2016 ANNUAL REPORT

Abbott

Abbott is a globally diversified healthcare company whose central purpose is to help people, at all stages of life, live their best possible lives through better health. We offer a broad portfolio of market-leading products that align with favorable long-term healthcare trends in both developed and developing markets. Building on a strong foundation of almost 130 years of success, our company is poised to deliver continuing growth, expanding margins, strong cash flow, and increasing returns to shareholders.

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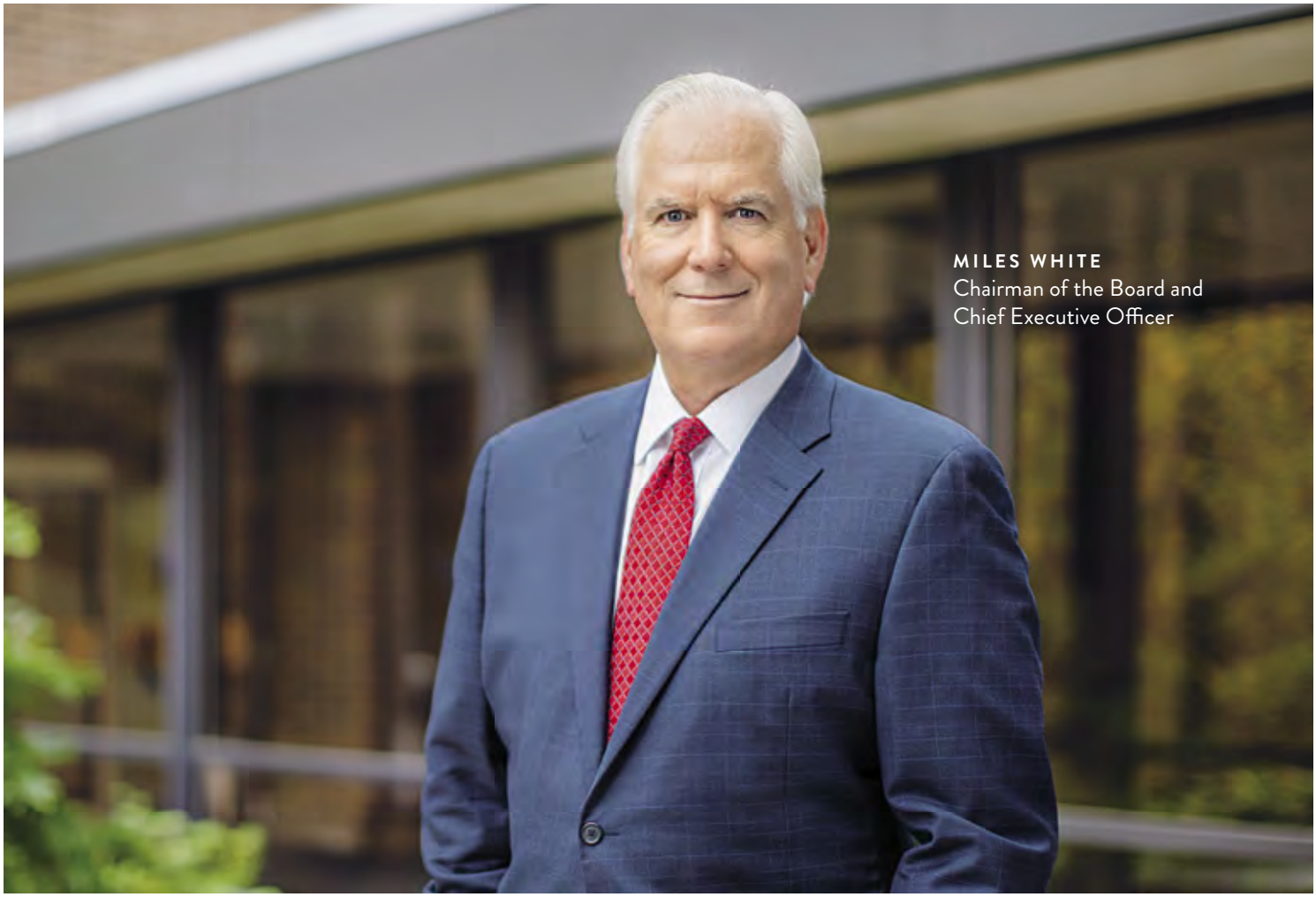
ON THE COVER:

LANA AND ALI NADJI-TEHRANI
FRANKFURT, GERMANY
***FREESTYLE LIBRE* SYSTEM**

Both Lana and her father, Ali, rely on Abbott's *FreeStyle Libre* flash glucose-monitoring system to measure, track and analyze their glucose levels.



MILES WHITE
Chairman of the Board and
Chief Executive Officer

DEAR FELLOW SHAREHOLDER:

ABBOTT REMAINS ONE OF THE WORLD'S MOST ENDURINGLY SUCCESSFUL COMPANIES BY COMBINING EXTRAORDINARY STABILITY WITH CONTINUAL, FOCUSED EVOLUTION. 2016 OPENED THE NEXT GREAT CHAPTER IN THAT ONGOING STORY OF INNOVATION AND GROWTH.

LETTER TO OUR SHAREHOLDERS

WE HAVE RESHAPED ABBOTT TO DELIVER CONTINUED, ACCELERATING GROWTH

2017

ST. JUDE MEDICAL

Adding St. Jude Medical advances our strategic and competitive positions in high-growth segments of a critical healthcare market

2014

CFR+VEROPHARM

Acquiring CFR Pharmaceuticals and Veropharm, combined with divesting our developed-markets pharmaceuticals business, focused our branded-generics business on faster-growing international markets

2013

abbvie

With the separation of AbbVie, we also created a new, more balanced Abbott

SHAPING THE COMPANY

The fundamental question perpetually facing every company is, "What should we be?" Determining what fields to be in and what opportunities to pursue is the definitive task of business leadership.

The hallmark of the past 18 years at Abbott has been an unwavering focus on this central question. We have continually shaped the company to make it stronger and more competitive in its evolving environment. 2016 was a landmark year in this regard.

Our vision is fixed, clear, and ambitious: to make Abbott the world's leading healthcare company in the markets in which we compete — the company that sets the standard in innovation, impact, and performance. To this end, we shape the company to achieve maximum competitiveness. To us, that means building significant and leading positions in large and growing markets. Two major strategic decisions in 2016 embody our intent in action.

The first was our decision to sell Abbott Medical Optics (AMO) to Johnson & Johnson. When we entered the vision business seven years ago, we expected AMO — which was a leader, both technologically and commercially, in the segments in which it competed — to be the foundation of just such a position for us. And the business performed very well as a part of Abbott, gaining share and operating profitably. However, we did not see the opportunity for Abbott to expand this business into the broad-based leader we would wish to be. This change, then, provides greater opportunity for our former vision business as it joins an established leader in the field.

Abbott, on the other hand, will pursue another market that is more closely aligned with our long-term strategies. That market is cardiovascular care, and the pivotal opportunity is our acquisition of St. Jude Medical (SJM). With SJM, we now have exactly the kind of market-leading positions that we seek in all our businesses. This includes strong positions across virtually the entire spectrum of cardiovascular specialties, and number-one or number-two positions in many of these fields. Just as importantly, we now have one of the strongest new-product pipelines in the medical device industry.

The addition of SJM caps an almost 20-year process through which we've very deliberately built one of the world's premier cardiac care businesses, as well as broad-based medical-device leadership.

These mirror-image actions perfectly encapsulate our strategy: we compete where we can achieve the critical mass and innovation needed to have significant impact and achieve market leadership.

BUILT TO COMPETE

We're able to achieve such positions because our businesses are consciously built around a consistent core of competitive strengths:

BALANCE

Our long-term stability is a direct function of the balance we work to construct and maintain between the various elements of our business. Diversity of our strengths and resources has been central to Abbott's strategy for decades. We work continually to achieve the optimal mix across multiple dimensions of our competitive profile. We don't allow the company to become overly indexed toward any single business segment, geography, technology, customer type, or channel. Well-balanced diversity not only mitigates risk — it gives us more ways to win.

PRESENCE

Being a leader in a global business requires being present, visible, and known around the world — to customers, investors, business partners, governments, and the general public. This is particularly critical in Established Pharmaceuticals (EPD), our branded-generics business, where presence *is* the strategy. Through a steady, focused shaping process, EPD is truly becoming the business we envisioned in its creation several years ago. Now focused exclusively on faster-growing emerging markets, and with strong presence in all relevant regions thanks to our acquisitions of CFR Pharmaceuticals and Veropharm, EPD is executing its model with great success, growing both sales and profits.

RELEVANCE

This attribute goes back to that central question of "What do we want to be?" It's a matter of understanding and providing what's current, what's important, what people need and want — now and in the future. To be a leading healthcare company, we have to be where the needs are greatest. To that end, we've aligned our businesses with the demographic trends driving the future of healthcare and of the global economy.

LEADERSHIP

Our other competitive advantages add up to this one. We enter businesses in order to lead them. The healthcare business is about excellence. A lower standard simply is not appropriate. The essence of the business is creating new technologies and solutions that are better than before and deliver increasing benefits in critical areas of people's health and lives. We pursue leadership in every aspect of our operations — from market position to financial performance to corporate citizenship. But nowhere is it more important than in the innovation that is always the heartbeat of our business. And our leadership in this regard is particularly robust, as we're enjoying a very good time for Abbott science.

In 2016, *Popular Science* magazine, the world's largest science and technology publication, named two Abbott products — our *FreeStyle Libre* glucose-monitoring system and our *Absorb* bioresorbable stent — to its list of the year's 100 best inventions. And we're delivering a comparable level of innovation in our *Alinity* family of diagnostic systems. This is a program of unprecedented scope and ambition that advances our entire range of diagnostic technologies to offer greater efficiency, flexibility, and confidence to customers and health systems. It's a bold advance that embodies our approach to what we do — we aim to lead.

LETTER TO OUR SHAREHOLDERS

HELPING PEOPLE LIVE THEIR BEST LIVES THROUGH BETTER HEALTH

$20.85B
TOTAL 2016 SALES

45
CONSECUTIVE YEARS OF DIVIDEND INCREASES

$2.1B
RETURNED TO SHAREHOLDERS
THROUGH DIVIDENDS AND SHARE REPURCHASES

FINANCIAL PERFORMANCE

In 2016 these competitive strengths led us to another successful performance. Our sales grew 2.2 percent globally and were up 4.8 percent excluding the impact of foreign exchange. A dominant factor in recent years, exchange was less detrimental in 2016, though still a meaningful factor.

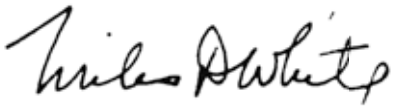
We again raised our dividend — by approximately 7 percent — marking our 93rd consecutive year of dividends paid and the 45th straight year they've increased. As a result, we maintained our position on the S&P 500 Dividend Aristocrats Index, a list of just 51 major companies that have raised dividends for at least 25 consecutive years.

LIFE. TO THE FULLEST.

Our purpose as a company has been constant for almost 130 years now: to help people live their fullest lives through better health. Achieving that goal has required continual change and adaptation over those decades, following the advance of science and technology — and often leading it — to new knowledge and capability.

Abbott has been an enduring company because we've never hesitated to be an evolutionary company. Changing times require changing practices. What remains unchanged is our commitment to bringing people the health innovations they need to live their best possible lives.

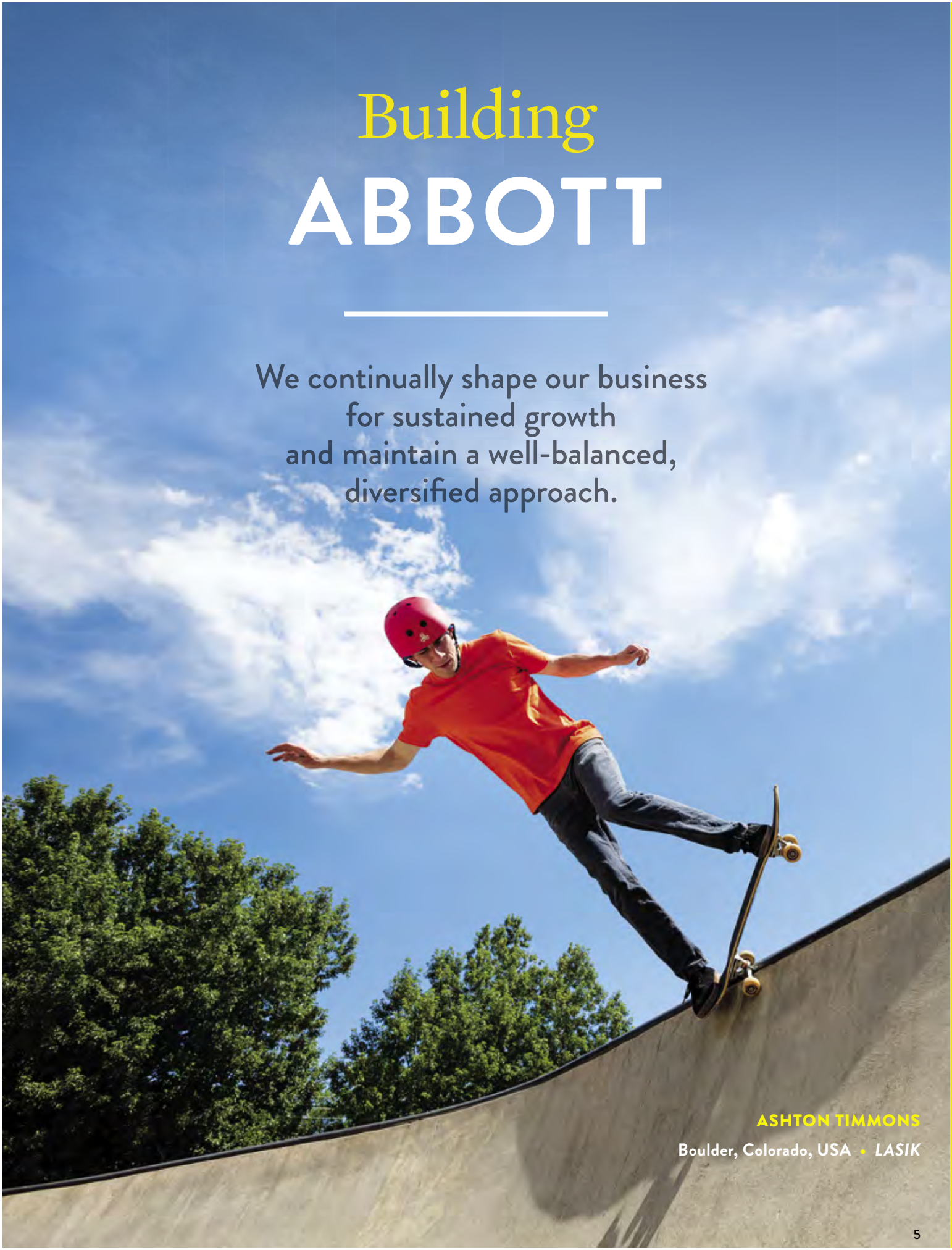
To that end, we have again reshaped our company. Today's Abbott is built to deliver more and better healthcare solutions, to improve more lives around the world, and to strengthen our competitiveness and accelerate our growth. That's what a leading healthcare company does. And it's what we'll keep doing here at Abbott.



Miles D. White
Chairman of the Board
and Chief Executive Officer
March 2, 2017

Building ABBOTT

We continually shape our business for sustained growth and maintain a well-balanced, diversified approach.



ASHTON TIMMONS
Boulder, Colorado, USA • *LASIK*

Advancing OUR LEADERSHIP

Abbott is long established as a leader in diagnostics, nutrition and medicines. Our acquisition of St. Jude Medical makes us a premier medical-device company, as well. Today we offer a leading portfolio of innovative solutions in diabetes, cardiovascular, and neuromodulation.

THE ADDITION OF
ST. JUDE MEDICAL
MAKES ABBOTT

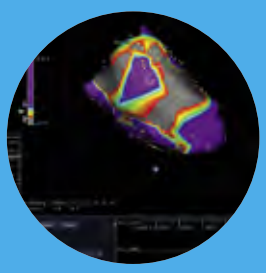
#1 or #2

ACROSS LARGE AND HIGH-GROWTH CARDIOVASCULAR MARKETS

ABBOTT HAS EXPANDED STRATEGICALLY TO ESTABLISH LEADING POSITIONS IN EVERY MARKET WE SERVE

STRUCTURAL HEART
Abbott now offers the industry's broadest portfolio of heart-valve repair and replacement technologies.

HEART FAILURE
Our left-ventricular assist device is the cornerstone of this business.



CARDIAC RHYTHM MANAGEMENT
Our portfolio now includes mapping and visualization systems, diagnostic and ablation catheters, pacemakers, implantable defibrillators, and resynchronization devices.

VASCULAR CARE
Adding imaging devices to Abbott's portfolio of market-leading stents gives doctors the right combination of information and tools to make better treatment decisions.

NEUROMODULATION
An entirely new market for Abbott, these specialized devices help people who suffer from chronic pain and movement disorders.

Shaping
OUR BALANCE

Maintaining diversity — in our mix of businesses, in the regions we serve, in the customers we seek — is central to our strategy for long-term success

MEDICAL DEVICES

Less-invasive, more-accurate technologies to enhance lives

DIAGNOSTICS

Timely information to better manage health

REFINING OUR BUSINESS FOR STABLE GROWTH

4 MAJOR BUSINESSES
HELP INSULATE ABBOTT FROM FLUCTUATIONS IN ANY SINGLE MARKET

58% DEVELOPED MARKETS
42% EMERGING MARKETS
GEOGRAPHIC DIVERSITY BALANCES GROWTH AND STABILITY

ESTABLISHED PHARMACEUTICALS

High-quality, trusted medicines in high-growth markets

NUTRITION

Science-based nourishment for every stage of life

Expanding OUR PRESENCE

Healthcare needs are growing — and changing — around the world. By building our presence in fast-growing regions, we can better stay ahead of those trends and respond with relevant, localized solutions.

94,000

Abbott people

working in more than 150 countries

WE'VE ESTABLISHED A STRONG LOCAL PRESENCE IN THE WORLD'S FASTEST-GROWING MARKETS

BROAD PRESENCE IN GROWTH MARKETS

Abbott's key emerging markets are growing at more than twice the rate of those in developed economies

STRONG POSITIONS IN DEVELOPED MARKETS

Our business in developed markets is concentrated in higher-growth segments, including diabetes care and treatments for cardiovascular disease

Increasing OUR IMPACT

An aging population, a rise in chronic disease, continued pressure to provide high-quality care at lower cost: Abbott is well positioned to address these global trends

RECOGNIZED EXPERTISE

Abbott's focused innovation has resulted in leadership positions in geographic regions and treatment areas where needs are most pressing.

RESHAPING OUR BUSINESS AND FOCUSING OUR INNOVATION ON UNMET NEEDS KEEPS ABBOTT ALIGNED WITH IMPORTANT GLOBAL TRENDS IN HEALTHCARE

HERNÁN SANTIAGO
Panamá City, Panamá • *Ensure*

422 Million
ADULTS HAVE DIABETES

Abbott's revolutionary *FreeStyle Libre* system lets people test their glucose levels without the need for routine finger sticks.[1]

22%

By 2050, almost one-quarter of the world's population will be over 60 years of age.

Abbott's *Ensure Advance* is specifically formulated to help recover and maintain muscle mass for long-term strength.

As emerging-market economies grow, so does their investment in healthcare.

Abbott has a strong presence in the world's fastest-growing economies.


Building
A LEADING GLOBAL HEALTHCARE COMPANY

Life. To The Fullest. At Abbott, we keep hearts healthy, provide science-based nutrition to nourish bodies of every age, and provide information and medicines to help manage people's health.

As the world changes, so do we, reshaping our company to keep Abbott strong. By doing so, we're better able to help people all around the world live their best possible lives.

TODO BAO

Shanghai, China • *Similac*

Medical Devices

ADVANCING TECHNOLOGY, IMPROVING LIVES

Treatment with Abbott's *Absorb* stent helped firefighter Michal Gurgul, of Czerniec, Poland, recover from a heart attack and get back to saving others' lives.

BREAKTHROUGH DEVICES

Volunteer firefighter Michal Gurgul was responding to an emergency when he collapsed with chest pains. His brother Konrad *(pictured at far left)* rushed him to the hospital, where doctors discovered that he had three blocked arteries. They restored blood flow using our *Absorb* naturally dissolving stent.

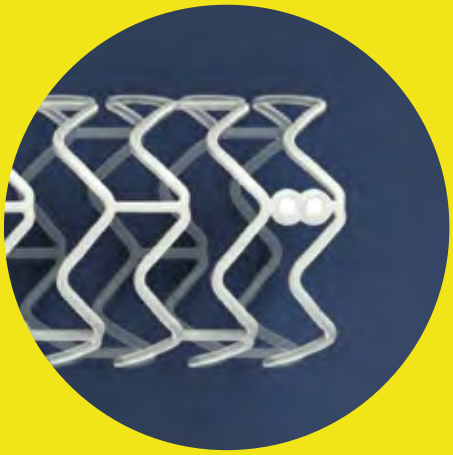
Absorb is just one of the breakthrough technologies in Abbott's device portfolio. By focusing on innovation that addresses growing and sustainable market needs, Abbott can help deliver improved patient outcomes while lowering overall healthcare costs.

A GLOBAL LEADER

With the acquisition of St. Jude Medical, Abbott further strengthened our presence in this segment, creating a global leader in medical devices. We offer more options, more breakthrough inventions and extensive expertise across the areas of diabetes, cardiovascular, and neuromodulation. Demand for these technologies is increasing as the prevalence of conditions associated with aging — such as heart disease and diabetes — rises, positioning Abbott well for future growth.

ABSORB STENT

Abbott's naturally dissolving stent system opens blocked arteries before being absorbed, leaving behind a restored vessel in a natural state, free of a permanent metal implant.



MEDICAL DEVICES 2016

EXPANDING OUR LEADERSHIP, SHARPENING OUR FOCUS.

2016 BUSINESS HIGHLIGHTS

Our *Absorb* bioresorbable stent and *FreeStyle Libre* flash glucose-monitoring system were named to *Popular Science* magazine's "Best of What's New" list of important innovations in 2016

CARDIOVASCULAR

- *Absorb* bioresorbable stent approved in the United States and Canada

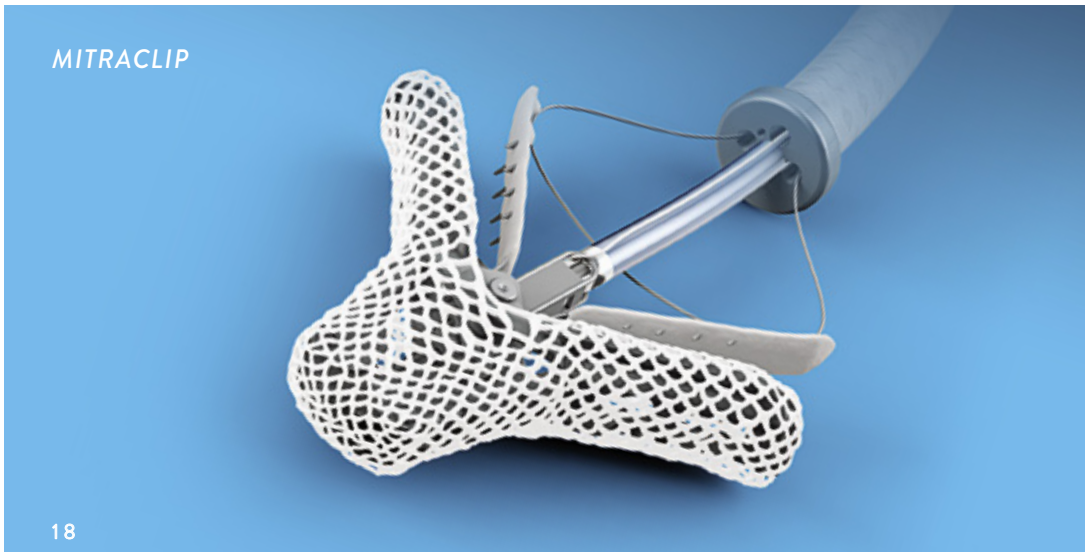
STRUCTURAL HEART

- *MitraClip NT*, Abbott's latest-generation transcatheter mitral-valve repair device, launched in the United States and Europe

DIABETES CARE

- *FreeStyle Libre* system was CE marked for pediatric use in Europe and approved for adult use in Australia, Brazil, China, and Japan. *FreeStyle Libre* is now available in 32 countries.
- *FreeStyle Libre Pro* system, Abbott's sensing technology for use by physicians, was approved in the United States
- Launched *Libre Link* and *Libre Link-up* mobile smartphone apps in Europe

ABSORB



MITRACLIP

FREESTYLE BLOOD GLUCOSE METERS

Changing the Testing Paradigm for People with Diabetes

Abbott's *FreeStyle Libre* system was designed with patients in mind. By providing an alternative to routine finger sticks, it offers a true breakthrough in routine glucose testing.[1] This system uses a small sensor worn on the back of the upper arm to automatically measure and continuously store glucose readings, day and night, for up to 14 days.

A quick scan of the sensor provides a current glucose reading, as well as the previous 8 hours of glucose data, including an indicator telling the user whether their glucose level has been rising or falling.

ALIGNED TO TRENDS

GLOBAL PREVALENCE OF DIABETES AMONG ADULTS ROSE FROM 4.7% IN 1980 TO 8.5% IN 2014.[2]

Diagnostics

INNOVATIVE SOLUTIONS TO IMPROVE QUALITY OF CARE

Jen Stevens, of Edinburgh, Scotland, was fortunate that her doctors were using Abbott's *ARCHITECT STAT* High Sensitive Troponin-I test.

QUICK RESULTS, EFFECTIVE TREATMENT

When Jen first started experiencing chest pains, she attributed them to stress and tried to carry on with her day. When the pain got worse, her colleagues called an ambulance. Doctors used Abbott's test to measure her level of troponin — a protein that shows up in blood when the heart muscle has been damaged — to determine that she was, in fact, having a heart attack. Quick treatment set her firmly on the road to recovery and, today, she's enjoying a full, healthy life with her daughters.

A TRADITION OF LEADERSHIP

Through the years, Abbott has built a broad and innovative portfolio of sophisticated technologies that screen and diagnose disease as well as monitor general health. The new systems we're launching over the next few years — including solutions across Clinical Chemistry, Immunoassay, Hematology, Blood and Plasma Screening, Molecular Diagnostics, and Point of Care — are the natural extension of our commitment to customer-focused innovation.

ARCHITECT STAT **High Sensitive Troponin-I**

Abbott's test can help rapidly diagnose and triage chest-pain patients, allowing timely action and helping to improve patient outcomes.

DIAGNOSTICS 2016

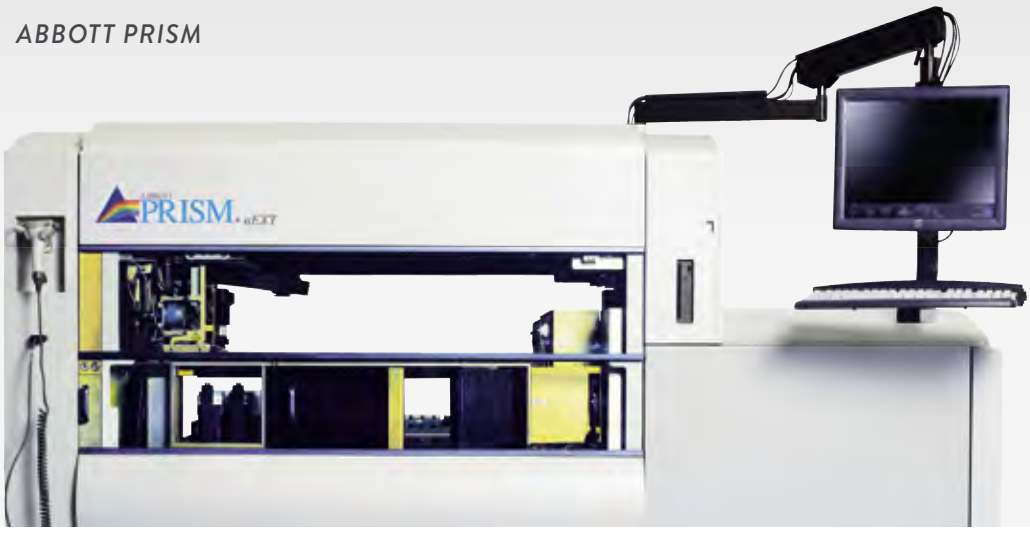
CREATING THE FUTURE OF DIAGNOSTIC TESTING

2016 BUSINESS HIGHLIGHTS

- *iSTAT Alinity*, Abbott's next-generation handheld system, which is designed to be the world's easiest-to-use with-patient testing device, was approved in Europe
- Launched *AlinIQ*, a first-of-its-kind professional services and informatics solution designed to improve laboratory productivity
- Abbott's *ZIKA* molecular diagnostics test received Emergency Use Authorization from the U.S. Food and Drug Administration
- Abbott's *RealTime HIV-1* quantitative assay received CE mark for dried-blood-spot testing and was accepted for the World Health Organization's list of pre-qualified diagnostics
- Academic research on Abbott's *ARCHITECT* STAT High Sensitive Troponin-I test found that it helped predict risk of heart attack and death, as well as response to statin medications
- Launched new Vitamin D and syphilis assays for *ARCHITECT* in the United States

ALINITY

ABBOTT PRISM



m2000

Alignment, Innovation, Unity: *Alinity*

Over the next few years, Abbott will revolutionize the diagnostics industry by bringing our customers an integrated family of systems spanning Immunoassay and Clinical Chemistry, Blood Screening, Hematology, Point of Care, Molecular testing and Informatics.

Our new platforms represent a major leap forward over competitive systems in terms of reliability, cost, capacity, space efficiency, and ease of use.

***ALINITY* ADVANTAGES**

FLEXIBILITY
UNIFORMITY
PRODUCTIVITY
CONFIDENCE

Established Pharmaceuticals

FOCUSED GROWTH IN EMERGING MARKETS

Sujey Nieto, of Panamá City, Panamá relies on Abbott's *Synthroid* to treat her hypothyroidism, helping her live a fuller, more active life.

As a busy mom of three boys, Sujey definitely needs to keep her energy up. That's much more difficult if her thyroid levels are low. She has choices when it comes to her treatment, and she trusts Abbott to deliver the consistent quality she expects from a medicine she has to take every day.

That trust in Abbott, and what our name on a package represents, is a key factor in the success of our branded-generic medicines business. Our strong reputation provides an excellent foundation as we build our position and leadership in some of the world's fastest-growing economies.

In 2016, we reshaped this business creating a faster, more decentralized organization with resources closer to the markets we serve. With this change, our focus is on speed and efficiency in our decision making and execution, helping us deliver targeted portfolios of reliable, high-quality medicines to the people who rely on Abbott in the various markets we serve.

We also strengthened our portfolio, adding hundreds of new products and formulations.

SYNTHROID

Synthroid *(levothyroxine) is a synthetic replacement for thyroxine, a hormone normally produced by the thyroid gland to help regulate the body's energy and metabolism.*

ESTABLISHED PHARMACEUTICALS 2016

TRUSTED BRAND, TAILORED PRODUCT OFFERINGS

2016 BUSINESS HIGHLIGHTS

- Opened pharmaceutical development centers in Singapore and Rio de Janeiro, Brazil
- Expanded our commercial presence in Vietnam and aquired two manufacturing facilities
- Increased the number of co-located manufacturing and development sites

LEADING WORLDWIDE BRANDS*

KLACID
#1 macrolide antibiotic

DUPHASTON
#1 brand for progesterone deficiency

CREON
#1 pancreatic enzyme replacement therapy

SERC
#1 anti-vertigo brand

BRUFEN
#1 ibuprofen brand**

LIPANTHYL/TRICOR/LIPIDIL
#1 fibrate

** Based on ex-US sales, per IMS **by volume*

>1500
PRODUCTS IN OUR PORTFOLIO

Our Unique Approach

By focusing our efforts entirely in fast-growing markets, with outreach to both healthcare providers and the patients who will ultimately benefit from our products, Abbott is building a uniquely powerful growth engine in branded-generic medicines.

GENERIC

- Undifferentiated, commodity products

BRANDED GENERIC

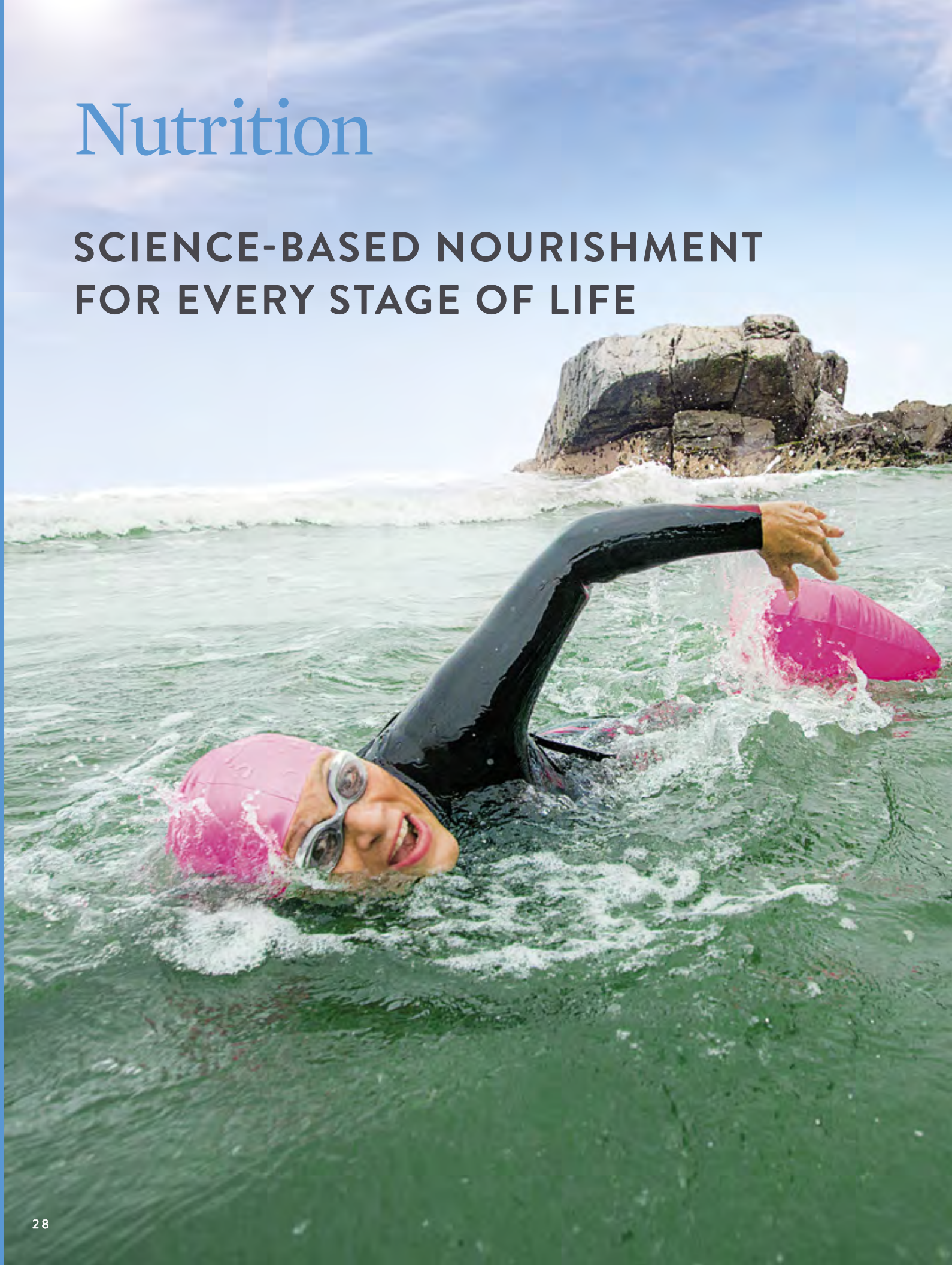
- Trusted quality and efficacy
- Differentiated products
- Innovative packaging and formulations, with more than 400 products in development
- Region-specific portfolios
- Focus on high-growth markets

R&D-BASED PHARMA

- Higher-cost, higher-risk development
- Finite periods of economic return
- High costs can limit patient access

Nutrition

SCIENCE-BASED NOURISHMENT FOR EVERY STAGE OF LIFE



Competitive swimmer Ana María Canaval Landázuri, of Lima, Peru, relies on *Ensure Advance* after practice to help rebuild her strength and energy.

KEEPING ADULTS HEALTHY

Abbott is the world leader in Adult Nutrition, with a portfolio anchored by *Ensure*, an extensive line of products that provide complete, balanced nutrition for strength and energy. Building on our expertise in this area, Abbott has developed a number of formulations that support the unique nutritional needs of people with chronic illnesses, including *Glucerna* shakes and bars for people with diabetes. Products for active people on the go and nutritious snacks for healthy-living adults round out the Abbott portfolio.

HELPING CHILDREN GROW STRONG

We are also a leader in pediatric nutrition. *Similac*, one of our most successful brands, is just one of Abbott's science-based nutrition products designed to make every stage of life a healthy one. In addition to products like the *Similac* line of infant and toddler formulas, we also offer *Pedialyte*, specially formulated to prevent dehydration, and *PediaSure*, our complete, balanced nutritional supplement that supports healthy growth and development.

ENSURE ADVANCE

Ensure Advance *is scientifically formulated to support muscle health and recovery.*

NUTRITION 2016

GLOBAL IMPACT FROM A BALANCED PORTFOLIO

2016 BUSINESS HIGHLIGHTS

- Launched two new infant formulas in the United States, *Similac Pro-Advance* and *Pro-Sensitive* — breakthrough, first-to-market innovations that come closer to breast milk than ever before. These formulas contain a special prebiotic, like those found naturally in most breast milk.
- Delivered new natural vitamin E brain-development claims for *Similac* products with *OptiGRO*, Abbott's unique blend of vitamin E, lutein and DHA
- Launched *Ensure Enlive*, a nutritional supplement designed to help older adults rebuild lost muscle and regain strength and energy. *Ensure Enlive* is the first and only complete and balanced nutrition drink in the United States with 20 grams of protein and the unique ingredient HMB (B-hydroxy b-methylbutyrate), to help support muscle health.

The Global Leader in Adult Nutrition

More than 40 years ago, Abbott launched *Ensure*, and we've been the clear market leader in this category ever since. From the beginning, Abbott has relied on state-of-the-art nutrition science, continually improving our formulations for both general-use and disease-specific products like *Nepro*, for dialysis patients.

Our consistent global growth is supported by research like the Abbott-sponsored NOURISH study, which shed light on the importance of the specialized nutrition that participants in the study took while recovering from heart or lung disease.

ABBOTT'S GLOBAL REACH

Abbott products account for a clear majority of all sales in the global market for Adult Nutritionals

#1
WORLDWIDE

2016 FINANCIAL REPORT

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CONSOLIDATED STATEMENT OF EARNINGS

(in millions except per share data)

Year Ended December 31	2016	2015	2014
Net Sales	$20,853	$20,405	$20,247
Cost of products sold, excluding amortization of intangible assets	9,024	8,747	9,218
Amortization of intangible assets	550	601	555
Research and development	1,422	1,405	1,345
Selling, general and administrative	6,672	6,785	6,530
Total Operating Cost and Expenses	17,668	17,538	17,648
Operating Earnings	3,185	2,867	2,599
Interest expense	431	163	150
Interest income	(99)	(105)	(77)
Net loss on extinguishment of debt	–	–	18
Net foreign exchange (gain) loss	495	(93)	(24)
Other (income) expense, net	945	(281)	14
Earnings from Continuing Operations Before Taxes	1,413	3,183	2,518
Taxes on Earnings from Continuing Operations	350	577	797
Earnings from Continuing Operations	1,063	2,606	1,721
Earnings from Discontinued Operations, net of taxes	321	65	563
Gain on sale of Discontinued Operations, net of taxes	16	1,752	–
Net Earnings from Discontinued Operations, net of taxes	337	1,817	563
Net Earnings	$ 1,400	$ 4,423	$ 2,284
Basic Earnings Per Common Share—			
Continuing Operations	$ 0.71	$ 1.73	$ 1.13
Discontinued Operations	0.23	1.21	0.37
Net Earnings	$ 0.94	$ 2.94	$ 1.50
Diluted Earnings Per Common Share—			
Continuing Operations	$ 0.71	$ 1.72	$ 1.12
Discontinued Operations	0.23	1.20	0.37
Net Earnings	$ 0.94	$ 2.92	$ 1.49
Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share	1,477	1,496	1,516
Dilutive Common Stock Options	6	10	11
Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options	1,483	1,506	1,527
Outstanding Common Stock Options Having No Dilutive Effect	5	1	1

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions)

Year Ended December 31	2016	2015	2014
Net Earnings	$ 1,400	$ 4,423	$ 2,284
Foreign currency translation (loss) adjustments	(130)	(2,013)	(2,206)
Net actuarial gains (losses) and prior service cost and credits and amortization of net actuarial losses and prior service cost and credits, net of taxes of $(125) in 2016, $101 in 2015 and $(459) in 2014	(326)	252	(917)
Unrealized gains (losses) on marketable equity securities, net of taxes of $(28) in 2016, $104 in 2015 and $(7) in 2014	(134)	64	(12)
Net (losses) gains on derivative instruments designated as cash flow hedges, net of taxes of $(4) in 2016, $(9) in 2015 and $24 in 2014	(15)	(35)	94
Other Comprehensive (Loss) Income	(605)	(1,732)	(3,041)
Comprehensive Income (Loss)	$ 795	$ 2,691	$ (757)

Supplemental Accumulated Other Comprehensive Income Information, net of tax as of December 31:			
Cumulative foreign currency translation (loss) adjustments	$(4,959)	$(4,829)	$(2,924)
Net actuarial (losses) and prior service (cost) and credits	(2,284)	(1,958)	(2,229)
Cumulative unrealized (losses) gains on marketable equity securities	(69)	65	1
Cumulative gains on derivative instruments designated as cash flow hedges	49	64	99

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

Year Ended December 31	2016	2015	2014
Cash Flow From (Used in) Operating Activities:			
Net earnings	$ 1,400	$ 4,423	$ 2,284
Adjustments to reconcile earnings to net cash from operating activities—			
Depreciation	803	871	918
Amortization of intangible assets	550	601	630
Share-based compensation	310	292	246
Impact of currency devaluation	480	–	–
Investing and financing (gains) losses, net	86	(18)	69
Amortization of bridge financing fees	165	–	–
Net loss on extinguishment of debt	–	–	18
Gain on sale of discontinued operations	(25)	(2,840)	–
Mylan N.V. equity investment adjustment	947	–	–
Gain on sale of Mylan N.V. shares	–	(207)	–
Trade receivables	(177)	(171)	(195)
Inventories	(98)	(257)	(297)
Prepaid expenses and other assets	113	57	30
Trade accounts payable and other liabilities	(652)	(742)	(225)
Income taxes	(699)	957	197
Net Cash From Operating Activities	3,203	2,966	3,675
Cash Flow From (Used in) Investing Activities:			
Acquisitions of property and equipment	(1,121)	(1,110)	(1,077)
Acquisitions of businesses and technologies, net of cash acquired	(80)	(235)	(3,317)
Proceeds from business dispositions	25	230	5
Proceeds from the sale of Mylan N.V. shares	–	2,290	–
Purchases of investment securities	(2,823)	(4,933)	(1,507)
Proceeds from sales of investment securities	3,709	4,112	5,624
Other	42	52	70
Net Cash From (Used in) Investing Activities	(248)	406	(202)
Cash Flow From (Used in) Financing Activities:			
Proceeds from issuance of (repayments of) short-term debt and other	(1,767)	(1,281)	1,343
Proceeds from issuance of long-term debt and debt with maturities over 3 months	14,934	2,485	–
Repayments of long-term debt and debt with maturities over 3 months	(12)	(57)	(577)
Payment of bridge financing fees	(170)	–	–
Acquisition and contingent consideration payments related to business acquisitions	(25)	(17)	(400)
Purchases of common shares	(522)	(2,237)	(2,195)
Proceeds from stock options exercised, including income tax benefit	248	314	429
Dividends paid	(1,539)	(1,443)	(1,342)
Net Cash From (Used in) Financing Activities	11,147	(2,236)	(2,742)
Effect of exchange rate changes on cash and cash equivalents	(483)	(198)	(143)
Net (Decrease) Increase in Cash and Cash Equivalents	13,619	938	588
Cash and Cash Equivalents, Beginning of Year	5,001	4,063	3,475
Cash and Cash Equivalents, End of Year	$18,620	$ 5,001	$ 4,063
Supplemental Cash Flow Information:			
Income taxes paid	$ 620	$ 631	$ 448
Interest paid	181	166	146

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

CONSOLIDATED BALANCE SHEET

(dollars in millions)

December 31	2016	2015
Assets		
Current Assets:		
Cash and cash equivalents	$18,620	$ 5,001
Investments, primarily bank time deposits and U.S. treasury bills	155	1,124
Trade receivables, less allowances of — 2016: $250; 2015: $337	3,248	3,418
Inventories:		
Finished products	1,624	1,744
Work in process	294	316
Materials	516	539
Total inventories	2,434	2,599
Other prepaid expenses and receivables	1,806	1,908
Current assets held for disposition	513	105
Total Current Assets	26,776	14,155
Investments	2,947	4,041
Property and Equipment, at Cost:		
Land	408	432
Buildings	2,602	2,769
Equipment	8,394	8,254
Construction in progress	962	928
	12,366	12,383
Less: accumulated depreciation and amortization	6,661	6,653
Net Property and Equipment	5,705	5,730
Intangible Assets, net of amortization	4,539	5,562
Goodwill	7,683	9,638
Deferred Income Taxes and Other Assets	2,263	2,119
Non-current Assets Held for Disposition	2,753	2
	$52,666	$41,247

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

CONSOLIDATED BALANCE SHEET

(dollars in millions)

December 31	2016	2015
Liabilities and Shareholders' Investment		
Current Liabilities:		
Short-term borrowings	$ 1,322	$ 3,127
Trade accounts payable	1,178	1,081
Salaries, wages and commissions	752	746
Other accrued liabilities	2,581	3,043
Dividends payable	391	383
Income taxes payable	188	430
Current portion of long-term debt	3	3
Current liabilities held for disposition	245	373
Total Current Liabilities	6,660	9,186
Long-term debt	20,681	5,871
Post-employment obligations and other long-term liabilities	4,549	4,864
Non-current liabilities held for disposition	59	—
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: 2016: 1,707,475,455; 2015: 1,702,017,390	13,027	12,734
Common shares held in treasury, at cost —		
Shares: 2016: 234,606,250; 2015: 229,352,338	(10,791)	(10,622)
Earnings employed in the business	25,565	25,757
Accumulated other comprehensive income (loss)	(7,263)	(6,658)
Total Abbott Shareholders' Investment	20,538	21,211
Noncontrolling Interests in Subsidiaries	179	115
Total Shareholders' Investment	20,717	21,326
	$ 52,666	$ 41,247

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' INVESTMENT

(in millions except shares and per share data)

Year Ended December 31	2016	2015	2014
Common Shares:			
Beginning of Year			
Shares: 2016: 1,702,017,390; 2015: 1,694,929,949; 2014: 1,685,827,096	$ 12,734	$ 12,383	$12,048
Issued under incentive stock programs			
Shares: 2016: 5,458,065; 2015: 7,087,441; 2014: 9,102,853	222	289	404
Share-based compensation	311	292	245
Issuance of restricted stock awards	(240)	(230)	(314)
End of Year			
Shares: 2016: 1,707,475,455; 2015: 1,702,017,390; 2014: 1,694,929,949	$ 13,027	$ 12,734	$12,383
Common Shares Held in Treasury:			
Beginning of Year			
Shares: 2016: 229,352,338; 2015: 186,894,515; 2014: 137,728,810	$(10,622)	$ (8,678)	$ (6,844)
Issued under incentive stock programs			
Shares: 2016: 5,398,469; 2015: 5,381,586; 2014: 5,818,599	250	250	283
Purchased			
Shares: 2016: 10,652,381; 2015: 47,839,409; 2014: 54,984,304	(419)	(2,194)	(2,117)
End of Year			
Shares: 2016: 234,606,250; 2015: 229,352,338; 2014: 186,894,515	$(10,791)	$(10,622)	$ (8,678)
Earnings Employed in the Business:			
Beginning of Year	$ 25,757	$ 22,874	$21,979
Net earnings	1,400	4,423	2,284
Cash dividends declared on common shares (per share — 2016: $1.045; 2015: $0.98; 2014: $0.90)	(1,547)	(1,464)	(1,363)
Effect of common and treasury share transactions	(45)	(76)	(26)
End of Year	$ 25,565	$ 25,757	$22,874
Accumulated Other Comprehensive Income (Loss):			
Beginning of Year	$ (6,658)	$ (5,053)	$ (2,012)
Business dispositions / separation	—	127	—
Other comprehensive income (loss)	(605)	(1,732)	(3,041)
End of Year	$ (7,263)	$ (6,658)	$ (5,053)
Noncontrolling Interests in Subsidiaries:			
Beginning of Year	$ 115	$ 113	$ 96
Noncontrolling Interests' share of income, business combinations, net of distributions and share repurchases	64	2	17
End of Year	$ 179	$ 115	$ 113

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Changes in Presentation—In September 2016, Abbott announced that it had entered into an agreement to sell Abbott Medical Optics (AMO), its vision care business, to Johnson & Johnson. The transaction is expected to close in the first quarter of 2017 and is subject to customary closing conditions, including regulatory approvals. The operating results of AMO are reported as part of continuing operations as AMO does not qualify for reporting as a discontinued operation. The assets and liabilities of AMO are reported as held for disposition in Abbott's Consolidated Balance Sheet at December 31, 2016.

On February 27, 2015, Abbott completed the sale of its developed markets branded generics pharmaceuticals business to Mylan Inc. (Mylan) for equity ownership of a newly formed entity that combined Mylan's existing business and Abbott's developed markets pharmaceuticals business. On February 10, 2015, Abbott completed the sale of its animal health business to Zoetis Inc. The historical operating results of these two businesses up to the date of sale are excluded from Earnings from Continuing Operations and are presented on the Earnings from Discontinued Operations line in Abbott's Consolidated Statement of Earnings. The cash flows of these businesses are included in Abbott's Consolidated Statement of Cash Flows up to the date of disposition. See Note 2—Discontinued Operations for additional information.

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

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

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

Revenue Recognition—Revenue from product sales is recognized upon passage of title and risk of loss to customers. Provisions for discounts, rebates and sales incentives to customers, and returns and other adjustments are provided for in the period the related sales are recorded. Sales incentives to customers are not material. Historical data is readily available and reliable, and is used for estimating the amount of the reduction in gross sales. Revenue from the launch of a new product, from an improved version of an existing product, or for shipments in excess of a customer's normal requirements are recorded when the conditions noted above are met. In those situations, management records a returns reserve for such revenue, if necessary. In certain of Abbott's businesses, primarily within diagnostics and medical optics, Abbott participates in selling arrangements that include multiple deliverables (e.g., instruments, reagents, procedures, and service agreements). Under these arrangements, Abbott recognizes revenue upon delivery of the product or performance of the service and allocates the revenue based on the relative selling price of each deliverable, which is based primarily on vendor specific objective evidence. Sales of product rights for marketable products are recorded as revenue upon disposition of the rights. Revenue from license of product rights, or for performance of research or selling activities, is recorded over the periods earned.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model for accounting for revenue from contracts with customers and will supersede most existing revenue recognition guidance. The standard becomes effective for Abbott in the first quarter of 2018. Abbott is continuing to evaluate the effect that the standard will have on its consolidated financial statements and related disclosures including the areas of variable consideration and new disclosure requirements. Abbott will continue to monitor additional modifications, clarifications or interpretations undertaken by the FASB that may impact Abbott's current conclusions. Abbott is currently expecting to use the modified retrospective method to adopt this standard.

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

Earnings Per Share—Unvested restricted stock units and awards that contain non-forfeitable rights to dividends are treated as participating securities and are included in the computation of earnings per share under the two-class method. Under the two-class method, net earnings are allocated between common shares and participating securities. Earnings from Continuing Operations allocated to common shares in 2016, 2015 and 2014 were $1.057 billion, $2.595 billion and $1.713 billion, respectively. Net earnings allocated to common shares in 2016, 2015 and 2014 were $1.393 billion, $4.403 billion and $2.273 billion, respectively.

Pension and Post-Employment Benefits—Abbott accrues for the actuarially determined cost of pension and post-employment benefits over the service attribution periods of the employees. Abbott must develop long-term assumptions, the most significant of which are the health care cost trend rates, discount rates and the expected return on plan assets. Differences between the expected long-term return on plan assets and the actual return are

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

amortized over a five-year period. Actuarial losses and gains are amortized over the remaining service attribution periods of the employees under the corridor method.

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

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

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

Cash, Cash Equivalents and Investments—Cash equivalents consist of bank time deposits, U.S. government securities money market funds and U.S. treasury bills with original maturities of three months or less. An investment in a publicly traded company, with a carrying value of approximately $58 million, is accounted for under the equity method of accounting. All other investments in marketable equity securities are classified as available-for-sale and are recorded at fair value with any unrealized holding gains or losses, net of tax, included in Accumulated other comprehensive income (loss). Investments in equity securities that are not traded on public stock exchanges are recorded at cost. Investments in debt securities are classified as held-to-maturity, as management has both the intent and ability to hold these securities to maturity, and are reported at cost, net of any unamortized premium or discount. Income relating to these securities is reported as interest income.

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

Trade Receivable Valuations—Accounts receivable are stated at their net realizable value. The allowance against gross trade receivables reflects the best estimate of probable losses inherent in the receivables portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available information. Accounts receivable are charged off after all reasonable means to collect the full amount (including litigation, where appropriate) have been exhausted.

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

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

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

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

Research and Development Costs—Internal research and development costs are expensed as incurred. Clinical trial costs incurred by third parties are expensed as the contracted work is performed. Where contingent milestone payments are due to third parties under research and development arrangements, the milestone payment obligations are expensed when the milestone results are achieved.

Acquired In-Process and Collaborations Research and Development (IPR&D)—The initial costs of rights to IPR&D projects obtained in an asset acquisition are expensed as IPR&D unless the project has an alternative future use. These costs include initial payments incurred prior to regulatory approval in connection with research and development collaboration agreements that provide rights to develop, manufacture, market and/or sell pharmaceutical products. The fair value of IPR&D projects acquired in a business combination are capitalized and accounted for as indefinite-lived intangible assets until completed and are then amortized over the remaining useful life. Collaborations are not significant.

Concentration of Risk and Guarantees—Due to the nature of its operations, Abbott is not subject to significant concentration risks relating to customers, products or geographic locations. Governmental accounts in Italy, Spain, Greece and Portugal accounted for 6 percent and 7 percent of total net trade receivables as of December 31, 2016 and 2015, respectively. Product warranties are not significant.

Abbott has no material exposures to off-balance sheet arrangements; no special purpose entities; nor activities that include non-exchange-traded contracts accounted for at fair value. Abbott has periodically entered into agreements in the ordinary course of business, such as assignment of product rights, with other

companies, which has resulted in Abbott becoming secondarily liable for obligations that Abbott was previously primarily liable. Since Abbott no longer maintains a business relationship with the other parties, Abbott is unable to develop an estimate of the maximum potential amount of future payments, if any, under these obligations. Based upon past experience, the likelihood of payments under these agreements is remote. Abbott periodically acquires a business or product rights in which Abbott agrees to pay contingent consideration based on attaining certain thresholds or based on the occurrence of certain events.

NOTE 2—DISCONTINUED OPERATIONS

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

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

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

On February 10, 2015, Abbott completed the sale of its animal health business to Zoetis Inc. Abbott received cash proceeds of $230 million and reported an after tax gain on the sale of approximately $130 million. In the first quarter of 2016, Abbott received an additional $25 million of proceeds due to the expiration of a holdback agreement associated with the sale of this business and reported an after-tax gain of $16 million.

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

On January 1, 2013, Abbott completed the separation of AbbVie Inc. (AbbVie), which was formed to hold Abbott's research-based proprietary pharmaceuticals business. For a small portion of AbbVie's operations, the legal transfer of AbbVie's assets (net of liabilities) did not occur with the separation of AbbVie on January 1, 2013 due to the time required to transfer marketing authorizations and other regulatory requirements in each of these countries. Under the terms of the separation agreement with Abbott, AbbVie is subject to the risks and entitled to the benefits generated by these operations and assets. The majority of these operations were transferred to AbbVie in 2013 and 2014. These assets and liabilities were presented as held for disposition in the Consolidated Balance Sheet as of December 31, 2015.

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

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

(in millions) Year Ended December 31	2016	2015	2014
Net Sales			
Developed markets generics pharmaceuticals and animal health businesses	$ –	$256	$2,076
AbbVie	–	–	–
Total	$ –	$256	$2,076
Earnings (Loss) Before Tax			
Developed markets generics pharmaceuticals and animal health businesses	$ (4)	$ 13	$ 505
AbbVie	–	–	–
Total	$ (4)	$ 13	$ 505
Net Earnings			
Developed markets generics pharmaceuticals and animal health businesses	$ 3	$ 62	$ 397
AbbVie	318	3	166
Total	$321	$ 65	$ 563

The net earnings of discontinued operations include income tax benefits of $325 million in 2016, $52 million in 2015 and $58 million in 2014. 2016 includes $318 million of tax benefits as a result of the resolution of various tax positions related to AbbVie's operations for years prior to the separation. 2015 includes $48 million of tax benefits related to the resolution of various tax positions related to prior years. 2014 includes $166 million of tax

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

benefits as a result of the resolution of various tax positions related to AbbVie's operations for years prior to the separation.

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

NOTE 3—ASSETS AND LIABILITIES HELD FOR DISPOSITION

In September 2016, Abbott announced that it entered into a definitive agreement to sell AMO, its vision care business, to Johnson & Johnson for $4.325 billion in cash, subject to customary purchase price adjustments for cash, debt and working capital. The decision to sell AMO reflects Abbott's proactive shaping of its portfolio in line with its strategic priorities. The transaction is expected to close in the first quarter of 2017 and is subject to customary closing conditions, including regulatory approvals. The operating results of AMO are included in continuing operations as they do not qualify for reporting as discontinued operations. For the year ended December 31, 2016 and 2015, AMO's earnings before taxes were $30 million and $64 million, respectively. As a result of the pending sale of AMO, the assets and liabilities of this business meet the criteria to qualify as being held for disposition at December 31, 2016.

The assets and liabilities held for disposition as of December 31, 2016 relate to AMO and the assets and liabilities held for disposition as of December 31, 2015 relate to the AbbVie business. The following is a summary of the assets and liabilities held for disposition:

(in millions) December 31	2016	2015
Trade receivables, net	$ 222	$ 17
Total inventories	240	43
Prepaid expenses and other current assets	51	45
Current assets held for disposition	513	105
Net property and equipment	247	1
Intangible assets, net of amortization	529	–
Goodwill	1,966	–
Deferred income taxes and other assets	11	1
Non-current assets held for disposition	2,753	2
Total assets held for disposition	$3,266	$107
Trade accounts payable	$ 71	$359
Salaries, wages, commissions and other accrued liabilities	174	14
Current liabilities held for disposition	245	373
Post-employment obligations, deferred income taxes and other long-term liabilities	59	–
Total liabilities held for disposition	$ 304	$373

NOTE 4—SUPPLEMENTAL FINANCIAL INFORMATION

Other (income) expense, net, for 2016 includes expense of $947 million to adjust Abbott's holding of Mylan N.V. ordinary shares due to a decline in the fair value of the securities which is considered by Abbott to be other than temporary. Other (income) expense, net, for 2015 primarily relates to a $207 million gain on the sale of a portion of Abbott's position in Mylan N.V. stock and $79 million of income resulting from a decrease in the fair value of contingent consideration related to a business acquisition. In April 2015, Abbott sold 40.25 million of the 110 million ordinary shares of Mylan N.V. received in the sale of the developed markets branded generics pharmaceuticals business to Mylan. Abbott received $2.29 billion in net proceeds from the sale of these shares. As a result of this sale, Abbott's ownership interest in Mylan N.V. decreased from approximately 22% to approximately 14%. Other (income) expense, net, for 2014 primarily relates to impairment charges related to non-publically traded equity securities partially offset by gains from the sales of equity securities. The loss on the extinguishment of debt of $18 million in 2014 relates to the early redemption of approximately $500 million of long-term notes.

The detail of various balance sheet components is as follows:

(in millions)	2016	2015
Long-term Investments:		
Equity securities	$2,906	$4,014
Other	41	27
Total	$2,947	$4,041

The long-term investments in equity securities as of December 31, 2016 and 2015 include 69.7 million of ordinary shares of Mylan N.V. with a carrying value of $2.661 billion and $3.771 billion, respectively.

(in millions)	2016	2015
Other Accrued Liabilities:		
Accrued rebates payable to government agencies	$ 110	$ 140
Accrued other rebates (a)	296	301
All other	2,175	2,602
Total	$2,581	$3,043

(a) Accrued wholesaler chargeback rebates of $214 million and $170 million at December 31, 2016 and 2015, respectively, are netted in trade receivables because Abbott's customers are invoiced at a higher catalog price but only remit to Abbott their contract price for the products.

(in millions)	2016	2015
Post-employment Obligations and Other Long-term Liabilities:		
Defined benefit pension plans and post-employment medical and dental plans for significant plans	$2,154	$2,241
Deferred income taxes	356	808
All other (b)	2,039	1,815
Total	$4,549	$4,864

(b) 2016 includes approximately $560 million of net unrecognized tax benefits, as well as approximately $130 million of acquisition consideration payable. 2015 includes approximately $600 million of net unrecognized tax benefits as well as approximately $148 million of acquisition consideration payable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

On February 17, 2016, the Venezuelan government announced that the three-tier exchange rate system would be reduced to two rates renamed the DIPRO and DICOM rates. The DIPRO rate is the official rate for food and medicine imports and was adjusted from 6.3 to 10 bolivars per U.S. dollar. The DICOM rate is a floating market rate published daily by the Venezuelan central bank, which at the end of the first quarter of 2016 was approximately 263 bolivars per U.S. dollar. As a result of decreasing government approvals to convert bolivars to U.S. dollars to pay for intercompany accounts, as well as the accelerating deterioration of economic conditions in the country, Abbott concluded that it was appropriate to move to the DICOM rate at the end of the first quarter of 2016. As a result, Abbott recorded a foreign currency exchange loss of $480 million in 2016 to revalue its net monetary assets in Venezuela. Abbott is continuing to use the DICOM rate to report the results of operations and to remeasure net monetary assets for Venezuela at the end of each quarter. As of December 31, 2016, Abbott's Venezuelan operations represented approximately 0.1% of Abbott's consolidated assets and any additional foreign currency losses related to Venezuela are not expected to be material.

NOTE 5—ACCUMULATED OTHER COMPREHENSIVE INCOME

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

(in millions)	Cumulative Foreign Currency Translation Adjustments	Net Actuarial Losses and Prior Service Costs and Credits	Cumulative Unrealized Gains (Losses) on Marketable Equity Securities	Cumulative Gains on Derivative Instruments Designated as Cash Flow Hedges	Total
Balance at December 31, 2014	$(2,924)	$(2,229)	$ 1	$ 99	$(5,053)
Impact of business dispositions	108	19	–	–	127
Other comprehensive income (loss) before reclassifications	(2,013)	145	202	89	(1,577)
(Income) loss amounts reclassified from accumulated other comprehensive income (a)	–	107	(138)	(124)	(155)
Net current period other comprehensive income (loss)	(2,013)	252	64	(35)	(1,732)
Balance at December 31, 2015	(4,829)	(1,958)	65	64	(6,658)
Other comprehensive income (loss) before reclassifications	(130)	(393)	(1,109)	41	(1,591)
(Income) loss amounts reclassified from accumulated other comprehensive income (a)	–	67	975	(56)	986
Net current period other comprehensive income (loss)	(130)	(326)	(134)	(15)	(605)
Balance at December 31, 2016	$(4,959)	$(2,284)	$ (69)	$ 49	$(7,263)

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

NOTE 6—BUSINESS ACQUISITIONS

On January 4, 2017, Abbott completed the acquisition of St. Jude Medical, Inc. (St. Jude Medical), a global medical device manufacturer, for approximately $23.6 billion, including approximately $13.6 billion in cash and approximately $10 billion in Abbott common shares, which represented approximately 254 million shares of Abbott common stock, based on Abbott's closing stock price on the acquisition date. As part of the acquisition, approximately $5.8 billion of St. Jude Medical's debt was assumed or refinanced by Abbott. The transaction provides expanded opportunities for future growth and is an important part of the company's ongoing effort to develop a strong, diverse portfolio of devices, diagnostics, nutritionals and branded generic pharmaceuticals. The combined company will compete in nearly every area of the cardiovascular market, as well as in the neuromodulation market. As the acquisition of St. Jude Medical was completed after December 31, 2016, Abbott's consolidated financial statements do not include the financial condition or the operating results of St. Jude Medical in any of the periods presented herein.

Under the terms of the agreement, for each St. Jude Medical common share, St. Jude Medical shareholders received $46.75 in cash and 0.8708 of an Abbott common share. At an Abbott stock price of $39.36, which reflects the closing price on January 4, 2017, this represented a value of approximately $81 per St. Jude Medical

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common share and total purchase consideration of $23.6 billion. The cash portion of the acquisition was funded through a combination of medium and long-term debt issued in November of 2016 and a $2.0 billion 120-day senior unsecured bridge term loan facility. See Note 10—Debt and Lines of Credit for further details regarding these financing arrangements.

The preliminary allocation of the fair value of the St. Jude Medical acquisition is shown in the table below. The allocation of the fair value of the acquisition will be finalized when the valuation is completed and differences between the preliminary and final allocation could be material.

(in billions)	
Acquired intangible assets, non-deductible	$16.0
Goodwill, non-deductible	14.8
Acquired net tangible assets	3.0
Deferred income taxes recorded at acquisition	(5.0)
Net debt	(5.2)
Total preliminary allocation of fair value	$23.6

If the acquisition of St. Jude Medical had occurred at the beginning of 2016, unaudited pro forma consolidated net sales would have been approximately $26.8 billion and unaudited pro forma consolidated net earnings would have been $157 million, which includes the amortization of approximately $700 million of inventory step-up. The unaudited pro forma information is not necessarily indicative of the consolidated results of operations that would have been realized had the St. Jude Medical acquisition been completed as of the beginning of 2016, nor is it meant to be indicative of future results of operations that the combined entity will experience.

In 2016, Abbott and St. Jude Medical agreed to sell certain products to Terumo Corporation for approximately $1.12 billion. The sale includes the St. Jude Medical Angio-Seal™ and Femoseal™ vascular closure products and Abbott's Vado® Steerable Sheath. The sale closed on January 20, 2017.

On January 30, 2016, Abbott entered into a definitive agreement to acquire Alere Inc., a diagnostic device and service provider, for $56.00 per common share in cash. The acquisition is subject to satisfaction of customary closing conditions, including the accuracy of Alere's representations and warranties (subject to certain materiality qualifications), compliance in all material respects with Alere's covenants and receipt of applicable regulatory approvals. Due to a number of adverse developments that have occurred with respect to Alere since the date of the agreement, Abbott has filed a complaint in the Delaware Court of Chancery seeking to terminate the acquisition agreement on the basis that Alere has experienced a "material adverse effect" under the acquisition agreement and has materially breached certain of its covenants.

In August 2015, Abbott completed the acquisition of the equity of Tendyne Holdings, Inc. (Tendyne) that Abbott did not already own for approximately $225 million in cash plus additional payments up to $150 million to be made upon completion of certain regulatory milestones. The acquisition of Tendyne, which is focused on developing minimally invasive mitral valve replacement therapies, allows Abbott to broaden its foundation in the treatment of mitral valve disease. The final allocation of the fair value of the acquisition resulted in non-deductible acquired in-process research and development of approximately $220 million, which is accounted for as an indefinite-lived intangible asset until regulatory approval or discontinuation, non-deductible goodwill of approximately $142 million, deferred tax assets and other net assets of approximately $18 million, deferred tax liabilities of approximately $85 million, and contingent consideration of approximately $70 million. The goodwill is identifiable to the Vascular Products segment.

In September 2014, Abbott completed the acquisition of the controlling interest in CFR Pharmaceuticals S.A. (CFR) for approximately $2.9 billion in cash ($2.8 billion net of CFR cash on hand at closing). Including the assumption of approximately $570 million of debt, the total cost of the acquisition was $3.4 billion. The acquisition of CFR more than doubles Abbott's branded generics pharmaceutical presence in Latin America and further expands its presence in emerging markets. CFR's financial results are included in Abbott's financial statements beginning on September 26, 2014, the date that Abbott acquired control of this business. Abbott currently owns 100% of CFR. The fair value of the non-controlling interest at the acquisition date was approximately $3 million. The acquisition was funded with cash and cash equivalents and short-term investments. The final allocation of the fair value of the acquisition is shown in the table below.

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

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

In December 2014, Abbott acquired control of Veropharm, a leading Russian pharmaceutical company for approximately $315 million excluding assumed debt, plus a subsequent $5 million payment related to a working capital adjustment. Through this acquisition, Abbott establishes a manufacturing footprint in Russia and obtains a portfolio of medicines that is well aligned with Abbott's current pharmaceutical therapeutic areas of focus. Abbott acquired control of Veropharm through its purchase of Limited Liability Company Garden Hills, the holding company that owns approximately 98 percent of Veropharm. Including the assumption of approximately $90 million of debt and a non-controlling interest

with a fair value of $5 million, the total value of the acquired business was approximately $415 million. The final allocation of the fair value of the acquisition resulted in definite-lived non-deductible intangible assets of approximately $100 million, non-deductible goodwill of approximately $140 million, and net deferred tax liabilities of approximately $25 million. Non-deductible goodwill is identifiable with the Established Pharmaceutical Products segment. Additionally, Abbott acquired property, plant, and equipment of approximately $150 million, accounts receivable of approximately $45 million, inventory of approximately $25 million, and net other liabilities of approximately $20 million. Acquired intangible assets consist of developed technology and are being amortized over 16 years. In 2015, Abbott acquired the remaining shares of Veropharm, increasing its ownership to 100 percent.

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

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

NOTE 7—GOODWILL AND INTANGIBLE ASSETS

The total amount of goodwill reported was $7.683 billion at December 31, 2016 and $9.638 billion at December 31, 2015. The amount reported at December 31, 2016 excludes goodwill reported in non-current assets held for disposition. In 2016, approximately $2.0 billion of goodwill was reclassified to Non-current assets held for disposition due to the pending sale of AMO. Recent business acquisitions increased goodwill by approximately $79 million during 2016. Foreign currency translation decreased goodwill by $66 million in 2016 and decreased goodwill by $454 million in 2015. In 2015, Abbott recorded goodwill of approximately $142 million related to the Tendyne acquisition, and purchase price allocation adjustments associated with recent acquisitions decreased goodwill by approximately $117 million. The amount of goodwill related to reportable segments at December 31, 2016 was $3.0 billion for the Established Pharmaceutical Products segment, $286 million for the Nutritional Products segment, $452 million for the Diagnostic Products segment, and $3.0 billion for the Vascular Products segment. In 2016, there was no reduction of goodwill relating to impairments.

The gross amount of amortizable intangible assets, primarily product rights and technology was $10.4 billion and $10.8 billion as of December 31, 2016 and 2015, respectively, and accumulated amortization was $6.2 billion and $5.7 billion as of December 31, 2016 and 2015, respectively. The December 31, 2016 amounts exclude approximately $529 million of net intangible assets related to AMO which are included in Non-current assets held for disposition due to the pending sale of AMO. In 2016, intangible assets increased by approximately $104 million related to recent business acquisitions. In 2015, the acquisition of Tendyne increased intangible assets by approximately $220 million. Indefinite-lived intangible assets, which relate to in-process research and development acquired in a business combination, were approximately $349 million and $419 million at December 31, 2016 and 2015, respectively. In 2016, Abbott recorded an impairment of a $59 million in-process research and development project related to a non-reportable segment. Foreign currency translation increased intangible assets by $6 million in 2016 and decreased intangible assets by $251 million in 2015.

The estimated annual amortization expense for intangible assets recorded at December 31, 2016 is approximately $490 million in 2017, $440 million in 2018, $410 million in 2019, $410 million in 2020 and $360 million in 2021. Amortizable intangible assets are amortized over 2 to 20 years (average 10 years). These amounts do not include amortization expense associated with the intangible assets acquired as part of the St. Jude Medical acquisition which closed on January 4, 2017.

NOTE 8—RESTRUCTURING PLANS

In 2016, 2015 and 2014, Abbott management approved plans to streamline operations in order to reduce costs and improve efficiencies in various Abbott businesses including the nutritional, established pharmaceuticals and vascular businesses. Abbott recorded employee related severance and other charges of approximately $33 million in 2016, $95 million in 2015 and $164 million in 2014. Approximately $9 million in 2016, $18 million in 2015 and $20 million in 2014 are recorded in Cost of products sold, approximately $5 million in 2016, $34 million in 2015 and $53 million in 2014 are recorded in Research and development and approximately $19 million in 2016, $43 million in 2015 and $91 million in 2014 are recorded in Selling, general and administrative expense. Additional charges of approximately $2 million in 2016, $45 million in 2015 and $39 million in 2014 were recorded primarily for accelerated depreciation. The following summarizes the activity for these restructurings:

(in millions)	
Restructuring charges recorded in 2014	$ 164
Payments and other adjustments	(46)
Accrued balance at December 31, 2014	118
Restructuring charges	95
Payments and other adjustments	(113)
Accrued balance at December 31, 2015	100
Restructuring charges	33
Payments and other adjustments	(67)
Accrued balance at December 31, 2016	$ 66

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From 2013 to 2015, Abbott management approved various plans to reduce costs and improve efficiencies across various functional areas. In 2013, Abbott management also approved plans to streamline certain manufacturing operations in order to reduce costs and improve efficiencies in Abbott's established pharmaceuticals business. In 2012, Abbott management approved plans to streamline various commercial operations in order to reduce costs and improve efficiencies in Abbott's core diagnostics, established pharmaceuticals and nutritionals businesses. Abbott recorded employee related severance charges of approximately $18 million in 2016, $66 million in 2015 and $125 million in 2014. Approximately $4 million in 2016, $9 million in 2015 and $7 million in 2014 are recorded in Cost of products sold, approximately $2 million in 2015 and $6 million in 2014 are recorded in Research and development, and approximately $14 million in 2016, $55 million in 2015 and $112 million in 2014 are recorded in Selling, general and administrative expense. The following summarizes the activity related to these restructurings:

(in millions)	
Restructuring charges recorded in 2012	$ 167
Restructuring charges recorded in 2013	78
Payments and other adjustments	(97)
Accrued balance at December 31, 2013	148
Restructuring charges	125
Payments and other adjustments	(138)
Accrued balance at December 31, 2014	135
Restructuring charges	66
Payments and other adjustments	(113)
Accrued balance at December 31, 2015	88
Restructuring charges	18
Payments and other adjustments	(90)
Accrued balance at December 31, 2016	$ 16

NOTE 9—INCENTIVE STOCK PROGRAM

The 2009 Incentive Stock Program authorizes the granting of nonqualified stock options, restricted stock units, performance awards, foreign benefits and other share-based awards. Stock options and restricted stock awards and units comprise the majority of benefits that have been granted and are currently outstanding under this program and a prior program. In 2016, Abbott granted 7,782,634 stock options, 776,510 restricted stock awards and 7,593,701 restricted stock units under this program.

The purchase price of shares under option must be at least equal to the fair market value of the common stock on the date of grant, and the maximum term of an option is 10 years. Options generally vest equally over three years. Restricted stock awards generally vest between 3 and 5 years and for restricted stock awards that vest over 5 years, no more than one-third of the award vests in any one year upon Abbott reaching a minimum return on equity target. Restricted stock units vest over three years and upon vesting, the recipient receives one share of Abbott stock for each vested restricted stock unit. The aggregate fair market value of restricted stock awards and units is recognized as expense over the requisite service period, which may be shorter than the vesting period if an employee is retirement eligible. Restricted stock awards and settlement of vested restricted stock units are issued out of treasury shares. Abbott generally issues new shares for exercises of stock options. As a policy, Abbott does not purchase its shares relating to its share-based programs.

At December 31, 2016, approximately 57 million shares were reserved for future grants.

The number of restricted stock awards and units outstanding and the weighted-average grant-date fair value at December 31, 2016 and December 31, 2015 was 13,705,511 and $41.03 and 11,855,327 and $42.54, respectively. The number of restricted stock awards and units, and the weighted-average grant-date fair value, that were granted, vested and lapsed during 2016 were 8,370,211 and $38.57, 5,842,478 and $40.50 and 677,549 and $41.63, respectively. The fair market value of restricted stock awards and units vested in 2016, 2015 and 2014 was $225 million, $312 million and $281 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, 2015	34,562,557	$31.57	4.5	25,119,505	$27.18	3.0
Granted	7,782,634	38.44				
Exercised	(5,964,433)	23.96				
Lapsed	(492,425)	43.03				
December 31, 2016	35,888,333	$34.17	5.3	23,290,260	$30.48	3.5

The aggregate intrinsic value of options outstanding and exercisable at December 31, 2016 were each $203 million. The total intrinsic value of options exercised in 2016, 2015 and 2014 was $98 million, $167 million and $152 million, respectively. The total unrecognized compensation cost related to all share-based compensation plans at December 31, 2016 amounted to approximately $197 million, which is expected to be recognized over the next three years.

Total non-cash stock compensation expense charged against income from continuing operations in 2016, 2015 and 2014 for share-based plans totaled approximately $310 million, $291 million and $239 million, respectively, and the tax benefit recognized was approximately $100 million, $98 million and $79 million, respectively. Stock compensation cost capitalized as part of inventory is not significant.

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The fair value of an option granted in 2016, 2015 and 2014 was $4.38, $6.67, and $6.39, respectively. The fair value of an option grant was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2016	2015	2014
Risk-free interest rate	1.4%	1.8%	1.9%
Average life of options (years)	6.0	6.0	6.0
Volatility	17.0%	17.0%	20.0%
Dividend yield	2.7%	2.0%	2.2%

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

NOTE 10—DEBT AND LINES OF CREDIT

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

(in millions)	2016	2015
5.125% Notes, due 2019	$ 947	$ 947
2.35% Notes, due 2019	2,850	–
4.125% Notes, due 2020	597	597
2.00% Notes, due 2020	750	750
2.90% Notes, due 2021	2,850	–
2.55% Notes, due 2022	750	750
3.40% Notes, due 2023	1,500	–
2.95% Notes, due 2025	1,000	1,000
3.75% Notes, due 2026	3,000	–
4.75% Notes, due 2036	1,650	–
6.15% Notes, due 2037	547	547
6.0% Notes, due 2039	515	515
5.3% Notes, due 2040	694	694
4.90% Notes, due 2046	3,250	–
Unamortized debt issuance costs	(117)	(21)
Other, including fair value adjustments relating to interest rate hedge contracts designated as fair value hedges	(102)	92
Total, net of current maturities	20,681	5,871
Current maturities of long-term debt	3	3
Total carrying amount	$20,684	$5,874

In November 2016, Abbott issued $15.1 billion of medium and long-term debt to primarily fund the cash portion of the acquisition of St. Jude Medical. Abbott issued $2.85 billion of 2.35% Senior Notes due November 22, 2019; $2.85 billion of 2.90% Senior Notes due November 30, 2021; $1.50 billion of 3.40% Senior Notes due November 30, 2023; $3.00 billion of 3.75% Senior Notes due November 30, 2026; $1.65 billion of 4.75% Senior Notes due November 30, 2036; and $3.25 billion of 4.90% Senior Notes due November 30, 2046. In November 2016, Abbott also entered into interest rate swap contracts totaling $3.0 billion related to the new debt, which have the effect of changing Abbott's obligation from a fixed interest rate to a variable interest rate obligation on the related debt instruments.

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

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

Principal payments required on long-term debt outstanding at December 31, 2016 are $3 million in 2017, $2 million in 2018, $3.8 billion in 2019, $1.3 billion in 2020, $2.9 billion in 2021 and $12.9 billion in 2022 and thereafter.

At December 31, 2016, Abbott's long-term debt rating was A+ by Standard & Poor's Corporation and A2 by Moody's Investors Service. In conjunction with the completion of the St. Jude Medical acquisition on January 4, 2017, the ratings were adjusted to BBB by Standard & Poor's Corporation and Baa3 by Moody's Investors Service. Abbott has readily available financial resources, including unused lines of credit of $5.0 billion which expire in 2019 and that support commercial paper borrowing arrangements. Abbott's weighted-average interest rate on short-term borrowings was 0.6% at December 31, 2016 and 0.2% at December 31, 2015 and 2014.

In April 2016, Abbott obtained a commitment for a 364-day senior unsecured bridge term loan facility for an amount not to exceed $17.2 billion, comprised of $15.2 billion for a 364-day bridge loan and $2.0 billion for a 120-day bridge loan to provide financing for the acquisition of St. Jude Medical. The $15.2 billion component of the commitment terminated in November 2016 when Abbott issued the $15.1 billion of long-term debt. In December 2016, Abbott formalized the $2.0 billion component and entered into a 120-day bridge term loan facility that provided Abbott the ability to borrow up to $2.0 billion on an unsecured basis to partially fund the St. Jude Medical acquisition. On January 4, 2017, Abbott borrowed $2.0 billion under this facility, of which $1.2 billion had been repaid as of January 31, 2017.

In February 2016, Abbott obtained a commitment for a 364-day senior unsecured bridge term loan facility for an amount not to exceed $9 billion in conjunction with its pending acquisition of Alere. This commitment was automatically extended for up to 90 days on January 29, 2017. The fees associated with the bridge facilities were recognized in interest expense.

NOTE 11—FINANCIAL INSTRUMENTS, DERIVATIVES AND FAIR VALUE MEASURES

Certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U.S. dollar. These contracts, with notional amounts totaling $2.6 billion at December 31, 2016, and $2.4 billion at December 31, 2015, are designated as cash flow hedges of the variability of the cash flows due to changes in foreign exchange rates and are recorded at fair value. At December 31, 2016, $107 million of the notional amount

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relates to AMO, a business that is expected to be divested in the first quarter of 2017. Accumulated gains and losses as of December 31, 2016 will be included in Cost of products sold at the time the products are sold, generally through the next twelve to eighteen months. The amount of hedge ineffectiveness was not significant in 2016, 2015 and 2014.

Abbott enters into foreign currency forward exchange contracts to manage currency exposures for foreign currency denominated third-party trade payables and receivables, and for intercompany loans and trade accounts payable where the receivable or payable is denominated in a currency other than the functional currency of the entity. For intercompany loans, the contracts require Abbott to sell or buy foreign currencies, primarily European currencies and Japanese yen, in exchange for primarily U.S. dollars and other European currencies. For intercompany and trade payables and receivables, the currency exposures are primarily the U.S. dollar, European currencies and Japanese yen. At December 31, 2016, 2015 and 2014, Abbott held notional amounts of $14.9 billion, $14.0 billion and $14.1 billion, respectively, of such foreign currency forward exchange contracts. At December 31, 2016, $1.2 billion of the contracts relate to AMO, a business that is expected to be divested in the first quarter of 2017.

Abbott has designated foreign denominated short-term debt as a hedge of the net investment in a foreign subsidiary of approximately $454 million, $439 million and $445 million as of December 31, 2016, 2015 and 2014, respectively. Accordingly, changes in the fair value of this debt due to changes in exchange rates are recorded in Accumulated other comprehensive income (loss), net of tax.

Abbott is a party to interest rate hedge contracts totaling notional amounts of $5.5 billion at December 31, 2016, $4.0 billion at December 31, 2015 and $1.5 billion at December 31, 2014, to manage its exposure to changes in the fair value of fixed-rate debt. These contracts are designated as fair value hedges of the variability of the fair value of fixed-rate debt due to changes in the long-term benchmark interest rates. The effect of the hedge is to change a fixed-rate interest obligation to a variable rate for that portion of the debt. Abbott records the contracts at fair value and adjusts the carrying amount of the fixed-rate debt by an offsetting amount. No hedge ineffectiveness was recorded in income in 2016, 2015 and 2014 for these hedges.

In December 2016, Abbott unwound approximately $1.5 billion in interest rate swaps relating to the 4.125% Note due in 2020 and the 5.125% Note due in 2019. As part of the unwinding, Abbott received approximately $55 million in cash, which is included in the Cash Flow From Financing Activities section of the Consolidated Statement of Cash Flows.

Gross unrealized holding gains (losses) on available-for-sale equity securities totaled $10 million, $171 million and $3 million at December 31, 2016, 2015 and 2014, respectively.

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

	Fair Value—Assets			Fair Value—Liabilities		
(in millions)	2016	2015	Balance Sheet Caption	2016	2015	Balance Sheet Caption
Interest rate swaps designated as fair value hedges	$ 8	$116	Deferred income taxes and other assets	$ 74	$ –	Post-employment obligations and other long-term liabilities
Foreign currency forward exchange contracts—						
Hedging instruments	99	64	Other prepaid expenses and receivables	15	18	Other accrued liabilities
Others not designated as hedges	177	115	Other prepaid expenses and receivables	67	84	Other accrued liabilities
Debt designated as a hedge of net investment in a foreign subsidiary	–	–	N/A	454	439	Short-term borrowings
	$284	$295		$610	$541	

The following table summarizes the activity for foreign currency forward exchange contracts designated as cash flow hedges, debt designated as a hedge of net investment in a foreign subsidiary and certain other derivative financial instruments, as well as the amounts and location of income (expense) and gain (loss) reclassified into income. The amount of hedge ineffectiveness was not significant in 2016, 2015 and 2014 for these hedges.

	Gain (loss) Recognized in Other Comprehensive Income (loss)			Income (expense) and Gain (loss) Reclassified into Income			
(in millions)	2016	2015	2014	2016	2015	2014	Income Statement Caption
Foreign currency forward exchange contracts designated as cash flow hedges	$ 49	$91	$105	$ 48	$124	$11	Cost of products sold
Debt designated as a hedge of net investment in a foreign subsidiary	(15)	6	60	–	–	–	N/A
Interest rate swaps designated as fair value hedges	N/A	N/A	N/A	(127)	15	14	Interest expense

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Gains of $8 million and losses of $77 million and $122 million were recognized in 2016, 2015 and 2014, respectively, related to foreign currency forward exchange contracts not designated as hedges. These amounts are reported in the Consolidated Statement of Earnings on the Net foreign exchange (gain) loss line.

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

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

	2016		2015	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term Investment Securities:				
Equity securities	$ 2,906	$ 2,906	$ 4,014	$ 4,014
Other	41	42	27	30
Total Long-term Debt	(20,684)	(21,147)	(5,874)	(6,337)
Foreign Currency Forward Exchange Contracts:				
Receivable position	276	276	179	179
(Payable) position	(82)	(82)	(102)	(102)
Interest Rate Hedge Contracts:				
Receivable position	8	8	116	116
(Payable) position	(74)	(74)	–	–

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

		Basis of Fair Value Measurement		
(in millions)	Outstanding Balances	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2016:				
Equity securities	$2,676	$2,676	$ –	$ –
Interest rate swap financial instruments	8	–	8	–
Foreign currency forward exchange contracts	276	–	276	–
Total Assets	$2,960	$2,676	$ 284	$ –
Fair value of hedged long-term debt	$5,413	$ –	$5,413	$ –
Interest rate swap financial instruments	74	–	74	–
Foreign currency forward exchange contracts	82	–	82	–
Contingent consideration related to business combinations	136	–	–	136
Total Liabilities	$5,705	$ –	$5,569	$136
December 31, 2015:				
Equity securities	$3,780	$3,780	$ –	$ –
Interest rate swap financial instruments	116	–	116	–
Foreign currency forward exchange contracts	179	–	179	–
Total Assets	$4,075	$3,780	$ 295	$ –
Fair value of hedged long-term debt	$4,135	$ –	$4,135	$ –
Foreign currency forward exchange contracts	102	–	102	–
Contingent consideration related to business combinations	173	–	–	173
Total Liabilities	$4,410	$ –	$4,237	$173

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 12—LITIGATION AND ENVIRONMENTAL MATTERS

Abbott has been identified as a potentially responsible party for investigation and cleanup costs at a number of locations in the United States and Puerto Rico under federal and state remediation laws and is investigating potential contamination at a number of company-owned locations. Abbott has recorded an estimated cleanup cost for each site for which management believes Abbott has a probable loss exposure. No individual site cleanup exposure is expected to exceed $4 million, and the aggregate cleanup exposure is not expected to exceed $10 million.

Abbott is involved in various claims and legal proceedings, and Abbott estimates the range of possible loss for its legal proceedings and environmental exposures to be from approximately $35 million to $45 million. The recorded accrual balance at December 31, 2016 for these proceedings and exposures was approximately $40 million. This accrual represents management's best estimate of probable loss, as defined by FASB ASC No. 450, "Contingencies." Within the next year, legal proceedings may occur that may result in a change in the estimated loss accrued by Abbott. While it is not feasible to predict the outcome of all such proceedings and exposures with certainty, management believes that their ultimate disposition should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations.

NOTE 13—POST-EMPLOYMENT BENEFITS

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

	Defined Benefit Plans		Medical and Dental Plans	
(in millions)	2016	2015	2016	2015
Projected benefit obligations, January 1	$ 7,820	$ 8,345	$1,262	$1,411
Service cost—benefits earned during the year	263	307	26	33
Interest cost on projected benefit obligations	288	314	43	52
(Gains) losses, primarily changes in discount rates, plan design changes, law changes and differences between actual and estimated health care costs	645	(574)	13	(166)
Benefits paid	(242)	(230)	(71)	(61)
Business dispositions	–	(117)	–	–
Other, including foreign currency translation	(257)	(225)	1	(7)
Projected benefit obligations, December 31	$ 8,517	$ 7,820	$1,274	$1,262
Plan assets at fair value, January 1	$ 6,772	$ 6,754	$ 441	$ 485
Actual return (loss) on plans' assets	631	(56)	28	(14)
Company contributions	582	579	10	25
Benefits paid	(242)	(230)	(63)	(55)
Business dispositions	–	(113)	–	–
Other, including foreign currency translation	(201)	(162)	–	–
Plan assets at fair value, December 31	$ 7,542	$ 6,772	$ 416	$ 441
Projected benefit obligations greater than plan assets, December 31	$ (975)	$(1,048)	$ (858)	$ (821)
Long-term assets	$ 340	$ 390	$ –	$ –
Short-term liabilities	(18)	(17)	(1)	(1)
Long-term liabilities	(1,297)	(1,421)	(857)	(820)
Net liability	$ (975)	$(1,048)	$ (858)	$ (821)
Amounts Recognized in Accumulated Other Comprehensive Income (loss):				
Actuarial losses, net	$ 3,301	$ 2,903	$ 373	$ 369
Prior service cost (credits)	–	–	(254)	(299)
Total	$ 3,301	$ 2,903	$ 119	$ 70

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The projected benefit obligations for non-U.S. defined benefit plans was $2.5 billion and $2.1 billion at December 31, 2016 and 2015, respectively. The accumulated benefit obligations for all defined benefit plans were $7.4 billion and $6.9 billion at December 31, 2016 and 2015, respectively.

For plans where the accumulated benefit obligations exceeded plan assets at December 31, 2016 and 2015, the aggregate accumulated benefit obligations, the projected benefit obligations and the aggregate plan assets were as follows:

(in millions)	2016	2015
Accumulated benefit obligation	$1,485	$3,651
Projected benefit obligation	1,697	4,226
Fair value of plan assets	653	2,862

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

	Defined Benefit Plans			Medical and Dental Plans		
(in millions)	2016	2015	2014	2016	2015	2014
Service cost—benefits earned during the year	$ 263	$ 307	$ 269	$ 26	$ 33	$ 33
Interest cost on projected benefit obligations	288	314	317	43	52	63
Expected return on plans' assets	(565)	(511)	(458)	(35)	(39)	(40)
Amortization of actuarial losses	129	184	103	16	23	16
Amortization of prior service cost (credits)	–	1	2	(45)	(48)	(39)
Total cost	115	295	233	5	21	33
Less: Discontinued operations	–	(3)	(1)	–	–	–
Net cost—continuing operations	$ 115	$ 292	$ 232	$ 5	$ 21	$ 33

Other comprehensive income (loss) for each respective year includes the amortization of actuarial losses and prior service costs (credits) as noted in the previous table. Other comprehensive income (loss) for each respective year also includes: net actuarial losses of $571 million for defined benefit plans and $20 million for medical and dental plans in 2016; net actuarial gains of $37 million for defined benefit plans and $116 million for medical and dental plans in 2015; and net actuarial losses net of prior service credits of $1.6 billion for defined benefit plans and $57 million for medical and dental plans in 2014.

The pretax amount of actuarial losses and prior service cost (credits) included in Accumulated other comprehensive income (loss) at December 31, 2016 that is expected to be recognized in the net periodic benefit cost in 2017 is $167 million and $1 million of expense, respectively, for defined benefit pension plans and $24 million of expense and $45 million of income, respectively, for medical and dental plans.

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

	2016	2015	2014
Discount rate	3.8%	4.3%	3.9%
Expected aggregate average long-term change in compensation	4.3%	4.4%	4.3%

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

	2016	2015	2014
Discount rate	4.3%	3.9%	4.9%
Expected return on plan assets	7.6%	7.4%	7.5%
Expected aggregate average long-term change in compensation	4.3%	4.3%	4.9%

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

	2016	2015	2014
Health care cost trend rate assumed for the next year	8%	8%	8%
Rate that the cost trend rate gradually declines to	5%	5%	5%
Year that rate reaches the assumed ultimate rate	2027	2028	2025

The discount rates used to measure liabilities were determined based on high-quality fixed income securities that match the duration of the expected retiree benefits. The health care cost trend rates represent Abbott's expected annual rates of change in the cost of health care benefits and are forward projections of health care costs as of the measurement date. A one-percentage point increase/(decrease) in the assumed health care cost trend rate would increase/(decrease) the accumulated post-employment benefit obligations as of December 31, 2016, by $156 million/$(137) 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 $12 million/$(10) million.

In 2016, Abbott adopted ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*. The new standard removes the requirement to categorize all investments measured at net asset value (NAV) per share using the practical expedient allowed under ASC 820 in the fair value hierarchy. Abbott applied the standard on a retrospective basis and revised the form and content of the fair value measurement disclosures related to the assets associated with the defined benefit and medical and dental plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

		Basis of Fair Value Measurement			
(in millions)	Outstanding Balances	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs	Measured at NAV (k)
December 31, 2016:					
Equities:					
U.S. large cap (a)	$1,889	$1,284	$ –	$ –	$ 605
U.S. mid cap (b)	549	183	–	–	366
International (c)	1,345	356	–	–	989
Fixed income securities:					
U.S. government securities (d)	437	5	258	–	174
Corporate debt instruments (e)	813	100	348	–	365
Non-U.S. government securities (f)	514	175	–	–	339
Other (g)	183	80	20	–	83
Absolute return funds (h)	1,891	106	–	–	1,785
Commodities (i)	84	–	–	12	72
Cash and Cash Equivalents	100	8	–	–	92
Other (j)	153	–	–	–	153
	$7,958	$2,297	$626	$12	$5,023
December 31, 2015:					
Equities:					
U.S. large cap (a)	$1,770	$1,078	$ –	$ –	$ 692
U.S. mid cap (b)	434	84	–	–	350
International (c)	1,193	245	–	–	948
Fixed income securities:					
U.S. government securities (d)	401	5	203	–	193
Corporate debt instruments (e)	731	109	299	–	323
Non-U.S. government securities (f)	497	111	–	2	384
Other (g)	136	28	14	–	94
Absolute return funds (h)	1,777	101	–	–	1,676
Commodities (i)	107	7	–	13	87
Cash and Cash Equivalents	85	21	–	–	64
Other (j)	82	–	1	–	81
	$7,213	$1,789	$517	$15	$4,892

(a) A mix of index funds and actively managed equity accounts that are benchmarked to various large cap indices.

(b) A mix of index funds and actively managed equity accounts that are benchmarked to various mid cap indices.

(c) A mix of index funds and actively managed pooled investment funds that are benchmarked to various non-U.S. equity indices in both developed and emerging markets.

(d) A mix of index funds and actively managed accounts that are benchmarked to various U.S. government bond indices.

(e) A mix of index funds and actively managed accounts that are benchmarked to various corporate bond indices.

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

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

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

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

(j) Primarily investments in private funds, such as private equity, private credit and private real estate.

(k) In accordance with ASU 2015-07, investments measured at fair value using the NAV practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheet.

Equities that are valued using quoted prices are valued at the published market prices. Equities in a common collective trust or a registered investment company that are valued using significant other observable inputs are valued at the NAV provided by the fund administrator. The NAV is based on the value of the underlying assets owned by the fund minus its liabilities. For the majority of these funds, investments may be redeemed once per month, with a required 2 to 30 day notice period. For the remaining funds, daily redemption of an investment is allowed. Fixed income securities that are valued using significant other observable inputs are valued at prices obtained from independent financial service industry-recognized vendors. Abbott did not have any unfunded commitments related to fixed income funds at December 31, 2016 and 2015. For the majority of these funds, investments may be redeemed monthly, with a required 2 to 14 day notice period. For the remaining funds, investments may be generally redeemed daily.

Absolute return funds and commodities are valued at the NAV provided by the fund administrator. All private funds are valued at the NAV provided by the fund on a one-quarter lag adjusted for known cash flows and significant events through the reporting date. Abbott did not have any unfunded commitments related to absolute return funds at December 31, 2016 and 2015. Investments in these funds may be generally redeemed monthly or quarterly with required notice periods ranging from 5 to 45 days. For approximately $100 million of the absolute return funds, redemptions are subject to a 25% gate. For commodities, investments in the private energy funds cannot be redeemed but the funds will make distributions through liquidation. The estimate of the liquidation period for each fund ranges from 2017 to 2022. Abbott's unfunded commitments in these funds as of December 31, 2016 and 2015 were not significant. Investments in the private funds (excluding private energy funds) cannot be redeemed but the funds will make distributions through liquidation. The estimate of the liquidation period for each fund ranges from 2017 to 2026. Abbott's unfunded commitment in these funds was $337 million and $198 million as of December 31, 2016 and 2015, respectively.

The investment mix of equity securities, fixed income and other asset allocation strategies is based upon achieving a desired return as well as balancing higher return, more volatile equity securities with lower return, less volatile fixed income securities. Investment allocations are made across a range of markets, industry sectors, capitalization sizes, and in the case of fixed income securities, maturities and credit quality. The plans do not directly hold any securities of Abbott. There are no known significant concentrations of risk in the plans' assets. Abbott's medical and dental plans' assets are invested in a similar mix as the pension plan assets. The actual asset allocation percentages at year end are consistent with the company's targeted asset allocation percentages.

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

Abbott funds its domestic pension plans according to IRS funding limitations. International pension plans are funded according to similar regulations. Abbott funded $582 million in 2016 and $579 million in 2015 to defined pension plans. Abbott expects to contribute approximately $364 million to its pension plans in 2017, of which approximately $270 million relates to its main domestic pension plan.

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

(in millions)	Defined Benefit Plans	Medical and Dental Plans
2017	$ 247	$ 67
2018	258	68
2019	275	70
2020	293	72
2021	312	75
2022 to 2026	1,857	409

The Abbott Stock Retirement Plan is the principal defined contribution plan. Abbott's contributions to this plan were $83 million in 2016, $81 million in 2015 and $85 million in 2014.

NOTE 14—TAXES ON EARNINGS FROM CONTINUING OPERATIONS

Taxes on earnings from continuing operations reflect the annual effective rates, including charges for interest and penalties. Deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts.

In 2016, taxes on earnings from continuing operations include the impact of a net tax benefit of approximately $225 million, primarily as a result of the resolution of various tax positions from prior years, partially offset by the unfavorable impact of non-deductible foreign exchange losses related to Venezuela and the adjustment of the Mylan N.V. equity investment as well as the recognition of deferred taxes associated with the pending sale of AMO. In 2015, taxes on earnings from continuing operations include a tax cost of $71 million related to the disposal of shares of Mylan N.V. stock. In 2014, taxes on earnings from continuing operations reflect the recognition of $440 million of tax expense associated with a one-time repatriation of 2014 non-U.S. earnings, partially offset by the favorable resolution of various tax positions and adjustments of tax uncertainties pertaining to prior years.

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 aggregated $24 billion at December 31, 2016. 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 2013 are settled. 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.

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

(in millions)	2016	2015	2014
Earnings From Continuing Operations Before Taxes:			
Domestic	$ 306	$ 789	$ 392
Foreign	1,107	2,394	2,126
Total	$1,413	$3,183	$2,518

(in millions)	2016	2015	2014
Taxes on Earnings From Continuing Operations:			
Current:			
Domestic	$ 71	$ 64	$ 27
Foreign	406	220	468
Total current	477	284	495
Deferred:			
Domestic	(147)	313	298
Foreign	20	(20)	4
Total deferred	(127)	293	302
Total	$ 350	$577	$797

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

	2016	2015	2014
Statutory tax rate on earnings from continuing operations	35.0%	35.0%	35.0%
Impact of foreign operations	(17.8)	(18.2)	0.7
Resolution of certain tax positions pertaining to prior years	(16.1)	–	(4.2)
Mylan share adjustment	25.5	–	–
State taxes, net of federal benefit	(1.3)	0.3	(0.5)
Federal tax cost on sale of Mylan N.V. shares	–	2.2	–
All other, net	(0.5)	(1.2)	0.6
Effective tax rate on earnings from continuing operations	24.8%	18.1%	31.6%

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

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

(in millions)	2016	2015
Deferred tax assets:		
Compensation and employee benefits	$ 1,061	$ 992
Other, primarily reserves not currently deductible, and NOL's and credit carryforwards	2,384	2,657
Trade receivable reserves	207	197
Inventory reserves	157	141
Deferred intercompany profit	231	276
State income taxes	164	206
Total deferred tax assets before valuation allowance	4,204	4,469
Valuation allowance	(189)	(86)
Total deferred tax assets	4,015	4,383
Deferred tax liabilities:		
Depreciation	(152)	(118)
Unremitted earnings of foreign subsidiaries	(175)	(694)
Other, primarily the excess of book basis over tax basis of intangible assets	(2,018)	(1,942)
Total deferred tax liabilities	(2,345)	(2,754)
Total net deferred tax assets	$ 1,670	$ 1,629

Abbott has incurred losses in a foreign jurisdiction where realization of the future economic benefit is so remote that the benefit is not reflected as a deferred tax asset.

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

(in millions)	2016	2015
January 1	$1,438	$1,403
Increase due to current year tax positions	145	234
Increase due to prior year tax positions	101	95
Decrease due to prior year tax positions	(703)	(169)
Settlements	(9)	(125)
December 31	$ 972	$1,438

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is approximately $925 million. Abbott believes that it is reasonably possible that the recorded amount of gross unrecognized tax benefits may decrease within a range of $100 million to $250 million, including cash adjustments, within the next twelve months as a result of concluding various domestic and international tax matters.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15—SEGMENT AND GEOGRAPHIC AREA INFORMATION

Abbott's principal business is the discovery, development, manufacture and sale of a broad line of health care products. Abbott's products are generally sold directly to retailers, wholesalers, hospitals, health care facilities, laboratories, physicians' offices and government agencies throughout the world. Abbott's reportable segments are as follows:

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

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

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

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

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

Abbott's underlying accounting records are maintained on a legal entity basis for government and public reporting requirements. Segment disclosures are on a performance basis consistent with internal management reporting. The cost of some corporate functions and the cost of certain employee benefits are charged to segments at predetermined rates that approximate cost. Remaining costs, if any, are not allocated to segments. In addition, intangible asset amortization is not allocated to operating segments, and intangible assets and goodwill are not included in the measure of each segment's assets. The following segment information has been prepared in accordance with the internal accounting policies of Abbott, as described above, and are not presented in accordance with generally accepted accounting principles applied to the consolidated financial statements.

	Net Sales to External Customers (a)			Operating Earnings (a)		
(in millions)	2016	2015	2014	2016	2015	2014
Established Pharmaceuticals	$ 3,859	$ 3,720	$ 3,118	$ 723	$ 658	$ 624
Nutritionals	6,899	6,975	6,953	1,660	1,741	1,459
Diagnostics	4,813	4,646	4,721	1,194	1,171	1,079
Vascular	2,896	2,792	2,986	1,037	1,061	1,091
Total Reportable Segments	18,467	18,133	17,778	$4,614	$4,631	$4,253
Other	2,386	2,272	2,469			
Total	$20,853	$20,405	$20,247			

(a) Net sales and operating earnings were unfavorably affected by the relatively stronger U.S. dollar in 2016, 2015 and 2014.

(in millions)	2016	2015	2014
Total Reportable Segment Operating Earnings	$ 4,614	$ 4,631	$ 4,253
Corporate functions and benefit plans costs	(411)	(416)	(342)
Non-reportable segments	304	268	439
Net interest expense	(332)	(58)	(73)
Net loss on extinguishment of debt	–	–	(18)
Share-based compensation	(310)	(291)	(239)
Amortization of intangible assets	(550)	(601)	(555)
Other, net (b)	(1,902)	(350)	(947)
Earnings from Continuing Operations before Taxes	$ 1,413	$ 3,183	$ 2,518

(b) Other, net includes: the $947 million adjustment of the Mylan equity investment and $480 million of foreign currency exchange loss related to operations in Venezuela in 2016 and charges for restructuring actions and other cost reduction initiatives of approximately $155 million in 2016, $310 million in 2015 and $435 million in 2014. 2015 includes a $207 million pre-tax gain on the sale of a portion of the Mylan N.V. shares.

	Depreciation (c)			Additions to Long-term Assets			Total Assets		
(in millions)	2016	2015	2014	2016	2015	2014	2016	2015	2014
Established Pharmaceuticals	$ 71	$ 83	$ 72	$ 161	$ 112	$ 136	$ 2,486	$2,210	$ 2,244
Nutritionals	160	157	173	207	142	174	3,189	3,187	3,435
Diagnostics	267	310	314	392	321	349	2,945	2,844	2,964
Vascular	69	74	84	24	32	28	1,425	1,536	1,529
Total Reportable Segments	567	624	643	784	607	687	$10,045	$9,777	$10,172
Other	236	247	275	582	747	4,603			
Total	$803	$871	$918	$1,366	$1,354	$5,290			

(c) Other in 2014 includes depreciation related to discontinued operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions)	2016	2015	2014
Total Reportable Segment Assets	$10,045	$ 9,777	$10,172
Cash and investments	21,722	10,166	4,689
Non-reportable segments	1,280	1,267	1,211
Goodwill and intangible assets (d)	12,222	15,200	16,265
All other (d)	7,397	4,837	8,870
Total Assets	$52,666	$41,247	$41,207

(d) Goodwill and intangible assets related to AMO are included in the All other line in 2016. Goodwill and intangible assets related to developed markets established pharmaceuticals and animal health are included in the All other line in 2014.

	Net Sales to External Customers (e)		
(in millions)	2016	2015	2014
United States	$ 6,486	$ 6,270	$ 6,123
China	1,728	1,796	1,321
India	1,114	1,053	1,009
Germany	1,044	1,004	978
Japan	924	895	968
The Netherlands	830	855	788
Switzerland	766	784	707
Russia	554	483	536
Vietnam	434	331	357
Colombia	424	388	283
Brazil	410	381	508
Canada	408	428	462
United Kingdom	377	430	447
Italy	365	383	436
All Other Countries	4,989	4,924	5,324
Consolidated	$20,853	$20,405	$20,247

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

Long-lived assets on a geographic basis primarily include property, plant and equipment. It excludes goodwill, intangible assets, deferred tax assets, and financial instruments.

At December 31, 2016 and 2015, Long-lived assets totaled $6.6 billion and $6.4 billion, respectively, and in the United States such assets totaled $3.1 billion in both years. Long-lived asset balances associated with other countries were not material on an individual country basis in either of the two years.

NOTE 16—SUBSEQUENT EVENT

On January 4, 2017, Abbott completed the acquisition of St. Jude Medical, Inc. The transaction establishes Abbott as a leader in the medical device market and provides expanded opportunities for future growth. See Note 6 to the consolidated financial statements for additional information regarding this acquisition.

NOTE 17—QUARTERLY RESULTS (UNAUDITED)

(in millions except per share data)	2016	2015
First Quarter		
Continuing Operations:		
Net Sales	$4,885	$4,897
Gross Profit	2,601	2,660
Earnings from Continuing Operations	56	529
Basic Earnings per Common Share	0.04	0.35
Diluted Earnings per Common Share	0.04	0.35
Net Earnings	316	2,292
Basic Earnings Per Common Share (a)	0.21	1.52
Diluted Earnings Per Common Share (a)	0.21	1.51
Market Price Per Share—High	44.05	47.88
Market Price Per Share—Low	36.00	43.36
Second Quarter		
Continuing Operations:		
Net Sales	$5,333	$5,170
Gross Profit	2,901	2,801
Earnings from Continuing Operations	599	786
Basic Earnings per Common Share	0.40	0.52
Diluted Earnings per Common Share	0.40	0.52
Net Earnings	615	784
Basic Earnings Per Common Share (a)	0.41	0.52
Diluted Earnings Per Common Share (a)	0.41	0.52
Market Price Per Share—High	44.58	50.47
Market Price Per Share—Low	36.76	45.55
Third Quarter		
Continuing Operations:		
Net Sales	$5,302	$5,150
Gross Profit	2,877	2,757
Earnings (Loss) from Continuing Operations	(357)	596
Basic Earnings (Loss) per Common Share	(0.24)	0.40
Diluted Earnings (Loss) per Common Share	(0.24)	0.39
Net Earnings (Loss)	(329)	580
Basic Earnings (Loss) Per Common Share (a)	(0.22)	0.39
Diluted Earnings (Loss) Per Common Share (a)	(0.22)	0.38
Market Price Per Share—High	45.79	51.74
Market Price Per Share—Low	39.16	39.00
Fourth Quarter		
Continuing Operations:		
Net Sales	$5,333	$5,188
Gross Profit	2,900	2,839
Earnings from Continuing Operations	875	695
Basic Earnings per Common Share	0.51	0.46
Diluted Earnings per Common Share	0.51	0.46
Net Earnings	798	767
Basic Earnings Per Common Share (a)	0.54	0.51
Diluted Earnings Per Common Share (a)	0.53	0.51
Market Price Per Share—High	43.78	46.38
Market Price Per Share—Low	37.38	39.28

(a) The sum of the four quarters of earnings per share for 2016 and 2015 may not add to the full year earnings per share amount due to rounding and/or the use of quarter-to-date weighted average shares to calculate the earnings per share amount in each respective quarter.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Abbott's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2016. In making this assessment, it used the criteria set forth in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2016, the company's internal control over financial reporting was effective based on those criteria.

Abbott's independent registered public accounting firm has issued an audit report on their assessment of the effectiveness of the company's internal control over financial reporting. This report appears on page 58.

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

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

Robert E. Funck
Vice President, Controller

February 17, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Abbott Laboratories:

We have audited the accompanying consolidated balance sheets of Abbott Laboratories and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of earnings, comprehensive income, shareholders' investment and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Abbott Laboratories and subsidiaries at December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Abbott Laboratories and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 17, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Chicago, Illinois
February 17, 2017

The Board of Directors and Shareholders of Abbott Laboratories:

We have audited Abbott Laboratories and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Abbott Laboratories and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Abbott Laboratories and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Abbott Laboratories and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of earnings, comprehensive income, shareholders' investment and cash flows for each of the three years in the period ended December 31, 2016 of Abbott Laboratories and subsidiaries and our report dated February 17, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Chicago, Illinois
February 17, 2017

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

MARKET PRICE SENSITIVE INVESTMENTS

The fair value of the available-for-sale equity securities held by Abbott was approximately $2.7 billion and $3.8 billion as of December 31, 2016 and 2015, respectively. The year-over-year decrease is primarily due to a decline in the share price of the ordinary shares of Mylan N.V. that Abbott received in the sale of its developed markets branded generics pharmaceuticals business and that it continued to hold at December 31, 2016. All available-for-sale equity securities are subject to potential changes in fair value. A hypothetical 20 percent decrease in the share prices of these investments would decrease their fair value at December 31, 2016 by approximately $540 million. Abbott monitors these investments for other than temporary declines in fair value, and charges impairment losses to income when an other than temporary decline in fair value occurs.

NON-PUBLICLY TRADED EQUITY SECURITIES

Abbott holds equity securities from strategic technology acquisitions that are not traded on public stock exchanges. The carrying value of these investments was approximately $151 million and $120 million as of December 31, 2016 and 2015, respectively. No individual investment is recorded at a value in excess of $35 million. Abbott monitors these investments for other than temporary declines in market value, and charges impairment losses to income when an other than temporary decline in estimated fair value occurs.

INTEREST RATE SENSITIVE FINANCIAL INSTRUMENTS

At December 31, 2016 and 2015, Abbott had interest rate hedge contracts totaling $5.5 billion and $4.0 billion, respectively, to manage its exposure to changes in the fair value of debt. The effect of these hedges is to change the fixed interest rate to a variable rate for the portion of the debt that is hedged. Abbott does not use derivative financial instruments, such as interest rate swaps, to manage its exposure to changes in interest rates for its investment securities. At December 31, 2016, Abbott had $0.9 billion of domestic commercial paper outstanding with an average annual interest rate of 0.91% with an average remaining life of 17 days. The fair value of long-term debt at December 31, 2016 and 2015 amounted to $21.1 billion and $6.3 billion, respectively (average interest rates of 3.8% and 4.1% as of December 31, 2016 and 2015, respectively) with maturities through 2046. At December 31, 2016 and 2015, the fair value of current and long-term investment securities amounted to approximately $3.1 billion and $5.2 billion, respectively. A hypothetical 100-basis point change in the interest rates would not have a material effect on cash flows, income or fair values. (A 100-basis point change is believed to be a reasonably possible near-term change in rates.)

FOREIGN CURRENCY SENSITIVE FINANCIAL INSTRUMENTS

Certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U.S. dollar. These contracts are designated as cash flow hedges of the variability of the cash flows due to changes in foreign currency exchange rates and are marked-to-market with the resulting gains or losses reflected in Accumulated other comprehensive income (loss). Gains or losses will be included in Cost of products sold at the time the products are sold, generally within the next twelve to eighteen months. At December 31, 2016 and 2015, Abbott held $2.6 billion and $2.4 billion, respectively, of such contracts. Contracts held at December 31, 2016 will mature in 2017 or 2018 depending upon the contract. Contracts held at December 31, 2015 matured in 2016 or will mature in 2017 depending upon the contract. At December 31, 2016, $107 million of the notional amount relates to AMO, a business that is expected to be divested in the first quarter of 2017.

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, 2016 and 2015, Abbott held $14.9 billion and $14.0 billion, respectively, of such contracts, which generally mature in the next twelve months. At December 31, 2016, $1.2 billion of the contracts relate to AMO, a business that is expected to be divested in the first quarter of 2017.

Abbott has designated foreign denominated short-term debt of approximately $454 million and approximately $439 million as of December 31, 2016 and 2015, respectively, as a hedge of the net investment in a foreign subsidiary. Accordingly, changes in the fair value of this debt due to changes in exchange rates are recorded in Accumulated other comprehensive income (loss), net of tax.

The following table reflects the total foreign currency forward contracts outstanding at December 31, 2016 and 2015:

	2016			2015		
(dollars in millions)	Contract Amount	Weighted Average Exchange Rate	Fair and Carrying Value Receivable/ (Payable)	Contract Amount	Weighted Average Exchange Rate	Fair and Carrying Value Receivable/ (Payable)
Primarily U.S. Dollars to be exchanged for the following currencies:						
Euro	$11,110	1.0570	$ 28	$ 8,999	1.0943	$ 67
British Pound	514	1.2817	15	1,531	1.5098	6
Japanese Yen	1,024	110.6955	44	711	121.8078	(1)
Canadian Dollar	639	1.3378	3	312	1.2917	18
All other currencies	4,166	N/A	104	4,880	N/A	(13)
Total	$17,453		$194	$16,433		$ 77

FINANCIAL REVIEW

Abbott's revenues are derived primarily from the sale of a broad line of health care products under short-term receivable arrangements. Patent protection and licenses, technological and performance features, and inclusion of Abbott's products under a contract most impact which products are sold; price controls, competition and rebates most impact the net selling prices of products; and foreign currency translation impacts the measurement of net sales and costs. Abbott's primary products are nutritional products, branded generic pharmaceuticals, diagnostic testing products and vascular products. Sales in international markets comprise approximately 70 percent of consolidated net sales.

On January 4, 2017, Abbott completed the acquisition of St. Jude Medical, Inc. (St. Jude Medical), a global medical device manufacturer, for approximately $23.6 billion, including approximately $13.6 billion in cash and approximately $10 billion in Abbott common shares, based on Abbott's closing stock price on the acquisition date. As part of the acquisition, approximately $5.8 billion of St. Jude Medical's debt was assumed or refinanced by Abbott. The transaction provides expanded opportunities for future growth and is an important part of the company's ongoing effort to develop a strong, diverse portfolio of devices, diagnostics, nutritionals and branded generic pharmaceuticals. The combined company will compete in nearly every area of the $30 billion cardiovascular market as well as in the neuromodulation market. As the acquisition of St. Jude Medical was completed after December 31, 2016, Abbott's consolidated financial statements do not include the financial condition or the operating results of St. Jude Medical in any of the periods presented herein.

In September 2016, Abbott announced that it had entered into a definitive agreement to sell Abbott Medical Optics (AMO), its vision care business, to Johnson & Johnson for $4.325 billion in cash, subject to customary purchase price adjustments for cash, debt and working capital. The decision to sell AMO reflects Abbott's proactive shaping of its portfolio in line with its strategic priorities. The transaction is expected to close in the first quarter of 2017 and is subject to customary closing conditions, including regulatory approvals. The operating results of AMO have continued to be included in Earnings from Continuing Operations as they do not qualify for reporting as discontinued operations. The assets and liabilities of this business are being reported as held for disposition in Abbott's Consolidated Balance Sheet as of December 31, 2016.

On January 30, 2016, Abbott entered into a definitive agreement to acquire Alere Inc. (Alere), a diagnostic device and service provider, for $56.00 per common share in cash. The acquisition is subject to satisfaction of customary closing conditions, including the accuracy of Alere's representations and warranties (subject to certain materiality qualifications), compliance in all material respects with Alere's covenants and receipt of applicable regulatory approvals. Due to a number of adverse developments that have occurred with respect to Alere since the date of the agreement, Abbott has filed a complaint in the Delaware Court of Chancery seeking to terminate the acquisition agreement on the basis that Alere has experienced a "material adverse effect" under the acquisition agreement and has materially breached certain of its covenants.

On February 27, 2015, Abbott completed the sale of its developed markets branded generics pharmaceuticals business, which was previously included in the Established Pharmaceutical Products segment, to Mylan Inc. for 110 million shares of Mylan N.V., a newly formed entity that combined Mylan's existing business with Abbott's developed markets branded generics pharmaceuticals business. Abbott retained the branded generics pharmaceuticals business and products of its Established Pharmaceutical Products segment in emerging markets. In April 2015, Abbott sold 40.25 million of its Mylan N.V. ordinary shares. Abbott currently owns 69.75 million Mylan N.V. ordinary shares.

Over the last three years, sales growth was driven primarily by the established pharmaceuticals, nutritional and diagnostics businesses. Sales in emerging markets, which represent nearly 50 percent of total company sales, increased 6.3 percent in 2016 and 17.1 percent in 2015, excluding the impact of foreign exchange. (Emerging markets include all countries except the United States, Western Europe, Japan, Canada, Australia and New Zealand.) Over the last three years, margin improvement was driven primarily by the nutritional and diagnostics businesses. Abbott expanded its operating margin by approximately 120 basis points per year in 2016 and 2015. Abbott's sales, costs, and financial position over the same period were impacted by the strengthening of the U.S. dollar relative to international currencies and a challenging economic and fiscal environment in several emerging economies.

In Abbott's worldwide nutritional products business, sales over the last three years were positively impacted by demographics such as an aging population and an increasing rate of chronic disease in developed markets and the rise of a middle class in many emerging markets, as well as by numerous new product introductions that leveraged Abbott's strong brands. In 2016, excluding the impact of foreign exchange, strong performance in several markets across Latin America and Southeast Asia, as well as increased U.S. sales were partially offset by challenging market conditions in the Chinese pediatric nutritional business. With respect to the profitability of the nutritional products business, manufacturing and distribution process changes, lower commodity costs, and other cost reductions drove margin improvements across the business over the last three years although such improvements were offset by the negative impact of foreign exchange in 2016. Operating margins for this business increased from 21.0 percent in 2014 to 24.1 percent in 2016.

In Abbott's worldwide diagnostics business, sales growth over the last three years reflected continued market penetration by the Core Laboratory business in the U.S. and China, and growth in other emerging markets, most notably in Latin America. In addition, the Point of Care diagnostics business continued to expand its geographic presence in targeted developed and emerging markets. Worldwide diagnostic sales increased 5.5 percent in 2016 and 7.3 percent in 2015, excluding the impact of foreign exchange. In 2016, Abbott initiated the launch of Alinity™, an integrated family of next-generation diagnostic systems and solutions which are designed to increase efficiency by running more tests in less space, generating test results faster and minimizing human errors while continuing to provide quality results. In the fourth quarter of 2016, Abbott obtained CE Mark for the Alinity™ point of care, immunoassay, clinical chemistry, and blood screening systems and initiated

the launch of these four systems in Europe. Over the next two years, Abbott will work to obtain approval and launch Alinity™ systems in multiple geographies for every area in which its diagnostics business competes.

Margin improvement continued to be a key focus for the diagnostics business in 2016 although such improvements were offset by the negative impact of foreign exchange. Operating margins increased from 22.9 percent of sales in 2014 to 24.8 percent in 2016 as the business continued to execute on efficiency initiatives in the manufacturing and supply chain functions.

The Established Pharmaceutical Products segment focuses on the sale of its products in emerging markets after the sale of its developed markets business to Mylan on February 27, 2015. The acquisition of CFR Pharmaceuticals S.A. (CFR) in September 2014 more than doubled Abbott's branded generics pharmaceutical presence in Latin America and further expanded its presence in emerging markets. Through the acquisition of Veropharm, a leading Russian pharmaceutical company in December 2014, Abbott established a manufacturing footprint in Russia and obtained a portfolio of medicines that is well aligned with Abbott's current pharmaceutical therapeutic areas of focus. Excluding the impact of foreign exchange, Established Pharmaceutical sales from continuing operations increased 10.5 percent in 2016 and 34.1 percent in 2015. The sales increase in 2016 was driven by double-digit growth in the Brazil, Russia, India and China (BRIC) geographies, which comprise approximately 45 percent of the sales in the Established Pharmaceutical Products segment. Excluding the impact of the 2014 acquisitions as well as the impact of foreign exchange, 2015 Established Pharmaceutical sales from continuing operations increased 13.4 percent.

In the vascular business, excluding the unfavorable impact of foreign exchange, total sales increased in the low single digits from 2014 to 2016, driven by double-digit growth in Abbott's sales of its *MitraClip* structural heart device for the treatment of mitral regurgitation, as well endovascular franchise sales growth. These increases were partially offset by pricing pressures primarily related to drug-eluting stents (DES) and lower market share for Abbott's *XIENCE* DES franchise in certain geographies. The *XIENCE* DES franchise includes *XIENCE V, Prime, nano, Pro, ProX, Xpedition*, and *Alpine*. Abbott has continued to develop its worldwide market-leading *XIENCE* DES franchise over the last three years. Abbott Vascular Products' latest product introduction, *XIENCE Alpine*, was launched in various markets across Europe and Asia in 2015 and 2016 and in the U.S. in late 2014. The *XIENCE* franchise maintained its market-leading global position in 2016. Operating margins declined from 36.5 percent in 2014 to 35.8 percent in 2016 primarily due to the unfavorable effect of foreign exchange and ongoing pricing pressures in the coronary business.

Abbott's short- and long-term debt totaled $22.0 billion at December 31, 2016, which included the debt issued in anticipation of the St. Jude Medical acquisition. At December 31, 2016, Abbott's long-term debt rating was A+ by Standard and Poor's Corporation and A2 by Moody's Investors Service. In conjunction with the completion of the St. Jude Medical acquisition on January 4, 2017, the ratings were adjusted to BBB by Standard & Poor's Corporation and Baa3 by Moody's Investors Service.

In anticipation of the acquisition of St. Jude Medical, in November 2016, Abbott issued $15.1 billion of long-term debt consisting of $2.85 billion at 2.35% maturing in 2019; $2.85 billion at 2.90% maturing in 2021; $1.50 billion at 3.40% maturing in 2023; $3.00 billion at 3.75% maturing in 2026; $1.65 billion at 4.75% maturing in 2036; and $3.25 billion at 4.90% maturing in 2046. In November 2016, Abbott also entered into interest rate swap contracts totaling $3.0 billion related to the new debt, which have the effect of changing Abbott's obligation from a fixed interest rate to a variable interest rate obligation on the related debt instruments. In March 2015, Abbott issued $2.5 billion of long-term debt consisting of $750 million at 2.00% maturing in 2020; $750 million at 2.55% maturing in 2022; and $1.0 billion at 2.95% maturing in 2025. In March 2015, Abbott also entered into interest rate swap contracts totaling $2.5 billion related to the debt issuance. These contracts have the effect of changing Abbott's obligation from a fixed interest rate to a variable interest rate obligation. In the fourth quarter of 2014, Abbott extinguished approximately $500 million of long-term debt that was assumed as part of the acquisition of CFR and incurred a charge of $18.3 million related to the early repayment of this debt.

Abbott declared dividends of $1.045 per share in 2016 compared to $0.98 per share in 2015, an increase of approximately 7%. Dividends paid were $1.539 billion in 2016 compared to $1.443 billion in 2015. The year-over-year change in dividends reflects the impact of the increase in the dividend rate. In December 2016, Abbott increased the company's quarterly dividend to $0.265 per share from $0.26 per share, effective with the dividend paid in February 2017.

In 2017, Abbott will focus on integrating St. Jude Medical, as well as several other key initiatives. The focus of the integration will be to combine the St. Jude Medical business with Abbott's existing vascular business to create a best-in-class organization and to successfully deliver on new product launches that contribute to a broader, more comprehensive cardiovascular and neuromodulation portfolio. In the nutritional business, Abbott will continue to build its product portfolio with the introduction of new science-based products, expand in high-growth emerging markets and implement additional margin improvement initiatives.

In the established pharmaceuticals business, Abbott will continue to focus on obtaining additional product approvals across numerous countries and increasing its penetration of emerging markets. In the diagnostics business, Abbott will work to launch the full Alinity™ suite across Europe and into additional geographies, including the U.S., over the next two years. The diagnostics business will also focus on expansion in emerging markets and further improvements in the segment's operating margin. In Abbott's other segments, Abbott will focus on developing differentiated technologies in higher growth markets.

CRITICAL ACCOUNTING POLICIES

Sales Rebates—In 2016, approximately 43 percent of Abbott's consolidated gross revenues were subject to various forms of rebates and allowances that Abbott recorded as reductions of revenues at the time of sale. Most of these rebates and allowances in 2016 are in the Nutritional Products and Diabetes Care segments. Abbott provides rebates to state agencies that administer

the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), wholesalers, group purchasing organizations, and other government agencies and private entities. Rebate amounts are usually based upon the volume of purchases using contractual or statutory prices for a product. Factors used in the rebate calculations include the identification of which products have been sold subject to a rebate, which customer or government agency price terms apply, and the estimated lag time between sale and payment of a rebate. Using historical trends, adjusted for current changes, Abbott estimates the amount of the rebate that will be paid, and records the liability as a reduction of gross sales when Abbott records its sale of the product. Settlement of the rebate generally occurs from one to six months after sale. Abbott regularly analyzes the historical rebate trends and makes adjustments to reserves for changes in trends and terms of rebate programs. Rebates and chargebacks charged against gross sales in 2016, 2015 and 2014 amounted to approximately $2.5 billion, $2.2 billion and $2.1 billion, respectively, or 22.9 percent, 21.6 percent and 20.1 percent, respectively, based on gross sales of approximately $10.7 billion, $10.3 billion and $10.3 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 $107 million in 2016. 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 $160 million, $124 million and $138 million for cash discounts in 2016, 2015 and 2014, respectively, and $242 million, $238 million and $210 million for returns in 2016, 2015 and 2014, 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 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, 2016, Abbott had WIC business in 31 states.

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

Income Taxes—Abbott operates in numerous countries where its income tax returns are subject to audits and adjustments. Because Abbott operates globally, the nature of the audit items is often very complex, and the objectives of the government auditors can result in a tax on the same income in more than one country. Abbott employs internal and external tax professionals to minimize audit adjustment amounts where possible. In accordance with the accounting rules relating to the measurement of tax contingencies, in order to recognize an uncertain tax benefit, the taxpayer must be more likely than not of sustaining the position, and the measurement of the benefit is calculated as the largest amount that is more than 50 percent likely to be realized upon resolution of the benefit. Application of these rules requires a significant amount of judgment. In the U.S., Abbott's federal income tax returns through 2013 are settled. 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 are 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 years, can be significant in relation to the obligations and the annual cost recorded for these programs. Low interest rates have significantly increased actuarial losses for these plans. At December 31, 2016, 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 $3.3 billion and $119 million, respectively. Actuarial losses and gains are amortized over the remaining service attribution periods of the employees under the corridor method, in accordance with the rules for accounting for post-employment benefits. Differences between the expected long-term return on plan assets and the actual annual return are amortized over a five-year period. Note 13 to the consolidated financial statements describes the impact of a one-percentage point change in the health care cost trend rate; however, there can be no certainty that a change would be limited to only one percentage point.

FINANCIAL REVIEW

Valuation of Intangible Assets—Abbott has acquired and continues to acquire significant intangible assets that Abbott records at fair value at the acquisition date. Transactions involving the purchase or sale of intangible assets occur with some frequency between companies in the health care field and valuations are usually based on a discounted cash flow analysis. The discounted cash flow model requires assumptions about the timing and amount of future net cash flows, risk, cost of capital, terminal values and market participants. Each of these factors can significantly affect the value of the intangible asset. Abbott engages independent valuation experts who review Abbott's critical assumptions and calculations for acquisitions of significant intangibles. Abbott reviews definite-lived intangible assets for impairment each quarter using an undiscounted net cash flows approach. If the undiscounted cash flows of an intangible asset are less than the carrying value of an intangible asset, the intangible asset is written down to its fair value, which is usually the discounted cash flow amount. Where cash flows cannot be identified for an individual asset, the review is applied at the lowest group level for which cash flows are identifiable. Goodwill and indefinite-lived intangible assets, which relate to in-process research and development acquired in a business combination, are reviewed for impairment annually or when an event that could result in impairment occurs. At December 31, 2016, goodwill amounted to $7.7 billion and intangibles amounted to $4.5 billion, excluding approximately $2.0 billion of goodwill and $529 million of intangibles in Non-current assets held for disposition due to the pending sale of AMO. Amortization expense in continuing operations for intangible assets amounted to $550 million in 2016, $601 million in 2015 and $555 million in 2014. There were no impairments of goodwill in 2016, 2015 or 2014.

Litigation—Abbott accounts for litigation losses in accordance with FASB Accounting Standards Codification No. 450, "Contingencies." Under ASC No. 450, loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded. These estimates are often initially developed substantially earlier than the ultimate loss is known, and the estimates are refined each accounting period as additional information becomes known. Accordingly, Abbott is often initially unable to develop a best estimate of loss, and therefore the minimum amount, which could be zero, is recorded. As information becomes known, either the minimum loss amount is increased, resulting in additional loss provisions, or a best estimate can be made, also resulting in additional loss provisions. Occasionally, a best estimate amount is changed to a lower amount when events result in an expectation of a more favorable outcome than previously expected. Abbott estimates the range of possible loss to be from approximately $35 million to $45 million for its legal proceedings and environmental exposures. Accruals of approximately $40 million have been recorded at December 31, 2016 for these proceedings and exposures. These accruals represent management's best estimate of probable loss, as defined by FASB ASC No. 450, "Contingencies."

RESULTS OF OPERATIONS

SALES

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

	Total % Change	Components of % Change		
		Price	Volume	Exchange
Total Net Sales				
2016 vs. 2015	2.2	(1.1)	5.9	(2.6)
2015 vs. 2014	0.8	(1.1)	10.2	(8.3)
Total U.S.				
2016 vs. 2015	3.4	(2.9)	6.3	–
2015 vs. 2014	2.2	(1.5)	3.7	–
Total International				
2016 vs. 2015	1.6	(0.3)	5.7	(3.8)
2015 vs. 2014	0.2	(1.0)	13.1	(11.9)
Established Pharmaceutical Products Segment				
2016 vs. 2015	3.7	3.0	7.5	(6.8)
2015 vs. 2014	19.3	0.3	33.8	(14.8)
Nutritional Products Segment				
2016 vs. 2015	(1.1)	(0.4)	1.6	(2.3)
2015 vs. 2014	0.3	–	5.5	(5.2)
Diagnostic Products Segment				
2016 vs. 2015	3.6	(1.2)	6.7	(1.9)
2015 vs. 2014	(1.6)	(1.0)	8.3	(8.9)
Vascular Products Segment				
2016 vs. 2015	3.7	(5.3)	9.8	(0.8)
2015 vs. 2014	(6.5)	(4.0)	5.3	(7.8)

The increases in Total Net Sales in 2016 and 2015 reflect unit growth, partially offset by the impact of unfavorable foreign exchange. The price declines related to Vascular Products sales in 2016 and 2015 primarily reflect pricing pressure on drug eluting stents as a result of market competition in the U.S. and other major markets. Competitive pressures in the Managed Medicaid and Medicare segments of Abbott's Diabetes Care business also contributed to the overall 2.9% price decline in the U.S. in 2016.

FINANCIAL REVIEW

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

(dollars in millions)	2016	Total Change	Impact of Exchange	Total Change Excl. Exchange
Total Established Pharmaceuticals—				
Key Emerging Markets	$2,912	5%	(8)%	13%
Other	947	1	(1)	2
Nutritionals—				
International Pediatric Nutritionals	2,206	(7)	(4)	(3)
U.S. Pediatric Nutritionals	1,677	5	–	5
International Adult Nutritionals	1,724	–	(4)	4
U.S. Adult Nutritionals	1,292	1	–	1
Diagnostics—				
Immunochemistry	3,681	4	(2)	6
Vascular Products (1)—				
Coronary Devices	2,186	–	(1)	1
Endovascular	562	8	(1)	9

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

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

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

Excluding the unfavorable impact of foreign exchange, total Established Pharmaceutical Products sales increased 10.5 percent in 2016 and 34.1 percent in 2015. The Established Pharmaceutical Products segment is focused on several key emerging markets including India, Russia, China and Brazil. Excluding the impact of foreign exchange, sales in these key emerging markets increased 13.3 percent in 2016 and 32.4 percent in 2015. Excluding the impact of foreign exchange, sales in Established Pharmaceuticals' other emerging markets increased 2.0 percent in 2016 and increased 39.6 percent in 2015. The increase in 2015 includes the impact of the acquisitions of CFR Pharmaceuticals in September 2014 and Veropharm in December 2014. Excluding sales from the acquisitions and the impact of foreign exchange, revenues increased 13.4 percent in 2015.

Excluding the unfavorable impact of foreign exchange, total Nutritional Products sales increased 1.2 percent in 2016 and 5.5 percent in 2015. In Abbott's International Pediatric Nutritional business, the 2016 decrease in sales was driven by challenging market conditions in China, including the impact of new food safety regulations which will require the re-registration by 2018 of all infant and toddler formulas, contributing to an oversupply of product in the market. The sales decrease in China was partially offset by continued strong performance in several markets across Latin America and Southeast Asia. The increase in 2016 U.S. Pediatric Nutritional sales primarily reflects above-market performance in Abbott's PediaSure® toddler brand as well as recent infant product launches including Similac® Advance® Non-GMO and Similac Sensitive® Non-GMO.

Excluding the unfavorable impact of foreign exchange, the 2016 and 2015 increases in International Adult Nutritional sales are due primarily to volume growth in emerging markets and continued expansion of the adult nutrition category internationally. The increase in 2016 U.S. Adult Nutritional revenues was driven by the growth of Ensure® sales and the decrease in 2015 reflected the effects of increased competition and market dynamics in retail and institutional categories.

Excluding the unfavorable impact of foreign exchange, total Diagnostic Products sales increased 5.5 percent in 2016 and 7.3 percent in 2015. The sales increases were primarily driven by share gains in the Core Laboratory and Point of Care markets in the U.S. and internationally. 2016 and 2015 sales of immunochemistry products, the largest category in this segment, reflect continued execution of Abbott's strategy to deliver integrated solutions to large healthcare customers.

Excluding the unfavorable impact of foreign exchange, total Vascular Products sales grew 4.5 percent in 2016 and 1.3 percent in 2015. In 2016, double-digit growth in sales of Abbott's *MitraClip* structural heart device for the treatment of mitral regurgitation was partially offset by lower sales of DES products. The increase in the Endovascular business was driven by higher *Supera* and vessel closure sales. Vascular Products sales in 2016 were also favorably impacted by the resolution of previously disputed third party royalty revenue related to the prior year. Excluding this royalty impact, worldwide sales of Vascular Products would have increased 3.4 percent in 2016. In 2015, growth of Abbott's *MitraClip* structural heart product, its Endovascular business, including the *Supera* peripheral stent, and the *Absorb* bioresorbable vascular scaffold in various international markets was almost entirely offset by pricing pressures in DES products.

Abbott has periodically sold product rights to non-strategic products and has recorded the related gains in net sales in accordance with Abbott's revenue recognition policies as discussed in Note 1 to the consolidated financial statements. Related net sales were not significant in 2016, 2015 and 2014.

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

OPERATING EARNINGS

Gross profit margins were 54.1 percent of net sales in 2016, 54.2 percent in 2015 and 51.7 percent in 2014. In 2016, the unfavorable effect of foreign exchange offset continued underlying margin expansion, primarily in the Diagnostics and Nutritional segments. The improvement in 2015 reflects higher margins in the Nutritional, Diagnostics, and Vascular Products segments.

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

Research and development expense was $1.422 billion in 2016, $1.405 billion in 2015, and $1.345 billion in 2014 and represented a 1.2 percent increase in 2016, and a 4.5 percent increase in 2015. The 2016 increase in research and development expenses was primarily due to higher spending on various projects and the impairment of an in-process research and development asset related to a non-reportable segment, partially offset by lower restructuring costs in 2016. In 2016, research and development expenditures totaled $513 million for the Diagnostics Products segment, $259 million for the Vascular Products segment, $205 million for the Nutritional Products segment, and $137 million for the Established Pharmaceutical Products segment.

Selling, general and administrative expenses decreased 1.7 percent in 2016 and increased 3.9 percent in 2015 versus the respective prior year. The 2016 decrease reflects the favorable impact of foreign exchange, continued efforts to reduce back office costs, and lower restructuring charges compared to the prior year. The 2015 increase reflects the impact of the CFR and Veropharm acquisitions, partially offset by the impact of cost improvement initiatives and the favorable impact of foreign exchange.

BUSINESS ACQUISITIONS

On January 4, 2017, Abbott completed the acquisition of St. Jude Medical, a global medical device manufacturer, for approximately $23.6 billion, including approximately $13.6 billion in cash and approximately $10 billion in Abbott common shares, which represented approximately 254 million shares of Abbott common stock, based on Abbott's closing stock price on the acquisition date. As part of the acquisition, approximately $5.8 billion of St. Jude Medical's debt was assumed or refinanced by Abbott. The transaction provides expanded opportunities for future growth and is an important part of the company's ongoing effort to develop a strong, diverse portfolio of devices, diagnostics, nutritionals and branded generic pharmaceuticals. The combined company will compete in nearly every area of the $30 billion cardiovascular market, as well as in the neuromodulation market. As the acquisition of St. Jude Medical was completed after December 31, 2016, Abbott's consolidated financial statements do not include the financial condition or the operating results of St. Jude Medical in any of the periods presented herein.

Under the terms of the agreement, for each St. Jude Medical common share, St. Jude Medical shareholders received $46.75 in cash and 0.8708 of an Abbott common share. At an Abbott stock price of $39.36, which reflects the closing price on January 4, 2017, this represented a value of approximately $81 per St. Jude Medical common share and total purchase consideration of $23.6 billion. The cash portion of the acquisition was funded through a combination of medium and long-term debt issued in November of 2016 and a $2.0 billion 120-day senior unsecured bridge term loan facility. See Note 10—Debt and Lines of Credit for further details regarding these financing arrangements.

The preliminary allocation of the fair value of the St. Jude Medical acquisition is shown in the table below. The allocation of the fair value of the acquisition will be finalized when the valuation is completed and differences between the preliminary and final allocation could be material.

(in billions)	
Acquired intangible assets, non-deductible	$16.0
Goodwill, non-deductible	14.8
Acquired net tangible assets	3.0
Deferred income taxes recorded at acquisition	(5.0)
Net debt	(5.2)
Total preliminary allocation of fair value	$23.6

If the acquisition of St. Jude Medical had occurred at the beginning of 2016, unaudited pro forma consolidated net sales would have been approximately $26.8 billion and unaudited pro forma consolidated net earnings would have been $157 million, which includes the amortization of approximately $700 million of inventory step-up. The unaudited pro forma information is not necessarily indicative of the consolidated results of operations that would have been realized had the St. Jude Medical acquisition been completed as of the beginning of 2016, nor is it meant to be indicative of future results of operations that the combined entity will experience.

In 2016, Abbott and St. Jude Medical agreed to sell certain products to Terumo Corporation for approximately $1.12 billion. The sale includes the St. Jude Medical Angio-Seal™ and Femoseal™ vascular closure products and Abbott's Vado® Steerable Sheath. The sale closed on January 20, 2017.

On January 30, 2016, Abbott entered into a definitive agreement to acquire Alere Inc., a diagnostic device and service provider, for $56.00 per common share in cash. The acquisition is subject to satisfaction of customary closing conditions, including the accuracy of Alere's representations and warranties (subject to certain materiality qualifications), compliance in all material respects with Alere's covenants and receipt of applicable regulatory approvals. Due to a number of adverse developments that have occurred with respect to Alere since the date of the agreement, Abbott has filed a complaint in the Delaware Court of Chancery seeking to terminate the acquisition agreement on the basis that Alere has experienced a "material adverse effect" under the acquisition agreement and has materially breached certain of its covenants.

FINANCIAL REVIEW

In August 2015, Abbott completed the acquisition of the equity of Tendyne Holdings, Inc. (Tendyne) that Abbott did not already own for approximately $225 million in cash plus additional payments up to $150 million to be made upon completion of certain regulatory milestones. The acquisition of Tendyne, which is focused on developing minimally invasive mitral valve replacement therapies, allows Abbott to broaden its foundation in the treatment of mitral valve disease. The final allocation of the fair value of the acquisition resulted in non-deductible acquired in-process research and development of approximately $220 million, which is accounted for as an indefinite-lived intangible asset until regulatory approval or discontinuation, non-deductible goodwill of approximately $142 million, deferred tax assets and other net assets of approximately $18 million, deferred tax liabilities of approximately $85 million, and contingent consideration of approximately $70 million. The goodwill is identifiable to the Vascular Products segment.

In September 2014, Abbott completed the acquisition of the controlling interest in CFR Pharmaceuticals S.A. (CFR) for approximately $2.9 billion in cash ($2.8 billion net of CFR cash on hand at closing). Including the assumption of approximately $570 million of debt, the total cost of the acquisition was $3.4 billion. The acquisition of CFR more than doubles Abbott's branded generics pharmaceutical presence in Latin America and further expands its presence in emerging markets. CFR's financial results are included in Abbott's financial statements beginning on September 26, 2014, the date that Abbott acquired control of this business. Abbott currently owns 100% of CFR. The fair value of the non-controlling interest at the acquisition date was approximately $3 million. The acquisition was funded with cash and cash equivalents and short-term investments. The final allocation of the fair value of the acquisition is shown in the table below.

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

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

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

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

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

RESTRUCTURINGS

In 2016, 2015 and 2014, Abbott management approved plans to streamline operations in order to reduce costs and improve efficiencies in various Abbott businesses including the nutritional, established pharmaceuticals and vascular businesses. Abbott recorded employee-related severance and other charges of approximately $33 million in 2016, $95 million in 2015 and

$164 million in 2014. Approximately $9 million in 2016, $18 million in 2015 and $20 million in 2014 are recorded in Cost of products sold, approximately $5 million in 2016, $34 million in 2015 and $53 million in 2014 are recorded in Research and development and approximately $19 million in 2016, $43 million in 2015 and $91 million in 2014 are recorded in Selling, general and administrative expense. Additional charges of approximately $2 million in 2016, $45 million in 2015 and $39 million in 2014 were recorded primarily for accelerated depreciation.

From 2013 to 2015, Abbott management approved various plans to reduce costs and improve efficiencies across various functional areas. In 2013, Abbott management also approved plans to streamline certain manufacturing operations in order to reduce costs and improve efficiencies in Abbott's established pharmaceuticals business. In 2012, Abbott management approved plans to streamline various commercial operations in order to reduce costs and improve efficiencies in Abbott's core diagnostics, established pharmaceuticals and nutritionals businesses. Abbott recorded employee-related severance charges of approximately $18 million in 2016, $66 million in 2015 and $125 million in 2014. Approximately $4 million in 2016, $9 million in 2015 and $7 million in 2014 are recorded in Cost of products sold, approximately $2 million in 2015 and $6 million in 2014 are recorded in Research and development, and approximately $14 million in 2016, $55 million in 2015 and $112 million in 2014 are recorded in Selling, general and administrative expense.

INTEREST EXPENSE AND INTEREST (INCOME)

In 2016, interest expense increased primarily due to the amortization of bridge financing fees related to the financing of the St. Jude Medical acquisition, which closed on January 4, 2017, and the pending Alere acquisition. Interest expense in 2016 also increased due to the $15.1 billion of debt issued in November 2016. In 2015, interest expense increased due to the issuance of $2.5 billion of long-term debt during the year. In 2014, interest expense increased due to a higher level of short-term borrowings during the year. Interest income increased in 2015 due to a higher return earned on short-term investments during the year.

OTHER (INCOME) EXPENSE, NET

Other (income) expense, net, for 2016 includes an expense to adjust Abbott's holding of Mylan N.V. ordinary shares due to a decline in the fair value of the securities which is considered by Abbott to be other than temporary. 2015 includes a pretax gain on the sale of a portion of the Mylan N.V. shares received through the sale of the developed markets branded generics pharmaceuticals business and income resulting from a decrease in the fair value of contingent consideration related to a business acquisition. 2014 includes charges associated with the impairment of certain equity investments partially offset by gains on sales of investments.

NET LOSS ON EXTINGUISHMENT OF DEBT

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

TAXES ON EARNINGS

The income tax rates on earnings from continuing operations were 24.8 percent in 2016, 18.1 percent in 2015 and 31.6 percent in 2014. In 2016, taxes on earnings from continuing operations include the impact of a net tax benefit of approximately $225 million, primarily as a result of the resolution of various tax positions from prior years, partially offset by the unfavorable impact of non-deductible foreign exchange losses related to Venezuela and the adjustment of the Mylan N.V. equity investment as well as the recognition of deferred taxes associated with the pending sale of AMO. In 2015, taxes on earnings from continuing operations include $71 million of tax expense related to gain on the disposal of shares of Mylan N.V. stock. The 2015 effective tax rate includes the impact of the R&D tax credit that was made permanent in the U.S. by the Protecting Americans from Tax Hikes Act of 2015. In 2014, taxes on earnings from continuing operations include $440 million of tax expense associated with a one-time repatriation of 2014 non-U.S. earnings partially offset by $125 million of tax benefits related to the resolution of various tax positions and the adjustment of tax uncertainties from prior years.

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

Earnings from discontinued operations, net of tax, in 2016 reflects the recognition of $325 million of net tax benefits primarily as a result of the resolution of various tax positions related to prior years. 2015 tax expense related to discontinued operations includes $667 million of tax expense on certain current-year funds earned outside of the U.S. that were not designated as permanently reinvested overseas. Abbott accrued U.S. taxes on approximately $2.2 billion of 2014 earnings generated outside the U.S. in connection with a repatriation of these earnings. In addition to the $440 million of tax expense discussed above, the repatriation resulted in $82 million of additional tax expense in Abbott's 2014 income from discontinued operations. Abbott accelerated the utilization of deferred tax assets and therefore cash taxes due in the U.S. on this repatriation were not material.

DISCONTINUED OPERATIONS

On February 27, 2015, Abbott completed the sale of its developed markets branded generics pharmaceuticals business to Mylan Inc. (Mylan) for equity ownership of a newly formed entity (Mylan N.V.) that combined Mylan's existing business and Abbott's developed markets pharmaceuticals business. Mylan N.V. is publicly traded. Historically, this business was included in Abbott's Established Pharmaceutical Products segment. At the date of the closing, the 110 million Mylan N.V. shares that Abbott received were valued at $5.77 billion and Abbott recorded an after-tax gain on the sale of the business of approximately $1.6 billion. Abbott retained its branded generics pharmaceuticals business in emerging markets.

FINANCIAL REVIEW

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

On February 10, 2015, Abbott completed the sale of its animal health business to Zoetis Inc. In the first quarter of 2016, Abbott received an additional $25 million of proceeds due to the expiration of a holdback agreement associated with the sale of this business and reported an after-tax gain of $16 million.

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

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

For a small portion of AbbVie's operations, the legal transfer of AbbVie's assets (net of liabilities) did not occur with the separation of AbbVie on January 1, 2013 due to the time required to transfer marketing authorizations and other regulatory requirements in each of these countries. Under the terms of the separation agreement with Abbott, AbbVie is subject to the risks and entitled to the benefits generated by these operations and assets. The majority of these operations were transferred to AbbVie in 2013 and 2014. These assets and liabilities were presented as held for disposition in the Consolidated Balance Sheet as of December 31, 2015.

Abbott has retained all liabilities for all U.S. federal and foreign income taxes on income prior to the separation, as well as certain non-income taxes attributable to AbbVie's business. AbbVie generally will be liable for all other taxes attributable to its business. In 2016, 2015 and 2014, discontinued operations include a favorable adjustment to tax expense of $318 million, $3 million and $166 million, respectively, as a result of the resolution of various tax positions pertaining to AbbVie's operations.

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

	Year Ended December 31		
(in millions)	2016	2015	2014
Net Sales			
Developed markets generics pharmaceuticals and animal health businesses	$ –	$256	$2,076
AbbVie	–	–	–
Total	$ –	$256	$2,076
Earnings (Loss) Before Tax			
Developed markets generics pharmaceuticals and animal health businesses	$ (4)	$ 13	$ 505
AbbVie	–	–	–
Total	$ (4)	$ 13	$ 505
Net Earnings			
Developed markets generics pharmaceuticals and animal health businesses	$ 3	$ 62	$ 397
AbbVie	318	3	166
Total	$321	$ 65	$ 563

ASSETS AND LIABILITIES HELD FOR DISPOSITION

In September 2016, Abbott announced that it entered into a definitive agreement to sell AMO, its vision care business, to Johnson & Johnson for $4.325 billion in cash, subject to customary purchase price adjustments for cash, debt and working capital. The decision to sell AMO reflects Abbott's proactive shaping of its portfolio in line with its strategic priorities. The transaction is expected to close in the first quarter of 2017 and is subject to customary closing conditions, including regulatory approvals. The operating results of AMO are included in continuing operations as they do not qualify for reporting as discontinued operations. For the year ended December 31, 2016 and 2015, AMO's earnings before taxes were $30 million and $64 million, respectively. As a result of the pending sale of AMO, the assets and liabilities of this business meet the criteria to qualify as being held for disposition at December 31, 2016.

The assets and liabilities held for disposition as of December 31, 2016 relate to AMO and the assets and liabilities held for disposition as of December 31, 2015 relate to the AbbVie business. The following is a summary of the assets and liabilities held for disposition:

(in millions) December 31	2016	2015
Trade receivables, net	$ 222	$ 17
Total inventories	240	43
Prepaid expenses and other current assets	51	45
Current assets held for disposition	513	105
Net property and equipment	247	1
Intangible assets, net of amortization	529	–
Goodwill	1,966	–
Deferred income taxes and other assets	11	1
Non-current assets held for disposition	2,753	2
Total assets held for disposition	$3,266	$107
Trade accounts payable	$ 71	$359
Salaries, wages, commissions and other accrued liabilities	174	14
Current liabilities held for disposition	245	373
Post-employment obligations, deferred income taxes and other long-term liabilities	59	–
Total liabilities held for disposition	$ 304	$373

RESEARCH AND DEVELOPMENT PROGRAMS

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

RESEARCH AND DEVELOPMENT PROCESS

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

Depending upon the product, the phases of development may include:

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

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

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

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

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

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

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

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

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

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

In the Nutritional segment, the research and development process generally focuses on identifying and developing ingredients and products that address the nutritional needs of particular populations (e.g., infants and adults) or patients (e.g., people with diabetes). Depending upon the country and/or region, if claims regarding a product's efficacy will be made, clinical studies typically must be conducted.

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

AREAS OF FOCUS

In 2017 and beyond, Abbott's significant areas of therapeutic focus will include the following:

Established Pharmaceuticals—Abbott focuses on building country specific portfolios made up of global and local pharmaceutical brands that best meet the needs of patients in emerging markets. More than 400 development projects are active for one or several emerging markets. Over the next several years, Established Pharmaceuticals plans to expand its product portfolio in key therapeutic areas with the aim of being among the first to launch new branded generic medicines for particular pharmaceutical products. In addition, Established Pharmaceuticals continues to expand existing brands into new markets, implement product enhancements that provide value to patients and acquire strategic products and technology through licensing activities. Abbott is also actively working on the further development of several key brands such as Creon, Duphaston and Influvac. Depending on the product, the activities focus on development of new data, markets, formulations, delivery systems, or indications.

Vascular—Ongoing projects in the pipeline include:

- *MitraClip* device for the treatment of mitral regurgitation. Consistent with Abbott's near-term vision to grow its mitral and tricuspid valve programs, Abbott continues to work on expanding the use of its *MitraClip* device. Clinical trials for *MitraClip* are underway with the objective of broadening *MitraClip's* footprint into new key markets, and enrollment of the COAPT Trial (a study of safety and effectiveness of the *MitraClip* device in heart failure patients with functional mitral regurgitation) is projected to be completed in 2017. Leveraging expertise in percutaneous leaflet coaptation, Abbott is working to expand its clip-based technology to address unmet needs in tricuspid regurgitation.
- *Portico Re-sheathable Transcatheter Aortic Valve System U.S. Clinical Trial.* The objective of this clinical trial is to evaluate the safety and effectiveness of the Portico transcatheter heart valve and delivery systems via transfemoral and alternative delivery methods.
- *Thoratec MOMENTUM 3, Multi-center Study of MagLev Technology with HeartMate 3™ (HM3) Clinical Study Protocol.* The objective of this clinical study is to evaluate the safety and effectiveness of the HM3 Left Ventricular Assist System (LVAS) when used for the treatment of advanced, refractory, left ventricular heart failure. The short term arm of the study is complete and results were presented at the American Heart Association in November 2016. The long term arm requires two-year patient follow-up. The HM3 is intended for use inside or outside the hospital.
- *AMPLATZER™ Amulet™ LAA Occluder Trial.* The objective of this clinical trial is to evaluate the safety and efficacy of this device in patients with non-valvular atrial fibrillation. Patients who are eligible for the trial will be randomized to receive either the Amulet device or the commercially available WATCHMAN device and will be followed for 5 years after device implant.
- Tendyne transcatheter mitral valve replacement device. This device is a self-expanding, fully retrievable and repositionable bioprosthesis with a simple and controlled deployment procedure. The trial to support CE Mark began in 2016 and is projected to be completed in 2017.
- *Supera* self-expanding nitinol stent system which was acquired as part of the acquisition of IDEV Technologies in August 2013. With its proprietary interwoven wire technology, *Supera* is designed based on biomimetic principles to mimic the body's natural movement. *Supera* is available in the U.S., Europe, and various countries in Asia, the Middle East and Latin America for the treatment of blockages in blood vessels due to peripheral artery disease, with expanded size matrix approved in the U.S. Abbott is developing *Supera*'s next generation delivery system.
- Abbott is also developing future versions of metallic DES, guide wires and balloon delivery catheters.

Molecular Diagnostics—Various new molecular in vitro diagnostic (IVD) products and next generation instrument systems are in various stages of development and commercialization.

Core Laboratory Diagnostics—Abbott continues to commercialize its next-generation blood screening, immunoassay, clinical chemistry and hematology systems, along with assays in various areas including infectious disease, cardiac care, metabolics, oncology, as well as informatics and automation solutions to increase efficiency in laboratories.

Diabetes Care—In 2016 Abbott expanded on the results of its REPLACE outcome trial (which covered Type 2 diabetes patients) with the publication of the results of its IMPACT study, which showed improved glycemic outcomes in people with Type 1 diabetes using the FreeStyle Libre system. The FreeStyle Libre system eliminates the need for routine finger sticks by reading glucose levels through a sensor that can be worn on the back of the upper arm for up to 14 days. It also requires no finger sticks for calibration. In 2014, Abbott attained the CE Mark in Europe for the FreeStyle Libre system. In 2016, Abbott launched two apps in Europe for FreeStyle Libre: LibreLink, which enables people with diabetes to access glucose data directly from their FreeStyle Libre sensor on their Android smartphones and LibreLinkUp, a caregiver app for remotely monitoring glucose values. In the U.S., in the third quarter of 2016 Abbott received FDA approval for FreeStyle Libre Pro, which is designed to be used by healthcare professionals in a clinic setting, and submitted the PMA for a consumer version of FreeStyle Libre.

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

Given the diversity of Abbott's business, its intention to remain a broad-based healthcare company and the numerous sources for potential future growth, no individual project is expected to be material to cash flows or results of operations over the next five years. Factors considered included research and development expenses projected to be incurred for the project over the next year relative to Abbott's total research and development expenses as well as qualitative factors, such as marketplace perceptions and impact of a new product on Abbott's overall market position. There were no delays in Abbott's 2016 research and development activities that are expected to have a material impact on operations.

While the aggregate cost to complete the numerous projects currently in development is expected to be material, the total cost to complete will depend upon Abbott's ability to successfully complete each project, the rate at which each project advances, and the ultimate timing for completion. Given the potential for significant delays and the high rate of failure inherent in the development of pharmaceutical, medical device and diagnostic products and technologies, it is not possible to accurately estimate the total cost to complete all projects currently in development. Abbott plans to manage its portfolio of projects to achieve research and development spending that will be competitive in each of the businesses in which it participates, and such spending is expected to approximate 7.5 percent of total Abbott sales in 2017. Abbott does not regularly accumulate or make management decisions based on the total expenses incurred for a particular development phase in a given period.

GOODWILL

At December 31, 2016, goodwill recorded as a result of business combinations totaled $7.7 billion. Goodwill is reviewed for impairment annually in the third quarter or when an event that could result in an impairment occurs, using a quantitative assessment to determine whether it is more likely than not that the fair value of any reporting unit is less than its carrying amount. The income and market approaches are used to calculate the fair value of each reporting unit. The results of the last impairment test indicated that the fair value of each reporting unit was substantially in excess of its carrying value.

FINANCIAL CONDITION

CASH FLOW

Net cash from operating activities amounted to $3.2 billion, $3.0 billion and $3.7 billion in 2016, 2015 and 2014, respectively. The increase in Net cash from operating activities in 2016 reflects additional focus on the management of working capital. The decrease in Net cash from operating activities in 2015 was due in large part to the divestiture of the developed market established pharmaceuticals business in February 2015, as well as an increase in contributions to defined benefit plans in 2015. The income tax component of operating cash flow in 2016, 2015 and 2014 includes $550 million, $70 million and $268 million, respectively, of non-cash tax benefits primarily related to the favorable resolution of various tax positions pertaining to prior years; 2015 reflects the non-cash impact of approximately $1.1 billion of tax expense associated with the gain on sale of businesses.

The foreign currency loss related to Venezuela reduced Abbott's cash by approximately $410 million in 2016 and is included in the Effect of exchange rate changes on cash and cash equivalents line within the Consolidated Statement of Cash Flows. Future fluctuations in the strength of the U.S. dollar against foreign currencies are not expected to materially impact Abbott's liquidity.

Excluding the proceeds from the November 2016 long-term debt issuance, over 85% of the cash and cash equivalents at December 31, 2016 is considered reinvested indefinitely in foreign subsidiaries. Abbott does not expect such reinvestment to affect its liquidity and capital resources. If these funds were needed for operations in the U.S., Abbott may be required to accrue and pay U.S. income taxes to repatriate these funds. Abbott believes that it has sufficient sources of liquidity to support its assumption that the disclosed amount of undistributed earnings at December 31, 2016 can be considered to be reinvested indefinitely.

Abbott funded $582 million in 2016, $579 million in 2015 and $393 million in 2014 to defined benefit pension plans. Abbott expects pension funding of approximately $364 million in 2017 for its pension plans, of which approximately $270 million relates to its main domestic pension plan. Abbott expects annual cash flow from operating activities to continue to exceed Abbott's capital expenditures and cash dividends.

FINANCIAL REVIEW

DEBT AND CAPITAL

At December 31, 2016, Abbott's long-term debt rating was A+ by Standard & Poor's Corporation and A2 by Moody's Investors Service. In conjunction with the completion of the St. Jude Medical acquisition on January 4, 2017, the ratings were adjusted to BBB by Standard & Poor's Corporation and Baa3 by Moody's Investors Service. Abbott expects to maintain an investment grade rating. Abbott has readily available financial resources, including unused lines of credit of $5.0 billion which expire in 2019 and that support commercial paper borrowing arrangements.

In November 2016, Abbott issued $15.1 billion of medium and long-term debt to primarily fund the cash portion of the acquisition of St. Jude Medical. Abbott issued $2.85 billion of 2.35% Senior Notes due November 22, 2019; $2.85 billion of 2.90% Senior Notes due November 30, 2021; $1.50 billion of 3.40% Senior Notes due November 30, 2023; $3.00 billion of 3.75% Senior Notes due November 30, 2026; $1.65 billion of 4.75% Senior Notes due November 30, 2036; and $3.25 billion of 4.90% Senior Notes due November 30, 2046. In November 2016, Abbott also entered into interest rate swap contracts totaling $3.0 billion related to the new debt; the swaps have the effect of changing Abbott's obligation from a fixed interest rate to a variable interest rate obligation on the related debt instruments.

In April 2016, Abbott obtained a commitment for a 364-day senior unsecured bridge term loan facility for an amount not to exceed $17.2 billion, comprised of $15.2 billion for a 364-day bridge loan and $2.0 billion for a 120-day bridge loan to provide financing for the acquisition of St. Jude Medical. The $15.2 billion component of the commitment terminated in November 2016 when Abbott issued the $15.1 billion of long-term debt. In December 2016, Abbott formalized the $2.0 billion component and entered into a 120-day bridge term loan facility that provided Abbott the ability to borrow up to $2.0 billion on an unsecured basis to partially fund the St. Jude Medical acquisition. On January 4, 2017, Abbott borrowed $2.0 billion under this facility, of which $1.2 billion had been repaid as of January 31, 2017.

In February 2016, Abbott obtained a commitment for a 364-day senior unsecured bridge term loan facility for an amount not to exceed $9 billion in conjunction with its pending acquisition of Alere. This commitment was automatically extended for up to 90 days on January 29, 2017.

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

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

In September 2014, the board of directors authorized the repurchase of up to $3.0 billion of Abbott's common shares from time to time. The 2014 authorization was in addition to the $512 million unused portion of a previous program announced in June 2013.

In 2016, Abbott repurchased 10.4 million shares at a cost of $408 million under the program authorized in 2014. In 2015, Abbott repurchased 11.3 million shares at a cost of $512 million under the unused portion of the 2013 authorization and 36.2 million shares at a cost of $1.7 billion under the program authorized in 2014 for a total of 47.5 million shares at a cost of $2.2 billion. In 2014, Abbott repurchased 54.6 million shares at a cost of $2.1 billion under the program announced in June 2013.

On April 27, 2016, the board of directors authorized the issuance and sale for general corporate purposes of up to 75 million common shares that would result in proceeds of up to $3 billion. No shares have been issued under this authorization.

Abbott declared dividends of $1.045 per share in 2016 compared to $0.98 per share in 2015, an increase of approximately 7%. Dividends paid were $1.539 billion in 2016 compared to $1.443 billion in 2015. The year-over-year change in dividends reflects the impact of the increase in the dividend rate.

WORKING CAPITAL

Working capital was $20.1 billion at December 31, 2016 and $5.0 billion at December 31, 2015. The increase in working capital in 2016 was due to a $13.6 billion increase in cash and cash equivalents and a $1.8 billion reduction in short-term borrowings, resulting from the proceeds from the long-term debt issued in November 2016 as well as cash generated from operating activities. On January 4, 2017, approximately $13.6 billion of the $18.6 billion in cash and cash equivalents at December 31, 2016 was used to fund the cash portion of the acquisition of St. Jude Medical.

Substantially all of Abbott's trade receivables in Italy, Spain, Portugal, and Greece are with governmental health systems. The collection of outstanding receivables in these countries was stable in 2015 and 2016. Governmental receivables in these four countries accounted for less than 1 percent of Abbott's total assets in both years and 6 percent of total net trade receivables as of December 31, 2016, down from 7 percent as of December 31, 2015.

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

VENEZUELA OPERATIONS

Since January 2010, Venezuela has been designated as a highly inflationary economy under U.S. GAAP. In 2014 and 2015, the

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

On February 17, 2016, the Venezuelan government announced that the three-tier exchange rate system would be reduced to two rates renamed the DIPRO and DICOM rates. The DIPRO rate is the official rate for food and medicine imports and was adjusted from 6.3 to 10 bolivars per U.S. dollar. The DICOM rate is a floating market rate published daily by the Venezuelan central bank, which at the end of the first quarter of 2016 was approximately 263 bolivars per U.S. dollar. As a result of decreasing government approvals to convert bolivars to U.S. dollars to pay for intercompany accounts, as well as the accelerating deterioration of economic conditions in the country, Abbott concluded that it was appropriate to move to the DICOM rate at the end of the first quarter of 2016. As a result, Abbott recorded a foreign currency exchange loss of $480 million in 2016 to revalue its net monetary assets in Venezuela. Abbott is continuing to use the DICOM rate to report the results of operations and to remeasure net monetary assets for Venezuela at the end of each quarter. As of December 31, 2016, Abbott's Venezuelan operations represented approximately 0.1% of Abbott's consolidated assets and any additional foreign currency losses related to Venezuela are not expected to be material.

CAPITAL EXPENDITURES

Capital expenditures of $1.1 billion in 2016, 2015 and 2014 were principally for upgrading and expanding manufacturing and research and development facilities and equipment in various segments, investments in information technology, and laboratory instruments placed with customers.

CONTRACTUAL OBLIGATIONS

The table below summarizes Abbott's estimated contractual obligations as of December 31, 2016.

		Payments Due By Period			
(in millions)	Total	2017	2018-2019	2020-2021	2022 and Thereafter
Long-term debt, including current maturities	$20,914	$ 3	$3,801	$4,198	$12,912
Interest on debt obligations	11,234	789	1,536	1,275	7,634
Operating lease obligations	778	145	234	141	258
Capitalized auto lease obligations	40	13	27	–	–
Purchase commitments (a)	1,353	1,294	46	12	1
Other long-term liabilities	1,431	–	784	449	198
Total (b)	$35,750	$2,244	$6,428	$6,075	$21,003

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

(b) Net unrecognized tax benefits totaling approximately $560 million are excluded from the table above as Abbott is unable to reasonably estimate the period of cash settlement with the respective taxing authorities on such items. See Note 14—Taxes on Earnings from Continuing Operations for further details. The company has employee benefit obligations consisting of pensions and other post-employment benefits, including medical and life, which have been excluded from the table. A discussion of the company's pension and post-retirement plans, including funding matters is included in Note 13—Post-employment Benefits.

CONTINGENT OBLIGATIONS

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

LEGISLATIVE ISSUES

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

RECENTLY ISSUED ACCOUNTING STANDARDS

In October 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires the recognition of the income tax effects of intercompany sales and transfers of assets, other than inventory, in the period in which the transfer occurs. The standard becomes effective for Abbott beginning in the first quarter of 2018 and early adoption is permitted. Abbott is currently evaluating the impact ASU 2016-16 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 modifies several aspects of the accounting for share-based payment transactions, including the accounting for income taxes and classification on the statement of cash flows. The standard becomes effective for Abbott beginning in the first quarter of 2017. Abbott does not

FINANCIAL REVIEW

anticipate that the new guidance will have a material impact on its consolidated financial statements. Abbott cannot predict the impact on its consolidated financial statements in future reporting periods following adoption as this will be dependent upon various factors including the number of shares issued and changes in the price of its shares.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize assets and liabilities for most leases on the balance sheet. The standard becomes effective for Abbott beginning in the first quarter of 2019 and early adoption is permitted. Adoption requires application of the new guidance for all periods presented. Abbott is currently evaluating the impact the new guidance will have on its consolidated financial statements.

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

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)*, which removes the requirement to categorize in the fair value hierarchy all investments measured at net asset value per share using the practical expedient. This guidance is effective for public business entities for years beginning after December 15, 2015. Abbott has adopted this guidance as of December 31, 2016, and has applied it on a retrospective basis. The adoption of ASU 2015-07 only impacted the form and content of the basis of fair value measurement disclosures related to the assets associated with the defined benefit and medical and dental plans and did not have an impact on Abbott's consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model for accounting for revenue from contracts with customers and will supersede most existing revenue recognition guidance. The standard becomes effective for Abbott in the first quarter of 2018. Abbott is continuing to evaluate the effect that the standard will have on its consolidated financial statements and related disclosures including the areas of variable consideration and new disclosure requirements. Abbott will continue to monitor additional modifications, clarifications or interpretations undertaken by the FASB that may impact Abbott's current conclusions. Abbott is currently expecting to use the modified retrospective method to adopt this standard.

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995—A CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

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

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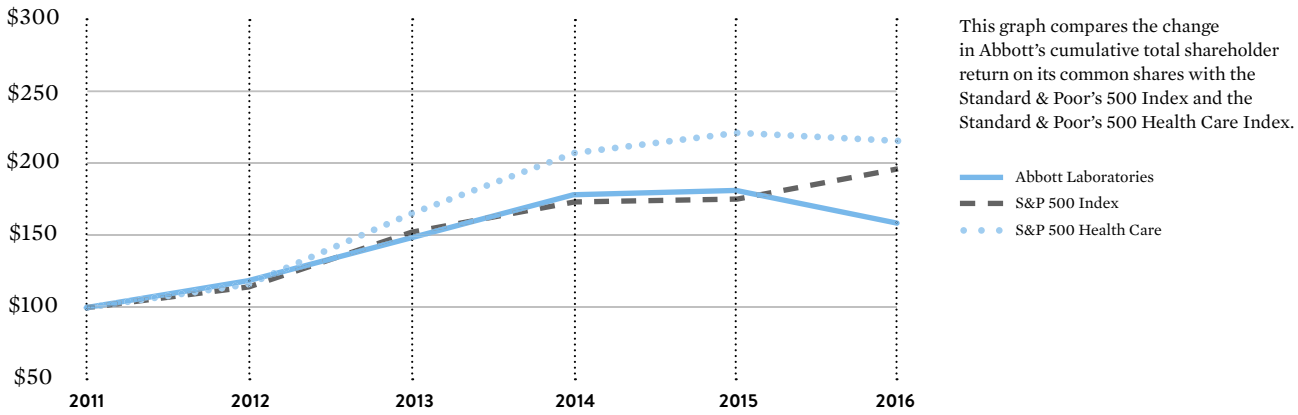
PERFORMANCE GRAPH



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

SUMMARY OF SELECTED FINANCIAL DATA

(Dollars in millions except per share data)

Year Ended December 31		2016	2015(a)	2014	2013	2012(b)
Summary of Operations:						
Net Sales	$	20,853	20,405	20,247	19,657	19,050
Cost of products sold	$	9,574	9,348	9,773	9,781	9,494
Research & development	$	1,422	1,405	1,345	1,371	1,461
Selling, general, and administrative	$	6,672	6,785	6,530	6,372	6,735
Operating earnings	$	3,185	2,867	2,599	2,133	1,360
Interest expense	$	431	163	150	145	320
Interest income	$	(99)	(105)	(77)	(67)	(59)
Other (income) expense, net (c)	$	1,440	(374)	8	14	1,319
Earnings before taxes	$	1,413	3,183	2,518	2,041	(220)
Taxes on earnings from continuing operations	$	350	577	797	53	(457)
Earnings from continuing operations	$	1,063	2,606	1,721	1,988	237
Net earnings	$	1,400	4,423	2,284	2,576	5,963
Basic earnings per common share from continuing operations	$	0.71	1.73	1.13	1.27	0.15
Basic earnings per common share	$	0.94	2.94	1.50	1.64	3.76
Diluted earnings per common share from continuing operations	$	0.71	1.72	1.12	1.26	0.15
Diluted earnings per common share	$	0.94	2.92	1.49	1.62	3.72
Financial Positions:						
Working capital (d)	$	20,116	4,969	3,089	7,247	15,100
Long-term investment securities	$	2,947	4,041	229	119	274
Net property & equipment	$	5,705	5,730	5,935	5,905	8,063
Total assets	$	52,666	41,247	41,207	42,937	67,148
Long-term debt, including current portion	$	20,684	5,874	3,448	3,381	18,307
Shareholders' investment	$	20,717	21,326	21,639	25,267	26,813
Book value per share	$	14.07	14.48	14.35	16.32	17.01
Other Statistics:						
Gross profit margin	%	54.1	54.2	51.7	50.2	50.2
Research and development to net sales	%	6.8	6.9	6.6	7.0	7.7
Net cash from operating activities	$	3,203	2,966	3,675	3,324	9,314
Capital expenditures	$	1,121	1,110	1,077	1,145	1,795
Cash dividends declared per common share (e)	$	1.045	0.98	0.90	0.64	1.67
Common shares outstanding (in thousands)		1,472,869	1,472,665	1,508,035	1,548,098	1,576,667
Number of common shareholders		45,545	47,278	55,171	57,854	60,476
Market price per share—high (f)	$	45.79	51.74	46.50	38.81	34.68
Market price per share—low (f)	$	36.00	39.00	35.65	31.64	25.82
Market price per share—close (f)	$	38.41	44.91	45.02	38.33	31.34

(a) In February 2015, Abbott completed the disposition of the developed markets branded generics pharmaceuticals and animal health businesses. See Note 2 to the Consolidated Financial Statements for additional information.

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

(c) 2014 and 2012 include $18 million and $1.35 billion, respectively, for the net loss on extinguishment of debt.

(d) In 2016, working capital includes $13.6 billion of cash that was used to fund the cash portion of the St. Jude Medical acquisition on January 4, 2017.

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

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

DIRECTORS AND CORPORATE OFFICERS

DIRECTORS

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

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

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

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

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

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

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

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

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

Daniel J. Starks
Retired Chairman, President and Chief Executive Officer, St. Jude Medical, Inc., St. Paul, Minn.

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

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

SENIOR MANAGEMENT

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Chairman of the Board and Chief Executive Officer

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Brian J. Blaser*
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Executive Vice President, Human Resources

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Executive Vice President, Nutritional Products

Michael T. Rousseau*
President, Cardiovascular and Neuromodulation

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Executive Vice President, Established Pharmaceuticals

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Executive Vice President, Finance and Chief Financial Officer

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Senior Vice President, U.S. Nutrition

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

Eric S. Fain, M.D.*
Senior Vice President, Group President, Cardiovascular and Neuromodulation

Denis Gestin
Senior Vice President, Global Commercial Integration

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

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

Joseph Manning*
Senior *Vice President, International Nutrition*

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

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

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

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

Jared L. Watkin*
Senior Vice President, Diabetes Care

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Vice President, Licensing and Acquisitions

Nancy Berce
Vice President, Business and Technology Services

Sharon J. Bracken
Vice President, Point of Care Diagnostics

P. Claude Burcky
Vice President, International Government Affairs

James Chiu
Vice President, Nutrition, North Asia

Kathryn S. Collins
Vice President, Commercial Legal Operations

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

Philip J. Ebeling
Vice President, Chief Technology Officer, Cardiovascular and Neuromodulation

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

Robert E. Funck*
Vice President, Controller

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Vice President, Research and Development, Diagnostics

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Vice President, Nutrition, Supply Chain

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

Bhasker Iyer
Vice President, Established Pharmaceuticals, India

Gary C. Johnson
Vice President, Clinical, Regulatory and Health Economics Outcomes Research, Cardiovascular and Neuromodulation

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Vice President, Abbott Diagnostics Division, China

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Vice President, Investor Relations

David P. Mark
Vice President, Internal Audit

Martin Nordenstahl
Vice President, Nutrition, Asia Pacific

Karen M. Peterson
Vice President, Treasurer

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

Aj J. Shoultz
Vice President, Taxes

Gregory A. Tazalla
Vice President, Strategic Initiatives

Andrea F. Wainer
Vice President, Molecular Diagnostics

Frank Weitekamper
Vice President, Abbott Transition Organization

Randel W. Woodgrift
Vice President, Global Operations, Cardiovascular and Neuromodulation

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

**Denotes executive officer*

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 Swiss Stock Exchange.

QUARTERLY DIVIDEND DATES

Dividends are expected to be declared and paid on the following schedule in 2017, pending approval by the board of directors:

Quarter	Declared	Record	Paid
First	2/19	4/14	5/15
Second	6/10	7/14	8/15
Third	9/15	10/13	11/15
Fourth	12/9	1/12/18	2/15/18

TAX INFORMATION FOR SHAREHOLDERS

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

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

DIVIDEND REINVESTMENT PLAN

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

DIVIDEND DIRECT DEPOSIT

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

DIRECT REGISTRATION SYSTEM

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

ANNUAL MEETING

The annual meeting of shareholders will be held at 9 a.m. on Friday, April 28, 2017, at Abbott's corporate headquarters. Questions regarding the annual meeting may be directed to the Corporate Secretary. A copy of Abbott's 2016 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 2016, 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 (CFO) filed with the U.S. Securities and Exchange Commission all required certifications regarding the quality of Abbott's public disclosures in its fiscal 2016 reports.

INVESTOR NEWSLINE

(224) 667-7300

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(781) 575-3910 (outside U.S. or Canada)
www.computershare.com

CORPORATE SECRETARY

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WEBSITE

www.abbott.com

ABBOTT ONLINE ANNUAL REPORT

www.abbott.com/annualreport

GLOBAL CITIZENSHIP REPORT

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SHAREHOLDER INFORMATION

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

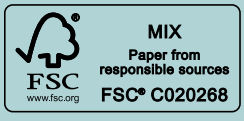
Individuals who would like to receive additional information, or have questions regarding Abbott's business activities, may call the Investor Newsline, write Abbott Investor Relations, or visit Abbott's Web site.

Some statements in this annual report may be forward-looking statements for purposes of the Private Securities Litigation Reform Act of 1995. Abbott cautions that these forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those indicated in the forward-looking statements. Economic, competitive, governmental, technological and other factors that may affect Abbott's operations are discussed in Item 1A, "Risk Factors," in our Securities and Exchange Commission 2016 Form 10-K and are incorporated by reference. We undertake no obligation to release publicly any revisions to forward-looking statements as the result of subsequent events or developments.

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

[2] Source: World Health Organization, Global Report on Diabetes, 2016

The Abbott 2016 Annual Report was printed with the use of renewable wind power resulting in nearly zero carbon emissions, keeping 16,425 pounds of CO_2 from the atmosphere. This amount of wind-generated electricity is equivalent to 14,251 miles not driven in an automobile or 1,187 trees planted. The Abbott Annual Report cover and text is printed on recycled paper that contains a minimum of 10% post-consumer fiber and the financial pages on 30% post-consumer fiber.



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