisal. Acquired intangible assets consist primarily of developed technology that is being amortized over 18 years.

Had the aggregate in each year of the above acquisitions taken place as of the beginning of the comparable prior annual reporting period, consolidated net sales and earnings would not have been significantly different from reported amounts.

### NOTE 7—GOODWILL AND INTANGIBLE ASSETS

The total amount of goodwill reported was $9.638 billion at December 31, 2015 and $10.067 billion at December 31, 2014, which excluded goodwill classified as held for disposition. Foreign currency translation decreased goodwill in 2015 and 2014 by $454 million and $566 million, respectively. In 2015, Abbott recorded goodwill of approximately $142 million related to the Tendyne acquisition, and purchase price allocation adjustments associated with recent acquisitions decreased goodwill by approximately $117 million. The amount of goodwill related to reportable segments at December 31, 2015 was $2.9 billion for the Established Pharmaceutical Products segment, $286 million for the Nutritional Products segment, $450 million for the Diagnostic Products segment, and $2.9 billion for the Vascular Products segment. In 2015, there was no reduction of goodwill relating to impairments.

In 2014, Abbott recorded goodwill of approximately $1.8 billion related to the acquisitions of CFR Pharmaceuticals, Veropharm and Topera, and purchase price allocation adjustments associated with other recent acquisitions decreased goodwill by approximately $30 million; and approximately $950 million of goodwill was moved to Non-current assets held for disposition due to the planned disposition of the developed markets branded generics pharmaceuticals business.

The gross amount of amortizable intangible assets, primarily product rights and technology was $10.8 billion and $11.0 billion as of December 31, 2015 and 2014, respectively, and accumulated amortization was $5.7 billion and $4.9 billion as of December 31, 2015 and 2014, respectively. The December 31, 2014 amounts exclude the intangibles that were classified as held for disposition. Indefinite-lived intangible assets, which relate to in-process research and development acquired in a business combination, were approximately $419 million and $134 million at December 31, 2015 and 2014, respectively. Foreign currency translation decreased intangible assets, net of amortization, in 2015 and 2014 by $251 million and $396 million, respectively. In 2015, the acquisition of Tendyne increased intangible assets by approximately $220 million. In 2014, the acquisition of CFR Pharmaceuticals increased intangible assets by approximately $1.8 billion. Approximately $804 million of net intangible assets related to the developed markets branded generics pharmaceuticals businesses was reclassified to Non-current assets held for disposition due to the planned disposition of this business.

The estimated annual amortization expense for intangible assets recorded at December 31, 2015 is approximately $580 million in 2016, $560 million in 2017, $520 million in 2018, $490 million in 2019 and $480 million in 2020. Amortizable intangible assets are amortized over 2 to 20 years (average 13 years).

### NOTE 8—RESTRUCTURING PLANS

In 2015 and 2014, Abbott management approved plans to streamline operations in order to reduce costs and improve efficiencies in various Abbott businesses including the nutritional, established pharmaceuticals and vascular businesses. Abbott recorded employee related severance and other charges of approximately $95 million in 2015 and $164 million in 2014. Approximately $18 million in 2015 and $20 million in 2014 are recorded in Cost of products sold, approximately $34 million in 2015 and $53 million in 2014 are recorded in Research and development and approximately $43 million in 2015 and $91 million in 2014 are recorded in Selling, general and administrative expense. Additional charges of approximately $45 million in 2015 and $39 million in 2014 were recorded primarily for accelerated depreciation. The following summarizes the activity for these restructurings:

| (in millions) | |
|---|---|
| Restructuring charges recorded in 2014 | $ 164 |
| Payments and other adjustments | (46) |
| Accrued balance at December 31, 2014 | 118 |
| Restructuring charges | 95 |
| Payments and other adjustments | (113) |
| Accrued balance at December 31, 2015 | $ 100 |

From 2013 to 2015, Abbott management approved various plans to reduce costs and improve efficiencies across various functional areas. In 2013, Abbott management also approved plans to streamline certain manufacturing operations in order to reduce costs and improve efficiencies in Abbott's established pharmaceuticals business. 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 pharmaceuticals and nutritionals businesses. Abbott recorded employee related severance charges of approximately $66 million in 2015, $125 million in 2014 and $78 million in 2013. Approximately $9 million in 2015, $7 million in 2014 and $14 million in 2013 are recorded in Cost of products sold, approximately $2 million in 2015 and $6 million in 2014 are recorded in Research and development, and approximately $55 million in 2015, $112 million in 2014 and $32 million in 2013 are recorded in Selling, general and administrative expense. The remaining charge of $32 million in 2013 is related to Abbott's developed market established pharmaceutical business and is being recognized in the results of discontinued operations. Additional charges of approximately $4 million in 2013 were also recorded primarily for accelerated

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

depreciation. The following summarizes the activity related to these restructurings:

| (in millions) | |
|---|---|
| Restructuring charges recorded in 2012 | $ 167 |
| Restructuring charges recorded in 2013 | 78 |
| Payments and other adjustments | (97) |
| Accrued balance at December 31, 2013 | 148 |
| Restructuring charges | 125 |
| Payments and other adjustments | (138) |
| Accrued balance at December 31, 2014 | 135 |
| Restructuring charges | 66 |
| Payments and other adjustments | (113) |
| Accrued balance at December 31, 2015 | $ 88 |

In 2013 and prior years, Abbott management approved plans to streamline global manufacturing operations, reduce overall costs and improve efficiencies in its worldwide pharmaceutical, vascular and core diagnostics businesses as well as selected domestic and international commercial and research and development operations. Abbott recorded charges for employee severance as well as for the impairment of manufacturing facilities and other assets. In 2013 Abbott recorded employee severance charges of approximately $11 million which was classified as cost of products sold. An additional $41 million was recorded in 2013 relating to these restructurings, primarily for accelerated depreciation. The following summarizes the activity related to these restructurings:

| (in millions) | |
|---|---|
| Accrued balance at December 31, 2011 | $256 |
| Payments, impairments and other adjustments | (71) |
| Accrued balance at December 31, 2012 | 185 |
| Transfer of liability to AbbVie | (62) |
| Restructuring charges | 11 |
| Payments and other adjustments | (73) |
| Accrued balance at December 31, 2013 | 61 |
| Payments and other adjustments | (22) |
| Accrued balance at December 31, 2014 | 39 |
| Payments and other adjustments | (28) |
| Accrued balance at December 31, 2015 | $ 11 |

### NOTE 9—INCENTIVE STOCK PROGRAM

The 2009 Incentive Stock Program authorizes the granting of nonqualified stock options, restricted stock awards, restricted stock units, performance awards, foreign benefits and other share-based awards. 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 2015, Abbott granted 5,577,553 stock options, 662,553 restricted stock awards and 5,940,778 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 generally vest equally over three years. 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 requisite service period, which may be shorter than the vesting period if an employee is retirement eligible. 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. As a policy, Abbott does not purchase its shares relating to its share-based programs.

In connection with the separation of AbbVie on January 1, 2013, Abbott modified its outstanding equity awards granted under incentive stock programs for its employees. The awards were generally modified such that immediately following the separation; the awardees held the same number of awards in Abbott stock and an equal number of awards in AbbVie stock. The exercise price on outstanding Abbott options was adjusted and the exercise price on the AbbVie options granted under this modification was established with the intention of generally preserving the value of the awards immediately prior to the separation. This modification did not result in additional compensation expense.

At December 31, 2015, approximately 87 million shares were reserved for future grants.

The number of restricted stock awards and units outstanding and the weighted-average grant-date fair value at December 31, 2015 and December 31, 2014 was 11,855,327 and $42.54 and 12,671,328 and $35.48, respectively. The number of restricted stock awards and units, and the weighted-average grant-date fair value, that were granted, vested and lapsed during 2015 were 6,603,331 and $46.94, 6,693,743 and $33.72 and 725,589 and $40.77, respectively. The fair market value of restricted stock awards and units vested in 2015, 2014 and 2013 was $312 million, $281 million and $274 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, 2014 | 36,796,700 | $27.83 | 4.1 | 29,276,499 | $25.60 | 3.0 |
| Granted | 5,577,553 | 47.16 | | | | |
| Exercised | (7,557,745) | 24.68 | | | | |
| Lapsed | (253,951) | 36.19 | | | | |
| December 31, 2015 | 34,562,557 | $31.57 | 4.5 | 25,119,505 | $27.18 | 3.0 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The aggregate intrinsic value of options outstanding and exercisable at December 31, 2015 was $475 million and $447 million, respectively. The total intrinsic value of options exercised in 2015, 2014 and 2013 was $167 million, $152 million and $120 million, respectively. The total unrecognized compensation cost related to all share-based compensation plans at December 31, 2015 amounted to approximately $169 million, which is expected to be recognized over the next three years.

Total non-cash stock compensation expense charged against income from continuing operations in 2015, 2014 and 2013 for share-based plans totaled approximately $291 million, $239 million and $254 million, respectively, and the tax benefit recognized was approximately $98 million, $79 million and $82 million, respectively. Stock compensation cost capitalized as part of inventory is not significant.

The fair value of an option granted in 2015, 2014 and 2013 was $6.67, $6.39, and $5.77, respectively. The fair value of an option grant was estimated using the Black-Scholes option-pricing model with the following assumptions:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Risk-free interest rate | 1.8% | 1.9% | 1.1% |
| Average life of options (years) | 6.0 | 6.0 | 6.0 |
| Volatility | 17.0% | 20.0% | 20.0% |
| Dividend yield | 2.0% | 2.2% | 1.6% |

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 10—DEBT AND LINES OF CREDIT

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

| (in millions) | 2015 | 2014 |
|---|---|---|
| 5.125% Notes, due 2019 | $ 947 | $ 947 |
| 4.125% Notes, due 2020 | 597 | 597 |
| 2.00% Notes, due 2020 | 750 | – |
| 2.55% Notes, due 2022 | 750 | – |
| 2.95% Notes, due 2025 | 1,000 | – |
| 6.15% Notes, due 2037 | 547 | 547 |
| 6.0% Notes, due 2039 | 515 | 515 |
| 5.3% Notes, due 2040 | 694 | 694 |
| Other, including fair value adjustments relating to interest rate hedge contracts designated as fair value hedges (a) | 71 | 93 |
| Total, net of current maturities | 5,871 | 3,393 |
| Current maturities of long-term debt | 3 | 55 |
| Total carrying amount | $5,874 | $3,448 |

(a) In 2015 and 2014, balances also include debt issuance costs in accordance with ASU 2015-03, which was adopted in 2015. Prior to the adoption of ASU 2015-03, debt issuance costs were classified on the balance sheet as assets within Deferred Income Taxes and Other Assets.

In March 2015, Abbott issued $2.5 billion of long-term debt consisting of $750 million at 2.00% Senior Notes due March 15, 2020; $750 million of 2.55% Senior Notes due March 15, 2022; and $1.0 billion of 2.95% Senior Notes due March 15, 2025. Proceeds from this debt were used to pay down short-term borrowings. Abbott also entered into interest rate swap contracts totaling $2.5 billion. These contracts have the effect of changing Abbott's obligation from a fixed interest rate to a variable interest rate obligation.

In 2014, Abbott extinguished approximately $500 million of long-term debt assumed as part of the CFR Pharmaceuticals acquisition and incurred a cost of $18.3 million to extinguish this debt.

Principal payments required on long-term debt outstanding at December 31, 2015 are $3 million in 2016, $2 million in 2017, $1 million in 2018, $0.9 billion in 2019, $1.3 billion in 2020 and $3.5 billion in 2021 and thereafter.

At December 31, 2015, Abbott's long-term debt rating was A+ by Standard & Poor's Corporation and A2 by Moody's Investors Service. As a result of the pending acquisition of Alere, Abbott's credit ratings are under review and it is anticipated that the ratings will be adjusted to reflect the increased borrowings that will be incurred to finance the acquisition. Abbott has readily available financial resources, including unused lines of credit of $5.0 billion which expire in 2019 and that support commercial paper borrowing arrangements. Abbott's weighted-average interest rate on short-term borrowings was 0.2% at December 31, 2015, 2014 and 2013.

### NOTE 11—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, with notional amounts totaling $2.4 billion at December 31, 2015, and $1.5 billion at December 31, 2014, 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, 2015 will be included in Cost of products sold at the time the products are sold, generally through the next twelve to eighteen months. The amount of hedge ineffectiveness was not significant in 2015, 2014 and 2013.

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, 2015, 2014 and 2013, Abbott held $14.0 billion, $14.1 billion and $13.8 billion, respectively, of such foreign currency forward exchange contracts.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Abbott has designated foreign denominated short-term debt as a hedge of the net investment in a foreign subsidiary of approximately $439 million, $445 million and $505 million as of December 31, 2015, 2014 and 2013, 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 $4.0 billion at December 31, 2015 and $1.5 billion at December 31, 2014 and December 31, 2013, 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 2015, 2014 and 2013 for these hedges.

Gross unrealized holding gains (losses) on available-for-sale equity securities totaled $171 million, $3 million and $22 million at December 31, 2015, 2014 and 2013, respectively.

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

| | Fair Value—Assets | | | Fair Value—Liabilities | | |
|---|---|---|---|---|---|---|
| (in millions) | 2015 | 2014 | Balance Sheet Caption | 2015 | 2014 | Balance Sheet Caption |
| Interest rate swaps designated as fair value hedges | $116 | $101 | Deferred income taxes and other assets | $ — | $ — | Post-employment obligations and other long-term liabilities |
| Foreign currency forward exchange contracts— | | | | | | |
| Hedging instruments | 64 | 107 | Other prepaid expenses and receivables | 18 | — | Other accrued liabilities |
| Others not designated as hedges | 115 | 150 | Other prepaid expenses and receivables | 84 | 130 | Other accrued liabilities |
| Debt designated as a hedge of net investment in a foreign subsidiary | — | — | N/A | 439 | 445 | Short-term borrowings |
| | $295 | $358 | | $541 | $575 | |

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 certain other derivative financial instruments, as well as the amounts and location of income (expense) and gain (loss) reclassified into income. The amount of hedge ineffectiveness was not significant in 2015, 2014 and 2013 for these hedges.

| | Gain (loss) Recognized in Other Comprehensive Income (loss) | | | Income (expense) and Gain (loss) Reclassified into Income | | | |
|---|---|---|---|---|---|---|---|
| (in millions) | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 | Income Statement Caption |
| Foreign currency forward exchange contracts designated as cash flow hedges | $91 | $105 | $35 | $124 | $11 | $44 | Cost of products sold |
| Debt designated as a hedge of net investment in a foreign subsidiary | 6 | 60 | 110 | — | — | — | N/A |
| Interest rate swaps designated as fair value hedges | — | — | — | 15 | 14 | (98) | Interest expense |
| Foreign currency forward exchange contracts not designated as hedges | — | — | — | 77 | 122 | 84 | Net foreign exchange (gain) loss |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

| | 2015 | | 2014 | |
|---|---|---|---|---|
| (in millions) | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Long-term Investment Securities: | | | | |
| Equity securities | $ 4,014 | $ 4,014 | $ 212 | $ 212 |
| Other | 27 | 30 | 17 | 17 |
| Total Long-term Debt | (5,874) | (6,337) | (3,448) | (4,098) |
| Foreign Currency Forward Exchange Contracts: | | | | |
| Receivable position | 179 | 179 | 263 | 263 |
| (Payable) position | (102) | (102) | (135) | (135) |
| Interest Rate Hedge Contracts: | | | | |
| Receivable position | 116 | 116 | 101 | 101 |

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

| | | Basis of Fair Value Measurement | | |
|---|---|---|---|---|
| ( in millions) | Outstanding Balances | Quoted Prices in Active Markets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| December 31, 2015: | | | | |
| Equity securities | $3,780 | $3,780 | $ – | $ – |
| Interest rate swap financial instruments | 116 | – | 116 | – |
| Foreign currency forward exchange contracts | 179 | – | 179 | – |
| Total Assets | $4,075 | $3,780 | $ 295 | $ – |
| Fair value of hedged long-term debt | $4,135 | $ – | $4,135 | $ – |
| Foreign currency forward exchange contracts | 102 | – | 102 | – |
| Contingent consideration related to business combinations | 173 | – | – | 173 |
| Total Liabilities | $4,410 | $ – | $4,237 | $173 |
| December 31, 2014: | | | | |
| Equity securities | $ 9 | $ 9 | $ – | $ – |
| Interest rate swap financial instruments | 101 | – | 101 | – |
| Foreign currency forward exchange contracts | 263 | – | 263 | – |
| Total Assets | $ 373 | $ 9 | $ 364 | $ – |
| Fair value of hedged long-term debt | $1,637 | $ – | $1,637 | $ – |
| Foreign currency forward exchange contracts | 135 | – | 135 | – |
| Contingent consideration related to business combinations | 243 | – | – | 243 |
| Total Liabilities | $2,015 | $ – | $1,772 | $243 |

Equity securities are principally comprised of Mylan N.V. ordinary shares. The fair value of the Mylan N.V. equity securities was determined based on the value of the publicly-traded ordinary shares. The fair value of foreign currency forward exchange contracts is determined using a market approach, which utilizes values for comparable derivative instruments. 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 using significant other observable inputs.

The fair value of the contingent consideration was determined based on independent appraisals adjusted for the time value of money and other changes in fair value primarily resulting from changes in regulatory timelines. Contingent consideration results from three acquisitions and the maximum amount estimated to be due is $450 million, which is dependent upon attaining certain sales thresholds or based on the occurrence of certain events, such as regulatory approvals.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 12—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 $10 million.

Abbott is involved in various claims and legal proceedings, and Abbott estimates the range of possible loss for its legal proceedings and environmental exposures to be from approximately $35 million to $50 million. The recorded accrual balance at December 31, 2015 for these proceedings and exposures was approximately $45 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 13—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:

| | Defined Benefit Plans | | Medical and Dental Plans | |
|---|---|---|---|---|
| (in millions) | 2015 | 2014 | 2015 | 2014 |
| Projected benefit obligations, January 1 | $ 8,345 | $ 6,432 | $1,411 | $1,297 |
| Service cost—benefits earned during the year | 307 | 269 | 33 | 33 |
| Interest cost on projected benefit obligations | 314 | 317 | 52 | 63 |
| (Gains) losses, primarily changes in discount rates, plan design changes, law changes and differences between actual and estimated health care costs | (574) | 1,554 | (166) | 187 |
| Benefits paid | (230) | (222) | (61) | (57) |
| Business dispositions | (117) | – | – | – |
| Other, including foreign currency translation | (225) | (5) | (7) | (112) |
| Projected benefit obligations, December 31 | $ 7,820 | $ 8,345 | $1,262 | $1,411 |
| Plan assets at fair value, January 1 | $ 6,754 | $ 6,123 | $ 485 | $ 462 |
| Actual return (loss) on plans' assets | (56) | 529 | (14) | 32 |
| Company contributions | 579 | 393 | 25 | 41 |
| Benefits paid | (230) | (222) | (55) | (50) |
| Business dispositions | (113) | – | – | – |
| Other, including foreign currency translation | (162) | (69) | – | – |
| Plan assets at fair value, December 31 | $ 6,772 | $ 6,754 | $ 441 | $ 485 |
| Projected benefit obligations greater than plan assets, December 31 | $(1,048) | $(1,591) | $ (821) | $ (926) |
| Long-term assets | $ 390 | $ 374 | $ – | $ – |
| Short-term liabilities | (17) | (15) | (1) | (1) |
| Long-term liabilities | (1,421) | (1,950) | (820) | (925) |
| Net liability | $(1,048) | $(1,591) | $ (821) | $ (926) |
| Amounts Recognized in Accumulated Other Comprehensive Income (loss): | | | | |
| Actuarial losses, net | $ 2,903 | $ 3,187 | $ 369 | $ 509 |
| Prior service cost (credits) | – | 1 | (299) | (348) |
| Total | $ 2,903 | $ 3,188 | $ 70 | $ 161 |

The projected benefit obligations for non-U.S. defined benefit plans was $2.1 billion and $2.5 billion at December 31, 2015 and 2014, respectively. The accumulated benefit obligations for all defined benefit plans were $6.9 billion and $7.3 billion at December 31, 2015 and 2014, respectively.

For plans where the accumulated benefit obligations exceeded plan assets at December 31, 2015 and 2014, the aggregate accumulated benefit obligations, the projected benefit obligations and the aggregate plan assets were as follows:

| (in millions) | 2015 | 2014 |
|---|---|---|
| Accumulated benefit obligation | $3,651 | $4,315 |
| Projected benefit obligation | 4,226 | 5,133 |
| Fair value of plan assets | 2,862 | 3,170 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of the net periodic benefit cost were as follows:

| | Defined Benefit Plans | | | Medical and Dental Plans | | |
|---|---|---|---|---|---|---|
| (in millions) | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Service cost—benefits earned during the year | $ 307 | $ 269 | $ 303 | $ 33 | $ 33 | $ 43 |
| Interest cost on projected benefit obligations | 314 | 317 | 276 | 52 | 63 | 59 |
| Expected return on plans' assets | (511) | (458) | (396) | (39) | (40) | (36) |
| Amortization of actuarial losses | 184 | 103 | 169 | 23 | 16 | 34 |
| Amortization of prior service cost (credits) | 1 | 2 | 3 | (48) | (39) | (35) |
| Total cost | 295 | 233 | 355 | 21 | 33 | 65 |
| Less: Discontinued operations | (3) | (1) | (3) | – | – | – |
| Net cost—continuing operations | $ 292 | $ 232 | $ 352 | $ 21 | $ 33 | $ 65 |

Other comprehensive income (loss) for each respective year includes the amortization of actuarial losses and prior service costs (credits) as noted in the previous table. Other comprehensive income (loss) for each respective year also includes: net actuarial gains and prior service credits of $37 million for defined benefit plans and $116 million for medical and dental plans in 2015; net actuarial losses and prior service credits of $1.6 billion for defined benefit plans and $57 million for medical and dental plans in 2014; and net actuarial gains and prior service credits of $995 million for defined benefit plans and $201 million for medical and dental plans in 2013.

The pretax amount of actuarial losses and prior service cost (credits) included in Accumulated other comprehensive income (loss) at December 31, 2015 that is expected to be recognized in the net periodic benefit cost in 2016 is $131 million and nil of expense, respectively, for defined benefit pension plans and $22 million of expense and $45 million of income, 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:

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Discount rate | 4.3% | 3.9% | 4.9% |
| Expected aggregate average long-term change in compensation | 4.4% | 4.3% | 5.0% |

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Discount rate | 3.9% | 4.9% | 4.2% |
| Expected return on plan assets | 7.4% | 7.5% | 7.8% |
| Expected aggregate average long-term change in compensation | 4.3% | 4.9% | 5.0% |

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Health care cost trend rate assumed for the next year | 8% | 8% | 7% |
| Rate that the cost trend rate gradually declines to | 5% | 5% | 5% |
| Year that rate reaches the assumed ultimate rate | 2028 | 2025 | 2019 |

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 are forward projections 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, 2015, by $176 million /$(144) 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 $16 million/$(12) million.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the basis used to measure the defined benefit and medical and dental plan assets at fair value:

| | | Basis of Fair Value Measurement | | |
|---|---|---|---|---|
| (in millions) | Outstanding Balances | Quoted Prices in Active Markets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| December 31, 2015: | | | | |
| Equities: | | | | |
| U.S. large cap (a) | $1,770 | $1,078 | $ 692 | $ – |
| U.S. mid cap (b) | 434 | 84 | 350 | – |
| International (c) | 1,193 | 245 | 948 | – |
| Fixed income securities: | | | | |
| U.S. government securities (d) | 401 | 5 | 396 | – |
| Corporate debt instruments (e) | 731 | 109 | 543 | 79 |
| Non-U.S. government securities (f) | 497 | 111 | 384 | 2 |
| Other (g) | 136 | 28 | 108 | – |
| Absolute return funds (h) | 1,777 | 101 | 917 | 759 |
| Commodities (i) | 107 | 7 | 25 | 75 |
| Other (j) | 167 | 21 | 65 | 81 |
| | $7,213 | $1,789 | $4,428 | $996 |
| December 31, 2014: | | | | |
| Equities: | | | | |
| U.S. large cap (a) | $1,738 | $ 860 | $ 878 | $ – |
| U.S. mid cap (b) | 433 | 142 | 291 | – |
| International (c) | 1,230 | 342 | 888 | – |
| Fixed income securities: | | | | |
| U.S. government securities (d) | 449 | 10 | 439 | – |
| Corporate debt instruments (e) | 573 | 130 | 443 | – |
| Non-U.S. government securities (f) | 697 | 286 | 411 | – |
| Other (g) | 130 | 35 | 95 | – |
| Absolute return funds (h) | 1,631 | 203 | 895 | 533 |
| Commodities (i) | 165 | 10 | 69 | 86 |
| Other (j) | 193 | 115 | 29 | 49 |
| | $7,239 | $2,133 | $4,438 | $668 |

(a) A mix of index funds that track the S&P 500 (35 percent in 2015 and 50 percent in 2014) and separate actively managed equity accounts that are benchmarked to the Russell 1000 (65 percent in 2015 and 50 percent in 2014).

(b) A mix of index funds (80 percent in 2015 and 70 percent in 2014) and separate actively managed equity accounts (20 percent in 2015 and 30 percent in 2014) that track or are benchmarked to the S&P 400 midcap index.

(c) A mix of index funds (30 percent in 2015 and 20 percent in 2014) and separate actively managed pooled investment funds (70 percent in 2015 and 80 percent in 2014) that track or are benchmarked to the MSCI EAFE and MSCI emerging market indices.

(d) A mix of index funds that track the Barclays U.S. Gov't Aggregate (70 percent in 2015 and 65 percent in 2014) and separate actively managed accounts (30 percent in 2015 and 35 percent in 2014) that are benchmarked to Barclays U.S. Long Gov't/Corp Index or the Barclays Global Aggregate.

(e) A mix of index funds that track the Barclays U.S. Gov't Aggregate (10 percent in 2015 and 15 percent in 2014) and separate actively managed accounts (90 percent in 2015 and 85 percent in 2014) that are benchmarked to Barclays U.S. Long Gov't/Corp Index or the Barclays Global Aggregate.

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

(g) Primarily mortgage backed securities (40 percent in 2015 and 2014) and an actively managed, diversified fixed income vehicle benchmarked to the one-month Libor / Euribor (60 percent in 2015 and 2014).

(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 (50 percent in 2015 and 75 percent in 2014) and investment in private equity funds (50 percent in 2015 and 25 percent in 2014).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 and private equity 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:

| (in millions) | 2015 | 2014 |
|---|---|---|
| January 1 | $668 | $555 |
| Actual return on plan assets: | | |
| Assets on hand at year end | (13) | 25 |
| Assets sold during the year | 5 | 21 |
| Purchases, sales and settlements, net | 336 | 67 |
| December 31 | $996 | $668 |

The investment mix of equity securities, fixed income and other asset allocation strategies is based upon achieving a desired return as well as balancing higher return, more volatile equity securities with 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 actual asset allocation percentages at year end are consistent with the company's targeted asset allocation percentages.

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 $579 million in 2015 and $393 million in 2014 to defined pension plans. Abbott expects to contribute approximately $576 million to its pension plans in 2016, of which approximately $470 million relates to its main domestic pension plan.

Total benefit payments expected to be paid to participants, which includes payments funded from company assets, as well as paid from the plans, are as follows:

| (in millions) | Defined Benefit Plans | Medical and Dental Plans |
|---|---|---|
| 2016 | $ 225 | $ 67 |
| 2017 | 238 | 68 |
| 2018 | 253 | 69 |
| 2019 | 271 | 70 |
| 2020 | 290 | 71 |
| 2021 to 2025 | 1,772 | 393 |

The Abbott Stock Retirement Plan is the principal defined contribution plan. Abbott's contributions to this plan were $81 million in 2015, $85 million in 2014 and $86 million in 2013.

### NOTE 14—TAXES ON EARNINGS FROM CONTINUING OPERATIONS

Taxes on earnings from continuing operations 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.

In 2015, taxes on earnings from continuing operations include a tax cost of $71 million related to the disposal of shares of Mylan N.V. stock. In 2014, taxes on earnings from continuing operations reflect the recognition of $440 million of tax expense associated with a one-time repatriation of 2014 non-U.S. earnings, partially offset by the favorable resolution of various tax positions and adjustments of tax uncertainties pertaining to prior years. In 2013, taxes on earnings from continuing operations reflect the recognition of $230 million of tax benefits as a result of the favorable resolution of various tax positions pertaining to prior years. In addition, as a result of the American Taxpayer Relief Act of 2012 signed into law in January 2013, Abbott recognized a tax benefit in the tax provision related to continuing operations of approximately $103 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.

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 $22.4 billion at December 31, 2015. 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 2011 are settled except for one item, and the income tax returns for years after 2011 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 from continuing operations before taxes, and the related provisions for taxes on earnings from continuing operations, were as follows:

| (in millions) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Earnings From Continuing Operations Before Taxes: | | | |
| Domestic | $ 789 | $ 392 | $ 496 |
| Foreign | 2,394 | 2,126 | 1,545 |
| Total | $3,183 | $2,518 | $2,041 |

| (in millions) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Taxes on Earnings (Losses) From Continuing Operations: | | | |
| Current: | | | |
| Domestic | $ 64 | $ 27 | $ 4 |
| Foreign | 220 | 468 | 482 |
| Total current | 284 | 495 | 486 |
| Deferred: | | | |
| Domestic | 313 | 298 | (308) |
| Foreign | (20) | 4 | (125) |
| Total deferred | 293 | 302 | (433) |
| Total | $577 | $797 | $ 53 |

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

| | 2015 | 2014 | 2013 |
|---|---|---|---|
| Statutory tax rate on earnings from continuing operations | 35.0% | 35.0% | 35.0% |
| Impact of foreign operations | (18.2) | 0.7 | (18.5) |
| Resolution of certain tax positions pertaining to prior years | – | (4.2) | (11.3) |
| Effect of retroactive legislation | – | – | (5.0) |
| State taxes, net of federal benefit | 0.3 | (0.5) | 2.1 |
| Federal tax cost on sale of Mylan N.V. shares | 2.2 | – | – |
| All other, net | (1.2) | 0.6 | 0.3 |
| Effective tax rate on earnings from continuing operations | 18.1% | 31.6% | 2.6% |

Impact of foreign operations is primarily derived from operations in Puerto Rico, Switzerland, Ireland, Singapore, and the Netherlands. In 2014, this benefit was more than offset by the tax expense accrued as a result of Abbott's one-time repatriation of its current year foreign earnings. The 2015 effective tax rate includes the impact of the R&D tax credit that was made permanent in the U.S. by the Protecting Americans from Tax Hikes Act of 2015.

The tax effect of the differences that give rise to deferred tax assets and liabilities were as follows:

| (in millions) | 2015 | 2014 |
|---|---|---|
| Deferred tax assets: | | |
| Compensation and employee benefits | $ 992 | $ 1,239 |
| Other, primarily reserves not currently deductible, and NOL's and credit carryforwards | 2,618 | 2,759 |
| Trade receivable reserves | 197 | 146 |
| Inventory reserves | 141 | 152 |
| Deferred intercompany profit | 276 | 330 |
| State income taxes | 159 | 178 |
| Total deferred tax assets | 4,383 | 4,804 |
| Deferred tax liabilities: | | |
| Depreciation | (118) | (93) |
| Unremitted earnings of foreign subsidiaries | (694) | (184) |
| Other, primarily the excess of book basis over tax basis of intangible assets | (1,942) | (2,307) |
| Total deferred tax liabilities | (2,754) | (2,584) |
| Total net deferred tax assets | $1,629 | $ 2,220 |

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 other recorded deferred tax assets were not significant.

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:

| (in millions) | 2015 | 2014 |
|---|---|---|
| January 1 | $1,403 | $1,965 |
| Increase due to current year tax positions | 234 | 220 |
| Increase due to prior year tax positions | 95 | 153 |
| Decrease due to prior year tax positions | (169) | (856) |
| Settlements | (125) | (79) |
| December 31 | $1,438 | $1,403 |

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is approximately $1.4 billion. Abbott believes that it is reasonably possible that the recorded amount of gross unrecognized tax benefits may decrease within a range of $555 million to $655 million, including cash adjustments, within the next twelve months as a result of concluding various domestic and international tax matters.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 15—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. On February 27, 2015, Abbott completed the sale of its developed markets branded generics pharmaceuticals business to Mylan. This business was previously included in the Established Pharmaceutical Products segment. The segment information below, including prior period amounts, has been adjusted to reflect the classification of the developed markets branded generics pharmaceuticals business as part of discontinued operations in the Consolidated Statement of Earnings. Abbott's reportable segments are as follows:

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

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

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

*Vascular Products*—Worldwide sales of coronary, endovascular, structural heart, vessel closure and other medical device products. For segment reporting purposes, the Vascular and Electrophysiology Products divisions are aggregated and reported as the Vascular Products segment.

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. The cost of some corporate functions and the cost of certain employee benefits are charged to segments at predetermined rates that approximate cost.

Remaining costs, if any, are not allocated to segments. In addition, intangible asset amortization is not allocated to operating segments, and intangible assets and goodwill are not included in the measure of each segment's assets. 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.

| | Net Sales to External Customers (a) | | | Operating Earnings (a) | | |
|---|---|---|---|---|---|---|
| (in millions) | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Established Pharmaceuticals | $ 3,720 | $ 3,118 | $ 2,862 | $ 658 | $ 624 | $ 551 |
| Nutritionals | 6,975 | 6,953 | 6,740 | 1,741 | 1,459 | 1,263 |
| Diagnostics | 4,646 | 4,721 | 4,545 | 1,171 | 1,079 | 1,008 |
| Vascular | 2,792 | 2,986 | 3,012 | 1,061 | 1,091 | 962 |
| Total Reportable Segments | 18,133 | 17,778 | 17,159 | $4,631 | $4,253 | $3,784 |
| Other | 2,272 | 2,469 | 2,498 | | | |
| Total | $20,405 | $20,247 | $19,657 | | | |

(a) Net sales and operating earnings were unfavorably affected by the relatively stronger U.S. dollar in 2015, 2014 and 2013.

| (in millions) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Total Reportable Segment Operating Earnings | $4,631 | $4,253 | $3,784 |
| Corporate functions and benefit plans costs | (416) | (342) | (514) |
| Non-reportable segments | 268 | 439 | 430 |
| Net interest expense | (58) | (73) | (78) |
| Net loss on extinguishment of debt | – | (18) | – |
| Share-based compensation | (291) | (239) | (254) |
| Amortization of intangible assets | (601) | (555) | (588) |
| Other, net (b) | (350) | (947) | (739) |
| Earnings from Continuing Operations before Taxes | $3,183 | $2,518 | $2,041 |

(b) Other, net includes: charges for restructuring actions and other cost reduction initiatives of approximately $310 million in 2015, $435 million in 2014 and $350 million in 2013. 2015 includes a $207 million pre-tax gain on the sale of a portion of the Mylan N.V. shares.

| | Depreciation (c) | | | Additions to Long-term Assets | | | Total Assets | | |
|---|---|---|---|---|---|---|---|---|---|
| (in millions) | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 | 2015 | 2014 | 2013 |
| Established Pharmaceuticals | $ 83 | $ 72 | $ 63 | $ 112 | $ 136 | $ 128 | $2,210 | $ 2,244 | $1,445 |
| Nutritionals | 157 | 173 | 190 | 142 | 174 | 340 | 3,187 | 3,435 | 3,518 |
| Diagnostics | 310 | 314 | 368 | 321 | 349 | 394 | 2,844 | 2,964 | 3,312 |
| Vascular | 74 | 84 | 122 | 32 | 28 | 62 | 1,536 | 1,529 | 1,711 |
| Total Reportable Segments | 624 | 643 | 743 | 607 | 687 | 924 | $9,777 | $10,172 | $9,986 |
| Other | 247 | 275 | 185 | 747 | 4,603 | 981 | | | |
| Total | $871 | $918 | $928 | $1,354 | $5,290 | $1,905 | | | |

(c) Amounts in Other for years 2014 and 2013 include depreciation related to discontinued operations.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

| (in millions) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Total Reportable Segment Assets | $ 9,777 | $10,172 | $ 9,986 |
| Cash and investments | 10,166 | 4,689 | 8,217 |
| Non-reportable segments | 1,267 | 1,211 | 1,153 |
| Goodwill and intangible assets(d) | 15,200 | 16,265 | 15,507 |
| All other (d) | 4,837 | 8,870 | 8,074 |
| Total Assets | $41,247 | $41,207 | $42,937 |

(d) Goodwill and intangible assets related to developed markets established pharmaceuticals and animal health are included in the Goodwill and intangible assets line in 2013 and All other line in 2014.

| | Net Sales to External Customers (e) | | |
|---|---|---|---|
| (in millions) | 2015 | 2014 | 2013 |
| United States | $ 6,270 | $ 6,123 | $ 6,208 |
| China | 1,796 | 1,321 | 1,083 |
| India | 1,053 | 1,009 | 922 |
| Germany | 1,004 | 978 | 963 |
| Japan | 895 | 968 | 1,042 |
| The Netherlands | 855 | 788 | 960 |
| Switzerland | 784 | 707 | 792 |
| Russia | 483 | 536 | 525 |
| United Kingdom | 430 | 447 | 395 |
| Canada | 428 | 462 | 493 |
| Colombia | 388 | 283 | 205 |
| Italy | 383 | 436 | 457 |
| Brazil | 381 | 508 | 470 |
| France | 375 | 488 | 480 |
| All Other Countries | 4,880 | 5,193 | 4,662 |
| Consolidated | $20,405 | $20,247 | $19,657 |

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

Long-lived assets on a geographic basis primarily include property, plant and equipment. It excludes goodwill, intangible assets, deferred tax assets, and financial instruments, which were previously included in the balances reported for long-term assets in prior years.

At December 31, 2015 and 2014, Long-lived assets totaled $6.4 billion and $6.8 billion, respectively, and in the United States such assets totaled $3.1 billion in both years. Long-lived asset balances associated with other countries were not material on an individual country basis in either of the two years.

### NOTE 16—SUBSEQUENT EVENT

On January 30, 2016, Abbott entered into a definitive agreement to acquire Alere, Inc. (Alere). With annual sales of approximately $2.5 billion, Alere is a global leader in point of care diagnostics. The acquisition, which is expected to significantly advance Abbott's global diagnostics presence and leadership, is subject to the approval of Alere shareholders and the satisfaction of customary closing conditions, including applicable regulatory approvals. Under the terms of the agreement, Abbott will pay $56 per common share at a total expected equity value of $5.8 billion. Alere's net debt, currently $2.6 billion, will be assumed or refinanced by Abbott. In February 2016, Abbott obtained a commitment for a 364-day senior unsecured bridge term loan facility for an amount not to exceed $9 billion in conjunction with its pending acquisition of Alere. While Abbott plans to use cash on hand at the time of the acquisition from anticipated long-term borrowings to acquire Alere, the bridge facility will provide back-up financing.

### NOTE 17—QUARTERLY RESULTS (UNAUDITED)

| (in millions except per share data) | 2015 | 2014 |
|---|---|---|
| First Quarter | | |
| Continuing Operations: | | |
| Net Sales | $4,897 | $4,755 |
| Gross Profit | 2,660 | 2,354 |
| Earnings from Continuing Operations | 529 | 224 |
| Basic Earnings per Common Share | 0.35 | 0.15 |
| Diluted Earnings per Common Share | 0.35 | 0.14 |
| Net Earnings | 2,292 | 375 |
| Basic Earnings Per Common Share (a) | 1.52 | 0.24 |
| Diluted Earnings Per Common Share (a) | 1.51 | 0.24 |
| Market Price Per Share—High | 47.88 | 40.49 |
| Market Price Per Share—Low | 43.36 | 35.65 |
| Second Quarter | | |
| Continuing Operations: | | |
| Net Sales | $5,170 | $5,057 |
| Gross Profit | 2,801 | 2,636 |
| Earnings from Continuing Operations | 786 | 425 |
| Basic Earnings per Common Share | 0.52 | 0.28 |
| Diluted Earnings per Common Share | 0.52 | 0.28 |
| Net Earnings | 784 | 466 |
| Basic Earnings Per Common Share (a) | 0.52 | 0.30 |
| Diluted Earnings Per Common Share (a) | 0.52 | 0.30 |
| Market Price Per Share—High | 50.47 | 41.30 |
| Market Price Per Share—Low | 45.55 | 36.65 |
| Third Quarter | | |
| Continuing Operations: | | |
| Net Sales | $5,150 | $5,079 |
| Gross Profit | 2,757 | 2,628 |
| Earnings from Continuing Operations | 596 | 438 |
| Basic Earnings per Common Share | 0.40 | 0.29 |
| Diluted Earnings per Common Share | 0.39 | 0.29 |
| Net Earnings | 580 | 538 |
| Basic Earnings Per Common Share (a) | 0.39 | 0.36 |
| Diluted Earnings Per Common Share (a) | 0.38 | 0.36 |
| Market Price Per Share—High | 51.74 | 44.20 |
| Market Price Per Share—Low | 39.00 | 40.92 |
| Fourth Quarter | | |
| Continuing Operations: | | |
| Net Sales | $5,188 | $5,356 |
| Gross Profit | 2,839 | 2,856 |
| Earnings from Continuing Operations | 695 | 634 |
| Basic Earnings per Common Share | 0.46 | 0.42 |
| Diluted Earnings per Common Share | 0.46 | 0.41 |
| Net Earnings | 767 | 905 |
| Basic Earnings Per Common Share (a) | 0.51 | 0.59 |
| Diluted Earnings Per Common Share (a) | 0.51 | 0.59 |
| Market Price Per Share—High | 46.38 | 46.50 |
| Market Price Per Share—Low | 39.28 | 39.28 |

(a) The sum of the four quarters of earnings per share for 2015 and 2014 may not add to the full year earnings per share amount due to rounding and/or the use of quarter-to-date weighted average shares to calculate the earnings per share amount in each respective quarter.

## 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, 2015. In making this assessment, it used the criteria set forth in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2015, 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 58.

Miles D. White
Chairman of the Board and Chief Executive Officer

Brian B. Yoor
Senior Vice President, Finance and Chief Financial Officer

Robert E. Funck
Vice President, Controller

February 19, 2016

## REPORTS OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

*The Board of Directors and Shareholders of Abbott Laboratories:*

We have audited the accompanying consolidated balance sheets of Abbott Laboratories and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of earnings, comprehensive income, shareholders' investment and cash flows for each of the two years in the period ended December 31, 2015. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Abbott Laboratories and subsidiaries at December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method for classifying deferred tax liabilities and assets as a result of the adoption of the amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update No. 2015-17, "Income Taxes (Topic 740)," effective December 31, 2015.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Abbott Laboratories and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 19, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP
Chicago, Illinois
February 19, 2016

*The Board of Directors and Shareholders of Abbott Laboratories:*

We have audited Abbott Laboratories and subsidiaries' internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Abbott Laboratories and subsidiaries' 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 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Abbott Laboratories and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Abbott Laboratories and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of earnings, comprehensive income, shareholders' investment and cash flows for each of the two years in the period ended December 31, 2015 of Abbott Laboratories and subsidiaries and our report dated February 19, 2016 expressed an unqualified opinion thereon.

Ernst & Young LLP
Chicago, Illinois
February 19, 2016

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

*To the Board of Directors and Shareholders of Abbott Laboratories:*

We have audited the accompanying consolidated statements of earnings, comprehensive income, shareholders' investment, and cash flows of Abbott Laboratories and subsidiaries (the "Company") for the year ended December 31, 2013. 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 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 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 results of operations and cash flows of the Company for the year ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the consolidated financial statements, the accompanying 2013 financial statements have been retrospectively adjusted to reflect the developed markets branded generics pharmaceuticals and the animal health businesses as discontinued operations. In addition, as discussed in Note 2 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.

Deloitte & Touche LLP
Chicago, Illinois
February 21, 2014
(February 27, 2015 as to Note 3)

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### MARKET PRICE SENSITIVE INVESTMENTS

The fair value of the available-for-sale equity securities held by Abbott was approximately $3.8 billion and $9 million as of December 31, 2015 and 2014, respectively. The increase is due primarily to the shares of Mylan N.V. that Abbott received in the sale of its developed markets branded generics pharmaceuticals business and that it continued to hold at December 31, 2015. All available-for-sale equity securities are subject to potential changes in fair value. A hypothetical 20 percent decrease in the share prices of these investments would decrease their fair value at December 31, 2015 by approximately $750 million. Abbott monitors these investments for other than temporary declines in fair value, and charges impairment losses to income when an other than temporary decline in fair value occurs.

### 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 $120 million and $100 million as of December 31, 2015 and 2014, respectively. No individual investment is recorded at a value in excess of $25 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 fair value occurs.

### INTEREST RATE SENSITIVE FINANCIAL INSTRUMENTS

At December 31, 2015 and 2014, Abbott had interest rate hedge contracts totaling $4.0 billion and $1.5 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 for the portion of the debt that is hedged. 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, 2015, Abbott had $2.7 billion of domestic commercial paper outstanding with an average annual interest rate of 0.31% with an average remaining life of 27 days. The fair value of long-term debt at December 31, 2015 and 2014 amounted to $6.3 billion and $4.1 billion, respectively (average interest rates of 4.1% and 5.3% as of December 31, 2015 and 2014, respectively) with maturities through 2040. At December 31, 2015 and 2014, the fair value of current and long-term investment securities amounted to approximately $5.2 billion and $626 million, respectively. A hypothetical 100-basis point change in the interest rates would not have a material effect on cash flows, income or fair 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 to eighteen months. At December 31, 2015 and 2014, Abbott held $2.4 billion and $1.5 billion, respectively, of such contracts. Contracts held at December 31, 2015 will mature in 2016 or 2017 depending upon the contract. Contracts held at December 31, 2014 matured in 2015 or will mature in 2016 depending upon the contract.

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, 2015 and 2014, Abbott held $14.0 billion and $14.1 billion, respectively, of such contracts, which generally mature in the next twelve months.

Abbott has designated foreign denominated short-term debt of approximately $439 million and approximately $445 million as of December 31, 2015 and 2014, 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, 2015 and 2014:

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| (in millions) | Contract Amount | Weighted Average Exchange Rate | Fair and Carrying Value Receivable/ (Payable) | Contract Amount | Weighted Average Exchange Rate | Fair and Carrying Value Receivable/ (Payable) |
| Primarily U.S. Dollars to be exchanged for the following currencies: | | | | | | |
| Euro | $ 8,999 | 1.0943 | $ 67 | $ 7,574 | 1.2458 | $ 19 |
| British Pound | 1,531 | 1.5098 | 6 | 1,295 | 1.5790 | 9 |
| Japanese Yen | 711 | 121.8078 | (1) | 2,258 | 115.0311 | 56 |
| Canadian Dollar | 312 | 1.2917 | 18 | 371 | 1.1197 | 13 |
| All other currencies | 4,880 | N/A | (13) | 4,064 | N/A | 31 |
| Total | $16,433 | | $ 77 | $15,562 | | $128 |

## 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 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, branded generic pharmaceuticals, diagnostic testing products and vascular products. Sales in international markets comprise approximately 70 percent of consolidated net sales.

On February 27, 2015, Abbott completed the sale of its developed markets branded generics pharmaceuticals business to Mylan Inc. (Mylan) for 110 million shares of a newly formed publicly traded entity that combined Mylan's existing business and Abbott's developed markets pharmaceuticals business. On February 10, 2015, Abbott completed the sale of its animal health business to Zoetis Inc. On January 1, 2013, Abbott completed the separation of AbbVie Inc. (AbbVie), which was formed to hold Abbott's research-based proprietary pharmaceuticals business. The historical operating results of these businesses prior to disposition or separation are excluded from Earnings from Continuing Operations and are presented on the Earnings from Discontinued Operations line in Abbott's Consolidated Statement of Earnings. Any assets or liabilities related to these businesses are being reported as held for disposition in Abbott's Consolidated Balance Sheet as of December 31, 2015 and 2014. The cash flows of these businesses up through the date of disposition or separation are included in its Consolidated Statements of Cash Flows for all periods presented.

Over the last three years, sales growth was driven primarily by the established pharmaceuticals, nutritional and diagnostics businesses. Sales in emerging markets, which represent nearly 50 percent of total company sales, increased 17.1 percent in 2015 and 12.5 percent in 2014, excluding the impact of foreign exchange. (Emerging markets include all countries except the United States, Western Europe, Japan, Canada, Australia and New Zealand.) Over the last three years, margin improvement was driven primarily by the nutritional, diagnostics, and vascular businesses. Abbott expanded its operating margin by 120 basis points in 2015 and 200 basis points in 2014. Abbott's sales, costs, and financial position over the same period were impacted by the strengthening of the U.S. dollar relative to international currencies and a challenging economic and fiscal environment in several emerging economies.

In Abbott's worldwide nutritional products business, sales over the last three years 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, lower commodity costs, and other cost reductions drove margin improvements across the business. Operating margins for this business increased from 18.7 percent in 2013 to 25.0 percent in 2015.

In 2014, Abbott increased the local presence of its nutrition business in various countries by investing in its global infrastructure. Abbott opened three new manufacturing plants, one in China, one in India, and one in the United States to meet the demand for its products, and formed a strategic alliance with Fonterra, the world's largest dairy cooperative, to develop a proposed dairy farm hub in China.

In Abbott's worldwide diagnostics business, sales growth over the last three years reflected continued market penetration by the Core Laboratory business in the U.S. and China, and growth in other emerging markets, most notably in Latin America. In addition, the Point of Care diagnostics business continued to expand its geographic presence in targeted developed and emerging markets. Worldwide diagnostic sales increased 7.3 percent in 2015 and 6.4 percent in 2014, excluding the impact of foreign exchange. Margin improvement continued to be a key focus in 2015. Operating margins increased from 22.2 percent of sales in 2013 to 25.2 percent in 2015 as the business continued to execute on efficiency initiatives in the manufacturing and supply chain functions.

The Established Pharmaceutical Products segment focuses on the sale of its products in emerging markets after the sale of its developed markets business to Mylan on February 27, 2015. The acquisition of CFR Pharmaceuticals S.A. (CFR) in September 2014 more than doubled Abbott's branded generics pharmaceutical presence in Latin America and further expanded its presence in emerging markets. Through the acquisition of Veropharm, a leading Russian pharmaceutical company in December 2014, Abbott established a manufacturing footprint in Russia and obtained a portfolio of medicines that is well aligned with Abbott's current pharmaceutical therapeutic areas of focus. Excluding the impact of foreign exchange, Established Pharmaceutical sales from continuing operations increased 34.1 percent in 2015 and 14.9 percent in 2014. Excluding the impact of the 2014 acquisitions as well as the impact of foreign exchange, 2015 Established Pharmaceutical sales from continuing operations increased 13.4 percent.

In the vascular business, over the last three years, Abbott has continued to develop its worldwide market-leading *XIENCE* drug-eluting stent (DES) franchise. The *XIENCE* franchise includes *XIENCE V, Prime, nano, Pro, ProX, Xpedition*, and *Alpine*. Abbott Vascular Products' latest product introduction, *XIENCE Alpine*, was launched in various markets across Europe and Asia in 2015 and the U.S. in late 2014. This is the only product on the market in the U.S. with an indication to treat chronic total occlusions. The *XIENCE* franchise maintained its market-leading global position in 2015. From 2013 to 2015, total vascular sales were flat, excluding the unfavorable impact of foreign exchange, as *MitraClip, Absorb,* and the endovascular franchise sales growth was almost entirely offset by pricing pressures primarily related to DES and other coronary products as well as lower DES market share in certain geographies. Operating margins improved from 32.0 percent in 2013 to 38.0 percent in 2015 as cost improvement initiatives were executed across the business.

On January 30, 2016, Abbott entered into a definitive agreement to acquire Alere, Inc. (Alere). With annual sales of approximately $2.5 billion, Alere is a global leader in point of care diagnostics. The acquisition, which is expected to significantly advance Abbott's global diagnostics presence and leadership, is subject to the approval of Alere shareholders and the satisfaction of customary closing conditions, including applicable regulatory approvals. Under the terms of the agreement, Abbott will pay $56 per common share at a total expected equity value of $5.8 billion. Alere's

## FINANCIAL REVIEW

net debt, currently $2.6 billion, will be assumed or refinanced by Abbott. In February 2016, Abbott obtained a commitment for a 364-day senior unsecured bridge term loan facility for an amount not to exceed $9 billion in conjunction with its pending acquisition of Alere. While Abbott plans to use cash on hand at the time of the acquisition from anticipated long-term borrowings to acquire Alere, the bridge facility will provide back-up financing.

Abbott's short- and long-term debt totaled $9.0 billion at December 31, 2015. At December 31, 2015, Abbott's long-term debt rating was A+ by Standard and Poor's Corporation and A2 by Moody's Investors Service. As a result of the pending acquisition of Alere, Abbott's credit ratings are under review and it is anticipated that the ratings will be adjusted to reflect the increased borrowings that will be incurred to finance the acquisition. In March 2015, Abbott issued $2.5 billion of long-term debt consisting of $750 million that matures in 2020, $750 million in 2022 and $1.0 billion in 2025 with fixed interest rates of 2.0 percent, 2.55 percent, and 2.95 percent, respectively. Abbott also entered into interest rate swap contracts totaling $2.5 billion related to the debt issuance. These contracts have the effect of changing Abbott's obligation from a fixed interest rate to a variable interest rate obligation. In the fourth quarter of 2014, Abbott extinguished approximately $500 million of long-term debt that was assumed as part of the acquisition of CFR and incurred a charge of $18.3 million related to the early repayment of this debt.

Abbott declared dividends of $0.98 per share in 2015 compared to $0.90 per share in 2014, a 9% increase. Dividends paid were $1.443 billion in 2015 compared to $1.342 billion in 2014. The year-over-year change in dividends reflects the impact of the increase in the dividend rate. In December 2015, Abbott increased the company's quarterly dividend to $0.26 per share from $0.24 per share, effective with the dividend paid in February 2016.

In addition to preparing for the close of the Alere acquisition, Abbott will focus on several other key initiatives in 2016. 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, Abbott will continue to focus on obtaining additional product approvals across numerous countries and increasing its penetration of emerging markets. In the diagnostics business, Abbott will focus on the development of next-generation instrument platforms 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 coronary and endovascular franchises, and increasing *MitraClip* sales, as well as further clinical development of *Absorb*, its bioresorbable vascular scaffold (BVS) device and a further penetration 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 2015, approximately 42 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 in 2015 are in the Nutritional Products and Diabetes Care segments. Abbott provides rebates to 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 one to six 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 2015, 2014 and 2013 amounted to approximately $2.2 billion, $2.1 billion and $1.9 billion, respectively, or 21.6 percent, 20.1 percent and 19.1 percent, respectively, based on gross sales of approximately $10.3 billion, $10.3 billion and $10.2 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 $101 million in 2015. 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 $124 million, $138 million and $146 million for cash discounts in 2015, 2014 and 2013, respectively, and $238 million, $210 million and $208 million for returns in 2015, 2014 and 2013, 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, 2015, Abbott had WIC business in 26 states.

## FINANCIAL REVIEW

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 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 is 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 2011 are settled except for one item, and the income tax returns for years after 2011 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 interest rates have significantly increased actuarial losses for these plans. At December 31, 2015, 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 $2.9 billion and $70 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 13 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 and amount of future net cash flows, risk, 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 impairment occurs. At December 31, 2015, goodwill amounted to $9.6 billion and intangibles amounted to $5.6 billion, and amortization expense in continuing operations for intangible assets amounted to $601 million in 2015, $555 million in 2014 and $588 million in 2013. There were no impairments of goodwill in 2015, 2014 or 2013.

*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 $35 million to $50 million for its legal proceedings and environmental exposures. Accruals of approximately $45 million have been recorded at December 31, 2015 for these proceedings and exposures. These accruals represent management's best estimate of probable loss, as defined by FASB ASC No. 450, "Contingencies."

## FINANCIAL REVIEW

### 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 | | | | |
| 2015 vs. 2014 | 0.8 | (1.1) | 10.2 | (8.3) |
| 2014 vs. 2013 | 3.0 | (1.4) | 6.9 | (2.5) |
| Total U.S. | | | | |
| 2015 vs. 2014 | 2.2 | (1.5) | 3.7 | – |
| 2014 vs. 2013 | (1.4) | (3.9) | 2.5 | – |
| Total International | | | | |
| 2015 vs. 2014 | 0.2 | (1.0) | 13.1 | (11.9) |
| 2014 vs. 2013 | 5.0 | (0.2) | 8.9 | (3.7) |
| Established Pharmaceutical Products Segment | | | | |
| 2015 vs. 2014 | 19.3 | 0.3 | 33.8 | (14.8) |
| 2014 vs. 2013 | 9.0 | 2.1 | 12.8 | (5.9) |
| Nutritional Products Segment | | | | |
| 2015 vs. 2014 | 0.3 | – | 5.5 | (5.2) |
| 2014 vs. 2013 | 3.2 | 0.8 | 4.2 | (1.8) |
| Diagnostic Products Segment | | | | |
| 2015 vs. 2014 | (1.6) | (1.0) | 8.3 | (8.9) |
| 2014 vs. 2013 | 3.9 | (0.9) | 7.3 | (2.5) |
| Vascular Products Segment | | | | |
| 2015 vs. 2014 | (6.5) | (4.0) | 5.3 | (7.8) |
| 2014 vs. 2013 | (0.9) | (6.4) | 6.9 | (1.4) |

The increases in Total Net Sales in 2015 and 2014 reflect unit growth, partially offset by the impact of unfavorable foreign exchange. The price declines related to Vascular Products sales in 2015 and 2014 primarily reflect pricing pressure on drug eluting stents and other coronary products as a result of market competition in the U.S. and other major markets. The impact of reimbursement reductions by the Centers for Medicare and Medicaid Services on Abbott's Diabetes Care business also contributed to the overall 3.9% price decline in the U.S. in 2014.

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) | 2015 | Total Change | Impact of Exchange | Total Change Excl. Exchange |
|---|---|---|---|---|
| Total Established Pharmaceuticals | | | | |
| Key Emerging Markets | $2,781 | 17% | (15)% | 32% |
| Other | 939 | 28 | (12) | 40 |
| Nutritionals– | | | | |
| International Pediatric Nutritionals | 2,378 | 1 | (7) | 8 |
| U.S. Pediatric Nutritionals | 1,592 | 4 | – | 4 |
| International Adult Nutritionals | 1,729 | (2) | (11) | 9 |
| U.S. Adult Nutritionals | 1,276 | (2) | – | (2) |
| Diagnostics– | | | | |
| Immunochemistry | 3,529 | (2) | (10) | 8 |
| Vascular Products (1)– | | | | |
| Coronary Devices | 2,176 | (7) | (8) | 1 |
| Endovascular | 520 | (1) | (7) | 6 |

(1) Coronary Devices include DES / BVS product portfolio, structural heart, guidewires, balloon catheters, and other coronary products. Endovascular includes vessel closure, carotid stents and other peripheral products.

| (dollars in millions) | 2014 | Total Change | Impact of Exchange | Total Change Excl. Exchange |
|---|---|---|---|---|
| Total Established Pharmaceuticals | | | | |
| Key Emerging Markets | $2,383 | 4% | (7)% | 11% |
| Other | 735 | 27 | (3) | 30 |
| Nutritionals– | | | | |
| International Pediatric Nutritionals | 2,362 | 5 | (2) | 7 |
| U.S. Pediatric Nutritionals | 1,533 | (1) | – | (1) |
| International Adult Nutritionals | 1,756 | 10 | (4) | 14 |
| U.S. Adult Nutritionals | 1,302 | (3) | – | (3) |
| Diagnostics– | | | | |
| Immunochemistry | 3,614 | 5 | (2) | 7 |
| Vascular Products (2)– | | | | |
| Coronary Devices | 2,342 | (3) | (2) | (1) |
| Endovascular | 527 | 11 | (1) | 12 |

(2) Coronary Devices include DES / BVS product portfolio, structural heart, guidewires, balloon catheters, and other coronary products. Endovascular includes vessel closure, carotid stents and other peripheral products.

## FINANCIAL REVIEW

Excluding the unfavorable impact of foreign exchange, total Established Pharmaceutical Products sales increased 34.1 percent in 2015 and 14.9 percent in 2014. The Established Pharmaceutical Products segment is focused on several key emerging markets including India, Russia, China and Brazil. Excluding the impact of foreign exchange, sales in these key emerging markets increased 32.4 percent in 2015 and 11.0 percent in 2014. Excluding the impact of foreign exchange, sales in Established Pharmaceuticals' other emerging markets increased 39.6 percent in 2015 and increased 30.1 percent in 2014. The increases in 2015 and 2014 include the impact of the acquisitions of CFR Pharmaceuticals in September 2014 and Veropharm in December 2014. Excluding sales from the acquisitions and the impact of foreign exchange, revenues increased 13.4% in 2015 and 7.9% in 2014.

Excluding the unfavorable impact of foreign exchange, total Nutritional Products sales increased 5.5 percent in 2015 and 5.0 percent in 2014. In Abbott's International Pediatric Nutritional business, the 2015 increase in sales was driven by growth in China, Russia, and several countries in Latin America and the Middle East as a result of share gains and market growth. The increase in 2015 U.S. Pediatric Nutritional sales primarily reflects higher infant formula revenue from new product launches.

Excluding the unfavorable impact of foreign exchange, the 2015 and 2014 increases in International Adult Nutritional sales are due primarily to volume growth in emerging markets and continued expansion of the adult nutrition category internationally. The decrease in 2015 and 2014 U.S. Adult Nutritional sales reflects the effects of increased competition and market dynamics in retail and institutional categories.

Excluding the unfavorable impact of foreign exchange, total Diagnostic Products sales increased 7.3 percent in 2015 and 6.4 percent in 2014. The sales increases were primarily driven by share gains in the Core Laboratory markets in the U.S. and internationally. 2015 and 2014 sales of immunochemistry products, the largest category in this segment, reflect continued execution of Abbott's strategy to deliver integrated solutions to large healthcare customers.

Excluding the unfavorable impact of foreign exchange, total Vascular Products sales grew 1.3% in 2015 and were virtually flat in 2014. In 2015, growth of Abbott's *MitraClip* structural heart product, its Endovascular business, including the *Supera* peripheral stent, and the *Absorb* bioresorbable vascular scaffold in various international markets was almost entirely offset by continued pricing pressures in DES products.

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 not significant in 2015, 2014 and 2013.

The expiration of licenses and patent protection 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.

### OPERATING EARNINGS

Gross profit margins were 54.2 percent of net sales in 2015, 51.7 percent in 2014 and 50.2 percent in 2013. The gross profit margin improvement in 2015 reflects higher margins in the Nutritional, Diagnostics, and Vascular Products segments.

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 and Established Pharmaceutical Products segments.

Research and development expense was $1.405 billion in 2015, $1.345 billion in 2014, and $1.371 billion in 2013 and represented a 4.5 percent increase in 2015, and a 1.9 percent decrease in 2014. The 2015 increase in research and development expenses was primarily due to higher spending across various businesses. In 2015, research and development expenditures totaled $474 million for the Diagnostics Products segment, $239 million for the Vascular Products segment, $206 million for the Nutritional Products segment, and $137 million for the Established Pharmaceutical Products segment.

Selling, general and administrative expenses increased 3.9 percent in 2015 and 2.5 percent in 2014 versus the respective prior year. The 2015 increase reflects the impact of the CFR and Veropharm acquisitions, partially offset by the impact of cost improvement initiatives and the favorable impact of foreign exchange. The 2014 increase reflects an increase in restructuring costs associated with cost reduction initiatives and deal and other expenses related to recent acquisitions, partially offset by continued prudent cost management.

### BUSINESS ACQUISITIONS

In August 2015, Abbott completed the acquisition of the equity of Tendyne Holdings, Inc. (Tendyne) that Abbott did not already own for approximately $225 million in cash plus additional payments up to $150 million to be made upon completion of certain regulatory milestones. The acquisition of Tendyne, which is focused on developing minimally invasive mitral valve replacement therapies, allows Abbott to broaden its foundation in the treatment of mitral valve disease. The preliminary allocation of the fair value of the acquisition resulted in non-deductible acquired in-process research and development of approximately $220 million, which is accounted for as an indefinite-lived intangible asset until regulatory approval or discontinuation, non-deductible goodwill of approximately $142 million, other assets of approximately $13 million, net deferred tax liabilities of approximately $80 million, and contingent consideration of approximately $70 million. The preliminary allocation of fair value of the above acquisition will be finalized when the valuation is completed.

In September 2014, Abbott completed the acquisition of the controlling interest in CFR Pharmaceuticals S.A. (CFR) for approximately $2.9 billion in cash ($2.8 billion net of CFR cash on hand at closing). Including the assumption of approximately

## FINANCIAL REVIEW

$570 million of debt, the total cost of the acquisition was $3.4 billion. The acquisition of CFR more than doubles Abbott's branded generics pharmaceutical presence in Latin America and further expands its presence in emerging markets. CFR's financial results are included in Abbott's financial statements beginning on September 26, 2014, the date that Abbott acquired control of this business. Abbott currently owns 99.9% of the outstanding ordinary shares of CFR. The fair value of the non-controlling interest at the acquisition date was approximately $3 million. The acquisition was funded with cash and cash equivalents and short-term investments. The final allocation of the fair value of the acquisition is shown in the table below.

| (in billions) | |
|---|---|
| Acquired intangible assets, non-deductible | $ 1.87 |
| Goodwill, non-deductible | 1.42 |
| Acquired net tangible assets | 0.03 |
| Deferred income taxes recorded at acquisition | (0.40) |
| Total final allocation of fair value | $ 2.92 |

Acquired intangible assets consist primarily of product rights for currently marketed products and are amortized over 12 to 16 years (average of 15 years). The goodwill is primarily attributable to intangible assets that do not qualify for separate recognition. The goodwill is identifiable to the Established Pharmaceutical Products segment. The acquired tangible assets consist primarily of cash and cash equivalents of approximately $94 million, trade accounts receivable of approximately $180 million, inventory of approximately $169 million, other current assets of approximately $51 million, property and equipment of approximately $210 million, and other long-term assets of approximately $145 million. Assumed liabilities consist of borrowings of approximately $570 million, trade accounts payable and other current liabilities of approximately $240 million and other non-current liabilities of approximately $14 million. Net sales for CFR Pharmaceuticals totaled approximately $750 million in 2015.

In December 2014, Abbott acquired control of Veropharm, a leading Russian pharmaceutical company for approximately $315 million excluding assumed debt, plus a subsequent $5 million payment related to a working capital adjustment. Through this acquisition, Abbott establishes a manufacturing footprint in Russia and obtains a portfolio of medicines that is well aligned with Abbott's current pharmaceutical therapeutic areas of focus. Abbott acquired control of Veropharm through its purchase of Limited Liability Company Garden Hills, the holding company that owns approximately 98 percent of Veropharm. Including the assumption of approximately $90 million of debt and a non-controlling interest with a fair value of $5 million, the total value of the acquired business was approximately $415 million. The final allocation of the fair value of the acquisition resulted in definite-lived non-deductible intangible assets of approximately $100 million, non-deductible goodwill of approximately $140 million, and net deferred tax liabilities of approximately $25 million. Non-deductible goodwill is identifiable with the Established Pharmaceutical Products segment. Additionally, Abbott acquired property, plant, and equipment of approximately $150 million, accounts receivable of approximately $45 million, inventory of approximately $25 million, and net liabilities of approximately $20 million. Acquired intangible assets consist of developed technology and are being amortized over 16 years. In 2015, Abbott acquired the remaining shares of Veropharm, increasing its ownership to 100 percent.

In December 2014, Abbott completed the acquisition of Topera, Inc. for approximately $250 million in cash, plus additional payments up to $300 million to be made upon completion of certain regulatory and sales milestones. The acquisition of Topera provides Abbott a foundational entry in the electrophysiology market. The final allocation of the fair value of the acquisition resulted in non-deductible acquired in-process research and development of approximately $60 million, which is accounted for as an indefinite-lived intangible asset until regulatory approval or discontinuation, non-deductible definite-lived intangible assets of approximately $215 million, non-deductible goodwill of approximately $145 million, net deferred tax liabilities of approximately $80 million, and contingent consideration of approximately $90 million. The fair value of the contingent consideration was determined based on an independent appraisal. Acquired intangible assets consist of developed technology and trademarks, and are being amortized over 17 years.

In August 2013, Abbott acquired 100 percent of IDEV Technologies, net of debt, for $310 million, in cash. The acquisition of IDEV Technologies expands Abbott's endovascular portfolio. The allocation of the fair value of the acquisition resulted in non-deductible acquired in-process research and development of approximately $170 million which is accounted for as an indefinite-lived intangible asset until regulatory approval or discontinuation, non-deductible definite-lived intangible assets of approximately $66 million, non-deductible goodwill of approximately $112 million and net deferred tax liabilities of $47 million. Acquired intangible assets consist of developed technology and are being amortized over 11 years.

In August 2013, Abbott acquired 100 percent of OptiMedica for $260 million, in cash, plus additional payments up to $150 million to be made upon completion of certain development, regulatory and sales milestones. The acquisition of OptiMedica provides Abbott with an immediate entry point into the laser assisted cataract surgery market. The allocation of the fair value of the acquisition resulted in non-deductible definite-lived intangible assets of approximately $160 million, non-deductible acquired in-process research and development of approximately $60 million which is accounted for as an indefinite-lived intangible asset until regulatory approval or discontinuation, non-deductible goodwill of approximately $130 million, net deferred tax liabilities of $49 million and contingent consideration of approximately $70 million. The fair value of the contingent consideration was determined based on an independent appraisal. Acquired intangible assets consist primarily of developed technology that is being amortized over 18 years.

Had the aggregate in each year of the above acquisitions taken place as of the beginning of the comparable prior annual reporting period, consolidated net sales and earnings would not have been significantly different from reported amounts.

## FINANCIAL REVIEW

### RESTRUCTURINGS

In 2015 and 2014, Abbott management approved plans to streamline operations in order to reduce costs and improve efficiencies in various Abbott businesses including the nutritional, established pharmaceuticals and vascular businesses. Abbott recorded employee-related severance and other charges of approximately $95 million in 2015 and $164 million in 2014. Approximately $18 million in 2015 and $20 million in 2014 are recorded in Cost of products sold, approximately $34 million in 2015 and $53 million in 2014 are recorded in Research and development and approximately $43 million in 2015 and $91 million in 2014 are recorded in Selling, general and administrative expense. Additional charges of approximately $45 million in 2015 and $39 million in 2014 were recorded primarily for accelerated depreciation.

From 2013 to 2015, Abbott management approved various plans to reduce costs and improve efficiencies across various functional areas. In 2013, Abbott management also approved plans to streamline certain manufacturing operations in order to reduce costs and improve efficiencies in Abbott's established pharmaceuticals business. 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 pharmaceuticals and nutritionals businesses. Abbott recorded employee-related severance charges of approximately $66 million in 2015, $125 million in 2014 and $78 million in 2013. Approximately $9 million in 2015, $7 million in 2014 and $14 million in 2013 are recorded in Cost of products sold, approximately $2 million in 2015 and $6 million in 2014 are recorded in Research and development, and approximately $55 million in 2015, $112 million in 2014 and $32 million in 2013 are recorded in Selling, general and administrative expense. The remaining charge of $32 million in 2013 is related to Abbott's developed market established pharmaceutical business and is being recognized in the results of discontinued operations. Additional charges of approximately $4 million in 2013 were also recorded primarily for accelerated depreciation.

In 2013 and prior years, Abbott management approved plans to streamline global manufacturing operations, reduce overall costs and improve efficiencies in its worldwide pharmaceutical, vascular and core diagnostics businesses as well as selected domestic and international commercial and research and development operations. Abbott recorded charges for employee severance as well as for the impairment of manufacturing facilities and other assets. In 2013 Abbott recorded employee severance charges of approximately $11 million which was classified as cost of products sold. An additional $41 million was recorded in 2013 relating to these restructurings, primarily for accelerated depreciation.

### INTEREST EXPENSE AND INTEREST (INCOME)

In 2015, interest expense increased due to the issuance of $2.5 billion of long-term debt during the year. In 2014, interest expense increased due to a higher level of short-term borrowings during the year. In 2013, interest expense decreased due to a lower level of borrowings, which resulted from the transfer of approximately $14.6 billion of debt to AbbVie as part of the separation. Interest income increased in 2015 and 2014 due to a higher return earned on short-term investments during the year.

### OTHER (INCOME) EXPENSE, NET

Other (income) expense, net, for 2015 includes a pretax gain on the sale of a portion of the Mylan N.V. shares received through the sale of the developed markets branded generics pharmaceuticals business and income resulting from a decrease in the fair value of contingent consideration related to a business acquisition; 2014 includes charges associated with the impairment of certain equity investments partially offset by gains on sales of investments. 2013 includes gains on sales of investments.

### NET LOSS ON EXTINGUISHMENT OF DEBT

In 2014, Abbott extinguished approximately $500 million of long-term debt assumed as part of the CFR Pharmaceuticals acquisition and incurred a cost of $18.3 million to extinguish this debt.

### TAXES ON EARNINGS

The income tax rates on earnings from continuing operations were 18.1 percent in 2015, 31.6 percent in 2014 and 2.6 percent in 2013. In 2015, taxes on earnings from continuing operations includes $71 million of tax expense related to gain on the disposal of shares of Mylan N.V. stock. The 2015 effective tax rate includes the impact of the R&D tax credit that was made permanent in the U.S. by the Protecting Americans from Tax Hikes Act of 2015. In 2014, taxes on earnings from continuing operations include $440 million of tax expense associated with a one-time repatriation of 2014 non-U.S. earnings partially offset by $125 million of tax benefits related to the resolution of various tax positions and the adjustment of tax uncertainties from prior years. 2013 taxes on earnings from continuing operations include $230 million of tax benefit related to the resolution of various tax positions from previous years. In addition, as a result of the American Taxpayer Relief Act of 2012 signed into law in January 2013, Abbott recorded a tax benefit to taxes on continuing operations of approximately $103 million in 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.

Exclusive of these discrete items, tax expense was favorably impacted by lower tax rates and tax exemptions on foreign income primarily derived from operations in Puerto Rico, Switzerland, Ireland, the Netherlands, and Singapore. Abbott benefits from a combination of favorable statutory tax rules, tax rulings, grants, and exemptions in these tax jurisdictions. See Note 14 to the consolidated financial statements for a full reconciliation of the effective tax rate to the U.S. federal statutory rate.

2015 tax expense related to discontinued operations includes $667 million of tax expense on certain current-year funds earned outside of the U.S. that were not designated as permanently reinvested overseas. Abbott accrued U.S. taxes on approximately $2.2 billion of 2014 earnings generated outside the U.S. in connection with a repatriation of these earnings. In addition to the $440 million of tax expense discussed above, the repatriation resulted in $82 million of additional tax expense in Abbott's 2014 income from discontinued operations. Abbott expects to accelerate the utilization of deferred tax assets and therefore cash taxes due in the U.S. on this repatriation are not expected to be material.

## FINANCIAL REVIEW

### DISCONTINUED OPERATIONS AND SEPARATION OF ABBVIE INC.

On February 27, 2015, Abbott completed the sale of its developed markets branded generics pharmaceuticals business to Mylan Inc. (Mylan) for equity ownership of a newly formed entity (Mylan N.V.) that combined Mylan's existing business and Abbott's developed markets pharmaceuticals business. Mylan N.V. is publicly traded. Historically, this business was included in Abbott's Established Pharmaceutical Products segment. At the date of the closing, the 110 million Mylan N.V. shares that Abbott received were valued at $5.77 billion and Abbott recorded an after-tax gain on the sale of the business of approximately $1.6 billion. Abbott retained its branded generics pharmaceuticals business in emerging markets. At the close of this transaction, Abbott and Mylan entered into a transition services agreement pursuant to which Abbott and Mylan are providing various back office support services to each other on an interim transitional basis. Transition services may be provided for up to 2 years. Charges by Abbott under this transition services agreement are recorded as a reduction of the costs to provide the respective service in the applicable expense category in the Consolidated Statement of Earnings. This transitional support does not constitute significant continuing involvement in Mylan's operations. Abbott also entered into manufacturing supply agreements with Mylan related to certain products, with the supply term ranging from 3 to 10 years and requiring a 2 year notice prior to termination. The cash flows associated with these transition services and manufacturing supply agreements are not expected to be significant, and therefore, these cash flows are not direct cash flows of the disposed component under Accounting Standards Codification 205.

On February 10, 2015, Abbott completed the sale of its animal health business to Zoetis Inc.

As a result of the disposition of the above businesses, the current and prior years' operating results of these businesses up to the date of sale are reported as part of discontinued operations on the Earnings from Discontinued Operations, net of taxes line in the Consolidated Statement of Earnings. Discontinued operations include an allocation of interest expense assuming a uniform ratio of consolidated debt to equity for all of Abbott's historical operations.

On January 1, 2013, Abbott completed the separation of AbbVie Inc. (AbbVie), which was formed to hold Abbott's research-based proprietary pharmaceuticals business. Abbott has received a ruling from the Internal Revenue Service that the separation qualifies as a tax-free distribution to Abbott and its U.S. shareholders for U.S. federal income tax purposes.

For a small portion of AbbVie's operations, the legal transfer of AbbVie's assets (net of liabilities) did not occur with the separation of AbbVie on January 1, 2013 due to the time required to transfer marketing authorizations and other regulatory requirements in each of these countries. Under the terms of the separation agreement with Abbott, AbbVie is subject to the risks and entitled to the benefits generated by these operations and assets. The majority of these operations were transferred to AbbVie in 2013 and 2014. These assets and liabilities have been presented as held for disposition in the Consolidated Balance Sheet. At December 31, 2015, the assets and liabilities held for disposition consist of cash and trade accounts receivable of $54 million, inventories of $43 million, other assets of $10 million, and trade accounts payable and accrued liabilities of $373 million. Abbott has recorded a prepaid asset of $266 million for its obligation to transfer these net liabilities held for disposition to AbbVie.

Abbott has retained all liabilities for all U.S. federal and foreign income taxes on income prior to the separation, as well as certain non-income taxes attributable to AbbVie's business. AbbVie generally will be liable for all other taxes attributable to its business. In 2015, 2014 and 2013, discontinued operations include a favorable adjustment to tax expense of $4 million, $166 million and $193 million, respectively, as a result of the resolution of various tax positions pertaining to AbbVie's operations.

The operating results of Abbott's developed markets branded generics pharmaceuticals and animal health businesses as well as the income tax expense related to the businesses transferred to AbbVie, which are being reported as discontinued operations are as follows:

| | Year Ended December 31 | | |
|---|---|---|---|
| (in millions) | 2015 | 2014 | 2013 |
| Net Sales | | | |
| Developed markets generics pharmaceuticals and animal health businesses | $256 | $2,076 | $2,191 |
| AbbVie | – | – | – |
| Total | $256 | $2,076 | $2,191 |
| Earnings Before Tax | | | |
| Developed markets generics pharmaceuticals and animal health businesses | $ 13 | $ 505 | $ 480 |
| AbbVie | – | – | – |
| Total | $ 13 | $ 505 | $ 480 |
| Net Earnings | | | |
| Developed markets generics pharmaceuticals and animal health businesses | $ 62 | $ 397 | $ 395 |
| AbbVie | 3 | 166 | 193 |
| Total | $ 65 | $ 563 | $ 588 |

### RESEARCH AND DEVELOPMENT PROGRAMS

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

### RESEARCH AND DEVELOPMENT PROCESS

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.

## FINANCIAL REVIEW

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.
- 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.

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 Biological License Application (BLA).

In the EU, diagnostic products are also categorized into different categories and the regulatory process, which is governed by the European InVitro 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.

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.

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.

## FINANCIAL REVIEW

### AREAS OF FOCUS

In 2016 and beyond, Abbott's significant areas of therapeutic focus will include the following:

*Established Pharmaceuticals*—Abbott focuses on building country specific portfolios made up of global and local pharmaceutical brands that best meet the needs of patients in each country. More than 300 branded generic development projects are active for one or several emerging markets. Over the next several years, Established Pharmaceuticals plans to expand its product portfolio in its key markets through the development and launch of new branded generics with the aim to be among the first to market with a new branded generic for a particular pharmaceutical product, further geographic expansion of existing brands, new product enhancements, and strategic licensing activities. Abbott is also actively working on the further development of several key brands such as Creon, Duphaston and Influvac. Depending on the product, the development activities focus on new data, markets, formulations, combinations or indications.

*Vascular*—Ongoing projects in the pipeline include:

- *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. *Absorb GT1* received CE approval and was launched in the second quarter of 2015. Abbott filed for regulatory approval in the U.S. and Japan in the second quarter of 2015. In 2015, Abbott also released clinical results which demonstrated similarity to the Xience metallic drug-eluting stent (DES) at one year through randomized non-inferiority studies. Abbott is also actively working on the development of future generations of BVS technologies.
- *MitraClip* device for the treatment of mitral regurgitation (MR). *MitraClip* is available in the U.S., Europe, parts of Asia, the Middle East and Latin America for patients who are at prohibitive risk for mitral valve surgery. Abbott continued clinical development of the *MitraClip* therapy including the COAPT trial, a prospective, randomized trial in the United States that will evaluate the impact of *MitraClip* treatment for an expanded indication. In addition, Abbott continues to work on the development of next generation systems for the treatment of MR.
- *Supera* self-expanding nitinol stent system which was acquired as part of the acquisition of IDEV Technologies in August 2013. With its proprietary interwoven wire technology, *Supera* is designed based on biomimetic principles to mimic the body's natural movement. *Supera* is available in the U.S., Europe, and various countries in Asia, the Middle East and Latin America for the treatment of blockages in blood vessels due to peripheral artery disease, with expanded size matrix approved in the U.S. Abbott is developing *Supera*'s next generation delivery system.
- Abbott is also developing future versions of metallic DES, guide wires and balloon delivery catheters. *Armada 18*, Abbott's new peripheral Percutaneous transluminal angioplasty balloon catheter for the treatment of challenging cases in the superficial femoral artery and below the knee categories, received CE approval and was launched in the third quarter of 2015.

*Medical Optics*—Abbott is developing a number of new products which are designed to enhance surgical efficiency and/or improve visual outcomes for patients undergoing cataract and LASIK surgery. In 2015, Abbott launched the TECNIS® Monofocal 1-Piece intraocular lens (IOL) with the TECNIS iTec Preloaded Delivery System in the U.S. The TECNIS iTec Preloaded Delivery System is designed to provide an additional level of safety and surgical efficiency to the outcomes already provided by the TECNIS® Monofocal 1-Piece IOL. The TECNIS® Multifocal Low Add products were launched in the U.S. and provide surgeons the ability to customize treatment based on the patient's vision needs and lifestyle. The WHITESTAR *Signature*® Pro phacoemulsification system for removal of cataracts was approved and launched in the U.S.; this system includes a first of its kind application designed for iPad® mobile digital devices that gives surgeons the opportunity to download and analyze data to improve surgical efficiency. The iDESIGN® Advanced WaveScan Studio System was launched in the U.S. and China; this system provides a high-definition scan of the eye that can be used to create a personalized LASIK treatment plan based on the unique "blueprint" of each person's eyes.

In 2016, Abbott will continue to develop next generation equipment and consumables, including improvements to the LASIK platform with upgrades to its iDesign system and a new Eximer Laser, as well as upgrades to the Catalys laser cataract surgery system. Abbott will seek approval to launch existing products into new markets to better leverage its product portfolio.

*Molecular Diagnostics*—Various new molecular in vitro diagnostic (IVD) products and next generation instrument systems are in various stages of development and commercialization. Abbott's companion diagnostic program includes collaborative efforts with multiple major pharmaceutical companies.

*Core Laboratory Diagnostics*—Abbott is working on the development of next-generation blood screening, hematology, and immunochemistry instrument systems, as well as assays in various areas including infectious disease, cardiac care, metabolics, oncology, and automation solutions to increase efficiency in laboratories.

*Diabetes Care*—In 2015, Abbott completed its clinical outcome trial, Replace, for its FreeStyle Libre Flash Glucose Monitoring System in people with Type 2 diabetes. The system eliminates the need for routine finger pricks by reading glucose levels through a sensor that can be worn on the back of the upper arm for up to 14 days. The FreeStyle Libre System also requires no finger pricks for calibration. In 2014, Abbott received CE Mark in Europe for the FreeStyle Libre System and in 2015 it also received CE Mark for an indication for children and young people with diabetes ages 4-17 years old. FreeStyle Libre Pro, which is designed to be used by healthcare professionals in a clinic setting, was launched to patients in India and the PMA for FreeStyle Libre Pro was submitted in the U.S.

*Nutrition*—Abbott is focusing its research and development spend on platforms that span the pediatric, adult and performance nutrition areas: gastro intestinal health, brain health, mobility and metabolism, and user experience platforms. Numerous new products that build on advances in these platforms are currently under development, including clinical outcome testing, and are expected to be launched over the coming years.

## FINANCIAL REVIEW

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 2015 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 development of pharmaceutical, medical device and diagnostic products and technologies, it is not possible to accurately estimate the total cost to complete all projects currently in development. Abbott plans to manage its portfolio of projects to achieve research and development spending 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.

### GOODWILL

At December 31, 2015, goodwill recorded as a result of business combinations totaled $9.6 billion. Goodwill is reviewed for impairment annually in the third quarter or when an event that could result in an impairment occurs, using a quantitative assessment to determine whether it is more likely than not that the fair value of any reporting unit is less than its carrying amount. The income and market approaches are used to calculate the fair value of each reporting unit. 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. Goodwill related to the Medical Optics unit totals approximately $2 billion. While the fair value of the Medical Optics unit exceeds its carrying value by approximately 15%, various factors could develop and 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. These factors include a lower than projected growth rate for the business, longer regulatory approval timelines for products currently under development, and the negative impact of foreign currency movements as well as an increase in the discount rate used in the quantitative assessment.

### FINANCIAL CONDITION

#### CASH FLOW

Net cash from operating activities amounted to $3.0 billion, $3.7 billion and $3.3 billion in 2015, 2014 and 2013, respectively. The decrease in Net cash from operating activities in 2015 was due in large part to the divestiture of the developed market established pharmaceuticals business in February 2015 as well as an increase in contributions to defined benefit plans in 2015. The increase in Net cash from operating activities in 2014 was due to an improvement in operating results, as well as lower cash contributions to pension plans. Net cash from operating activities in 2013 reflects approximately $435 million of one-time net cash outflows related to the separation of AbbVie and $724 million of contributions to defined benefit pension plans. The income tax component of operating cash flow in 2015, 2014 and 2013 includes $70 million, $268 million and $427 million, respectively, of non-cash tax benefits primarily related to the favorable resolution of various tax positions pertaining to prior years; 2015 reflects the non-cash impact of approximately $1.1 billion of tax expense associated with the gain on sale of businesses and 2013 also includes a $103 million tax benefit for the retroactive impact of U.S. tax law changes, which is expected to be realized in future years.

While over 85% of the cash and cash equivalents at December 31, 2015 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 may 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, 2015 can be considered to be reinvested indefinitely.

Abbott funded $579 million in 2015, $393 million in 2014 and $724 million in 2013 to defined benefit pension plans. Abbott expects pension funding of approximately $576 million in 2016 for its pension plans, of which approximately $470 million relates to its main domestic pension plans. Abbott expects annual cash flow from operating activities to continue to exceed Abbott's capital expenditures and cash dividends.

#### DEBT AND CAPITAL

At December 31, 2015, Abbott's long-term debt rating was A+ by Standard & Poor's Corporation and A2 by Moody's Investors Service. As a result of the pending acquisition of Alere, Abbott's credit ratings are under review and it is anticipated that the ratings will be adjusted to reflect the increased borrowings that will be incurred to finance the acquisition. Abbott has readily available financial resources, including unused lines of credit of $5.0 billion that support commercial paper borrowing arrangements which expire in 2019.

In March 2015, Abbott issued $2.5 billion of long-term debt that matures in 2020, 2022 and 2025 with fixed interest rates of 2.0 percent, 2.55 percent, and 2.95 percent, respectively. Proceeds from this debt were used to pay down short-term borrowings. Abbott also entered into interest rate swap contracts totaling $2.5 billion. These contracts have the effect of changing Abbott's obligation from a fixed interest rate to a variable interest rate obligation.

In 2014, Abbott redeemed approximately $500 million of long-term notes that were assumed as part of the acquisition of CFR Pharmaceuticals.

## FINANCIAL REVIEW

In September 2014, the board of directors authorized the repurchase of up to $3.0 billion of Abbott's common shares from time to time. The 2014 authorization was in addition to the $512 million unused portion of a previous program announced in June 2013. In 2015, Abbott repurchased 11.3 million shares at a cost of $512 million under the unused portion of the 2013 authorization and 36.2 million shares at a cost of $1.7 billion under the program authorized in 2014 for a total of 47.5 million shares at a cost of $2.2 billion. In 2014, Abbott repurchased 54.6 million shares at a cost of $2.1 billion under the program announced in June 2013. In 2013, Abbott repurchased 10.5 million shares at a cost of $388 million under the 2013 authorization and 33.0 million shares at a cost of $1.2 billion under a previous authorization for a total of 43.5 million shares at a cost of $1.6 billion.

Abbott declared dividends of $0.98 per share in 2015 compared to $0.90 per share in 2014, a 9% increase. Dividends paid were $1.443 billion in 2015 compared to $1.342 billion in 2014. The year-over-year change in dividends reflects the impact of the increase in the dividend rate.

### WORKING CAPITAL

The increase of cash and cash equivalents from $4.1 billion at December 31, 2014 to $5.0 billion at December 31, 2015 reflects the cash generated by operating activities as well as the proceeds from the sale of investment securities. Working capital was $5.0 billion at December 31, 2015 and $3.1 billion at December 31, 2014. The increase in working capital in 2015 was due to an increase in cash and cash equivalents and short-term investments and a decrease in short-term borrowings primarily due to the proceeds received related to the recent divestiture of businesses and the issuance of long-term debt.

Substantially all of Abbott's trade receivables in Italy, Spain, Portugal, and Greece are with governmental health systems. The collection of outstanding receivables in these countries improved in 2014 and has been stable in 2015. Governmental receivables in these four countries accounted for less than 1 percent of Abbott's total assets and 7 percent of total net trade receivables as of December 31, 2015, down from 9 percent as of December 31, 2014.

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.

### VENEZUELA OPERATIONS

Since January 2010, Venezuela has been designated as a highly inflationary economy under U.S. GAAP. In 2014 and 2015, the government of Venezuela operated multiple mechanisms to exchange bolivars into U.S. dollars. These mechanisms included the CENCOEX, SICAD, and SIMADI rates, which stood at 6.3, 13.5, and approximately 200, respectively, at December 31, 2015. In 2015, Abbott continued to use the CENCOEX rate of 6.3 Venezuelan bolivars to the U.S. dollar to report the results, financial position, and cash flows related to its operations in Venezuela since Abbott continued to qualify for this exchange rate to pay for the import of various products into Venezuela.

Revenue from operations in Venezuela represented approximately 2% of Abbott's total net sales and pre-tax income totaled approximately $200 million in 2015 and $175 million in 2014. Abbott's sales in Venezuela primarily relate to the Nutritional and Established Pharmaceuticals segments. The economic uncertainty associated with Venezuela increased in 2015 due to the continued hyper-inflation and political uncertainty in the country and lower oil prices, among other factors. Abbott had net monetary assets that are subject to revaluation in Venezuela of approximately $440 million at December 31, 2015. Such assets are comprised primarily of cash.

On February 17, 2016, the Venezuelan government announced that the three-tier exchange rate system will be reduced to two rates and the official rate for food and medicine imports will be adjusted from 6.3 to 10 bolivars per U.S. dollar. As a result of the new 10 bolivars per U.S. dollar exchange rate, Abbott's net monetary assets in Venezuela will be subject to revaluation during the quarter ending March 31, 2016, which will result in recognition of a foreign currency exchange loss in that period. Based on Abbott's net monetary assets subject to revaluation at December 31, 2015, remeasuring these assets at a rate of 10 bolivars per U.S. dollar would result in a foreign currency loss of approximately $165 million.

Abbott cannot be certain that the Venezuelan government will not make further revisions to the official exchange rate in the future which could result in additional foreign currency losses. While Abbott intends to continue to sell medically critical products in this country, Abbott cannot predict the impact of continued hyper-inflation, low oil prices, and the new exchange rate system on the Venezuelan economy or on the future operating results and financial position of its business in this country.

### CAPITAL EXPENDITURES

Capital expenditures of $1.1 billion in 2015, 2014 and 2013 were principally for upgrading and expanding manufacturing and research and development facilities and equipment in various segments, investments in information technology, and laboratory instruments placed with customers.

## FINANCIAL REVIEW

### CONTRACTUAL OBLIGATIONS

The table below summarizes Abbott's estimated contractual obligations as of December 31, 2015.

| | | Payments Due By Period | | | |
|---|---|---|---|---|---|
| (in millions) | Total | 2016 | 2017-2018 | 2019-2020 | 2021 and Thereafter |
| Long-term debt, including current maturities | $ 5,814 | $ 3 | $ 3 | $2,296 | $3,512 |
| Interest on debt obligations | 3,077 | 239 | 477 | 366 | 1,995 |
| Operating lease obligations | 638 | 163 | 201 | 132 | 142 |
| Capitalized auto lease obligations | 45 | 15 | 30 | – | – |
| Purchase commitments (a) | 1,919 | 1,822 | 65 | 32 | – |
| Other long-term liabilities | 1,188 | – | 686 | 354 | 148 |
| Total (b) | $12,681 | $2,242 | $1,462 | $3,180 | $5,797 |

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

(b) Net unrecognized tax benefits totaling approximately $600 million 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. See Note 14—Taxes on Earnings from Continuing Operations for further details. The company has employee benefit obligations consisting of pensions and other postemployment benefits, including medical and life, which have been excluded from the table. A discussion of the company's pension and postretirement plans, including funding matters is included in Note 13—Post-employment Benefits.

### CONTINGENT OBLIGATIONS

Abbott has periodically entered into agreements with other companies in the ordinary course of business, such as assignment of product rights, 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

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.

### RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-01, Financial Instruments—Recognition and Measurement of Financial Assets and Financial Liabilities, which provides new guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. The standard becomes effective for Abbott beginning in the first quarter of 2018 and early adoption is permitted. Abbott is currently evaluating the effect, if any, that the standard will have on its consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which requires entities to classify all deferred tax assets and liabilities as non-current on the balance sheet. The standard may be adopted on either a prospective or retrospective basis. The standard is effective for fiscal years beginning after December 15, 2016, and early adoption is permitted. Effective December 31, 2015, Abbott adopted ASU 2015-17 and applied the new standard retrospectively. As a result of applying ASU 2015-17 to the previously reported Consolidated Balance Sheet as of December 31, 2014, Deferred income taxes within the Total Current Assets line decreased and the Deferred income taxes and other assets line increased by approximately $1.7 billion, respectively; Other accrued liabilities within the Total Current Liabilities line decreased by $65 million and the Post-employment obligations and other long-term liabilities line increased by $12 million. Reclassification of the deferred tax balances from current to noncurrent affected the netting of these balances as a deferred tax asset or liability in various jurisdictions.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. This ASU, which is effective for fiscal years and interim periods beginning after December 15, 2015, requires debt issuance costs to be presented in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Early adoption is permitted and retrospective application is required. Effective December 31, 2015, Abbott adopted ASU 2015-03 and the Consolidated Balance Sheet was retrospectively adjusted to reflect the new presentation. The adoption of ASU 2015-03 did not have a material impact to Abbott's consolidated financial statements.

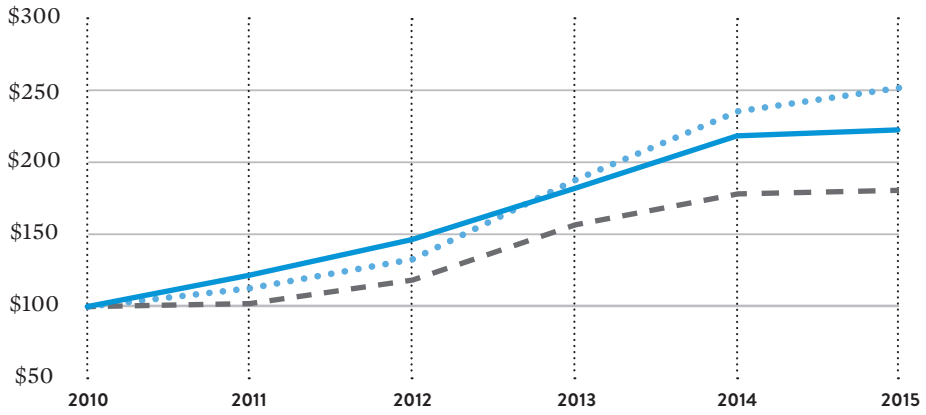
In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model for accounting for revenue from contracts with customers and will supersede most existing revenue recognition guidance. The standard becomes effective for Abbott in the first quarter of 2018. Abbott is currently evaluating the effect, if any, that the standard will have on its consolidated financial statements and related disclosures.

## FINANCIAL REVIEW

### 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.

### PERFORMANCE GRAPH




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

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

Assuming $100 invested on December 31, 2010 with dividends reinvested.

## SUMMARY OF SELECTED FINANCIAL DATA

*(Dollars in millions except per share data)*

| Year Ended December 31 | | 2015(a) | 2014 | 2013 | 2012(b) | 2011 |
|---|---|---|---|---|---|---|
| Summary of Operations: | | | | | | |
| Net Sales | $ | 20,405 | 20,247 | 19,657 | 19,050 | 18,663 |
| Cost of products sold | $ | 9,348 | 9,773 | 9,781 | 9,494 | 9,657 |
| Research & development | $ | 1,405 | 1,345 | 1,371 | 1,461 | 1,424 |
| Selling, general, and administrative | $ | 6,785 | 6,530 | 6,372 | 6,735 | 6,565 |
| Operating earnings | $ | 2,867 | 2,599 | 2,133 | 1,360 | 1,017 |
| Interest expense | $ | 163 | 150 | 145 | 320 | 326 |
| Interest income | $ | (105) | (77) | (67) | (59) | (65) |
| Other (income) expense, net (c) | $ | (374) | 8 | 14 | 1,319 | 100 |
| Earnings before taxes | $ | 3,183 | 2,518 | 2,041 | (220) | 656 |
| Taxes on earnings from continuing operations | $ | 577 | 797 | 53 | (457) | (20) |
| Earnings from continuing operations | $ | 2,606 | 1,721 | 1,988 | 237 | 676 |
| Net earnings | $ | 4,423 | 2,284 | 2,576 | 5,963 | 4,728 |
| Basic earnings per common share from continuing operations | $ | 1.73 | 1.13 | 1.27 | 0.15 | 0.43 |
| Basic earnings per common share | $ | 2.94 | 1.50 | 1.64 | 3.76 | 3.03 |
| Diluted earnings per common share from continuing operations | $ | 1.72 | 1.12 | 1.26 | 0.15 | 0.43 |
| Diluted earnings per common share | $ | 2.92 | 1.49 | 1.62 | 3.72 | 3.01 |
| Financial Positions: | | | | | | |
| Working capital | $ | 4,969 | 3,089 | 7,247 | 15,100 | 5,648 |
| Long-term investment securities | $ | 4,041 | 229 | 119 | 274 | 378 |
| Net property & equipment | $ | 5,730 | 5,935 | 5,905 | 8,063 | 7,874 |
| Total assets (d) | $ | 41,247 | 41,207 | 42,937 | 67,148 | 60,235 |
| Long-term debt, including current portion (d) | $ | 5,874 | 3,448 | 3,381 | 18,307 | 13,025 |
| Shareholders' investment | $ | 21,326 | 21,639 | 25,267 | 26,813 | 24,526 |
| Book value per share | $ | 14.48 | 14.35 | 16.32 | 17.01 | 15.62 |
| Other Statistics: | | | | | | |
| Gross profit margin | % | 54.2 | 51.7 | 50.2 | 50.2 | 48.3 |
| Research and development to net sales | % | 6.9 | 6.6 | 7.0 | 7.7 | 7.6 |
| Net cash from operating activities | $ | 2,966 | 3,675 | 3,324 | 9,314 | 8,970 |
| Capital expenditures | $ | 1,110 | 1,077 | 1,145 | 1,795 | 1,492 |
| Cash dividends declared per common share (e) | $ | 0.98 | 0.90 | 0.64 | 1.67 | 1.92 |
| Common shares outstanding (in thousands) | | 1,472,665 | 1,508,035 | 1,548,098 | 1,576,667 | 1,570,379 |
| Number of common shareholders | | 47,278 | 55,171 | 57,854 | 60,476 | 62,939 |
| Market price per share—high (f) | $ | 51.74 | 46.50 | 38.81 | 34.68 | 27.01 |
| Market price per share—low (f) | $ | 39.00 | 35.65 | 31.64 | 25.82 | 21.57 |
| Market price per share—close (f) | $ | 44.91 | 45.02 | 38.33 | 31.34 | 26.91 |

(a) In February 2015, Abbott completed the disposition of the developed markets branded generics pharmaceuticals and animal health businesses. See Note 3 to the Consolidated Financial Statements for additional information.

(b) On January 1, 2013, Abbott completed the separation of AbbVie Inc., which was formed to hold Abbott's research-based proprietary pharmaceuticals business. See Note 2 to the Consolidated Financial Statements for additional information.

(c) 2014 and 2012 include $18 million and $1,351 million, respectively, for the net loss on extinguishment of debt.

(d) Balances prior to 2015 have been adjusted to reflect the impact of the adoption of Accounting Standards Update (ASU) 2015-03 related to debt issuance costs. Prior to the adoption of ASU 2015-03, debt issuance costs were classified on the balance sheet as assets within Deferred Income Taxes and Other Assets.

(e) The decrease in dividend from 2012 to 2013 reflects the impact of the separation of AbbVie.

(f) The 2012 and prior historical share prices have been adjusted to reflect the separation of AbbVie.

## DIRECTORS AND CORPORATE OFFICERS

### DIRECTORS

Robert J. Alpern, M.D.
*Ensign Professor of Medicine, Professor of Internal Medicine, and Dean of Yale School of Medicine, New Haven, Conn.*

Roxanne S. Austin
*President and CEO Austin Investment Advisors, Newport Beach, Calif.*

Sally E. Blount, Ph.D.
*Dean, J.L. Kellogg Graduate School of Management and the Michael L. Nemmers Professor of Management and Organizations, at Northwestern University, Evanston, Ill.*

W. James Farrell
*Retired Chairman and Chief Executive Officer, Illinois Tool Works Inc., Glenview, Ill.*

Edward M. Liddy
*Retired Chairman and Chief Executive Officer, The Allstate Corporation, Northbrook, Ill.*

Nancy McKinstry
*Chief Executive Officer and Chairman of the Executive Board of Wolters Kluwer NV, Alphen aan den Rijn, The Netherlands*

Phebe N. Novakovic
*Chairman and Chief Executive Officer, General Dynamics Corporation, Falls Church, Va.*

William A. Osborn
*Retired Chairman and Chief Executive Officer, Northern Trust Corporation and The Northern Trust Company, Chicago, Ill.*

Samuel C. Scott III
*Retired Chairman, President and Chief Executive Officer, Corn Products International, Inc., Westchester, Ill.*

Glenn F. Tilton
*Retired Chairman of the Midwest, JPMorgan Chase & Co., Chicago, Ill.*

Miles D. White
*Chairman of the Board and Chief Executive Officer, Abbott Laboratories*

### SENIOR MANAGEMENT

Miles D. White*
*Chairman of the Board and Chief Executive Officer*

Thomas C. Freyman*
*Executive Vice President, Finance and Administration*

Hubert L. Allen*
*Executive Vice President, General Counsel and Secretary*

Richard W. Ashley*
*Executive Vice President, Corporate Development*

Brian J. Blaser*
*Executive Vice President, Diagnostics Products*

John M. Capek, Ph.D.*
*Executive Vice President, Ventures*

Robert B. Ford*
*Executive Vice President, Medical Devices*

Stephen R. Fussell*
*Executive Vice President, Human Resources*

Heather L. Mason*
*Executive Vice President, Nutritional Products*

Michael J. Warmuth*
*Executive Vice President, Established Pharmaceuticals*

Roger M. Bird*
*Senior Vice President, U.S. Nutrition*

Jaime Contreras*
*Senior Vice President, Core Laboratory Diagnostics, Commercial Operations*

Thomas G. Frinzi*
*Senior Vice President, Medical Optics*

Andrew H. Lane*
*Senior Vice President, Established Pharmaceuticals, Emerging Markets*

Elaine R. Leavenworth
*Senior Vice President, Chief Marketing and External Affairs Officer*

Corlis D. Murray
*Senior Vice President, Quality Assurance, Regulatory and Engineering Services*

Deepak S. Nath, Ph.D.*
*Senior Vice President, Abbott Vascular*

Jean-Yves F. Pavée
*Senior Vice President, Established Pharmaceuticals, Commercial Strategy*

Daniel Salvadori*
*Senior Vice President, Established Pharmaceuticals, Latin America*

Jared L. Watkin*
*Senior Vice President, Diabetes Care*

Brian B. Yoor*
*Senior Vice President, Finance and Chief Financial Officer*

### CORPORATE VICE PRESIDENTS

Jeffery G. Barton
*Vice President, Licensing and Acquisitions*

Nancy Berce
*Vice President, Business and Technology Services*

Sharon J. Bracken
*Vice President, Point of Care Diagnostics*

P. Claude Burcky
*Vice President, International Government Affairs*

Kathryn S. Collins
*Vice President, Commercial Legal Operations*

John D. Coulter
*Vice President, Diagnostics, Commercial Operations, Europe, Middle East and Africa*

Thomas C. Evers
*Vice President, U.S. Government Affairs*

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*Vice President, Controller*

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*Vice President, Research and Development, Diagnostics*

John F. Ginascol
*Vice President, Nutrition, Supply Chain*

Gene Huang, Ph.D.
*Vice President, Chief Economist*

Bhasker Iyer
*Vice President, Established Pharmaceuticals, India*

Scott M. Leinenweber
*Vice President, Investor Relations*

Joseph J. Manning
*Vice President, Nutrition, Asia Pacific*

David P. Mark
*Vice President, Internal Audit*

Catherine Mazzacco
*Vice President, Abbott Medical Optics, Commercial*

Karen M. Peterson
*Vice President, Treasurer*

Christopher J. Scoggins
*Vice President, Diabetes Care, Commercial Operations*

Andrew Scorey
*Vice President, Nutrition, China and Hong Kong*

AJ J. Shoultz
*Vice President, Taxes*

Gregory A. Tazalla
*Vice President, Strategic Initiatives*

Andrea F. Wainer
*Vice President, Molecular Diagnostics*

Randel W. Woodgrift
*Vice President, Vascular, Manufacturing and R&D*

James E. Young
*Vice President, Chief Ethics and Compliance Officer*

**Denotes executive officer*

## SHAREHOLDER AND CORPORATE INFORMATION

### STOCK LISTING

The ticker symbol for Abbott's common stock is ABT. The principal market for Abbott's common shares is the New York Stock Exchange. Shares are also listed on the Chicago Stock Exchange and traded on various regional and electronic exchanges. Outside the United States, Abbott's shares are listed on the London Stock Exchange and the Swiss Stock Exchange.

### QUARTERLY DIVIDEND DATES

Dividends are expected to be declared and paid on the following schedule in 2016, pending approval by the board of directors:

| Quarter | Declared | Record | Paid |
|---|---|---|---|
| First | 2/19 | 4/15 | 5/16 |
| Second | 6/10 | 7/15 | 8/15 |
| Third | 9/15 | 10/14 | 11/15 |
| Fourth | 12/9 | 1/13/17 | 2/15/17 |

### TAX INFORMATION FOR SHAREHOLDERS

Abbott is an Illinois High Impact Business and is located in a U.S. federal Foreign Trade Sub-Zone (Sub-Zone 22F). Dividends may be eligible for a subtraction from base income for Illinois income tax purposes.

If you have any questions, please contact your tax advisor.

### DIVIDEND REINVESTMENT PLAN

The Abbott Dividend Reinvestment Plan offers registered shareholders an opportunity to purchase additional shares, commission-free, through automatic dividend reinvestment and/or optional cash investments. Interested persons may contact the transfer agent, or call Abbott's Investor Newsline.

### DIVIDEND DIRECT DEPOSIT

Shareholders may have quarterly dividends deposited directly into a checking or savings account at any financial institution that participates in the Automated Clearing House system. For more information, please contact the transfer agent, listed below, right.

### DIRECT REGISTRATION SYSTEM

In August 2008, Abbott implemented a Direct Registration System (DRS) for all registered shareholder transactions. Shareholders will be sent a statement in lieu of a physical stock certificate for Abbott Laboratories stock. Please contact the transfer agent with any questions.

### ANNUAL MEETING

The annual meeting of shareholders will be held at 9 a.m. on Friday, April 29, 2016, at Abbott's corporate headquarters. Questions regarding the annual meeting may be directed to the Corporate Secretary. A copy of Abbott's 2015 Form 10-K Annual Report, as filed with the Securities and Exchange Commission, is available on the Abbott Web site at www.abbott.com or by contacting the Investor Newsline.

### CEO AND CFO CERTIFICATIONS

In 2015, Abbott's chief executive officer (CEO) provided to the New York Stock Exchange the annual CEO certification regarding Abbott's compliance with the New York Stock Exchange's corporate governance listing standards. In addition, Abbott's CEO and chief financial officer filed with the U.S. Securities and Exchange Commission all required certifications regarding the quality of Abbott's public disclosures in its fiscal 2015 reports.

### INVESTOR NEWSLINE

(224) 667-7300

### INVESTOR RELATIONS

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(224) 667-6100

### SHAREHOLDER SERVICES

Computershare
P.O. Box 43078
Providence, RI 02940-3078
(888) 332-2268 (U.S. or Canada)
(781) 575-3910 (outside U.S. or Canada)
www.computershare.com

### CORPORATE SECRETARY

Dept. 364, AP6D2
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### WEBSITE

www.abbott.com

### ABBOTT ONLINE ANNUAL REPORT

www.abbott.com/annualreport

### GLOBAL CITIZENSHIP REPORT

www.abbott.com/citizenship

### TRANSFER AGENT AND REGISTRAR

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### SHAREHOLDER INFORMATION

Shareholders with questions about their accounts may contact the transfer agent.

Individuals who would like to receive additional information, or have questions regarding Abbott's business activities, may call the Investor Newsline, write Abbott Investor Relations, or visit Abbott's Web site.

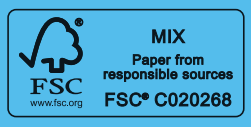
Some statements in this annual report may be forward-looking statements for purposes of the Private Securities Litigation Reform Act of 1995. Abbott cautions that these forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those indicated in the forward-looking statements. Economic, competitive, governmental, technological and other factors that may affect Abbott's operations are discussed in Item 1A, "Risk Factors," in our Securities and Exchange Commission 2015 Form 10-K and are incorporated by reference. We undertake no obligation to release publicly any revisions to forward-looking statements as the result of subsequent events or developments.

[1] Clinical studies have shown increased calcium absorption with 10 grams of FOS/Inulin proprietary blend per/day along with a calcium-enriched diet.

[2] A finger prick test using a blood glucose meter is required during times of rapidly changing glucose levels when interstitial fluid glucose levels may not accurately reflect blood glucose levels or if hypoglycaemia or impending hypoglycaemia is reported by the system or when symptoms do not match the system readings.



The Abbott 2015 Annual Report was printed with the use of renewable wind power resulting in nearly zero carbon emissions, keeping 16,425 pounds of $CO_2$ from the atmosphere. This amount of wind-generated electricity is equivalent to 14,251 miles not driven in an automobile or 1,187 trees planted. The Abbott Annual Report cover and text is printed on recycled paper that contains a minimum of 10% post-consumer fiber and the financial pages on 30% post-consumer fiber.

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