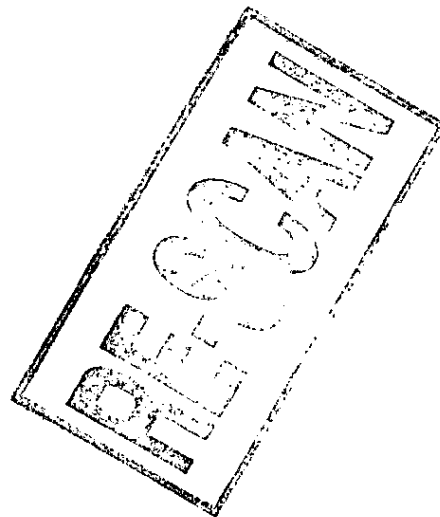


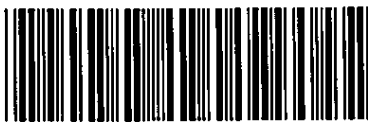
ABBOTT CAPITAL INDIA LIMITED

Report and Accounts

30 November 2008



TUESDAY



LZZQKDOU

L11

29/09/2009

62

COMPANIES HOUSE

3019109 77

Registered Number 4166322 England and Wales

DIRECTORS' REPORT

For the year ended 30 November 2008

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 30 November 2008.

This directors' report has been prepared in accordance with the special provisions relating to small companies under section 246(4) of the Companies Act 1985.

BOARD OF DIRECTORS

The directors who served throughout the year and since the year end, except as noted, were as follows:

T. Freyman
S. Hudson (Appointed 1/05/2009)
M. Smith (Appointed 26/09/2008)
J. Stewart (Resigned 2/05/2009)
J. Rankin (Appointed 30/3/2007, resigned 26/09/2008)
R. Funck (Resigned 3/12/2007)

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company's principal activity is that of a holding company. There have not been any significant changes in the company's principal activities in the year under review. The directors are not aware, at the date of this report, of any likely major changes in the company's activities next year.

PRINCIPAL RISKS AND UNCERTAINTIES

The company is at risk from foreign exchange movements on income from its subsidiary and has some risk from interest rate movements. The directors do not consider these to be significant risks.

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

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

RESULTS

The audited accounts for the year ended 30 November 2008 are set out on pages 4 to 8.

The profit after tax for the year was £2,134,000 (2007: £2,414,000). Interim dividends of £2,100,000 (2007: £12,000,000) were paid during the year. The directors recommend that no further dividend be paid (2007: £nil) and that retained earnings of £34,000 be transferred to reserves.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud or other irregularities.

DIRECTORS' REPORT (continued)

For the year ended 30 November 2008

DIRECTORS' INDEMNITIES

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

AUDITORS

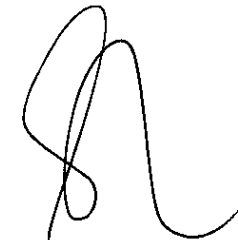
In the case of each of the persons who are directors of the company at the date when this report is approved:

- so far as each of the directors is aware, there is no relevant audit information of which the company's auditors are unaware; and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Date: 22/9/08
Queenborough,
Kent, ME11 5EL



BY ORDER OF THE BOARD,
S. BROWN
Company Secretary.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
ABBOTT CAPITAL INDIA LIMITED

3

We have audited the financial statements of Abbott Capital India Limited for the year ended 30 November 2008 which comprise the profit and loss account, the balance sheet and the related notes 1 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's members as a body, for our audit work, for this report, or for the opinions that we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company as at 30 November 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

DELOITTE LLP
Chartered Accountants and Registered Auditors
London, United Kingdom

Date: 20/12/09.

Profit and Loss Account for the year ended 30 November 2008

	Notes	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Income from shares in group undertakings		2,075	1,977
Other expenses		<u>(7)</u>	<u>(12)</u>
Operating profit		2,068	1,965
Interest receivable and similar income	(3)	90	637
Profit on ordinary activities before taxation	(4)	<u>2,158</u>	<u>2,602</u>
Tax charge on profit on ordinary activities	(6)	<u>(24)</u>	<u>(188)</u>
Profit for the financial year		<u>2,134</u>	<u>2,414</u>

The accompanying notes are an integral part of this profit and loss account.

Note 12 shows the movement on reserves during the year.

There were no recognised gains or losses in either 2008 or 2007 other than the results for the financial year. Consequently, no statement of total recognised gains and losses has been presented.

All transactions are derived from continuing operations.

ABBOTT CAPITAL INDIA LIMITED

5

Balance Sheet as at 30 November 2008

	Notes	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
FIXED ASSETS			
Investments	(8)	50,116	50,116
CURRENT ASSETS			
Debtors	(9)	327	287
Cash at bank and in hand		35	132
		<u>362</u>	<u>419</u>
CREDITORS: amounts falling due within one year	(10)	(24)	(116)
NET CURRENT ASSETS		<u>338</u>	<u>303</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		50,454	50,419
NET ASSETS		<u><u>50,454</u></u>	<u><u>50,419</u></u>
CAPITAL AND RESERVES			
Called up share capital	(13)	-	-
Share Premium	(12)	9,971	9,971
Other Capital reserve	(12)	40,145	40,145
Profit and loss account	(12)	337	303
SHAREHOLDERS' FUNDS	(11)	<u><u>50,453</u></u>	<u><u>50,419</u></u>

The accounts on pages 4 to 8 were approved by the board of directors on 22 September 2009 and signed on its behalf by:



S. Hudson
Director

The accompanying notes are an integral part of this balance sheet.

NOTES TO THE ACCOUNTS
For the year ended 30 November 2008

1. ACCOUNTING POLICIES

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

a) Basis of accounting

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

The company has taken advantage of the exemption from the requirement of FRS 1 (revised) "Cash Flow Statements" to present a cash flow statement because it is a wholly-owned subsidiary of the ultimate parent company, Abbott Laboratories incorporated in the State of Illinois, USA, which prepares consolidated accounts that are publicly available (see note 14). After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts. See further disclosure on going concern in the Directors' report.

b) Interest income

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

c) Taxation

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

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

d) Foreign currency

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

e) Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment.

2. SEGMENTAL ANALYSIS

All of the profit on ordinary activities before taxation and all of the net assets of the company are from the company's principal activity based in the UK, except for income from shares in group undertakings, which are from the subsidiary incorporated in India.

3. INTEREST RECEIVABLE AND SIMILAR INCOME

	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Loans to other affiliated undertakings	90	637
	<u>90</u>	<u>637</u>

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging:

	<u>2008</u> <u>£000's</u>	<u>2007</u> <u>£000's</u>
Auditors' remuneration payable for the audit of the company's annual accounts	6	4

5 STAFF COSTS AND DIRECTORS' EMOLUMENTS

During the year, and the preceding year, all the directors were paid by other affiliates within the Abbott Laboratories group of companies. The company had no other employees in either year.

NOTES TO THE ACCOUNTS (Continued)
For the year ended 30 November 2008

6. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

	<u>2008</u>	<u>2007</u>
	<u>£000's</u>	<u>£000's</u>
The tax charge is based on the profit for the year and comprises:		
UK Corporation tax at 28.66% (2007: 30%)	24	188
Current tax charge for the year	<u>24</u>	<u>188</u>

The difference between the current tax amount shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	<u>2008</u>	<u>2007</u>
	<u>£000's</u>	<u>£000's</u>
Profit on ordinary activities before tax	<u>2,158</u>	<u>2,602</u>
Tax on profit on ordinary activities at standard UK corporation tax of 28.66% (2007: 30%)	619	781
Double tax relief on income from shares in group undertakings	<u>(595)</u>	<u>(593)</u>
	<u>24</u>	<u>188</u>

7. DIVIDENDS

	<u>2008</u>	<u>2007</u>
	<u>£000's</u>	<u>£000's</u>
Interim dividend paid of £1,050,000 (2007: £6,000,000) per ordinary share	<u>2,100</u>	<u>12,000</u>

8. FIXED ASSET INVESTMENTS

The following are included in the company net book value of fixed asset investments:

	<u>2008</u>	<u>2007</u>
	<u>£000's</u>	<u>£000's</u>
Subsidiary undertakings:		
Cost and net book value at the beginning and end of the year	<u>50,116</u>	<u>50,116</u>

The company has investments in the following subsidiary:

	<u>Country of</u> <u>Incorporation</u>	<u>Principal</u> <u>Activity</u>	<u>2008</u> <u>Holding</u>	<u>2007</u> <u>Holding</u>
Abbott India Limited	India	Healthcare	68.9%	65.1%

9. DEBTORS

	<u>2008</u>	<u>2007</u>
	<u>£000's</u>	<u>£000's</u>
Due from other group undertakings falling due within one year	<u>327</u>	<u>287</u>
	<u>327</u>	<u>287</u>

10. CREDITORS

	<u>2008</u>	<u>2007</u>
	<u>£000's</u>	<u>£000's</u>
Corporation tax payable	12	102
Accruals	<u>12</u>	<u>14</u>
	<u>24</u>	<u>116</u>

11. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>2008</u>	<u>2007</u>
	<u>£000's</u>	<u>£000's</u>
Profit for the financial year	2,134	2,414
Dividends paid	<u>(2,100)</u>	<u>(12,000)</u>
Net addition / (deduction) to shareholders' funds	<u>34</u>	<u>(9,586)</u>
Opening shareholders' funds	<u>50,419</u>	<u>60,005</u>
Closing shareholders' funds	<u>50,453</u>	<u>50,419</u>

NOTES TO THE ACCOUNTS (Continued)
For the year ended 30 November 2008

12. RESERVES

	Share Premium	Other reserves £000's	Profit & loss account £000's	Total £000's
At 1 December 2007	9,971	40,145	303	50,419
Profit for the year	-	-	2,134	2,134
Dividends	-	-	(2,100)	(2,100)
At 30 November 2008	9,971	40,145	337	50,453

13. CALLED UP SHARE CAPITAL

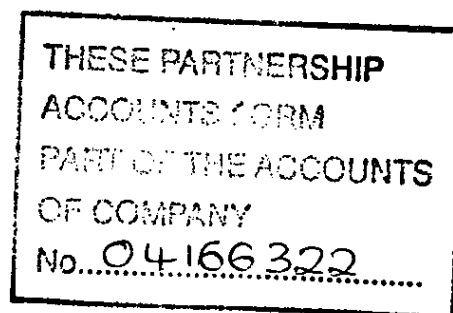
	2008 £	2007 £
<i>Authorised</i>		
100 ordinary shares of £1 each	100	100
<i>Called up, allotted and fully paid</i>		
2 ordinary shares of £1 each	2	2

14. ULTIMATE HOLDING COMPANY AND GROUP STRUCTURE

a) Under the Companies Act 1985 s228A, the company is exempt from the obligation to prepare and deliver group accounts. The immediate parent company of Abbott Capital India Limited is Abbott Asia Investments Limited, incorporated in the United Kingdom. The smallest and largest group into which the results of Abbott Capital India Limited are consolidated is the ultimate parent company Abbott Laboratories, incorporated in the State of Illinois, USA. The consolidated accounts are available to the public and may be obtained from Abbott Laboratories, 100 Abbott Park Road, Abbott Park, IL60064-6400, USA.

b) A material element of the company's activities are transacted with companies in the Abbott Laboratories Group. As permitted by Financial Reporting Standard 8, details of such transactions are not provided in these accounts as the company is a wholly-owned subsidiary undertaking and the consolidated accounts of the group are available to the public (see (a) above).

40	Consolidated Statement of Earnings
41	Consolidated Statement of Cash Flows
42	Consolidated Balance Sheet
44	Consolidated Statement of Shareholders' Investment
45	Notes to Consolidated Financial Statements
58	Management Report on Internal Control Over Financial Reporting
59	Reports of Independent Registered Public Accounting Firm
60	Financial Instruments and Risk Management
61	Financial Review
69	Performance Graph
70	Summary of Selected Financial Data
71	Directors and Corporate Officers
72	Shareholder and Corporate Information



Consolidated Statement of Earnings

(dollars and shares in thousands except per share data)

Year Ended December 31	2008	2007	2006
Net Sales	\$29,527,552	\$25,914,238	\$22,476,322
Cost of products sold	12,612,022	11,422,046	9,815,147
Research and development	2,688,811	2,505,649	2,255,271
Acquired in-process and collaborations research and development	97,256	—	2,014,000
Selling, general and administrative	8,435,624	7,407,998	6,349,685
Total Operating Cost and Expenses	23,833,713	21,335,693	20,434,103
Operating Earnings	5,693,839	4,578,545	2,042,219
Interest expense	528,474	593,142	416,172
Interest (income)	(201,229)	(136,752)	(123,825)
(Income) from TAP Pharmaceutical Products Inc. joint venture	(118,997)	(498,016)	(475,811)
Net foreign exchange (gain) loss	84,244	14,997	28,441
Other (income) expense, net	(454,939)	135,526	(79,128)
Earnings from Continuing Operations Before Taxes	5,856,286	4,469,648	2,276,370
Taxes on Earnings from Continuing Operations	1,122,070	863,334	559,615
Earnings from Continuing Operations	4,734,216	3,606,314	1,716,755
Gain on Sale of Discontinued Operations, net of taxes	146,503	—	—
Net Earnings	\$ 4,880,719	\$ 3,606,314	\$ 1,716,755
Basic Earnings Per Common Share —			
Continuing Operations	\$ 3.06	\$ 2.34	\$ 1.12
Gain on Sale of Discontinued Operations, net of taxes	0.10	—	—
Net Earnings	\$ 3.16	\$ 2.34	\$ 1.12
Diluted Earnings Per Common Share —			
Continuing Operations	\$ 3.03	\$ 2.31	\$ 1.12
Gain on Sale of Discontinued Operations, net of taxes	0.09	—	—
Net Earnings	\$ 3.12	\$ 2.31	\$ 1.12
Average Number of Common Shares Outstanding			
Used for Basic Earnings Per Common Share	1,545,355	1,543,082	1,529,848
Dilutive Common Stock Options and Awards	15,398	16,975	6,876
Average Number of Common Shares Outstanding			
Plus Dilutive Common Stock Options and Awards	1,560,753	1,560,057	1,536,724
Outstanding Common Stock Options Having No Dilutive Effect	30,579	6,406	23,567

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

Consolidated Statement of Cash Flows

(dollars in thousands)

Year Ended December 31	2008	2007	2006
Cash Flow From (Used in) Operating Activities of Continuing Operations:			
Net earnings	\$ 4,880,719	\$ 3,606,314	\$ 1,716,755
Less: Gain on sale of discontinued operations	146,503	—	—
Earnings from continuing operations	4,734,216	3,606,314	1,716,755
Adjustments to reconcile earnings from continuing operations to net cash from operating activities of continuing operations —			
Depreciation	1,051,728	1,072,855	983,485
Amortization of intangible assets	787,101	782,031	575,265
Share-based compensation	347,015	429,677	329,957
Gain on dissolution of TAP Pharmaceutical Products Inc. joint venture	(94,248)	—	—
Acquired in-process research and development	97,256	—	1,927,300
Investing and financing (gains) losses, net	111,238	356,331	277,388
Trade receivables	(948,314)	(431,846)	(101,781)
Inventories	(257,476)	131,324	104,653
Prepaid expenses and other assets	436,218	(418,344)	(283,455)
Trade accounts payable and other liabilities	569,056	(82,960)	(183,203)
Income taxes	160,830	(261,539)	(84,275)
Net Cash From Operating Activities of Continuing Operations	6,994,620	5,183,843	5,262,089
Cash Flow From (Used in) Investing Activities of Continuing Operations:			
Contingent consideration paid relating to a business acquisition	(250,000)	—	—
Acquisitions of businesses and technologies, net of cash acquired	—	—	(7,923,163)
Acquisitions of property and equipment	(1,287,724)	(1,656,207)	(1,337,818)
Sales of (investment in) Boston Scientific common stock; and (investments in) note receivable and derivative financial instruments	318,645	568,437	(2,095,780)
Purchases of investment securities	(923,937)	(32,852)	(33,632)
Proceeds from sales of investment securities	130,586	17,830	18,476
Other	(75,061)	(33,485)	(25,712)
Net Cash (Used in) Investing Activities of Continuing Operations	(2,087,491)	(1,136,277)	(11,397,629)
Cash Flow From (Used in) Financing Activities of Continuing Operations:			
(Repayments of) net proceeds from issuance of short-term debt and other	(324,739)	(3,603,481)	5,183,225
Proceeds from issuance of long-term debt	—	3,500,000	4,000,000
Repayments of long-term debt	(913,948)	(441,012)	(3,532,408)
Purchases of common shares	(1,081,806)	(1,058,793)	(754,502)
Proceeds from stock options exercised, including income tax benefit	1,008,843	1,249,804	502,782
Dividends paid	(2,174,252)	(1,959,150)	(1,777,170)
Net Cash (Used in) From Financing Activities of Continuing Operations	(3,485,902)	(2,312,632)	3,621,927
Effect of exchange rate changes on cash and cash equivalents	(115,160)	200,258	73,966
Net cash provided from the sale of discontinued operations in 2008 and from operating activities of discontinued operations of Hospira, Inc. in 2006	349,571	—	67,152
Net Increase (Decrease) in Cash and Cash Equivalents	1,655,638	1,935,192	(2,372,495)
Cash and Cash Equivalents, Beginning of Year	2,456,384	521,192	2,893,687
Cash and Cash Equivalents, End of Year	\$ 4,112,022	\$ 2,456,384	\$ 521,192

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

Consolidated Balance Sheet

(dollars in thousands)

December 31	2008	2007	2006
Assets			
Current Assets:			
Cash and cash equivalents	\$ 4,112,022	\$ 2,456,384	\$ 521,192
Investments, including \$307,500 of investments measured at fair value at December 31, 2007	967,603	364,443	852,243
Trade receivables, less allowances of — 2008: \$263,632; 2007: \$258,288; 2006: \$215,443	5,465,660	4,946,876	4,231,142
Inventories:			
Finished products	1,545,950	1,677,083	1,338,349
Work in process	698,140	681,634	686,425
Materials	531,759	592,725	781,647
Total inventories	2,775,849	2,951,442	2,806,421
Deferred income taxes	2,462,871	2,109,872	1,716,916
Other prepaid expenses and receivables	1,258,554	1,213,716	1,153,969
Total Current Assets	17,042,559	14,042,733	11,281,883
Investments	1,073,736	1,125,262	1,229,873
Property and Equipment, at Cost:			
Land	509,606	494,021	488,342
Buildings	3,698,861	3,589,050	3,228,485
Equipment	10,366,267	10,393,402	9,947,503
Construction in progress	613,939	1,121,328	737,609
	15,188,673	15,597,801	14,401,939
Less: accumulated depreciation and amortization	7,969,507	8,079,652	7,455,504
Net Property and Equipment	7,219,166	7,518,149	6,946,435
Intangible Assets, net of amortization	5,151,106	5,720,478	6,403,619
Goodwill	9,987,361	10,128,841	9,449,281
Deferred Income Taxes and Other Assets	1,945,276	1,178,461	867,081
	\$42,419,204	\$39,713,924	\$36,178,172

Consolidated Balance Sheet

(dollars in thousands)

December 31	2008	2007	2006
Liabilities and Shareholders' Investment			
Current Liabilities:			
Short-term borrowings	\$ 1,691,069	\$ 1,827,361	\$ 5,305,985
Trade accounts payable	1,351,436	1,219,529	1,175,590
Salaries, wages and commissions	1,011,312	859,784	807,283
Other accrued liabilities	4,216,742	3,713,104	3,850,723
Dividends payable	559,064	504,540	453,994
Income taxes payable	805,397	80,406	262,344
Obligation in connection with conclusion of			
TAP Pharmaceutical Products Inc. joint venture	915,982	—	—
Current portion of long-term debt	1,040,906	898,554	95,276
Total Current Liabilities	11,591,908	9,103,278	11,951,195
Long-term Debt	8,713,327	9,487,789	7,009,664
Post-employment Obligations and Other Long-term Liabilities	4,634,418	3,344,317	3,163,127

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: 2008: 1,601,580,899; 2007:

1,580,854,677; 2006: 1,550,590,438

Common shares held in treasury, at cost —

Shares: 2008: 49,147,968;

2007: 30,944,537; 2006: 13,347,272

Earnings employed in the business

Accumulated other comprehensive income (loss)

Total Shareholders' Investment

	7,444,411	6,104,102	4,290,929
	(2,626,404)	(1,213,134)	(195,237)
	13,825,383	10,805,809	9,568,728
	(1,163,839)	2,081,763	389,766
	17,479,551	17,778,540	14,054,186
	\$42,419,204	\$39,713,924	\$36,178,172

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

Consolidated Statement of Shareholders' Investment

(dollars in thousands except per share data)

Year Ended December 31	2008	2007	2006
Common Shares:			
Beginning of Year			
Shares: 2008: 1,580,854,677; 2007: 1,550,590,438; 2006: 1,553,769,958	\$ 6,104,102	\$ 4,290,929	\$ 3,477,460
Issued under incentive stock programs			
Shares: 2008: 20,726,222; 2007: 30,264,239; 2006: 14,456,341	1,001,507	1,316,294	526,435
Tax benefit from option shares and vesting of restricted stock awards (no share effect)	64,714	163,808	42,062
Share-based compensation	342,315	433,319	337,428
Issuance of restricted stock awards	(68,227)	(100,248)	(52,392)
Retired - Shares: 2006: 17,635,861	—	—	(40,064)
End of Year			
Shares: 2008: 1,601,580,899; 2007: 1,580,854,677; 2006: 1,550,590,438	\$ 7,444,411	\$ 6,104,102	\$ 4,290,929
Common Shares Held in Treasury:			
Beginning of Year			
Shares: 2008: 30,944,537; 2007: 13,347,272; 2006: 14,534,979	\$ (1,213,134)	\$ (195,237)	\$ (212,255)
Private transaction in 2008			
Shares purchased: 15,176,500			
Shares issued: 14,870,195	(378,931)	—	—
Issued under incentive stock programs			
Shares: 2008: 1,607,326; 2007: 2,063,123; 2006: 1,197,838	40,946	37,080	17,492
Purchased			
Shares: 2008: 19,504,452; 2007: 19,660,388; 2006: 10,131	(1,075,285)	(1,054,977)	(474)
End of Year			
Shares: 2008: 49,147,968; 2007: 30,944,537; 2006: 13,347,272	\$ (2,626,404)	\$ (1,213,134)	\$ (195,237)
Earnings Employed in the Business:			
Beginning of Year	\$10,805,809	\$ 9,568,728	\$10,404,568
Net earnings	4,880,719	3,606,314	1,716,755
Cash dividends declared on common shares (per share - 2008: \$1.44; 2007: \$1.30; 2006: \$1.18)	(2,228,776)	(2,009,696)	(1,807,829)
Reclassification resulting from the application of the fair value option to Boston Scientific common stock, net of tax	—	(188,534)	—
Cost of common shares retired in excess of stated capital amount	(70,590)	(237,958)	(780,152)
Cost of treasury shares issued below market value	438,221	66,955	35,386
End of Year	\$13,825,383	\$10,805,809	\$ 9,568,728
Accumulated Other Comprehensive Income (Loss):			
Beginning of Year	\$ 2,081,763	\$ 389,766	\$ 745,498
Reclassification resulting from the application of the fair value option to Boston Scientific common stock, net of tax	—	181,834	—
Beginning of Year, as adjusted	2,081,763	571,600	745,498
Other comprehensive (loss) income	(3,245,602)	1,510,163	898,266
Adjustment to recognize net actuarial gain (loss) and prior service cost as a component of accumulated other comprehensive income (loss), net of tax	—	—	(1,253,998)
End of Year	\$ (1,163,839)	\$ 2,081,763	\$ 389,766
Comprehensive Income	\$ 1,635,117	\$ 5,116,477	\$ 2,615,021

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.

Concentration of Risk and Guarantees — Due to the nature of its operations, Abbott is not subject to significant concentration risks relating to customers, products or geographic locations, except that three U.S. wholesalers accounted for 27 percent, 25 percent and 23 percent of trade receivables as of December 31, 2008, 2007 and 2006, 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. In connection with the spin-off of Hospira, Inc., Abbott has retained liabilities for taxes on income prior to the spin-off and certain potential liabilities, if any, related to alleged improper pricing practices in connection with federal, state and private reimbursement for certain drugs.

Basis of Consolidation — The consolidated financial statements include the accounts of the parent company and subsidiaries, after elimination of intercompany transactions. The accounts of foreign subsidiaries are consolidated as of November 30, due to the time needed to consolidate these subsidiaries. No events occurred related to these foreign subsidiaries in December 2008, 2007 and 2006 that materially affected the financial position, results of operations or cash flows.

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

Revenue Recognition — Revenue from product sales is recognized upon passage of title and risk of loss to customers. Provisions for discounts, rebates and sales incentives to customers, and returns and other adjustments are provided for in the period the related sales are recorded. Sales incentives to customers are not material. Historical data is readily available and reliable, and is used for estimating the amount of the reduction in gross sales. Revenue from the launch of a new product, from an improved version of an existing product, or for shipments in excess of a customer's normal requirements are recorded when the conditions noted above are met. In those situations, management records a returns reserve for such

revenue, if necessary. Sales of product rights for marketable products are recorded as revenue upon disposition of the rights. Revenue from license of product rights, or for performance of research or selling activities, is recorded over the periods earned.

Income Taxes — On January 1, 2007, Abbott adopted the provisions of FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes." Under this Interpretation, 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. 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.

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. On December 31, 2006, Abbott adopted the provisions of SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." This statement requires recognition of the deferrals on the balance sheet with a corresponding charge to Accumulated other comprehensive income (loss). Adoption of this statement on December 31, 2006 resulted in a decrease in Abbott's shareholders' equity of approximately \$1.3 billion.

Fair Value Measurements — On January 1, 2007, Abbott adopted SFAS No. 157 "Fair Value Measurements." Adoption of the provisions of this standard did not have a material effect on Abbott's financial position. 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 and goodwill are reviewed for impairment at least on a quarterly and annual basis, respectively.

Notes to Consolidated Financial Statements

Share-Based Compensation — The value of stock options and restricted stock awards and units are amortized over their service period, which could be shorter than the vesting period if an employee is retirement eligible, with a charge to compensation expense.

Litigation — Abbott accounts for litigation losses in accordance with SFAS No. 5. Under SFAS No. 5, 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.

Cash, Cash Equivalents and Investments — Cash equivalents consist of time deposits and certificates of deposit with original maturities of three months or less. Except for Abbott's investment in the common stock of Boston Scientific, 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). Beginning on January 1, 2007, the investment in the common stock of Boston Scientific was accounted for as a trading security with changes in fair value recorded in income. 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 market value exists. Abbott considers factors affecting the investee, factors affecting the industry the investee operates in and general equity market trends. Abbott considers the length of time an investment's market value has been below carrying value and the near-term prospects for recovery to carrying value. When Abbott determines that an other than temporary decline has occurred, the investment is written down with a charge to Other (income) expense, net.

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

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

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

Product Liability — Abbott accrues for product liability claims, on an undiscounted basis, when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated based on existing information. The liabilities are adjusted quarterly as additional information becomes available. Recoveries 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. Abbott carried third-party insurance coverage in amounts that reflect historical loss experience, which does not include coverage for sizable losses. Subsequent to 2008, product liability losses will be 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.

Note 2 — Supplemental Financial Information

(dollars in millions)

Current Investments:	2008	2007	2006
Time deposits and certificates of deposit	\$ 968	\$ 56	\$ 77
Boston Scientific common stock	—	308	775
Total	\$ 968	\$ 364	\$ 852

(dollars in millions)

Long-term Investments:	2008	2007	2006
Boston Scientific common stock	\$ —	\$ —	\$ 248
Other equity securities	147	229	130
Note receivable from Boston Scientific,			
4% interest, due in 2011	865	851	837
Other	62	45	15
Total	\$1,074	\$1,125	\$1,230

In 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities." SFAS No. 159 allows companies to measure specific financial assets and liabilities at fair value, such as debt or equity investments. The fair value option for the investment in Boston Scientific common stock was applied effective January 1, 2007. Abbott applied the fair value option to its investment in Boston Scientific stock under SFAS No. 159 because, unlike its other equity investments, the Boston Scientific stock is not a strategic investment and Abbott was required to dispose of the stock no later than October 2008. Abbott was subject to a limitation on the amount of shares it may sell in any one month through October 2007 and Abbott did not reacquire the Boston Scientific shares it sold. Accordingly, since at adoption, realized gains or losses were expected in the near future, the fair value option better represented the near-term expected earnings impact from sales of the stock. Under the fair value option, any cumulative unrealized gains or losses on an equity investment previously accounted for as an available-for-sale security is recorded as a cumulative effect adjustment to retained earnings as of the date of adoption of the standard. The pretax and after tax adjustment to Earnings employed in the business upon adoption was \$297 million and \$189 million, respectively, and the fair value and carrying amount of the investment before and after adoption was approximately \$1.0 billion. The pretax and after tax adjustment to Accumulated other comprehensive income (loss) was \$303 million and \$182 million, respectively. The effect of the adoption on deferred income taxes was not significant.

As described in footnote 3, Abbott recorded a gain of approximately \$94 million in connection with the dissolution of the TAP Pharmaceutical Products Inc. joint venture in 2008, which is included in Other (income) expense, net. Other (income) expense, net for 2008 also includes a gain of approximately \$52 million on the sale of an equity investment accounted for as an available-for-sale investment. The remainder of

Notes to Consolidated Financial Statements

Other (income) expense, net for 2008 relates primarily to contractual payments based on specified development, approval and commercial events being achieved with respect to products retained by Takeda and payments from Takeda based on sales of products retained by Takeda. Other (income) expense, net for 2007 includes a \$190 million fair market value loss adjustment to Abbott's investment in Boston Scientific common stock and a realized gain of \$37 million on the sales of Boston Scientific common stock. Other (income) expense, net for 2007 and 2006 includes fair value gain adjustments of \$28 million and \$91 million, respectively, to certain derivative financial instruments included with the investment in Boston Scientific common stock.

(dollars in millions)

Other Accrued Liabilities:	2008	2007	2006
Accrued rebates payable to government agencies	\$ 577	\$ 662	\$ 661
Accrued other rebates (a)	455	444	391
All other	3,185	2,607	2,799
Total	\$4,217	\$3,713	\$3,851

(a) Accrued wholesaler chargeback rebates of \$210, \$157 and \$123 at December 31, 2008, 2007 and 2006, 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.

(dollars in millions)

Post-employment Obligations and Other Long-term Liabilities:	2008	2007	2006
Defined benefit pension plans and post-employment medical and dental plans for significant plans	\$2,713	\$1,872	\$1,897
All other	1,921	1,472	1,266
Total	\$4,634	\$3,344	\$3,163

(dollars in millions)

Comprehensive Income, net of tax:	2008	2007	2006
Foreign currency (loss) gain translation adjustments	\$(2,208)	\$1,153	\$1,039
Net actuarial (losses) gains and prior service cost and credits and amortization of net actuarial losses and prior service cost and credits, net of taxes of \$638 in 2008 and \$(226) in 2007	(987)	343	—
Unrealized (losses) gains on marketable equity securities, net of taxes of \$28 in 2008, \$(31) in 2007 and \$119 in 2006	(49)	54	(178)
Net adjustments for derivative instruments designated as cash flow hedges	(2)	(40)	37
Other comprehensive (loss) income	(3,246)	1,510	898
Net Earnings	4,881	3,606	1,717
Comprehensive Income	\$ 1,635	\$5,116	\$2,615

(dollars in millions)

Supplemental Accumulated Other Comprehensive Income Information, net of tax:	2008	2007	2006
Cumulative foreign currency translation (gain) adjustments	\$ (740)	\$(2,948)	\$(1,795)
Net actuarial losses and prior service cost and credits	1,901	914	1,257
Cumulative unrealized (gains) loss on marketable equity securities	(17)	(66)	169
Cumulative losses (gain) on derivative instruments designated as cash flow hedges	20	18	(21)

On December 31, 2006, Abbott adopted the provisions of SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." Adoption of this statement resulted in a decrease in Abbott's shareholders' equity of \$1.3 billion net of taxes of approximately \$733 million.

(dollars in millions)

Supplemental Cash Flow Information:	2008	2007	2006
Income taxes paid	\$772	\$952	\$1,282
Interest paid	561	564	429

For the acquired *Lupron* business in 2008, as discussed in footnote 3, Abbott recorded intangible assets, primarily *Lupron* product rights, of approximately \$700 million, goodwill of approximately \$350 million and deferred tax liabilities related to the intangible assets of approximately \$260 million. Abbott also recorded a liability of approximately \$1.1 billion relating to an agreement to remit cash to Takeda if certain research and development events are not achieved on the development assets retained by Takeda. Related deferred tax assets of approximately \$410 million were also recorded, resulting in an after-tax liability of approximately \$700 million. The sale of Abbott's equity interest in TAP resulted in the recording of net assets related to the *Lupron* business, primarily cash, receivables, inventory and other assets, net of accounts payable and other accrued liabilities, offset by a credit to Abbott's investment in TAP in the amount of approximately \$280 million.

Note 3 — Conclusion of TAP Pharmaceutical Products Inc. Joint Venture and Sale of Abbott's Spine Business

On April 30, 2008, Abbott and Takeda concluded their TAP Pharmaceutical Products Inc. (TAP) joint venture, evenly splitting the value and assets of the joint venture. Abbott exchanged its 50 percent equity interest in TAP for the assets, liabilities and employees related to TAP's *Lupron* business. Subsequent to the conclusion of the joint venture, TAP was merged into two Takeda entities. The exchange of Abbott's investment in TAP for TAP's *Lupron* business resulted in a gain at closing of approximately \$94 million. The Internal Revenue Service has issued a private letter ruling that the transaction qualifies as tax-free for U.S. income tax purposes.

Notes to Consolidated Financial Statements

Beginning on May 1, 2008, Abbott began recording U.S. *Lupron* net sales and costs in its operating results and no longer records income from the TAP joint venture. TAP's sales of *Lupron* were \$182 million for the four months ended April 30, 2008 and \$645 million and \$662 million in 2007 and 2006, respectively. Abbott also receives payments based on specified development, approval and commercial events being achieved with respect to products retained by Takeda and payments from Takeda based on sales of products retained by Takeda, which are recorded by Abbott as Other (income) expense, net as earned. Such payments, which are subject to tax, are expected to approximate \$1.4 billion over the five-year period beginning on May 1, 2008.

The exchange transaction was accounted for as a sale of Abbott's equity interest in TAP and as an acquisition of TAP's *Lupron* business under SFAS No. 141 "Business Combinations." The sale of Abbott's equity interest in TAP resulted in the recording of net assets related to the *Lupron* business, primarily cash, receivables, inventory and other assets, net of accounts payable and other accrued liabilities, offset by a credit to Abbott's investment in TAP in the amount of approximately \$280 million.

For the acquired *Lupron* business, Abbott recorded intangible assets, primarily *Lupron* product rights, of approximately \$700 million, goodwill of approximately \$350 million and deferred tax liabilities related primarily to the intangible assets of approximately \$260 million. The intangible assets are being amortized over 15 years. Abbott has also agreed to remit cash to Takeda if certain research and development events are not achieved on the development assets retained by Takeda. These amounts were recorded as a liability at closing in the amount of approximately \$1.1 billion. Related deferred tax assets of approximately \$410 million were also recorded, resulting in an after-tax liability of approximately \$700 million. Of the \$1.1 billion, Abbott made a tax-deductible payment of \$200 million in 2008 and Abbott will make a tax-deductible payment of approximately \$120 million in 2009. If the remaining payments are not required, the liability would be reduced and a gain would be recorded.

The 50 percent-owned joint venture was accounted for under the equity method of accounting. Summarized financial information for TAP follows below. The results for 2008 include results through April 30.

(dollars in millions)

Year Ended December 31	2008	2007	2006
Net sales	\$853	\$3,002	\$3,363
Cost of sales	229	720	836
Income before taxes	356	1,564	1,524
Net income	238	996	952

In the fourth quarter of 2008, Abbott sold its spine business for approximately \$360 million in cash, resulting in an after-tax gain of approximately \$147 million which is presented as Gain on sale of discontinued operations, net of taxes, in the accompanying statement of income. The operations and financial position of the spine business are not presented as discontinued operations because the effects would not be significant.

Note 4 — Financial Instruments, Derivatives and Fair Value Measures

Certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U.S. dollar. These contracts, totaling \$129 million, \$281 million and \$768 million at December 31, 2008, 2007 and 2006, respectively, are designated as cash flow hedges of the variability of the cash flows due to changes in foreign exchange rates. Abbott records the contracts at fair value, resulting in charges of \$2 million and \$12 million in 2008 and 2007, respectively, and a credit of \$16 million to Accumulated other comprehensive income (loss) in 2006. Ineffectiveness recorded in 2008, 2007 or 2006 was not significant. Accumulated gains and losses as of December 31, 2008 will be included in Cost of products sold at the time the products are sold, generally through the next twelve months.

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. These contracts are recorded at fair value, with the resulting gains or losses reflected in income as Net foreign exchange (gain) loss. At December 31, 2008, 2007 and 2006, Abbott held \$8.3 billion, \$5.5 billion and \$5.6 billion, respectively, of such foreign currency forward exchange contracts.

Abbott has designated foreign denominated short-term debt as a hedge of the net investment in certain foreign subsidiaries of approximately \$585 million and approximately \$1.7 billion as of December 31, 2008 and 2007, 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, resulting in charges of \$134 million and \$72 million to Accumulated other comprehensive income (loss) in 2008 and 2007, respectively.

Abbott is a party to interest rate hedge contracts totaling \$2.5 billion at December 31, 2008 and \$1.5 billion at December 31, 2007 and 2006 to manage its exposure to changes in the fair value of \$2.5 billion and \$1.5 billion, respectively, of fixed-rate debt due 2009 through 2017. 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 2008, 2007 and 2006.

Notes to Consolidated Financial Statements

Gross unrealized holding gains (losses) on available-for-sale equity securities totaled \$55 million and \$(23) million, respectively, at December 31, 2008; \$108 million and \$(3) million, respectively, at December 31, 2007 and \$21 million and \$(304) million, respectively, at December 31, 2006.

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 counter parties to financial instruments consist of select major international financial institutions. Abbott does not expect any losses from nonperformance by these counter parties.

(dollars in millions)	2008		2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Current Investments:						
Available-for-Sale Equity Securities	\$ —	\$ —	\$ —	\$ —	\$ 775	\$ 775
Trading Securities	—	—	308	308	—	—
Other	968	968	56	56	77	77
Long-term Investments:						
Available-for-Sale Equity Securities	147	147	229	229	378	378
Note Receivable	865	824	851	809	837	849
Other	62	56	45	40	15	15
Total Long-term Debt	(9,754)	(10,458)	(10,386)	(10,593)	(7,105)	(7,113)
Foreign Currency Forward Exchange Contracts:						
Receivable position	148	148	24	24	34	34
(Payable) position	(100)	(100)	(45)	(45)	(86)	(86)
Interest Rate Hedge Contracts	170	170	(25)	(25)	(85)	(85)

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

(dollars in millions)	Basis of Fair Value Measurement			
	Outstanding Balances	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2008:				
Equity and other securities	\$ 144	\$105	\$ 10	\$29
Foreign currency forward exchange contracts	148	—	148	—
Interest rate swap financial instruments	170	—	170	—
Financial assets relating to TAP employees' stock options	16	—	—	16
Total Assets	\$ 478	\$105	\$ 328	\$45
Fair value of hedged long-term debt	\$2,670	\$ —	\$2,670	\$ —
Foreign currency forward exchange contracts	100	—	100	—
Financial liabilities relating to TAP employees' stock options	24	—	—	24
Total Liabilities	\$2,794	\$ —	\$2,770	\$24
December 31, 2007:				
Trading securities	\$ 308	\$308	\$ —	\$ —
Marketable available-for-sale securities	193	193	—	—
Foreign currency forward exchange contracts	24	—	24	—
Total Assets	\$ 525	\$501	\$ 24	\$ —
Fair value of hedged long-term debt	\$1,475	\$ —	\$1,475	\$ —
Interest rate swap financial instruments	25	—	25	—
Foreign currency forward exchange contracts	45	—	45	—
Total Liabilities	\$1,545	\$ —	\$1,545	\$ —

In connection with the conclusion of the TAP Pharmaceutical Products Inc. joint venture, Abbott recorded derivative financial assets and liabilities related to stock options previously granted to TAP's employees. The amounts of these assets and liabilities were calculated using both the Black-Scholes option-pricing model and the intrinsic value of the options. From April 30, 2008 to December 31, 2008, both the assets and liabilities decreased by approximately \$29 million. The effect of the changes in these assets and liabilities substantially offset each other.

In addition, Abbott received investments in 2008 that are valued using significant unobservable inputs. The recorded value of these investments did not change significantly. In 2007, adjustments to record a derivative financial instrument liability whose value was derived using significant unobservable inputs resulted in a credit to Other (income) expense, net, in the amount of \$25 million. The value of this derivative financial instrument liability was zero at December 31, 2007.

Notes to Consolidated Financial Statements

Note 5 — Post-Employment Benefits

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

(dollars in millions)	Defined Benefit Plans			Medical and Dental Plans		
	2008	2007	2006	2008	2007	2006
Projected benefit obligations, January 1	\$ 5,783	\$5,614	\$5,041	\$ 1,514	\$ 1,520	\$ 1,292
Service cost — benefits earned during the year	233	249	219	43	58	56
Interest cost on projected benefit obligations	353	316	275	92	97	80
Losses (gains), primarily changes in discount and medical cost trend rates, plan design changes, law changes and differences between actual and estimated health care costs	(278)	(309)	64	(158)	(100)	134
Benefits paid	(241)	(228)	(213)	(68)	(61)	(68)
Other, primarily foreign currency translation	(309)	141	228	20	—	26
Projected benefit obligations, December 31	\$ 5,541	\$5,783	\$5,614	\$ 1,443	\$ 1,514	\$ 1,520
Plans' assets at fair value, January 1	\$ 5,667	\$5,086	\$4,349	\$ 307	\$ 212	\$ 149
Actual return on plans' assets	(1,568)	442	508	(106)	20	23
Company contributions	285	283	266	133	136	108
Benefits paid	(241)	(228)	(213)	(68)	(61)	(68)
Other, primarily foreign currency translation	(146)	84	176	—	—	—
Plans' assets at fair value, December 31	\$ 3,997	\$5,667	\$5,086	\$ 266	\$ 307	\$ 212
Projected benefit obligations greater than plans' assets, December 31	\$(1,544)	\$ (116)	\$ (528)	\$(1,177)	\$(1,207)	\$(1,308)
Long-term assets	\$ 16	\$ 576	\$ 84	\$ —	\$ —	\$ —
Short-term liabilities	(24)	(27)	(23)	—	—	—
Long-term liabilities	(1,536)	(665)	(589)	(1,177)	(1,207)	(1,308)
Net liability	\$(1,544)	\$ (116)	\$ (528)	\$(1,177)	\$(1,207)	\$(1,308)
Amounts Recognized in Accumulated Other Comprehensive Income (loss):						
Actuarial losses, net	\$ 2,554	\$ 920	\$1,343	\$ 587	\$ 635	\$ 786
Prior service cost (credits)	38	40	43	(208)	(227)	(249)
Total	\$ 2,592	\$ 960	\$1,386	\$ 381	\$ 408	\$ 537

The projected benefit obligations for non-U.S. defined benefit plans was \$1.3 billion, \$1.8 billion and \$1.5 billion at December 31, 2008, 2007 and 2006, respectively. The accumulated benefit obligations for all defined benefit plans was \$4.7 billion, \$4.9 billion and \$4.7 billion at December 31, 2008, 2007 and 2006, respectively. For plans where the accumulated benefit obligations exceeded plan assets at

December 31, 2008, 2007 and 2006, the aggregate accumulated benefit obligations were \$4.2 billion, \$697 million and \$544 million, respectively; the projected benefit obligations were \$4.8 billion, \$770 million and \$592 million, respectively; and the aggregate plan assets were \$3.3 billion, \$84 million and \$22 million, respectively.

(dollars in millions)	Defined Benefit Plans			Medical and Dental Plans		
	2008	2007	2006	2008	2007	2006
Service cost — benefits earned during the year	\$ 233	\$ 249	\$ 219	\$ 43	\$ 58	\$ 56
Interest cost on projected benefit obligations	353	316	275	92	97	80
Expected return on plans' assets	(487)	(426)	(382)	(33)	(24)	(16)
Amortization of actuarial losses	34	81	78	29	55	44
Amortization of prior service cost (credits)	4	4	—	(21)	(22)	(21)
Total cost	\$ 137	\$ 224	\$ 190	\$110	\$164	\$143

Notes to Consolidated Financial Statements

Other comprehensive income (loss) for 2008 includes amortization of actuarial losses and prior service cost of \$34 million and \$4 million, respectively, and net actuarial losses of \$1.6 billion for defined benefit plans and amortization of actuarial losses and prior service credits of \$29 million and \$21 million, respectively, and net actuarial gains of \$19 million for medical and dental plans. Other comprehensive income (loss) for 2007 includes amortization of actuarial losses and prior service cost of \$81 million and \$4 million, respectively, and net actuarial gains of \$341 million for defined benefit plans and amortization of actuarial losses and prior service credits of \$55 million and \$22 million, respectively, and net actuarial gains of \$96 million for medical and dental plans. The pretax amount of actuarial losses and prior service cost (credits) included in Accumulated other comprehensive income (loss) at December 31, 2008 that is expected to be recognized in the net periodic benefit cost in 2009 is \$61 million and \$4 million, respectively, for defined benefit pension plans and \$32 million and \$(22) million, respectively, for medical and dental plans.

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

	2008	2007	2006
Discount rate	6.7%	6.2%	5.7%
Expected aggregate average long-term change in compensation	4.3%	4.2%	4.2%

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

	2008	2007	2006
Discount rate	6.2%	5.7%	5.5%
Expected return on plan assets	8.4%	8.3%	8.5%
Expected aggregate average long-term change in compensation	4.2%	4.2%	4.2%

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

	2008	2007	2006
Health care cost trend rate assumed for the next year	7%	7%	7%
Rate that the cost trend rate gradually declines to	5%	5%	5%
Year that rate reaches the assumed ultimate rate	2012	2012	2012

The discount rates used to measure liabilities were determined based on high-quality fixed income securities that match the duration of the expected retiree benefits. The health care cost trend rates represent Abbott's expected annual rates of change in the cost of health care benefits and is a forward projection of health care costs as of the measurement date. A one-percentage point increase/(decrease) in

the assumed health care cost trend rate would increase/(decrease) the accumulated post-employment benefit obligations as of December 31, 2008, by \$193 million /\$(157) 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 \$23 million /\$(18) million.

Approximately 58 percent of Abbott's U.S. defined benefit plans and medical and dental plans assets are invested in equity securities, 30 percent in fixed income securities, and the remainder in other securities, which consist of investment partnerships that employ diverse investment strategies across a wide variety of asset classes and financial instruments. The investment mix of equity securities, fixed income and other securities is based upon achieving a desired return, balancing higher return, more volatile equity securities, and lower return, less volatile fixed income securities. Abbott's domestic plans are invested in diversified portfolios of public-market equity and 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. Abbott's international defined benefit plans are invested approximately 70 percent in equities and 30 percent in fixed income securities.

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. In 2008, 2007 and 2006, \$200 million was funded to the main domestic pension plan. International pension plans are funded according to similar regulations. Abbott expects pension funding for its main domestic pension plan of \$700 million in 2009 and \$200 million annually thereafter.

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:

	Defined Benefit Plans	Medical and Dental Plans
(dollars in millions)		
2009	\$ 237	\$ 80
2010	245	85
2011	253	90
2012	266	94
2013	277	97
2014 to 2018	1,706	557

The Abbott Stock Retirement Plan is the principal defined contribution plan. Abbott's contributions to this plan were \$129 million in 2008, \$119 million in 2007 and \$102 million in 2006.

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

Notes to Consolidated Financial Statements

Note 6 — Taxes on Earnings

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. 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 \$14.9 billion at December 31, 2008. 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 2005 are settled, and the income tax returns for years after 2005 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.

Earnings from continuing operations before taxes, and the related provisions for taxes on earnings from continuing operations, were as follows:

(dollars in millions)

Earnings From Continuing Operations Before Taxes:	2008	2007	2006
Domestic	\$ (81)	\$ 670	\$ (869)
Foreign	5,937	3,800	3,145
Total	\$5,856	\$4,470	\$2,276

Taxes on Earnings From

Continuing Operations:	2008	2007	2006
Current:			
U.S. Federal, State and Possessions	\$1,188	\$ 564	\$ 509
Foreign	782	675	634
Total current	1,970	1,239	1,143
Deferred:			
Domestic	(845)	(304)	(545)
Foreign	(3)	(72)	(38)
Total deferred	(848)	(376)	(583)
Total	\$1,122	\$ 863	\$ 560

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

	2008	2007	2006
Statutory tax rate on earnings from continuing operations	35.0%	35.0%	35.0%
Benefit of lower foreign tax rates and tax exemptions	(16.7)	(12.6)	(18.4)
Effect of non-deductible acquired in-process research and development	—	—	19.4
State taxes, net of federal benefit	0.2	0.4	0.3
Adjustments primarily related to resolution of prior years'			
accrual requirements	(0.5)	—	(5.8)
Domestic dividend exclusion	(0.6)	(3.1)	(5.9)
All other, net	1.8	(0.4)	—
Effective tax rate on earnings from continuing operations	19.2%	19.3%	24.6%

As of December 31, 2008, 2007 and 2006, total deferred tax assets were \$5.4 billion, \$3.6 billion and \$3.2 billion, respectively, and total deferred tax liabilities were \$1.4 billion, \$1.4 billion and \$1.1 billion, respectively. Valuation allowances for deferred tax assets were not significant. The tax effect of the differences that give rise to deferred tax assets and liabilities were as follows:

(dollars in millions)	2008	2007	2006
Compensation and employee benefits	\$ 1,496	\$ 862	\$ 921
Trade receivable reserves	434	337	236
Inventory reserves	261	220	163
Deferred intercompany profit	248	262	390
State income taxes	137	84	52
Depreciation	(64)	(105)	(135)
Acquired in-process research and development and other accruals and reserves not currently deductible	2,771	1,751	1,269
Other, primarily the excess of book basis over tax basis of intangible assets	(1,293)	(1,197)	(872)
Total	\$ 3,990	\$ 2,214	\$2,024

On January 1, 2007, Abbott adopted the provisions of FASB

Interpretation No. 48 "Accounting for Uncertainty in Income Taxes."

Under this Interpretation, 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. Adoption of this Interpretation did not have a material impact on Abbott's financial position. The following table summarizes the gross amounts of unrecognized tax benefits without regard to reduction in tax liabilities or additions to deferred tax assets and liabilities if such unrecognized tax benefits were settled.

(dollars in millions)	2008	2007
January 1	\$1,126	\$ 713
Increase due to current year tax positions	385	339
Increase due to prior year tax positions	418	147
Decrease due to current year tax positions	(25)	—
Decrease due to prior year tax positions	(240)	(11)
Settlements	(121)	(62)
Lapse of statute	(20)	—
December 31	\$1,523	\$1,126

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is approximately \$1.4 billion. Abbott believes that it is reasonably possible that unrecognized tax benefits will be settled within the next twelve months as a result of concluding various tax matters. Abbott expects the range of the decrease in the recorded amounts of unrecognized tax benefits, primarily as a result of cash adjustments, to range from \$400 million to \$650 million, arising from the conclusion of these tax matters.

Notes to Consolidated Financial Statements

Note 7 — 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. Abbott's reportable segments are as follows:

Pharmaceutical Products — Worldwide sales of a broad line of pharmaceuticals. For segment reporting purposes, two pharmaceutical divisions are aggregated and reported as the Pharmaceutical Products segment.

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, three diagnostic divisions are aggregated and reported as the Diagnostic Products segment.

Vascular Products — Worldwide sales of coronary, endovascular and vessel closure products.

Abbott's underlying accounting records are maintained on a legal entity basis for government and public reporting requirements. Segment disclosures are on a performance basis consistent with internal management reporting. Intersegment transfers of inventory are recorded at standard cost and are not a measure of segment operating earnings. The cost of some corporate functions and the cost of certain employee benefits are charged to segments at predetermined rates that approximate cost. Remaining costs, if any, are not allocated to segments. For acquisitions prior to 2006, substantially all intangible assets and related amortization are not allocated to segments. The following segment information has been prepared in accordance with the internal accounting policies of Abbott, as described above, and are not presented in accordance with generally accepted accounting principles applied to the consolidated financial statements.

(dollars in millions)	Net Sales to External Customers (a)			Operating Earnings (Loss) (a)			Depreciation and Amortization			Additions to Long-term Assets			Total Assets		
	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006
Pharmaceuticals (b)	\$16,708	\$14,632	\$12,395	\$6,331	\$5,509	\$4,522	\$ 323	\$330	\$150	\$ 831	\$ 407	\$2,615	\$10,356	\$ 9,197	\$ 9,281
Nutritionals (c)	4,924	4,388	4,313	859	855	1,206	135	115	112	281	388	184	3,220	3,261	2,467
Diagnostics	3,575	3,158	2,843	375	252	240	312	286	248	270	374	373	3,218	3,792	3,734
Vascular (b)	2,241	1,663	1,082	205	(188)	(115)	240	234	157	489	312	3,637	4,822	4,706	4,400
Total Reportable															
Segments	27,448	23,841	20,633	\$7,770	\$6,428	\$5,853	\$1,010	\$965	\$667	\$1,871	\$1,481	\$6,809	\$21,616	\$20,956	\$19,882
Other	2,080	2,073	1,843												
Net Sales	\$29,528	\$25,914	\$22,476												

- (a) Net sales and operating earnings for 2008 and 2007 were favorably affected by the relatively weaker U.S. dollar and were unfavorably affected by the relatively stronger U.S. dollar in 2006.
- (b) Additions to long-term assets for the Pharmaceutical Products segment includes acquired intangible assets of \$700 in 2008 and \$821 in 2006 and goodwill of \$1,590 in 2006 and for the Vascular Products segment, includes goodwill of \$321 and \$1,688 in 2008 and 2006, respectively, and acquired intangible assets of \$1,195 in 2006.
- (c) The decrease in the Nutritional Products segment operating earnings in 2007 was primarily due to the completion of the U.S. co-promotion of Synagis in 2006.

(dollars in millions)	2008	2007	2006
Total Reportable Segment			
Operating Earnings	\$7,770	\$6,428	\$5,853
Corporate functions and			
benefit plans costs	(377)	(421)	(449)
Non-reportable segments	133	298	197
Net interest expense	(327)	(456)	(292)
Acquired in-process and collaborations			
research and development	(97)	—	(2,014)
Income from TAP Pharmaceutical			
Products Inc. joint venture	119	498	476
Share-based compensation (d)	(347)	(430)	(330)
Other, net (e)	(1,018)	(1,447)	(1,165)
Consolidated Earnings from			
Continuing Operations Before Taxes	\$5,856	\$4,470	\$2,276

(dollars in millions)	2008	2007	2006
Total Reportable Segment Assets	\$21,616	\$20,956	\$19,882
Cash and investments	6,153	3,946	2,603
Current deferred income taxes	2,463	2,110	1,717
Non-reportable segments	1,094	1,575	1,486
All other, net, primarily goodwill			
and intangible assets not allocated			
to reportable segments	11,093	11,127	10,490
Total Assets	\$42,419	\$39,714	\$36,178

- (d) The increase in share-based compensation in 2007 is partially due to the granting of replacement stock options as a result of the increase in the market value of Abbott common stock.
- (e) Other, net for 2007 includes \$197 for restructuring plans; \$256 for acquisition integration and related costs primarily associated with the acquisitions of Guidant's vascular intervention and endovascular solutions businesses and Kos Pharmaceuticals Inc. and a \$190 fair market value loss adjustment to Abbott's investment in Boston Scientific common stock.

Notes to Consolidated Financial Statements

(dollars in millions)	Net Sales to			Long-term Assets		
	External Customers (f)					
	2008	2007	2006	2008	2007	2006
United States	\$14,495	\$13,252	\$11,995	\$14,271	\$12,870	\$13,536
Japan	1,249	1,111	1,054	1,046	987	974
Germany	1,381	1,235	885	5,833	6,822	6,154
The Netherlands	1,753	1,271	1,061	175	211	185
Italy	1,089	974	848	248	288	256
Canada	924	832	762	131	156	74
France	977	854	696	114	142	131
Spain	909	731	583	284	336	283
United Kingdom	725	627	517	1,008	1,371	1,446
All Other Countries	6,026	5,027	4,075	2,267	2,488	1,857
Consolidated	\$29,528	\$25,914	\$22,478	\$25,377	\$25,671	\$24,896

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

Note 8 — 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 \$3 million, and the aggregate cleanup exposure is not expected to exceed \$15 million.

There are a number of patent disputes with third parties who claim Abbott's products infringe their patents. In one of those disputes, filed in April 2007, Abbott is unable to estimate a range of possible loss, if any, and no reserve has been recorded. Abbott's acquisition of Kos Pharmaceuticals Inc. resulted in the assumption of various cases and investigations and Abbott has recorded reserves related to several of those cases and investigations.

There are several civil actions pending brought by individuals or entities that allege generally that Abbott and numerous pharmaceutical companies reported false or misleading pricing information relating to the average wholesale price of certain pharmaceutical products in connection with federal, state and private reimbursement. Civil actions have also been brought against Abbott, and in some cases other members of the pharmaceutical industry, by state attorneys general seeking to recover alleged damages on behalf of state Medicaid programs. In May 2006, Abbott was notified that the U.S. Department of Justice

intervened in a civil whistle-blower lawsuit alleging that Abbott inflated prices for Medicaid and Medicare reimbursable drugs. Abbott has settled a few of the cases and recorded reserves for its estimated losses in a few other cases, however, Abbott is unable to estimate the range or amount of possible loss for the majority of the cases, and no loss reserves have been recorded for them. Many of the products involved in these cases are Hospira products. Hospira, Abbott's former hospital products business, was spun off to Abbott's shareholders in 2004. Abbott retained liability for losses that result from these cases and investigations to the extent any such losses both relate to the sale of Hospira's products prior to the spin-off of Hospira and relate to allegations that were made in such pending and future cases and investigations that were the same as allegations existing at the date of the spin-off.

There are several civil actions pending brought by state attorneys general and private entities alleging antitrust and unfair competition claims in connection with the sales of *TriCor*. Abbott licenses *TriCor* from a third party and the licensor has also been named as a defendant. In the fourth quarter of 2008, settlements were reached in all of these cases except the state attorneys general and indirect purchasers, however, Abbott is unable to estimate a range of loss, if any, and no loss reserves have been recorded for the remaining *TriCor* cases. There are several civil actions pending brought by private payers and others alleging antitrust claims in connection with the pricing of *Norvir*.

Within the next year, legal proceedings may occur that may result in a change in the estimated reserves recorded by Abbott. For its legal proceedings and environmental exposures, except as noted above, Abbott estimates the range of possible loss to be from approximately \$255 million to \$495 million. The recorded reserve balance at December 31, 2008 for these proceedings and exposures was approximately \$325 million. These reserve and range amounts include \$135 million of settled amounts that were paid in 2009. These reserves represent management's best estimate of probable loss, as defined by Statement of Financial Accounting Standards No. 5 "Accounting for Contingencies."

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, except for the cases and investigations discussed in the third paragraph and the patent case discussed in the second paragraph of this footnote, the resolution of which could be material to cash flows or results of operations for a quarter.

Notes to Consolidated Financial Statements

Note 9 — Incentive Stock Program

The 1996 Incentive Stock Program authorizes the granting of stock options, replacement stock options, stock appreciation rights, limited stock appreciation rights, restricted stock awards, restricted stock units, performance units and foreign qualified benefits. Stock options, replacement stock options and restricted stock awards and units comprise the majority of benefits that have been granted and are currently outstanding under this program. In 2008, Abbott granted 20,544,577 stock options, 4,425,398 replacement stock options, 829,491 restricted stock awards and 567,624 restricted stock units under the program. The purchase price of shares under option must be at least equal to the fair market value of the common stock on the date of grant, and the maximum term of an option is 10 years. Options vest equally over three years except for replacement options, which vest in six months. Options granted before January 1, 2005 included a replacement feature. Except for options outstanding that have a replacement feature, options granted after December 31, 2004 do not include a replacement feature. When an employee tenders mature shares to Abbott upon exercise of a stock option, a replacement stock option may be granted equal to the amount of shares tendered. Replacement options are granted at the then current market price for a term that expires on the date of the underlying option grant. Upon a change in control of Abbott, all outstanding stock options become fully exercisable, and all terms and conditions of all restricted stock awards and units are deemed satisfied. Restricted stock awards

granted generally vest between 3 and 5 years and for restricted stock awards that vest over 5 years, no more than one-third of the award vests in any one year upon Abbott reaching a minimum return on equity target. Restricted stock units vest over three years and upon vesting, the recipient receives one share of Abbott stock for each vested restricted stock unit. The aggregate fair market value of restricted stock awards and units is recognized as expense over the service period. Restricted stock awards and settlement of vested restricted stock units are issued out of treasury shares. Abbott issues new shares for exercises of stock options. Abbott does not have a policy of purchasing its shares relating to its share-based programs. At January 1, 2009, approximately 56 million shares were reserved for future grants under the 1996 Program. Subsequent to year-end, the Board of Directors granted approximately 8 million stock options and restricted stock awards and units from this reserve.

The number of restricted stock awards and units outstanding and the weighted-average grant-date fair value at December 31, 2007 and December 31, 2008 was 3,740,341 and \$49.04 and 3,574,445 and \$52.21, respectively. The number of restricted stock awards and units, and the weighted-average grant-date fair value, that were granted, vested and lapsed during 2008 were 1,444,465 and \$55.53, 1,389,085 and \$47.09 and 221,276 and \$51.15, respectively. The fair market value of restricted stock awards and units vested in 2008, 2007 and 2006 was \$76 million, \$114 million and \$32 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, 2007	132,992,850	\$47.19	6.6	88,057,465	\$46.22	5.5
Granted	24,969,975	55.79				
Exercised	(25,872,104)	45.13				
Lapsed	(3,263,586)	51.77				
December 31, 2008	128,827,135	\$49.16	6.4	87,770,715	\$47.39	5.4

The aggregate intrinsic value of options outstanding and exercisable at December 31, 2008 was \$632 million and \$559 million, respectively. The total intrinsic value of options exercised in 2008, 2007 and 2006 was \$314 million, \$613 million and \$205 million, respectively. The total unrecognized compensation cost related to all share-based compensation plans at December 31, 2008 amounted to approximately \$220 million which is expected to be recognized over the next three years.

Total non-cash compensation expense charged against income in 2008, 2007 and 2006 for share-based plans totaled approximately \$350 million, \$430 million and \$330 million, respectively, and the tax benefit recognized was approximately \$117 million, \$142 million and \$78 million, respectively. Compensation cost capitalized as part of inventory is not significant.

The fair value of an option granted in 2008, 2007 and 2006 was \$11.42, \$12.88 and \$11.72, respectively. The fair value of an option grant was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2008	2007	2006
Risk-free interest rate	3.0%	4.5%	4.6%
Average life of options (years)	6.0	5.9	6.1
Volatility	24.0%	25.0%	28.0%
Dividend yield	2.6%	2.5%	2.7%

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.

Notes to Consolidated Financial Statements

Note 10 — Debt and Lines of Credit

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

(dollars in millions)	2008	2007	2006
Various notes, due 2008	\$ —	\$ —	\$1,095
3.5% Notes, due 2009	—	500	500
5.375% Notes, due 2009	—	500	500
1.51% Yen notes, due 2010	157	135	129
3.75% Notes, due 2011	500	500	500
5.6% Notes, due 2011	1,500	1,500	1,500
5.15% Notes, due 2012	1,000	1,000	—
1.95% Yen notes, due 2013	262	226	216
4.35% Notes, due 2014	500	500	500
5.875% Notes, due 2016	2,000	2,000	2,000
5.6% Notes, due 2017	1,500	1,500	—
6.15% Notes, due 2037	1,000	1,000	—
Other, including fair value adjustments relating to interest rate hedge contracts designated as fair value hedges	294	127	70
Total, net of current maturities	8,713	9,488	7,010
Current maturities of long-term debt	1,041	898	95
Total carrying amount	\$9,754	\$10,386	\$7,105

Principal payments required on long-term debt outstanding at December 31, 2008, are \$1.0 billion in 2009, \$160 million in 2010, \$2.0 billion in 2011, \$1.0 billion in 2012, \$265 million in 2013 and \$5.1 billion thereafter.

At December 31, 2008, Abbott's long-term debt rating was AA by Standard & Poor's Corporation and A1 by Moody's Investors Service. Abbott has readily available financial resources, including unused lines of credit of \$5.3 billion that support commercial paper borrowing arrangements of which a \$2.3 billion facility expires in December 2009 and a \$3.0 billion facility expires in 2012. Related compensating balances, which are subject to withdrawal by Abbott at its option, and commitment fees are not material. Abbott's access to short-term financing has not been affected by the recent credit market conditions. Abbott's weighted-average interest rate on short-term borrowings was 0.5% at December 31, 2008, 3.7% at December 31, 2007 and 5.0% at December 31, 2006.

Note 11 — Business Combinations, Technology Acquisitions and Related Transactions

In December 2006, Abbott acquired Kos Pharmaceuticals Inc. for cash of approximately \$3.8 billion, net of cash held by Kos Pharmaceuticals Inc., to expand Abbott's presence in the lipid management market and to provide several on-market and late-stage pipeline products. Kos Pharmaceuticals Inc. was a specialty pharmaceutical company that developed and marketed proprietary medications for the treatment of chronic cardiovascular, metabolic and respiratory diseases. This business was acquired on December 13, 2006 and the financial results of the acquired operations are included in these financial statements beginning on that date. The acquisition was financed

primarily with short-term debt. The allocation of the purchase price resulted in a charge of \$1.3 billion for acquired in-process research and development, intangible assets of \$821 million, goodwill (primarily non-deductible) of \$1.6 billion and net liabilities, primarily deferred income taxes recorded at acquisition of \$331 million. Acquired intangible assets are being amortized over 4 to 15 years. Non-deductible acquired in-process research and development was charged to income in 2006.

In order to expand Abbott's presence in the growing vascular market, Abbott acquired Guidant's vascular intervention and endovascular solutions businesses on April 21, 2006 for approximately \$4.1 billion, in cash, in connection with Boston Scientific's acquisition of Guidant. In addition, Abbott agreed to pay to Boston Scientific \$250 million each upon government approvals to market the *Xience V* drug-eluting stent in the U.S. and in Japan. In 2008, the FDA approved the marketing of *Xience V* and Abbott paid Boston Scientific \$250 million, resulting in the recording of additional goodwill. Government approval in Japan is anticipated in late 2009 or early 2010 which will also result in the recording of additional goodwill. The allocation of the purchase price resulted in a charge of \$665 million for acquired in-process research and development, intangible assets of \$1.2 billion, goodwill (primarily deductible) of \$1.7 billion and tangible net assets of \$580 million. Acquired intangible assets are being amortized over 4 to 15 years. Deductible acquired in-process research and development was charged to income in 2006. The net tangible assets acquired consist primarily of property and equipment of approximately \$530 million, trade accounts receivable of approximately \$250 million and inventories of approximately \$120 million, net of assumed liabilities, primarily trade accounts payable, litigation reserves and other liabilities.

Had the above acquisitions taken place on January 1 of the previous year, consolidated net sales and income would not have been significantly different from reported amounts.

In order to facilitate Boston Scientific's acquisition of Guidant, Abbott also acquired 64.6 million shares of Boston Scientific common stock directly from Boston Scientific and loaned \$900 million to a wholly-owned subsidiary of Boston Scientific. The common stock was valued at \$1.3 billion and the note receivable was valued at \$829 million at the acquisition date. In connection with the acquisition of the shares, Boston Scientific was entitled to certain after-tax gains upon Abbott's sale of the shares. In addition, Boston Scientific agreed to reimburse Abbott for certain borrowing costs on debt incurred to acquire the Boston Scientific shares. Abbott recorded a net derivative financial instruments liability of \$59 million for the gain-sharing derivative financial instrument liability and the interest derivative financial instrument asset. The effect of recording the shares, the loan to Boston Scientific and the derivative financial instruments at fair value on the date of acquisition resulted in the recording of additional goodwill of approximately \$204 million. Changes in the fair value of the derivative financial instruments, net were recorded in Other (income) expense, net.

Notes to Consolidated Financial Statements

Note 12 — Goodwill and Intangible Assets

In 2008, Abbott paid \$250 million to Boston Scientific as a result of the FDA's approval to market the Xience V drug-eluting stent in the U.S., resulting in an increase in goodwill in the Vascular Products segment. In addition, the conclusion of the TAP Pharmaceuticals Products Inc. joint venture resulted in the recording of \$350 million of goodwill related to the Pharmaceutical Products segment. Abbott recorded goodwill of \$53 million and \$3.7 billion in 2007 and 2006, respectively, related to acquisitions. Goodwill adjustments recorded in 2007 allocated to the Pharmaceutical Products segment amounted to \$194 million and goodwill allocated to the Vascular Products segment amounted to \$(141) million. Acquired goodwill allocated to the Pharmaceutical Products segment amounted to \$1.6 billion in 2006 and goodwill allocated to the Vascular Products segment amounted to \$1.7 billion in 2006. Foreign currency translation and other adjustments (decreased) increased goodwill in 2008, 2007 and 2006 by \$(677) million, \$627 million and \$509 million, respectively. The amount of goodwill related to reportable segments at December 31, 2008 was \$6.0 billion for the Pharmaceutical Products segment, \$206 million for the Nutritional Products segment, \$268 million for the Diagnostic Products segment, and \$2.2 billion for the Vascular Products segment. Goodwill was reduced by approximately \$64 million in connection with the sale of Abbott's spine business in 2008. There were no other reductions of goodwill relating to impairments or disposal of all or a portion of a business.

The gross amount of amortizable intangible assets, primarily product rights and technology was \$9.4 billion, \$9.0 billion and \$9.0 billion as of December 31, 2008, 2007 and 2006, respectively, and accumulated amortization was \$4.2 billion, \$3.3 billion and \$2.6 billion as of December 31, 2008, 2007 and 2006, respectively. The estimated annual amortization expense for intangible assets is approximately \$780 million in 2009, \$770 million in 2010, \$760 million in 2011, \$750 million in 2012 and \$720 million in 2013. Intangible assets are amortized over 4 to 25 years (average 11 years).

Note 13 — Restructuring Plans

In 2008, Abbott management approved a plan to streamline global manufacturing operations, reduce overall costs, and improve efficiencies in Abbott's core diagnostic business. This plan will result in pretax charges of approximately \$370 million over the next several years. These charges include employee-related costs of approximately \$110 million, accelerated depreciation of approximately \$75 million, and other related exit costs of approximately \$185 million, mainly related to product transfers. In 2008, Abbott recorded a charge to Cost of products sold of approximately \$129 million under the plan. Additional charges of approximately \$16 million were recorded in 2008 relating to this restructuring, primarily for accelerated depreciation. The remainder of the charges will occur through 2011 as a result of product re-registration timelines required under manufacturing regulations in a number of countries and product transition timelines. The following summarizes the activity for this restructuring:

<i>(dollars in millions)</i>	2008
2008 restructuring charge	\$129
Payments and other adjustments	(19)
Accrued balance at December 31	\$110

In 2008, 2007 and 2006, Abbott management approved plans to realign its worldwide pharmaceutical and vascular manufacturing operations and selected domestic and international commercial and research and development operations in order to reduce costs. In 2008, 2007 and 2006, Abbott recorded charges of approximately \$36 million, \$107 million and \$210 million, respectively, reflecting the impairment of manufacturing facilities and other assets, employee severance and other related charges. Approximately \$94 million and \$181 million in 2007 and 2006, respectively, is classified as cost of products sold, \$3 million and \$29 million in 2007 and 2006, respectively, as research and development and \$36 million and \$10 million in 2008 and 2007, respectively, as selling, general and administrative. Fair value for the determination of the amount of asset impairments was determined primarily based on a discounted cash flow method. An additional \$81 million, \$90 million and \$70 million were subsequently recorded in 2008, 2007 and 2006, respectively, relating to these restructurings, primarily for accelerated depreciation. In addition, Abbott implemented facilities restructuring plans in 2007 related to the acquired operations of Kos Pharmaceuticals Inc., which resulted in an increase to goodwill of approximately \$52 million. Abbott expects to incur up to an additional \$21 million in future periods for these restructuring plans, primarily for accelerated depreciation. The following summarizes the activity for these restructurings:

<i>(dollars in millions)</i>	Employee-Related and Other	Asset Impairments	Total
Accrued balance at January 1, 2006	\$ 155	\$ —	\$ 155
2006 restructuring charges	117	93	210
Payments, impairments and other adjustments	(79)	(93)	(172)
Accrued balance at December 31, 2006	193	—	193
2007 restructuring charges	121	38	159
Payments, impairments and other adjustments	(120)	(38)	(158)
Accrued balance at December 31, 2007	194	—	194
2008 restructuring charges	36	—	36
Payments and other adjustments	(125)	—	(125)
Accrued balance at December 31, 2008	\$ 105	\$ —	\$ 105

Note 14- Subsequent Event — Business Combination

In January 2009, Abbott announced an agreement to acquire Advanced Medical Optics, Inc. (AMO), a marketer of ophthalmic surgical technology and devices, as well as eye care solutions, for approximately \$2.8 billion, in cash and debt, to take advantage of increasing demand for vision care technologies due to population growth and demographic shifts. The transaction is expected to close in the first quarter of 2009. AMO's sales are more than \$1 billion per year.

Notes to Consolidated Financial Statements

Note 15 — Quarterly Results (Unaudited)

<i>(dollars in millions except per share data)</i>	2008	2007	2006
First Quarter			
Net Sales	\$6,765.6	\$5,945.5	\$5,183.5
Gross Profit	3,804.5	3,353.5	3,013.8
Net Earnings	937.9	697.6	865.0
Basic Earnings Per Common Share (a)	.61	.45	.57
Diluted Earnings Per Common Share (b)	.60	.45	.56
Market Price Per Share-High	61.09	57.26	45.58
Market Price Per Share-Low	50.09	48.75	39.18

Second Quarter			
Net Sales	\$7,314.0	\$6,370.6	\$5,501.1
Gross Profit	4,194.4	3,566.3	3,112.5
Net Earnings (c)	1,322.0	986.7	612.2
Basic Earnings Per Common Share (a) (c)	.86	.64	.40
Diluted Earnings Per Common Share (b) (c)	.85	.63	.40
Market Price Per Share-High	57.04	59.50	43.61
Market Price Per Share-Low	50.09	52.80	40.55

Third Quarter			
Net Sales	\$7,497.7	\$6,376.7	\$5,573.8
Gross Profit	4,144.8	3,512.7	3,182.5
Net Earnings	1,084.6	717.0	715.8
Basic Earnings Per Common Share (a)	.70	.46	.47
Diluted Earnings Per Common Share (b)	.69	.46	.46
Market Price Per Share-High	60.78	56.91	49.87
Market Price Per Share-Low	52.63	49.58	43.25

Fourth Quarter			
Net Sales	\$7,950.3	\$7,221.4	\$6,218.0
Gross Profit	4,771.9	4,059.7	3,352.4
Net Earnings (Loss) (d)	1,536.2	1,203.0	(476.2)
Basic Earnings (Loss)			
Per Common Share (a) (d)	.99	.78	(.31)
Diluted Earnings (Loss)			
Per Common Share (b) (d)	.98	.77	(.31)
Market Price Per Share-High	59.93	59.48	49.10
Market Price Per Share-Low	45.75	50.51	45.41

(a) The sum of the quarters' basic earnings per share for 2007 and 2006 does not add to the full year earnings per share amount due to rounding.

(b) The sum of the quarters' diluted earnings per share for 2006 does not add to the full year earnings per share amount due to rounding.

(c) Second quarter 2006 includes a pretax charge of \$493 for acquired in-process and collaborations research and development.

(d) Fourth quarter 2006 includes a pretax charge of \$1,307 for acquired in-process and collaborations research and development.

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, 2008. In making this assessment, it used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2008, 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 59.

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

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

Greg W. Linder
Vice President and Controller

February 19, 2009

Reports of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Abbott Laboratories:

We have audited the accompanying consolidated balance sheets of Abbott Laboratories and subsidiaries (the "Company") as of December 31, 2008, 2007, and 2006, and the related consolidated statements of earnings, shareholders' investment, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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 financial position of the Company as of December 31, 2008, 2007, and 2006, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1, 2, and 4 to the consolidated financial statements, the Company changed its method of accounting for fair value measurements to adopt Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements*, and adopted the fair value option under SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, for certain investments in 2007, and the Company changed its method of accounting for pension and other post employment benefits to adopt SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* in 2006.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche LLP
Chicago, Illinois
February 19, 2009

To the Board of Directors and Shareholders of Abbott Laboratories:

We have audited the internal control over financial reporting of Abbott Laboratories and subsidiaries (the "Company") as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on

Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2008 and our report dated February 19, 2009 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP
Chicago, Illinois
February 19, 2009

Financial Instruments and Risk Management

Investment in Boston Scientific Common Stock and Note Receivable

At December 31, 2007, Abbott held 26.4 million shares, or approximately \$300 million of Boston Scientific common stock. In 2008 all of these shares were sold resulting in a small gain. Abbott also has a \$900 million loan, due in April 2011, to a wholly-owned subsidiary of Boston Scientific as of December 31, 2008 and 2007, and, as such, is subject to credit risk.

Other Market Price Sensitive Investments

Abbott holds available-for-sale equity securities from strategic technology acquisitions, excluding Boston Scientific. The market value of these investments was approximately \$105 million and \$193 million, respectively, as of December 31, 2008 and 2007. Abbott monitors these investments for other than temporary declines in market value, and charges impairment losses to income when an other than temporary decline in value occurs. A hypothetical 20 percent decrease in the share prices of these investments would decrease their fair value at December 31, 2008 by approximately \$21 million. (A 20 percent decrease is believed to be a reasonably possible near-term change in share prices.)

Non-Publicly Traded Equity Securities

Abbott holds equity securities from strategic technology acquisitions that are not traded on public stock exchanges. The carrying value of these investments was approximately \$42 million and \$37 million as of December 31, 2008 and 2007, respectively. No individual investment is in excess of \$13 million. Abbott monitors these investments for other than temporary declines in market value, and charges impairment losses to income when an other than temporary decline in estimated value occurs.

Interest Rate Sensitive Financial Instruments

At December 31, 2008 and 2007, Abbott had interest rate hedge contracts totaling \$2.5 billion and \$1.5 billion, respectively, to manage its exposure to changes in the fair value of debt due in 2009 through 2017. The effect of these hedges is to change the fixed interest rate to a variable rate. Abbott does not use derivative financial instruments, such as interest rate swaps, to manage its exposure to changes in interest rates for its investment securities. At December 31, 2008, Abbott had \$1.0 billion of domestic commercial paper outstanding

with an average annual interest rate of 0.2% with an average remaining life of 11 days. The fair value of long-term debt at December 31, 2008 and 2007 amounted to \$10.5 billion and \$10.6 billion, respectively (average interest rates of 5.2% and 5.0%, respectively) with maturities through 2037. At December 31, 2008 and 2007, the fair value of current and long-term investment securities amounted to \$1.8 billion and \$896 million, respectively. A hypothetical 100-basis point change in the interest rates would not have a material effect on cash flows, income or market values. (A 100-basis point change is believed to be a reasonably possible near-term change in rates.)

Foreign Currency Sensitive Financial Instruments

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, 2008 and 2007, Abbott held \$8.3 billion and \$5.5 billion, respectively, of such contracts, which mature in the next twelve months.

In addition, certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U.S. dollar. These contracts are designated as cash flow hedges of the variability of the cash flows due to changes in foreign currency exchange rates and are marked-to-market with the resulting gains or losses reflected in Accumulated other comprehensive income (loss). Gains or losses will be included in Cost of products sold at the time the products are sold, generally within the next twelve months. At December 31, 2008 and 2007, Abbott held \$129 million and \$281 million, respectively, of such contracts, which all mature in the following calendar year.

Abbott has designated approximately \$585 million of foreign denominated short-term debt as a hedge of the net investment in certain foreign subsidiaries. Accordingly, changes in the fair value of this debt due to changes in exchange rates are recorded in Accumulated other comprehensive income (loss).

The following table reflects the total foreign currency forward contracts outstanding at December 31, 2008 and 2007:

	2008			2007		
	Contract	Average	Fair and	Contract	Average	Fair and
	Amount	Exchange	Carrying	Amount	Exchange	Carrying
(dollars in millions)		Rate	Value		Rate	Value
			Receivable/ (Payable)			Receivable/ (Payable)
Receive primarily U.S. Dollars						
in exchange for the following currencies:						
Euro	\$3,963	1.286	\$ 3	\$2,630	1.464	\$(11)
British Pound	1,208	1.553	(31)	1,030	2.041	—
Japanese Yen	1,788	99.6	54	939	113.9	(5)
Canadian Dollar	163	1.240	3	426	0.995	(1)
All other currencies	1,254	N/A	19	716	N/A	(4)
Total	\$8,376		\$ 48	\$5,741		\$(21)

Financial Review

Abbott's revenues are derived primarily from the sale of a broad line of health care products under short-term receivable arrangements. Patent protection and licenses, technological and performance features, and inclusion of Abbott's products under a contract or by a pharmacy benefit manager most impact which products are sold; price controls, competition and rebates most impact the net selling prices of products; and foreign currency translation impacts the measurement of net sales and costs. Abbott's primary products are prescription pharmaceuticals, nutritional products, diagnostic testing products and vascular products. Sales in international markets are approximately 50 percent of consolidated net sales.

The worldwide launch of additional indications for *HUMIRA*, the conclusion of the TAP Pharmaceutical Products Inc. joint venture, the acquisitions of Kos Pharmaceuticals Inc., and Guidant's vascular intervention and endovascular solutions businesses, followed by the launch of the *Xience V* drug eluting stent, the amendment ending the U.S. *Synagis* co-promotion agreement, the loss of patent protection for some pharmaceutical products, and realized gains and unrealized losses on the Boston Scientific common stock have impacted Abbott's sales, costs and financial position over the last three years.

Pharmaceutical research and development is focused on therapeutic areas that include immunology, oncology, neuroscience, pain management and infectious diseases. In 2003, Abbott began the worldwide launch of *HUMIRA* for rheumatoid arthritis, followed by launches for five additional indications, which increased *HUMIRA*'s worldwide sales to \$4.5 billion in 2008 compared to \$3.0 billion in 2007, and \$2.0 billion in 2006. Abbott forecasts worldwide *HUMIRA* sales to increase more than 25 percent in 2009. Abbott is studying two additional indications for *HUMIRA*. Substantial research and development and selling support has been and continues to be dedicated to maximizing the worldwide potential of *HUMIRA*. In December 2006, Abbott acquired Kos Pharmaceuticals Inc. which complemented Abbott's existing franchise in the dyslipidemia market and strengthened the pharmaceutical pipeline for cholesterol management. Abbott's *Trilipix*, a next-generation product for management of triglycerides and the first product approved for use in combination with a statin was launched in 2008. Increased generic competition has resulted in U.S. sales of *Omnicef* declining from \$637 million in 2006 to \$25 million in 2008, and worldwide sales of clarithromycin declining from \$816 million in 2006 to \$651 million in 2008. Abbott has seen generic competition begin in the second half of 2008 for *Depakote*, which had U.S. sales of \$1.3 billion in 2008.

On December 31, 2006, the U.S. co-promotion agreement for *Synagis* terminated. Revenues for co-promotion of *Synagis* were \$373 million in 2006. In 2007, Abbott's nutritional products businesses were reorganized into a worldwide business to better leverage the opportunities available for strong nutritional brands. Significant efforts have been focused on capturing those opportunities, particularly in developing markets where growth has been strong.

In April 2006, Abbott acquired Guidant's vascular intervention and endovascular solutions businesses and began to integrate it with Abbott's vascular business. The acquisition significantly improved Abbott's competitive position in this business that is characterized by rapid innovation. In 2008, Abbott received FDA approval to market the *Xience V* drug eluting stent in the U.S. and in 2006 received European Union approval. *Xience V* became the market-leading drug eluting stent in the U.S. in the fourth quarter of 2008.

In April 2006, Abbott acquired 64.6 million shares of Boston Scientific in connection with Abbott's acquisition of the vascular intervention and endovascular solutions businesses of Guidant. In 2007, the net loss charged to expense for the investment was \$153 million. At December 31, 2007, Abbott held 26.4 million shares of Boston Scientific common stock. In 2008, all of these shares were sold resulting in a small gain. Abbott's short- and long-term debt totaled \$11.4 billion at December 31, 2008, largely incurred to finance recent acquisitions. Operating cash flows in excess of capital expenditures and cash dividends have partially funded acquisitions over the last three years. At December 31, 2008, Abbott's long-term debt rating was AA by Standard and Poor's Corporation and A1 by Moody's Investors Service. Abbott's access to short-term financing has not been affected by the recent credit market conditions.

In April 2008, Abbott and Takeda concluded their TAP Pharmaceutical Products Inc. (TAP) joint venture, evenly splitting the value and assets of the joint venture in a tax-free exchange. Abbott received TAP's *Lupron* business in exchange for Abbott's 50 percent ownership in TAP. *Lupron*'s U.S. results are now included in the Pharmaceutical Products segment beginning in May 2008.

In 2009, Abbott will focus on several key initiatives. Abbott announced the agreement to acquire Advanced Medical Optics, Inc. (AMO), a new line of business, in January of 2009. The investment in AMO will be approximately \$2.8 billion, including debt, and will be financed with operating cash flow and debt. AMO's sales are more than \$1 billion per year. In the pharmaceutical business, Abbott will continue maximizing the market potential for *HUMIRA* and continue to leverage the product and pipeline opportunities of its lipid franchise. Pharmaceutical research and development efforts will continue to focus on the therapeutic areas noted above with a significant portion of the development expenditures allocated to new *HUMIRA* indications, *Trilipix*/Crestor fixed dose combination, ABT-874 (a biologic for psoriasis and Crohn's disease) and pain relief medication, as well as several Phase I and Phase II clinical programs in neuroscience, oncology and Hepatitis C. In the vascular business, Abbott will continue the launch of the *Xience V* drug-eluting stent in the U.S. after the FDA's approval in 2008, and will focus on development of its next generation drug eluting stent and its bioabsorbable stent. For diabetes care, Abbott will build upon the 2008 launch of the *FreeStyle Freedom Lite* monitor in the U.S. In the other business segments, Abbott will focus on developing or acquiring differentiated technologies in higher growth segments of those markets.

Critical Accounting Policies

Sales Rebates — Approximately 47 percent of Abbott's consolidated gross revenues are subject to various forms of rebates and allowances that Abbott records as reductions of revenues at the time of sale. Most of these rebates and allowances are in the Pharmaceutical Products segment and the Nutritional Products segment. Abbott provides rebates to pharmacy benefit management companies, state agencies that administer the federal Medicaid program, insurance companies that administer Medicare drug plans, state agencies that administer the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), wholesalers, group purchasing organizations, and other government agencies and private entities. Rebate amounts are usually based upon the volume of purchases using contractual or statutory prices for a product. Factors used in the rebate calculations

Financial Review

include the identification of which products have been sold subject to a rebate, which customer or government agency price terms apply, and the estimated lag time between sale and payment of a rebate. Using historical trends, adjusted for current changes, Abbott estimates the amount of the rebate that will be paid, and records the liability as a reduction of gross sales when Abbott records its sale of the product. Settlement of the rebate generally occurs from two to 24 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 2008, 2007 and 2006 amounted to approximately \$3.8 billion, \$3.2 billion and \$2.6 billion, respectively, or 22.8 percent, 21.5 percent and 23.2 percent, respectively, based on gross sales of approximately \$16.8 billion, \$15.0 billion and \$11.0 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 \$168 million in 2008. 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 \$362 million, \$325 million and \$247 million for cash discounts in 2008, 2007 and 2006, respectively, and \$439 million, \$269 million and \$209 million for returns in 2008, 2007 and 2006, 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, 2008, Abbott had the exclusive WIC business in 24 states.

In the domestic pharmaceutical business, the most significant charges against gross sales are for Medicaid and Medicare Rebates, Pharmacy Benefit Manager Rebates and Wholesaler Chargebacks. In order to evaluate the adequacy of the ending accrual balances, management uses both internal and external data to estimate the level of inventory

in the distribution channel and the rebate claims processing lag time. External data sources used to estimate the inventory in the distribution channel include inventory levels periodically reported by wholesalers and third party market data purchased by Abbott. Management estimates the processing lag time based on periodic sampling of claims data. To estimate the price rebate percentage, systems and calculations are used to track sales by product by customer and to estimate the contractual or statutory price. Abbott's systems and calculations have developed over time as rebates have become more significant, and Abbott believes they are reliable.

The following table is an analysis of the four largest rebate accruals, which comprise approximately 70 percent of the consolidated rebate provisions charged against revenues in 2008. Remaining rebate provisions charged against gross sales are not significant in the determination of operating earnings.

	Domestic Pharmaceutical Products			
	Domestic	Medicaid	Pharmacy	
	Nutritionals	and	Benefit	Wholesaler
	WIC	Medicare	Manager	Charge-
(dollars in millions)	Rebates	Rebates	Rebates	backs
Balance at				
January 1, 2006	\$ 95	\$ 455	\$ 134	\$ 48
Provisions	637	528	281	533
Payments	(596)	(534)	(246)	(514)
Business combination	—	36	51	20
Balance at				
December 31, 2006	136	485	220	87
Provisions	754	438	412	786
Payments	(691)	(503)	(395)	(781)
Balance at				
December 31, 2007	199	420	237	92
Provisions	808	556	397	1,034
Payments	(845)	(681)	(406)	(980)
Balance at				
December 31, 2008	\$ 162	\$ 295	\$ 228	\$ 146

Historically, adjustments to prior years' rebate accruals have not been material to net income. In 2007, adjustments were made to prior years' rebate accruals. The Medicaid and Medicare rebate accrual was reduced by approximately \$69 million and the WIC rebate accrual was increased by approximately \$19 million. Abbott employs various techniques to verify the accuracy of claims submitted to it, and where possible, works with the organizations submitting claims to gain insight into changes that might affect the rebate amounts. For Medicaid, Medicare and other government agency programs, the calculation of a rebate involves interpretations of relevant regulations, which are subject to challenge or change in interpretation.

Income Taxes — Abbott operates in numerous countries where its income tax returns are subject to audits and adjustments. Because Abbott operates globally, the nature of the audit items are often very complex, and the objectives of the government auditors can result in a tax on the same income in more than one country. Abbott employs internal and external tax professionals to minimize audit adjustment amounts where possible. On January 1, 2007, Abbott adopted the

Financial Review

provisions of FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes," which changed the measurement of tax contingencies. Under this Interpretation, 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 this Interpretation requires a significant amount of judgment. In the U.S., Abbott's federal income tax returns through 2005 are settled, and the income tax returns for years after 2005 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. Negative asset returns due to recent poor market conditions and low interest rates have significantly increased actuarial losses for these plans. At December 31, 2008, 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 \$2.6 billion and \$381 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. Footnote 5 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. On December 31, 2006, Abbott adopted the provisions of SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The provisions of this statement require the recognition of the deferrals on the balance sheet with a corresponding charge to Accumulated other comprehensive income (loss). Adoption of this statement on December 31, 2006 resulted in a decrease in Abbott's shareholders' equity of approximately \$1.3 billion.

Valuation of Intangible Assets — Abbott has acquired and continues to acquire significant intangible assets that Abbott records at fair value. Those assets which do not yet have regulatory approval and for which there are no alternative uses are expensed as acquired in-process research and development, and those that have regulatory approval are capitalized. Adoption of SFAS No. 141(R) "Business Combinations" on January 1, 2009 will result in acquired in-process research and development assets acquired in a business combination

to be initially recorded as indefinite lived intangible assets. 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, the cost of capital, terminal values and market participants. Each of these factors can significantly affect the value of the intangible asset. Abbott engages independent valuation experts who review Abbott's critical assumptions and calculations for acquisitions of significant intangibles. Abbott reviews 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 is reviewed for impairment annually or when an event that could result in an impairment of goodwill occurs. At December 31, 2008, goodwill and intangibles amounted to \$10.0 billion and \$5.2 billion, respectively, and amortization expense for intangible assets amounted to \$787 million in 2008. There were no impairments of goodwill in 2008, 2007 or 2006.

Litigation — Abbott accounts for litigation losses in accordance with SFAS No. 5 "Accounting for Contingencies." Under SFAS No. 5, 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. Except for the cases discussed in footnote 8 for which Abbott is unable to estimate a loss, if any, Abbott estimates the range of possible loss to be from approximately \$255 million to \$495 million for its legal proceedings and environmental exposures. Reserves of approximately \$325 million have been recorded at December 31, 2008 for these proceedings and exposures. These reserves represent management's best estimate of probable loss, as defined by SFAS No. 5.

Stock Compensation — Abbott records the fair value of stock options in its results of operations. Since there is no market for trading employee stock options, management must use a fair value method. There is no certainty that the results of a fair value method would be the value at which employee stock options would be traded for cash. Fair value methods require management to make several assumptions, the most significant of which are the selection of a fair value model, stock price volatility and the average life of an option. Abbott has readily available grant-by-grant historical activity for several years in its option administration system that it uses in developing some of its assumptions. Abbott uses the Black-Scholes method to value stock

Financial Review

options. Abbott uses both historical volatility of its stock price and the implied volatility of traded options to develop the volatility assumptions. Abbott uses the historical grant activity, combined with expectations about future exercise activity, to develop the average life assumptions. Abbott has also used the historical grant data to evaluate whether certain holders of stock options exercised their options differently than other holders and has not found any differentiating pattern among holders.

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				
2008 vs. 2007	13.9	1.4	9.3	3.2
2007 vs. 2006	15.3	1.2	10.9	3.2
2006 vs. 2005	0.6	0.6	0.2	(0.2)
Total U.S.				
2008 vs. 2007	10.1	3.4	6.7	—
2007 vs. 2006	12.0	4.0	8.0	—
2006 vs. 2005	(7.5)	2.4	(9.9)	—
Total International				
2008 vs. 2007	17.8	(0.5)	12.0	6.3
2007 vs. 2006	18.8	(1.7)	14.0	6.5
2006 vs. 2005	10.9	(1.3)	12.7	(0.5)
Pharmaceutical Products Segment				
2008 vs. 2007	14.2	1.9	9.1	3.2
2007 vs. 2006	18.0	2.4	12.3	3.3
2006 vs. 2005	(9.5)	1.8	(11.0)	(0.3)
Nutritional Products Segment				
2008 vs. 2007	12.2	3.4	6.9	1.9
2007 vs. 2006	1.7	1.4	(1.4)	1.7
2006 vs. 2005	9.6	(0.4)	9.7	0.3
Diagnostic Products Segment				
2008 vs. 2007	13.2	1.3	6.8	5.1
2007 vs. 2006	11.1	(0.6)	7.0	4.7
2006 vs. 2005	5.7	(1.1)	7.4	(0.6)
Vascular Products Segment				
2008 vs. 2007	34.7	(4.6)	35.8	3.6
2007 vs. 2006	53.8	(4.7)	55.4	3.1
2006 vs. 2005	327.7	(4.6)	333.2	(0.9)

Worldwide 2008 sales growth compared to 2007 reflects unit growth and the positive effect of the relatively weaker U.S. dollar. Worldwide 2007 sales compared to 2006 reflect the acquisitions of Guidant's vascular intervention and endovascular solutions businesses on April 21, 2006 and Kos Pharmaceuticals Inc. in the fourth quarter of 2006. In addition, the Pharmaceutical Products segment had an agreement with Boehringer Ingelheim (BI) to co-promote and distribute three of its products in the U.S. In 2005, Abbott and BI amended the agreement and

effective January 1, 2006, Abbott no longer distributed or recorded sales for distribution activities for the BI products although Abbott recorded a small amount of co-promotion revenue in 2006. The increases in sales for 2006 excluding BI products were 11.6 percent for total net sales, 12.3 percent for total U.S. sales and 7.8 percent for Pharmaceutical Products segment sales. Sales growth in 2007 for the Nutritional Products segment reflects the completion of the U.S. co-promotion of *Synagis* in 2006. Excluding sales of *Synagis* in 2006, Nutritional Products segment sales increased 11.3 percent.

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

	Percent 2008 Change		Percent 2007 Change		Percent 2006 Change	
(dollars in millions)						
Pharmaceuticals —						
U.S. Specialty	\$5,211	20	\$4,349	24	\$3,505	25
U.S. Primary Care	3,102	(1)	3,139	23	2,561	4
International						
Pharmaceuticals	7,399	23	6,002	16	5,157	8
Nutritionals —						
U.S. Pediatric						
Nutritionals	1,268	3	1,233	9	1,128	3
International						
Pediatric Nutritionals	1,374	26	1,093	22	899	29
U.S. Adult Nutritionals	1,162	8	1,077	2	1,057	1
International						
Adult Nutritionals	1,070	13	947	15	824	11
Diagnostics —						
Immunochemistry	2,843	13	2,517	11	2,272	4

Increased sales of *HUMIRA* and the addition of *Lupron* sales in 2008 accounted for the majority of the sales increase for U.S. Specialty products in 2008. Increased sales of *HUMIRA* and *Depakote* accounted for the majority of the sales increases for U.S. Specialty products in 2007 and 2006. U.S. sales of *HUMIRA* were \$2.2 billion, \$1.6 billion and \$1.2 billion in 2008, 2007 and 2006, respectively. U.S. Primary Care sales in 2008 were impacted by a significant decrease in sales of *Omnicef* due to generic competition, partially offset by increased sales of *Niaspan* and the *TriCor/Tripix* franchise. U.S. Primary Care sales in 2007 were favorably impacted by sales of *Niaspan*, a new product from the acquisition of Kos Pharmaceuticals Inc. in the fourth quarter of 2006. In addition, increased sales of *TriCor* in 2007 and 2006 favorably impacted U.S. Primary Care sales. These increases were partially offset by lower sales of *Omnicef* in 2008 and 2007 and lower U.S. sales of *Biaxin* in all three years due primarily to the introduction of generic competition. U.S. sales of *Omnicef* were \$25 million, \$235 million and \$637 million in 2008, 2007 and 2006, respectively, and U.S. sales of *Biaxin* were \$14 million, \$36 million and \$151 million in 2008, 2007 and 2006, respectively. Increased sales volume of *HUMIRA* in all three years favorably impacted International Pharmaceuticals sales, partially offset by decreased sales volume in 2008 and 2006 due to generic competition for clarithromycin. International sales of *HUMIRA* were \$2.3 billion, \$1.4 billion and \$868 million in 2008, 2007 and 2006, respectively. International Pediatric Nutritionals sales increases were due primarily to volume growth in

Financial Review

developing countries. International sales in 2008 and 2007 were also favorably impacted by the effect of the relatively weaker U.S. dollar. 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 footnote 1 to the consolidated financial statements. Related net sales were \$111 million, \$184 million and \$199 million in 2008, 2007 and 2006, respectively.

The expiration of licenses, patent protection and generic competition can affect the future revenues and operating income of Abbott. Significant ongoing generic activities and significant patent and license expirations in the next three years are as follows. The U.S. composition of matter patent for *Depakote* expired in 2008. Abbott has seen generic competition begin in the second half of 2008 for *Depakote*, which had U.S. sales of \$1.3 billion in 2008.

Operating Earnings

Gross profit margins were 57.3 percent of net sales in 2008, 55.9 percent in 2007 and 56.3 percent in 2006. The increase in the gross profit margin in 2008 was due, in part, to favorable product mix and the favorable impact of foreign exchange. The decrease in the gross profit margin in 2007 was due, in part, to the unfavorable impact in 2007 of the completion of the U.S. co-promotion of *Synagis* in 2006 as well as generic competition for *Ornicef* and *Biaxin* sales in 2007. The increase in the gross profit margin in 2006 was due to favorable product mix, primarily as a result of decreased sales of Boehringer Ingelheim products that had lower margins than other products in the Pharmaceutical Products segment. Restructuring charges, discussed below, reduced the gross profit margins in 2008, 2007 and 2006 by 0.4 percentage points, 0.7 percentage points and 1.1 percentage points, respectively. Gross profit margins in all years were also affected by productivity improvements, higher commodity costs, higher project expenses for new products, higher manufacturing capacity costs for anticipated unit growth and the effects of inflation.

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. These rebate programs continue to have a negative effect on the gross profit margins of the Nutritional and Pharmaceutical Products segments. Higher commodity costs unfavorably impacted the gross profit margins for the Nutritional Products segment in 2008 and 2007 and pricing pressures unfavorably impacted the gross profit margin in 2006.

Research and development expense, excluding acquired in-process and collaborations research and development, was \$2.7 billion in 2008, \$2.5 billion in 2007 and \$2.3 billion in 2006 and represented increases of 7.3 percent in 2008, 11.1 percent in 2007 and 23.8 percent in 2006. The effect of recording compensation expense relating to share-based awards in 2006 and additional costs associated with Abbott's decision to discontinue the commercial development of the *ZoMaxx* drug-eluting stent increased research and development expenses by 6.3 percentage points over 2005. The increases in 2007 and 2006 were also affected by the acquisitions of Guidant's vascular intervention and endovascular solutions businesses in April 2006 and Kos Pharmaceuticals Inc. in the fourth quarter of 2006. These increases also reflect increased spending to support pipeline programs, including new indications for *HUMIRA*, and *Trilipix*, *Trilipix*/

Crestor fixed-dose combination, *ABT-874* (a biologic for psoriasis and Crohn's disease), pain relief medication and *Xience V*, as well as several Phase I and Phase II clinical programs in neuroscience, oncology and Hepatitis C. The majority of research and development expenditures are concentrated on pharmaceutical products.

Selling, general and administrative expenses increased 13.9 percent in 2008 compared to increases of 16.7 percent in 2007 and 15.5 percent in 2006. The 2008 increase reflects the settlement of litigation relating to *TriCor*, which increased selling, general and administration expenses by 3.1 percentage points. The 2007 increase reflects the acquisitions of Guidant's vascular intervention and endovascular solutions businesses and Kos Pharmaceuticals Inc. The 2006 increase reflects recording compensation expense relating to share-based awards, a philanthropic contribution to the Abbott Fund and the acquisition of Guidant's vascular intervention and endovascular solutions businesses. These items increased selling, general and administrative expenses by 8.6 percentage points over 2005. The remaining increases in selling, general and administrative expenses were due primarily to increased selling and marketing support for new and existing products, including continued spending for *HUMIRA* and the continuing launch of *Xience V*, as well as spending on other marketed pharmaceutical products. Increases in all three years also reflect inflation and additional selling and marketing support primarily in the Pharmaceutical Products segment.

Conclusion of TAP Pharmaceutical Products Inc. Joint Venture and Sale of Abbott's Spine Business

On April 30, 2008, Abbott and Takeda concluded their TAP Pharmaceutical Products Inc. (TAP) joint venture, evenly splitting the value and assets of the joint venture. Abbott exchanged its 50 percent equity interest in TAP for the assets, liabilities and employees related to TAP's *Lupron* business. Subsequent to the conclusion of the joint venture, TAP was merged into two Takeda entities. The exchange of Abbott's investment in TAP for TAP's *Lupron* business resulted in a gain at closing of approximately \$94 million. The Internal Revenue Service has issued a private letter ruling that the transaction qualifies as tax-free for U.S. income tax purposes.

Beginning on May 1, 2008, Abbott began recording U.S. *Lupron* net sales and costs in its operating results and no longer records income from the TAP joint venture. TAP's sales of *Lupron* were \$182 million for the four months ended April 30, 2008 and \$645 million and \$662 million in 2007 and 2006, respectively. Abbott also receives payments based on specified development, approval and commercial events being achieved with respect to products retained by Takeda and payments from Takeda based on sales of products retained by Takeda, which are recorded by Abbott as Other (income) expense, net as earned. Such payments, which are subject to tax, are expected to approximate \$1.4 billion over the five-year period beginning on May 1, 2008.

The exchange transaction was accounted for as a sale of Abbott's equity interest in TAP and as an acquisition of TAP's *Lupron* business under SFAS No. 141 "Business Combinations." The sale of Abbott's equity interest in TAP resulted in the recording of net assets related to the *Lupron* business, primarily cash, receivables, inventory and other assets, net of accounts payable and other accrued liabilities, offset by a credit to Abbott's investment in TAP in the amount of approximately \$280 million.

Financial Review

For the acquired *Lupron* business, Abbott recorded intangible assets, primarily *Lupron* product rights, of approximately \$700 million, goodwill of approximately \$350 million and deferred tax liabilities related primarily to the intangible assets of approximately \$260 million. The intangible assets are being amortized over 15 years. Abbott has also agreed to remit cash to Takeda if certain research and development events are not achieved on the development assets retained by Takeda. These amounts were recorded as a liability at closing in the amount of approximately \$1.1 billion. Related deferred tax assets of approximately \$410 million were also recorded, resulting in an after-tax liability of approximately \$700 million. Of the \$1.1 billion, Abbott made a tax-deductible payment of \$200 million in 2008 and Abbott will make a tax-deductible payment of approximately \$120 million in 2009. If the remaining payments are not required, the liability would be reduced and a gain would be recorded.

The 50 percent-owned joint venture was accounted for under the equity method of accounting. Summarized financial information for TAP follows below. The results for 2008 include results through April 30.

(dollars in millions)

Year Ended December 31	2008	2007	2006
Net sales	\$853	\$3,002	\$3,363
Cost of sales	229	720	836
Income before taxes	356	1,564	1,524
Net income	238	996	952

In the fourth quarter of 2008, Abbott sold its spine business for approximately \$360 million in cash, resulting in an after-tax gain of approximately \$147 million which is presented as Gain on sale of discontinued operations, net of taxes, in the accompanying statement of income. The operations and financial position of the spine business are not presented as discontinued operations because the effects would not be significant.

Restructurings

In 2008, Abbott management approved a plan to streamline global manufacturing operations, reduce overall costs, and improve efficiencies in Abbott's core diagnostic business. This plan will result in pretax charges of approximately \$370 million over the next several years. These charges include employee-related costs of approximately \$110 million, accelerated depreciation of approximately \$75 million, and other related exit costs of approximately \$185 million, mainly related to product transfers. In 2008, Abbott recorded a charge to Cost of products sold of approximately \$129 million under the plan. Additional charges of approximately \$16 million were recorded in 2008 relating to this restructuring, primarily for accelerated depreciation. The remainder of the charges will occur through 2011 as a result of product re-registration timelines required under manufacturing regulations in a number of countries and product transition timelines. The following summarizes the activity for this restructuring:

(dollars in millions)	2008
2008 restructuring charge	\$129
Payments and other adjustments	(19)
Accrued balance at December 31	\$110

In 2008, 2007 and 2006, Abbott management approved plans to realign its worldwide pharmaceutical and vascular manufacturing operations and selected domestic and international commercial and research and development operations in order to reduce costs. In 2008, 2007 and 2006, Abbott recorded charges of approximately \$36 million, \$107 million and \$210 million, respectively, reflecting the impairment of manufacturing facilities and other assets, employee severance and other related charges. Approximately \$94 million and \$181 million in 2007 and 2006, respectively, is classified as cost of products sold, \$3 million and \$29 million in 2007 and 2006, respectively, as research and development and \$36 million and \$10 million in 2008 and 2007, respectively, as selling, general and administrative. Fair value for the determination of the amount of asset impairments was determined primarily based on a discounted cash flow method. An additional \$81 million, \$90 million and \$70 million were subsequently recorded in 2008, 2007 and 2006, respectively, relating to these restructurings, primarily for accelerated depreciation. In addition, Abbott implemented facilities restructuring plans in 2007 related to the acquired operations of Kos Pharmaceuticals Inc., which resulted in an increase to goodwill of approximately \$52 million. Abbott expects to incur up to an additional \$21 million in future periods for these restructuring plans, primarily for accelerated depreciation. The following summarizes the activity for these restructurings:

(dollars in millions)	Employee-Related and Other	Asset Impairments	Total
Accrued balance at January 1, 2006	\$ 155	\$ —	\$ 155
2006 restructuring charges	117	93	210
Payments, impairments and other adjustments	(79)	(93)	(172)
Accrued balance at December 31, 2006	193	—	193
2007 restructuring charges	121	38	159
Payments, impairments and other adjustments	(120)	(38)	(158)
Accrued balance at December 31, 2007	194	—	194
2008 restructuring charges	36	—	36
Payments and other adjustments	(125)	—	(125)
Accrued balance at December 31, 2008	\$ 105	\$ —	\$ 105

Interest expense and Interest (income)

In 2008, interest expense decreased primarily as a result of lower interest rates and interest income increased primarily as the result of higher investment balances. Interest expense increased in 2007 and 2006 due primarily to higher borrowings as a result of the acquisitions of Guidant's vascular intervention and endovascular solutions businesses and Kos Pharmaceuticals Inc. and Abbott's investment in the Boston Scientific common stock and note receivable.

Other (income) expense, net

As described above, Abbott recorded a gain of approximately \$94 million in connection with the dissolution of the TAP Pharmaceutical Products Inc. joint venture in 2008, which is included in Other (income) expense, net. Other (income) expense, net for 2008 also includes a gain of approximately \$52 million on the sale of an equity investment accounted for as an available-for-sale investment. The remainder of Other (income) expense, net for 2008 relates primarily to contractual payments based on specified development, approval and commercial

Financial Review

events being achieved with respect to products retained by Takeda and payments from Takeda based on sales of products retained by Takeda. Other (income) expense, net for 2007 includes a \$190 million fair market value loss adjustment to Abbott's investment in Boston Scientific common stock and a realized gain of \$37 million on the sales of Boston Scientific common stock. Other (income) expense, net for 2007 and 2006 includes fair value gain adjustments of \$28 million and \$91 million, respectively, to certain derivative financial instruments included with the investment in Boston Scientific common stock.

Taxes on Earnings

The income tax rates on earnings from continuing operations were 19.2 percent in 2008, 19.3 percent in 2007 and 24.6 percent in 2006. Taxes on earnings from continuing operations in 2006 reflect the effect of the tax rates applied to acquired in-process research and development and the resolution of prior years' income tax audits and the effect of other discrete tax items. For 2006, the tax rates applied to acquired in-process and collaborations research and development increased the effective tax rate by 6.6 percentage points and the effect of the income tax audit resolution and other discrete tax items decreased the effective tax rate by 5.5 percentage points. Abbott expects to apply an annual effective rate of between 17.5 percent and 18.0 percent in 2009.

Business Combinations, Technology Acquisitions and Related Transactions

In December 2006, Abbott acquired Kos Pharmaceuticals Inc. for cash of approximately \$3.8 billion, net of cash held by Kos Pharmaceuticals Inc., to expand Abbott's presence in the lipid management market and to provide several on-market and late-stage pipeline products. Kos Pharmaceuticals Inc. was a specialty pharmaceutical company that developed and marketed proprietary medications for the treatment of chronic cardiovascular, metabolic and respiratory diseases. This business was acquired on December 13, 2006 and the financial results of the acquired operations are included in these financial statements beginning on that date. The acquisition was financed primarily with short-term debt. The allocation of the purchase price resulted in a charge of \$1.3 billion for acquired in-process research and development, intangible assets of \$821 million, goodwill (primarily non-deductible) of \$1.6 billion and net liabilities, primarily deferred income taxes recorded at acquisition of \$331 million. Acquired intangible assets are being amortized over 4 to 15 years. Non-deductible acquired in-process research and development was charged to income in 2006.

In order to expand Abbott's presence in the growing vascular market, Abbott acquired Guidant's vascular intervention and endovascular solutions businesses on April 21, 2006 for approximately \$4.1 billion, in cash, in connection with Boston Scientific's acquisition of Guidant. In addition, Abbott agreed to pay to Boston Scientific \$250 million each upon government approvals to market the *Xience V* drug-eluting stent in the U.S. and in Japan. In 2008, the FDA approved the marketing of *Xience V* and Abbott paid Boston Scientific \$250 million, resulting in the recording of additional goodwill. Government approval in Japan is anticipated in late 2009 or early 2010 which will also result

in the recording of additional goodwill. The allocation of the purchase price resulted in a charge of \$665 million for acquired in-process research and development, intangible assets of \$1.2 billion, goodwill (primarily deductible) of \$1.7 billion and tangible net assets of \$580 million. Acquired intangible assets are being amortized over 4 to 15 years. Deductible acquired in-process research and development was charged to income in 2006. The net tangible assets acquired consist primarily of property and equipment of approximately \$530 million, trade accounts receivable of approximately \$250 million and inventories of approximately \$120 million, net of assumed liabilities, primarily trade accounts payable, litigation reserves and other liabilities.

Had the above acquisitions taken place on January 1 of the previous year, consolidated net sales and income would not have been significantly different from reported amounts.

In order to facilitate Boston Scientific's acquisition of Guidant, Abbott also acquired 64.6 million shares of Boston Scientific common stock directly from Boston Scientific and loaned \$900 million to a wholly-owned subsidiary of Boston Scientific. The common stock was valued at \$1.3 billion and the note receivable was valued at \$829 million at the acquisition date. In connection with the acquisition of the shares, Boston Scientific was entitled to certain after-tax gains upon Abbott's sale of the shares. In addition, Boston Scientific agreed to reimburse Abbott for certain borrowing costs on debt incurred to acquire the Boston Scientific shares. Abbott recorded a net derivative financial instruments liability of \$59 million for the gain-sharing derivative financial instrument liability and the interest derivative financial instrument asset. The effect of recording the shares, the loan to Boston Scientific and the derivative financial instruments at fair value on the date of acquisition resulted in the recording of additional goodwill of approximately \$204 million. Changes in the fair value of the derivative financial instruments, net were recorded in Other (income) expense, net.

Subsequent Event - Business Combination

In January 2009, Abbott announced an agreement to acquire Advanced Medical Optics, Inc. (AMO), a marketer of ophthalmic surgical technology and devices, as well as eye care solutions, for approximately \$2.8 billion, in cash and debt, to take advantage of increasing demand for vision care technologies due to population growth and demographic shifts. The transaction is expected to close in the first quarter of 2009. AMO's sales are more than \$1 billion per year.

Financial Condition Cash Flow

Net cash from operating activities of continuing operations amounted to \$7.0 billion, \$5.2 billion and \$5.3 billion in 2008, 2007 and 2006, respectively. Cash from operating activities of continuing operations in 2008 compared to 2007 is higher due to higher operating earnings, decreased prepaid expenses and other assets, and increased trade accounts payable and other liabilities. Cash from operating activities of continuing operations in 2007 and 2006 compared to 2005 is higher due to higher net earnings adjusted for after-tax non-cash charges for acquired in-process research and development in 2006 and share-based compensation and higher contributions to retirement benefit plans in 2005 compared to 2007 and 2006; partially offset by higher income tax payments in 2006, including tax payments related to the

Financial Review

2005 remittances of foreign earnings under the American Jobs Creation Act. Abbott funds its domestic pension plans according to IRS funding limitations. In 2008, 2007 and 2006, \$200 million was funded to the main domestic pension. Abbott expects pension funding for its main domestic pension plan of \$700 million in 2009 and \$200 million annually, thereafter. 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, 2008, Abbott's long-term debt rating was AA by Standard & Poor's Corporation and A1 by Moody's Investors Service. Abbott has readily available financial resources, including unused lines of credit of \$5.3 billion that support commercial paper borrowing arrangements of which a \$2.3 billion facility expires in December 2009 and a \$3.0 billion facility expires in 2012. Abbott's access to short-term financing has not been affected by the recent credit market conditions.

In 2006, the board of directors authorized the purchase of \$2.5 billion of Abbott's common shares from time to time and no shares were purchased under this authorization in 2006. In 2008 and 2007, Abbott purchased approximately 19.0 million of its common shares in each period at a cost of approximately \$1.1 billion and \$1.0 billion, respectively under this authorization. Effective in the fourth quarter of 2008, no more purchases of common shares will be made from the 2006 authorization. In October 2008, the board of directors authorized the purchase of up to \$5 billion of Abbott's common shares from time to time and 146,400 shares were purchased under this authorization in 2008 at a cost of approximately \$8 million.

Under a registration statement filed with the Securities and Exchange Commission in February 2006, Abbott issued \$3.5 billion of long-term debt in 2007 that matures in 2012 through 2037 with interest rates ranging from 5.15 percent to 6.15 percent. Proceeds from this debt were used to pay down short-term borrowings that were incurred to partially fund the acquisition of Kos Pharmaceuticals Inc. Under the same registration statement, Abbott issued \$4.0 billion of long-term debt in 2006 that matures in 2009 through 2016 with interest rates ranging from 5.375 percent to 5.875 percent. Proceeds from this debt were used to pay down domestic commercial paper borrowings that were incurred to partially fund the acquisition of Guidant's vascular intervention and endovascular solutions businesses.

In 2009, the acquisition of Advanced Medical Optics, Inc., the funding of Abbott's main domestic pension plan and the payment of long-term debt will be financed with operating cash flow and debt.

Working Capital

Working capital was \$5.5 billion at December 31, 2008 and \$4.9 billion at December 31, 2007. At December 31, 2006, current liabilities exceeded current assets by approximately \$669 million as a result of increased short-term borrowings used to acquire Kos Pharmaceuticals Inc. in December 2006.

Capital Expenditures

Capital expenditures of \$1.3 billion in 2008, \$1.7 billion in 2007 and \$1.3 billion in 2006 were principally for upgrading and expanding manufacturing, research and development, investments in information technology and administrative support facilities in all segments, and for laboratory instruments placed with customers.

Contractual Obligations

The following table summarizes Abbott's estimated contractual obligations as of December 31, 2008:

(dollars in millions)	Payment Due By Period				
	Total	2009	2010-2011	2012-2013	2014 and Thereafter
Long-term debt, including current maturities and future interest payments	\$13,512	\$1,467	\$2,989	\$1,896	\$7,160
Operating lease obligations	416	74	122	88	132
Capitalized auto lease obligations	93	31	62	—	—
Purchase commitments (a)	4,627	4,328	258	32	9
Other long-term liabilities reflected on the consolidated balance sheet—					
Benefit plan obligations	3,048	—	714	777	1,557
Other	1,524	—	1,065	198	281
Total	\$23,220	\$5,900	\$5,210	\$2,991	\$9,119

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

Contingent Obligations

Abbott has periodically entered into agreements in the ordinary course of business, such as assignment of product rights, with other companies which has resulted in Abbott becoming secondarily liable for obligations that Abbott was previously primarily liable. Since Abbott no longer maintains a business relationship with the other parties, Abbott is unable to develop an estimate of the maximum potential amount of future payments, if any, under these obligations. Based upon past experience, the likelihood of payments under these agreements is remote. In addition, Abbott periodically acquires a business or product

rights in which Abbott agrees to pay contingent consideration based on attaining certain thresholds or based on the occurrence of certain events. In connection with the acquisition of Guidant's vascular intervention and endovascular solutions businesses, Abbott will pay to Boston Scientific \$250 million upon government approval to market the Xience V drug-eluting stent in Japan. Government approval is anticipated in late 2009 or early 2010. In addition, Abbott has retained liabilities for taxes on income prior to the spin-off of Hospira and certain potential liabilities, if any, related to alleged improper pricing practices in connection with federal, state and private reimbursement for certain drugs.

Financial Review

Recently Issued Accounting Standards

In 2007, the FASB issued SFAS No. 141 (revised 2007) "Business Combinations" and SFAS No. 160 "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51." Abbott will adopt these standards on January 1, 2009. Statement No. 141 (revised 2007) will impact Abbott primarily in five areas: acquired in-process research and development will be accounted for as an indefinite lived intangible asset until approval or discontinuation rather than as expense; acquisition costs will be expensed rather than added to the cost of an acquisition; restructuring costs in connection with an acquisition will be expensed rather than added to the cost of an acquisition; the fair value of contingent consideration at the date of an acquisition will be included in the cost of an acquisition; and the fair value of contingent liabilities that are more likely than not of occurrence will be recorded at the date of an acquisition. The effect of these changes will be applicable to acquisitions on or after January 1, 2009. Adoption of Statement No. 160 will not have a material effect on Abbott.

Legislative Issues

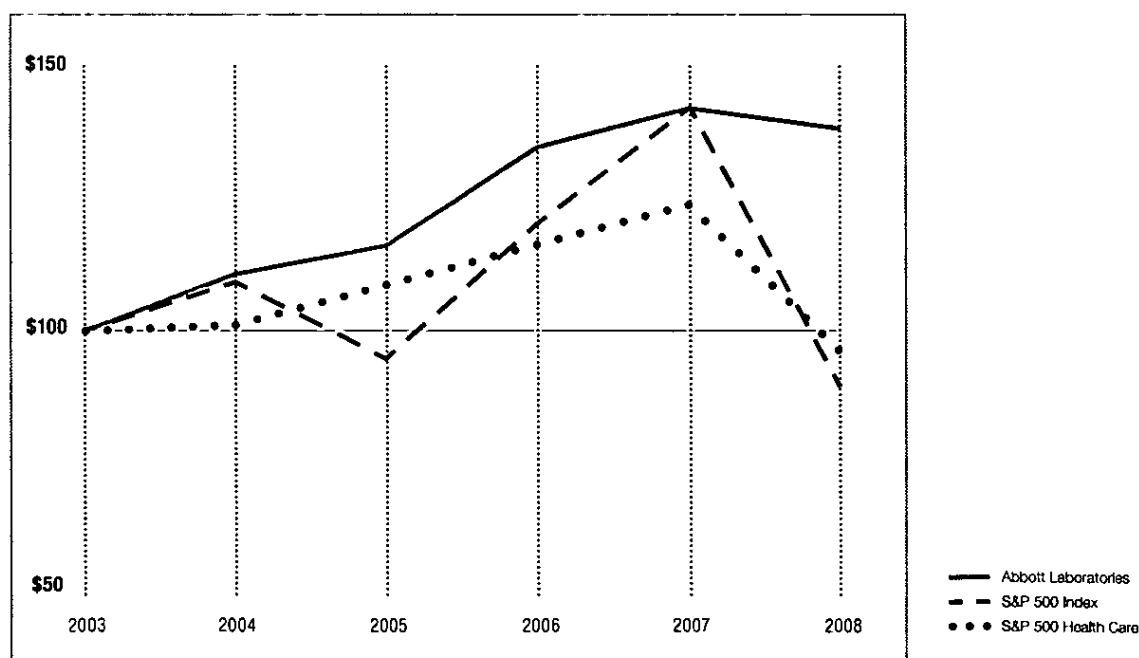
Abbott's primary markets are highly competitive and subject to substantial government regulation throughout the world. Abbott expects debate to continue over the availability, method of delivery, and payment for health care products and services. Abbott believes that if legislation is enacted, it could change access to health care products and services, or reduce prices or the rate of price increases for health care products and services. It is not possible to predict the extent to which Abbott or the health care industry in general might be adversely affected by these factors in the future. A more complete discussion of these factors is contained in Item 1, Business, and Item 1A, Risk Factors, to the Annual Report on Form 10-K.

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

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

Performance Graph

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



Assuming \$100 invested on 12/31/03 with dividends reinvested.

Summary of Selected Financial Data

(dollars in millions, except per share data)

Year Ended December 31	2008	2007	2006	2005	2004	2003	2002	2001
Summary of Operations:								
Net Sales	\$29,527.6	25,914.2	22,476.3	22,337.8	19,680.0	17,280.3	15,279.5	13,918.5
Cost of products sold	\$12,612.0	11,422.0	9,815.1	10,641.1	8,884.2	7,774.2	6,820.5	6,107.1
Research and development (a)	\$ 2,688.1	2,505.6	2,255.3	1,821.2	1,696.8	1,623.8	1,474.5	1,491.8
Selling, general and administrative	\$ 8,435.6	7,408.0	6,349.7	5,496.1	4,921.8	4,808.1	3,724.9	3,491.0
Operating earnings	\$ 5,693.8	4,578.5	2,042.2	4,362.3	3,898.3	2,974.0	3,151.9	1,498.2
Interest expense	\$ 528.5	593.1	416.2	241.4	200.2	188.3	238.9	307.3
Interest income	\$ (201.2)	(136.8)	(123.8)	(87.7)	(51.1)	(41.9)	(33.5)	(71.4)
Other (income), net	\$ (489.7)	(347.5)	(526.5)	(411.3)	(376.4)	(559.5)	(374.4)	(231.3)
Earnings from continuing operations before taxes	\$ 5,856.3	4,469.6	2,276.4	4,619.9	4,125.6	3,387.2	3,321.0	1,493.6
Taxes on earnings from continuing operations	\$ 1,122.1	863.3	559.6	1,247.9	949.8	882.4	774.0	215.9
Earnings from continuing operations	\$ 4,734.2	3,606.3	1,716.8	3,372.1	3,175.8	2,504.7	2,547.0	1,277.7
Basic earnings per share from continuing operations	\$ 3.06	2.34	1.12	2.17	2.03	1.60	1.63	0.82
Diluted earnings per share from continuing operations	\$ 3.03	2.31	1.12	2.16	2.02	1.59	1.62	0.82
Financial Position:								
Working capital	\$ 5,106.8	4,939.5	(669.3)	3,970.5	3,908.8	2,650.9	2,119.6	492.4
Long-term investments	\$ 1,073.7	1,125.3	1,229.9	134.0	145.8	406.4	250.8	647.2
Net property and equipment	\$ 7,219.2	7,518.1	6,946.4	6,003.1	6,007.9	6,281.8	5,828.1	5,551.5
Total assets	\$42,419.2	39,713.9	36,178.2	29,141.2	28,767.5	26,039.3	23,592.7	22,755.5
Long-term debt	\$ 8,713.3	9,487.8	7,009.7	4,571.5	4,787.9	3,452.3	4,274.0	4,335.5
Shareholders' investment	\$17,479.6	17,778.5	14,054.2	14,415.3	14,325.8	13,072.3	10,664.6	9,059.4
Return on shareholders' investment from continuing operations	% 26.9	22.7	12.1	23.5	23.8	22.6	28.0	15.9
Book value per share	\$ 11.26	11.47	9.14	9.37	9.18	8.36	6.82	5.83
Other Statistics:								
Gross profit margin	% 57.3	55.9	56.3	52.4	54.9	55.0	55.4	56.1
Research and development to net sales	% 9.1	9.7	10.0	8.2	8.6	9.4	9.7	10.7
Net cash from operating activities of continuing operations	\$ 6,994.6	5,183.8	5,262.1	5,047.4	4,306.0	3,385.2	3,653.5	3,083.7
Capital expenditures	\$ 1,287.7	1,656.2	1,337.8	1,207.5	1,291.6	1,050.1	1,105.4	963.6
Cash dividends declared per common share	\$ 1.44	1.30	1.18	1.10	1.04	0.98	0.94	0.84
Common shares								
outstanding (in thousands)	1,552,433	1,549,910	1,537,243	1,539,235	1,560,024	1,564,518	1,563,068	1,554,530
Number of common shareholders	69,733	73,176	77,727	82,237	88,582	91,212	94,687	97,760
Number of employees	68,838	68,697	66,663	59,735	60,617	58,181	57,819	56,426
Sales per employee (in dollars)	\$ 428,943	377,225	337,163	373,948	324,662	297,010	264,265	246,668
Market price per share – high	\$ 61.09	59.50	49.87	50.00	47.63	47.15	58.00	57.17
Market price per share – low	\$ 45.75	48.75	39.18	37.50	38.26	33.75	29.80	42.00
Market price per share – close	\$ 53.37	56.15	48.71	39.43	46.65	46.60	40.00	55.75

(a) In 2006, 2005, 2004, 2003, 2002 and 2001 Abbott also recorded pretax charges of \$2,014, \$17, \$279, \$100, \$108 and \$1,330, respectively, for acquired in-process research and development related to business acquisitions.

Directors and Corporate Officers

Directors

Robert J. Alpern, M.D.
Dean, Yale School of Medicine
New Haven, Conn.

Roxanne S. Austin
President,
Austin Investment Advisors
Newport Coast, Calif.

William M. Daley
Head of the Office of Corporate
Social Responsibility and
Chairman of the Midwest,
JPMorgan Chase & Co.
Chicago, Ill.

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

H. Laurance Fuller
Retired Co-Chairman
of the Board,
BP Amoco, p.l.c.
London, United Kingdom

William A. Osborn
Chairman and former Chief
Executive Officer,
Northern Trust Corporation
and its principal subsidiary,
The Northern Trust Co.
Chicago, Ill.

The Rt. Hon. Lord Owen, CH
Chairman of Europe Steel, Ltd.
London, United Kingdom

Boone Powell, Jr.
Retired Chairman,
Baylor Health Care System
Dallas, Texas

W. Ann Reynolds, Ph.D.
Former President,
The University of Alabama
at Birmingham
Birmingham, Ala.

Roy S. Roberts
Managing Director,
Reliant Equity Investors LLC
Chicago, Ill.

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

William D. Smithburg
Retired Chairman, President
and Chief Executive Officer,
The Quaker Oats Co.
Chicago, Ill.

Glenn F. Tilton
Chairman, President and
Chief Executive Officer,
UAL Corporation and United
Airlines, Inc., a wholly owned
subsidiary of UAL Corporation
Chicago, Ill.

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

Senior Management

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

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

Richard W. Ashley*
Executive Vice President,
Corporate Development

John M. Capek, Ph.D.*
Executive Vice President,
Medical Devices

Holger A. Liepmann*
Executive Vice President,
Nutritional Products

Edward L. Michael*
Executive Vice President,
Diagnostics Products

Laura J. Schumacher*
Executive Vice President,
General Counsel and Secretary

James L. Tyree*
Executive Vice President,
Pharmaceutical Products

Olivier Bohuon*
Senior Vice President,
International Pharmaceuticals

Thomas F. Chen*
Senior Vice President,
International Nutrition

Stephen R. Fussell*
Senior Vice President,
Human Resources

Robert B. Hance*
Senior Vice President,
Vascular

John C. Landgraf*
Senior Vice President,
Pharmaceuticals,
Manufacturing and Supply

John M. Leonard, M.D.
Senior Vice President,
Pharmaceuticals,
Research and Development

Heather L. Mason*
Senior Vice President,
Diabetes Care

James V. Mazza*
Senior Vice President,
Medical Optics

Donald V. Patton, Jr.*
Senior Vice President,
U.S. Nutrition

Mary T. Szela*
Senior Vice President,
U.S. Pharmaceuticals

Michael J. Warmuth*
Senior Vice President,
Diagnostics

Corporate Vice Presidents

Carlos Alban
Vice President,
Pharmaceuticals,
Western Europe and Canada

Greg E. Arnsdorff
Vice President,
Point of Care Diagnostics

Catherine V. Babington
Vice President, Public Affairs

Michael G. Beatrice, Ph.D.
Vice President,
Corporate Regulatory and
Quality Science

Brian J. Blaser
Vice President,
Diagnostics Operations

William J. Chase
Vice President, Treasurer

Jaime Contreras
Vice President,
International Diagnostics

Thomas J. Dee
Vice President, Controller,
International Pharmaceuticals

Charles D. Foltz
Vice President,
Vascular Products Operations

Robert B. Ford
Vice President, Diabetes Care,
Commercial Operations

Robert E. Funck
Vice President, Internal Audit

John F. Ginascol
Vice President,
Supply Chain, Nutrition

Honey Lynn Goldberg
Vice President,
Associate General Counsel,
Corporate Transactions

Cecilia L. Kimberlin, Ph.D.
Vice President, Quality,
Medical Products

Zahir A. Lavji
Vice President,
Pharmaceuticals,
International Marketing

Elaine R. Leavenworth
Vice President,
Government Affairs

Steven J. Lichter
Vice President,
Pharmaceuticals,
Manufacturing

Greg W. Linder*
Vice President, Controller

Santiago Luque
Vice President, Pharmaceuticals,
Latin America

Sean E. Murphy
Vice President, Licensing/
New Business Development

Corlis D. Murray
Vice President,
Corporate Engineering Services

D. Stafford O'Kelly
Vice President,
Molecular Diagnostics

Ramachandran Rajamanickam
Vice President, Nutrition,
Pacific, Asia and Africa

John R. Schilling, M.D.
Vice President,
Sales and Marketing,
U.S. Pharmaceutical
Operations

AJ J. Shoultz
Vice President, Taxes

Preston T. Simons
Vice President,
Information Technology

James P. Sullivan, Ph.D.
Vice President,
Pharmaceuticals Discovery

Eugene Sun, M.D.
Vice President,
Pharmaceuticals
Clinical Development

John B. Thomas
Vice President,
Investor Relations

Glenn S. Warner
Vice President,
Pharmaceuticals,
Japan

Susan M. Widner
Vice President,
Corporate Marketing

*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 2009, pending approval by the board of directors:

Quarter	Declared	Record	Paid
First	2/20	4/15	5/15
Second	6/12	7/15	8/15
Third	9/18	10/15	11/15
Fourth	12/11	1/15/10	2/15/10

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, call Abbott's Investor Newsline or write Abbott Shareholder Services.

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, call the Investor Newsline or write Abbott Shareholder Services.

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 24, 2009, at Abbott's corporate headquarters. Questions regarding the annual meeting may be directed to the Corporate Secretary. A copy of Abbott's 2008 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 2008, 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 2008 reports.

Investor Newsline
(847) 937-7300

Investor Relations
Dept. 362, AP6D2

Shareholder Services
Dept. 312, AP6D2

Corporate Secretary
Dept. 364, AP6D2

Abbott
100 Abbott Park Road
Abbott Park, IL 60064-6400 U.S.A.
(847) 937-6100

Web Site
www.abbott.com

Global Citizenship Report
Visit www.abbott.com/citizenship to read Abbott's current global citizenship report.

Transfer Agent and Registrar
Computershare
P.O. Box 43078
Providence, RI 02940-3078
(888) 332-2268
www.computershare.com

Shareholder Information
Shareholders with questions about their accounts may contact the transfer agent, call the Investor Newsline or write Abbott Shareholder Services.
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 2008 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.

Abbott trademarks and products in-licensed by Abbott are shown in *italics* in the text of this report. Crestor, Zocor, Lipitor and Herceptin are not trademarks of Abbott Laboratories.
© 2009, Abbott Laboratories

 Printed on Recycled Paper



Abbott
100 Abbott Park Road, Abbott Park, IL 60064-6400 U.S.A.
(847) 937-6100 www.abbott.com

