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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D. C. 20549**

# FORM 10-K

**(MARK ONE)**

/x/ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

/ / **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THESECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2000** **Commission file number 1-2189**

# Abbott Laboratories

**An Illinois Corporation** **36-0698440**
(I.R.S. employer identification number)

**100 Abbott Park Road**
**Abbott Park, Illinois 60064-6400**

**(847) 937-6100**
(telephone number)

**Securities Registered Pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Shares, Without Par Value (including Preferred Stock Purchase Rights) | New York Stock Exchange<br>Chicago Stock Exchange<br>Pacific Exchange |

**Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.**

**Yes X No**

**Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]**

**The aggregate market value of the 1,444,007,401 shares of voting stock held by nonaffiliates of the registrant, computed by using the closing price as reported on the consolidated transaction reporting system for Abbott Laboratories common shares without par value on January 31, 2001, was approximately $64,778,172,008. Abbott has no non-voting common equity.**

**Number of common shares outstanding as of January 31, 2001: 1,546,586,357**

**DOCUMENTS INCORPORATED BY REFERENCE**

**Portions of the 2001 Abbott Laboratories Proxy Statement are incorporated by reference into Part III. The Proxy Statement will be filed on or about March 13, 2001.**

## PART I

### ITEM 1. BUSINESS

**GENERAL DEVELOPMENT OF BUSINESS**

Abbott Laboratories is an Illinois corporation, incorporated in 1900. Abbott's* principal business is the discovery, development, manufacture, and sale of a broad and diversified line of health care products and services.

## FINANCIAL INFORMATION RELATING TO INDUSTRY SEGMENTS, GEOGRAPHIC AREAS, AND CLASSES OF SIMILAR PRODUCTS

Incorporated herein by reference is Note 13 entitled "Segment and Geographic Area Information" of the Notes to Consolidated Financial Statements included under Item 8, "Financial Statements and Supplementary Data."

## NARRATIVE DESCRIPTION OF BUSINESS

Abbott has five reporting revenue segments: Pharmaceutical Products, Diagnostic Products, Hospital Products, Ross Products, and International. Abbott also has a 50 percent owned joint venture, TAP Pharmaceutical Products Inc. On December 15, 2000, Abbott announced that it has a definitive agreement with BASF to acquire the pharmaceutical business of BASF, which includes the global pharmaceutical operations of Knoll. This acquisition is subject to approval by regulatory agencies and satisfaction of customary closing conditions.

**Pharmaceutical Products**

This segment's products include a broad line of adult and pediatric pharmaceuticals which are sold primarily on the prescription or recommendation of physicians.

The principal products included in this segment are the anti-infectives clarithromycin, sold in the United States under the trademark Biaxin®, Omnicef®, an oral cephalosporin antibiotic, and various forms of erythromycin, sold primarily as PCE® or polymer-coated erythromycin, Erythrocin®, and E.E.S.®; agents for the treatment of epilepsy, migraine, and bipolar disorder, including Depakote®; a broad line of other products, including Flomax® for the treatment of benign prostatic hyperplasia, Mobic® for the treatment of arthritis, Micardis® for the treatment of hypertension, TriCor® for the treatment of elevated triglycerides, and the anti-virals Kaletra™ and Norvir®, protease inhibitors for the treatment of HIV infection. In addition, this segment co-promotes the proton pump inhibitor Prevacid® (lansoprazole) for short-term treatment of duodenal ulcers, gastric ulcers and erosive esophagitis under an agreement with TAP Pharmaceuticals Inc.

This segment markets its products in the United States. These products are generally sold directly to wholesalers, government agencies, health care facilities, and independent retailers from Abbott-owned distribution centers and public warehouses. Primary marketing efforts for pharmaceutical products are directed toward securing the prescription of Abbott's brand of products by physicians. Managed care purchasers (for example, health maintenance organizations and pharmacy benefit managers) are increasingly important customers.

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* As used throughout the text of this report on Form 10-K, the term "Abbott" refers to Abbott Laboratories, an Illinois corporation, or Abbott Laboratories and its consolidated subsidiaries, as the context requires.



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Competition is generally from other broad line pharmaceutical companies. A significant aspect of competition is the search for technological innovations. The introduction of new products by competitors and changes in medical practices and procedures can result in product obsolescence. Price can also be a factor. In addition, the substitution of generic drugs for the brand prescribed has increased competitive pressures on pharmaceutical products which are off-patent.

**Diagnostic Products**

This segment's products include diagnostic systems and tests for blood banks, hospitals, reference laboratories, alternate-care testing sites, and consumers.

The principal products included in this segment are systems and reagents used to perform immunoassay tests including Architect®, AxSYM®, IMx®, Abbott Quantum™; Commander®, and Abbott PRISM®; screening and diagnostic tests for hepatitis B, HTLV-I/II, hepatitis B core, and hepatitis C; tests for detection of HIV antibodies and antigens, and other infectious disease detection systems; tests for determining levels of abused drugs; physiological diagnostic tests; cancer monitoring tests including tests for prostate specific antigen (PSA); therapeutic drug monitoring tests, fertility and pregnancy tests and systems such as TDx® and TDxFlx®; the Murex® line of microtiter-based immunoassay test kits; the LCx® amplified probe system and reagents; the Abbott TestPack® and Determine™ systems for rapid diagnostic testing; clinical chemistry systems such as Abbott Spectrum®, Aeroset®, Alcyon®, and Abbott Vision®; a full line of hematology systems and reagents known as the Cell-Dyn® series; the MediSense® product line of blood glucose monitoring meters, test strips, data management software and accessories for people with diabetes including Precision Xtra™, MediSense Optium®, Sof-Tact™, Soft-Sense™, Precision Q.I.D.®, MediSense II™, ExacTech® and ExacTech RSG®, Precision Link™ Direct, and Precision™ Sure-Dose insulin syringes. In addition, this segment distributes the i-STAT® point-of-care testing system through an exclusive worldwide sales and marketing alliance with i-STAT Corporation.

This segment markets its products worldwide. These products are generally marketed and sold directly to hospitals, laboratories, clinics, and physicians' offices from Abbott-owned distribution centers and public warehouses. Outside the United States, sales are made either directly to customers or through distributors, depending on the market served. Blood glucose monitoring meters and test strips for people with diabetes are also sold over the counter to consumers.

This segment's products are subject to competition in technological innovation, price, convenience of use, service, instrument warranty provisions, product performance, long-term supply contracts, and product potential for overall cost-effectiveness and productivity gains. Some products in this segment can be subject to rapid product obsolescence. Abbott has benefitted from technological advantages of certain of its current products; however, these advantages may be reduced or eliminated as competitors introduce new products. Certain of this segment's products are subject to restrictions on their sale in the United States. These restrictions are discussed in the section captioned "Regulation" on page 7.

**Hospital Products**

This segment's products include drugs and drug delivery systems, perioperative and intensive care products, cardiovascular products, renal products, oncology products, intravenous and irrigation solutions, related manual and electronic administration equipment, and diagnostic imaging products for hospitals and alternate-care sites.

The principal products included in this segment are hospital injectables including Carpuject® and FirstChoice® generics; premixed intravenous drugs in various containers; ADD-Vantage® and Nutrimix® drug and nutritional delivery systems; anesthetics, including Pentothal®, Amidate®, Ultane®, isoflurane, and enflurane; products for anxiety, nausea and pain associated with surgery; Precedex™ for sedation; cardiovascular products including Corlopam®; Techstar®, Prostar®, and The Closer™ vessel closure products; Opticath® and OptiQ™ advanced sensor catheters; Transpac® for hemodynamic monitoring;

peripheral wires, catheters, and other specialty cardiac products; Calcijex® and Zemplar™, injectable agents for treatment of bone disease in hemodialysis patients; intravenous solutions and related administration equipment sold as the LifeCare® line of products, LifeShield® needleless products, and Venoset® products; irrigating fluids; parenteral nutritionals such as Aminosyn® and Liposyn®; Plum®, Omni-Flow®, and Abbott AIM® electronic drug delivery systems; Abbott Pain Manager®; patient-controlled analgesia systems; venipuncture products; diagnostic imaging products used in MRI (magnetic resonance imaging) and CT (computed tomography) imaging; and Faultless® rubber sundry products.

This segment markets its products primarily in the United States. They are generally distributed to wholesalers and directly to hospitals from Abbott-owned distribution centers and public warehouses. This segment also develops and manufactures products for other companies.

This segment's products are subject to competition in technological innovation, price, convenience of use, instrument warranty provisions, service, product performance, long-term supply contracts, and product potential for overall cost effectiveness and productivity gains. Some products in this segment can be subject to rapid product obsolescence. Abbott has benefitted from technological advantages of certain of its current products; however, these advantages may be reduced or eliminated as competitors introduce new products.

**Ross Products**

This segment's products include a broad line of adult and pediatric nutritionals. These products are sold primarily on the recommendation of physicians or other health care professionals. The segment also includes specialty pharmaceuticals and self-care consumer products.

Principal nutritional products include various forms of prepared infant formula, including Similac®, Similac®II, Isomil®, Isomil®II, Alimentum®, and NeoSure®; and other adult and pediatric products, including Ensure®, Ensure Plus®, Ensure® High Protein, Ensure® Light, Jevity®, Glucerna®, PediaSure®, Pedialyte®, and Pulmocare®. Principal consumer products include the Fact Plus® and Fact Plus® One Step pregnancy tests, the dandruff shampoo Selsun Blue®; Murine® eye care and ear care products; and Tronolane® hemorrhoid medication. The principal pharmaceutical product is Survanta®. In addition, this segment co-promotes Synagis® under an agreement with MedImmune Incorporated.

This segment markets its products in the United States. Nutritional products are generally sold directly to retailers, wholesalers, health care facilities, and government agencies. In most cases, they are distributed from Abbott-owned distribution centers or public warehouses. Primary marketing efforts for nutritional products are directed toward securing the recommendation of Abbott's brand of products by physicians or other health care professionals. Competition is generally from other broad line and specialized health care manufacturers. Nutritional products are subject to competition in price, formulation, scientific innovation, and promotional initiatives.

This segment's pharmaceutical products are generally marketed and sold directly to physicians, retailers, wholesalers, health care facilities, and government agencies. In most cases, they are distributed from Abbott-owned distribution centers or public warehouses. Primary marketing efforts for this segment's pharmaceutical products are directed at securing the prescription of these products by physicians. Competition is generally from other broad line pharmaceutical companies. A significant aspect of competition is the search for technological innovations. The introduction of new products by competitors and changes in medical practices and procedures can result in product obsolescence. Price can also be a factor. In addition, the substitution of generic drugs for the brand prescribed has increased competitive pressures on pharmaceutical products which are off-patent.

Consumer products and PediaSure®, Pedialyte®, and Ensure® retail products are promoted directly to the public by consumer advertising. These products are generally sold directly to retailers and wholesalers. Competitive products are sold by other diversified consumer and health care companies. Competitive



factors include consumer advertising, formulation, scientific innovation, price, and availability of generic product forms.

Ensure® is the leading adult nutritional supplement and Similac® and Isomil® are leading infant formulas in the United States. (Source: A. C. Nielsen Co.)

**International**

This segment's products include a broad line of hospital, pharmaceutical, and adult and pediatric nutritional products marketed and primarily manufactured outside the United States. These products are sold primarily on the prescription or recommendation of physicians and other health care professionals. This segment also includes consumer products.

This segment's principal products include the anti-infectives clarithromycin, sold under the trademarks Biaxin®, Klacid® and Klaricid®, tosufloxacin, sold in Japan under the trademark Tosuxacin®, and various forms of the antibiotic erythromycin, sold primarily as PCE® or polymer-coated erythromycin, Erythrocin®, and E.E.S.®; the anti-viral Norvir®, a protease inhibitor for the treatment of HIV infection; Lupron®, also marketed as Lucrin®, and Lupron Depot® used for the palliative treatment of advanced prostate cancer, treatment of endometriosis and central precocious puberty and for the preoperative treatment of patients with anemia caused by uterine fibroids; Prevacid® (lansoprazole), a proton pump inhibitor for the short-term treatment of duodenal ulcers, gastric ulcers, and erosive esophagitis; various cardiovascular products, including Loftyl®, a vasoactive agent; Hytrin®, also marketed as Hitrin® and Flotrin®, used as an anti-hypertensive and for the treatment of benign prostatic hyperplasia, and candesartan, sold under the trademarks Blopress™ and Tiadyl™, an angiotension 2 antagonist; meloxicam, a preferential COX-2 inhibitor; various forms of infant formulas and follow-on formulas, including Similac Advance®, Gain®, and Abbott Grow™; various adult medical nutritionals, including Ensure®, Glucerna®, and Jevity®; and a broad line of hospital products, including the anesthesia products sevoflurane (sold outside of the United States primarily under the trademark Sevorane® and in a few other markets as Ultane®), isoflurane, and enflurane; specialty injectables such as Calcijex® and Survanta®; and electronic drug delivery systems sold in select international markets.

This segment's pharmaceutical and nutritional products are generally sold directly to government agencies, retailers, wholesalers, and health care facilities. In most cases, they are distributed from Abbott-owned distribution centers. Certain products are co-marketed with other companies. Some of these products are marketed and distributed through distributors. Primary marketing efforts for pharmaceutical products are directed toward securing the prescription of Abbott's brand of products by physicians. Competition is generally from other broad line and specialized pharmaceutical companies. A significant aspect of competition is the search for technological innovations. The introduction of new products by competitors and changes in medical practices and procedures can result in product obsolescence. Price can also be a factor. In addition, the substitution of generic drugs for the brand prescribed has increased competitive pressures on pharmaceutical products. Primary marketing efforts for nutritional products are directed toward securing the recommendation of Abbott's brand of products by physicians or other health care professionals. Competition is generally from other broad line and specialized health care manufacturers and food companies. Nutritional products are subject to competition in price, scientific innovation, formulation, and promotional initiatives.

This segment's hospital products are generally distributed to wholesalers and directly to hospitals from distribution centers maintained by Abbott. This segment is subject to competition in technological innovation, price, convenience of use, instrument warranty provisions, service, product performance, long-term supply contracts, and product potential for overall cost effectiveness and productivity gains. Products in this segment can be subject to rapid product obsolescence. Abbott has benefitted from technological advantages of certain of its current products; however, these advantages may be reduced or eliminated as competitors introduce new products.



**TAP Pharmaceutical Products Inc.**

Under an agreement between Abbott and Takeda Chemical Industries, Ltd. of Japan (Takeda), TAP Pharmaceutical Products Inc. (owned 50 percent by Abbott and 50 percent by an affiliate of Takeda), together with its subsidiary, TAP Pharmaceuticals Inc. (TAP), develops and markets pharmaceutical products for the United States and Canada. TAP markets Lupron®, an LH-RH analog, and Lupron Depot®, a sustained release form of Lupron®, in the United States. Lupron® and Lupron Depot® are used principally for the palliative treatment of advanced prostate cancer and for the treatment of endometriosis and central precocious puberty and for the preoperative treatment of patients with anemia caused by uterine fibroids. TAP also markets Prevacid® (lansoprazole), a proton pump inhibitor, and has a co-promotion arrangement with Abbott for Prevacid®. Its principal indications are for short-term treatment of duodenal ulcers, gastric ulcers, and erosive esophagitis.

TAP's products are generally sold directly to physicians, retailers, wholesalers, health care facilities, and government agencies. In most cases, they are distributed from Abbott-owned distribution centers. Primary marketing efforts for pharmaceutical products are directed toward securing the prescription of TAP's brand of products by physicians. Managed care purchasers (for example, health maintenance organizations and pharmacy benefit managers) are increasingly important customers. Competition is generally from other pharmaceutical companies. A significant aspect of competition is the search for technological innovations. The introduction of new products by competitors and changes in medical practices and procedures can result in product obsolescence. Price can also be a factor. In addition, the substitution of generic drugs for the brand prescribed has increased competitive pressures on pharmaceutical products that are off-patent.

## INFORMATION WITH RESPECT TO ABBOTT'S BUSINESS IN GENERAL

**Sources and Availability of Raw Materials**

Abbott purchases, in the ordinary course of business, necessary raw materials and supplies essential to Abbott's operations from numerous suppliers in the United States and overseas. There have been no recent significant availability problems or supply shortages.

**Patents, Trademarks, and Licenses**

Abbott is aware of the desirability for patent and trademark protection for its products. Accordingly, where possible, patents and trademarks are sought and obtained for Abbott's products in the United States and all countries of major marketing interest to Abbott. Abbott owns and is licensed under a substantial number of patents and patent applications. Principal trademarks and the products they cover are discussed in the Narrative Description of Business on pages 1 through 5. These, and various patents which expire during the period 2001 to 2021, in the aggregate, are believed to be of material importance in the operation of Abbott's business. Abbott believes that no single patent, license, trademark (or related group of patents, licenses, or trademarks), except for those related to clarithromycin (which is sold under the trademarks Biaxin®, Klacid® and Klaricid®), are material in relation to Abbott's business as a whole. The original United States compound patent covering clarithromycin is licensed from Taisho Pharmaceutical Co., Ltd. of Tokyo, Japan, and will expire in 2005. In addition, the patents, licenses, and trademarks related to divalproex sodium (which is sold under the trademark Depakote®) are significant for Abbott's Pharmaceutical Products segment. The original United States compound patents covering divalproex sodium will expire in 2008. Litigation involving Abbott's patents covering divalproex sodium is discussed in Legal Proceedings on pages 10 and 11.

**Seasonal Aspects, Customers, Backlog, and Renegotiation**

There are no significant seasonal aspects to Abbott's business. The incidence of certain infectious diseases which occur at various times in different areas of the world does, however, affect the demand for



Abbott's anti-infective products. Orders for Abbott's products are generally filled on a current basis, and order backlog is not material to Abbott's business. No single customer accounted for sales equaling 10 percent or more of Abbott's consolidated net sales. No material portion of Abbott's business is subject to renegotiation of profits or termination of contracts at the election of the government.

**Research and Development**

Abbott spent $1,351,024,000 in 2000, $1,193,963,000 in 1999, and $1,228,777,000 in 1998 on research to discover and develop new products and processes and to improve existing products and processes. Abbott continues to concentrate research expenditures on pharmaceutical and diagnostic products.

**Environmental Matters**

Abbott believes that its operations comply in all material respects with applicable laws and regulations concerning environmental protection. Regulations under federal and state environmental laws impose stringent limitations on emissions and discharges to the environment from various manufacturing operations. Abbott's capital and operating expenditures for pollution control in 2000 were approximately $23 million and $59 million, respectively. Capital and operating expenditures for pollution control are estimated to approximate $27 million and $62 million, respectively, in 2001.

Abbott has been identified as one of many potentially responsible parties in investigations and/or remediations at 24 locations in the United States including Puerto Rico under the Comprehensive Environmental Response, Compensation, and Liability Act, commonly known as Superfund. The aggregate costs of remediation at these sites by all identified parties are uncertain but have been subject to widely ranging estimates totaling as much as several hundred million dollars. In many cases, Abbott believes that the actual costs will be lower than these estimates, and the fraction for which Abbott may be responsible is anticipated to be considerably less and will be paid out over a number of years. Abbott may participate in the investigation or cleanup at these sites. Abbott is also voluntarily investigating potential contamination at six Abbott-owned sites, and is engaged in remediation at three sites, in cooperation with the Environmental Protection Agency (EPA) or similar state agencies.

While it is not feasible to predict with certainty the costs related to the previously described investigations and cleanup activities, Abbott believes that such costs, together with other expenditures to maintain compliance with applicable laws and regulations concerning environmental protection, should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations.

**Employees**

Abbott employed 60,571 persons as of December 31, 2000.

**Regulation**

In late 1998, the United States Food and Drug Administration (FDA) suspended its approval of the release of production lots of Abbott's pharmaceutical product Abbokinase® due to current Good Manufacturing Practice concerns raised by the FDA following inspections of Abbott and its raw material supplier. In January 1999, after Abbott revised the product's labeling to add additional warnings and the FDA issued a health care provider information sheet, the FDA released certain lots that were under its review. No lots have been released since January 1999. Abbott submitted a letter to the FDA on October 7, 1999, responding to the FDA's concerns and committing to meet all outlined criteria for the release of Abbokinase. On December 10, 1999, Abbott met with the FDA to review Abbott's plan for the qualification of new raw materials and reinitiation of manufacturing. The FDA concurred with Abbott's strategy. In the future, Abbott will sell only Abbokinase that is manufactured with new raw materials that meet current criteria. Abbott cannot predict, however, whether it will be successful in qualifying new raw material sources or the effect of this matter on future sales of Abbokinase.



On November 4, 1999, a consent decree was entered in the United States District Court for the Northern District of Illinois which settled issues with the United States government involving alleged noncompliance with the FDA's Quality System Regulations at Abbott's diagnostic manufacturing operations in Lake County, Illinois. The decree required Abbott to make a payment of $100 million to the United States government and to ensure its diagnostic manufacturing processes in Lake County, Illinois conform with the FDA's current Quality System Regulation. The consent decree does not represent an admission by Abbott of any violation of the Federal Food, Drug and Cosmetic Act or its regulations. The decree allows for the continued manufacture and distribution of medically necessary diagnostic products made in Lake County, Illinois, such as certain assays for hepatitis, retrovirus, cardiovascular disease, cancer, thyroid disorders, fertility, drug monitoring, and congenital and respiratory conditions. However, Abbott is prohibited from manufacturing or distributing certain other diagnostic products until Abbott ensures the processes in its Lake County, Illinois diagnostics manufacturing operations conform with the current Quality System Regulation. Under the terms of the consent decree, among other actions, Abbott has submitted to the FDA proposed master compliance and validation plans to ensure its processes conform with the current Quality System Regulation. Originally, the decree required Abbott to ensure its facilities are in conformance with the current Quality System Regulation by November 3, 2000. However, on December 19, 2000, upon a joint motion by Abbott and the U.S. government, the Court entered an Amended Consent Decree, which extended to January 15, 2001, the deadline for ensuring conformance with the Quality System Regulation. The consent decree does not affect Abbott's MediSense, i-STAT, hematology or Murex products; the clinical chemistry products Abbott Spectrum®, Aeroset®, and Alcyon®; or any other Abbott divisions or their products. The consent decree allows Abbott to export diagnostic products and components for sale and distribution outside the United States if they meet the export requirements of the Federal Food, Drug and Cosmetic Act.

The development, manufacture, sale, and distribution of Abbott's products are subject to comprehensive government regulation. Government regulation by various federal, state, and local agencies, which includes detailed inspection of, and controls over, research and laboratory procedures, clinical investigations, and manufacturing, marketing, sampling, distribution, record keeping, storage, and disposal practices, substantially increases the time, difficulty, and costs incurred in obtaining and maintaining the approval to market newly developed and existing products. Government regulatory actions can result in delay in the release of products, seizure or recall of products, suspension or revocation of the authority necessary for their production and sale, and other civil or criminal sanctions.

Continuing studies of the utilization, safety, and efficacy of health care products and their components are being conducted by industry, government agencies, and others. Such studies, which employ increasingly sophisticated methods and techniques, can call into question the utilization, safety, and efficacy of previously marketed products and in some cases have resulted, and may in the future result, in the discontinuance of marketing of such products and may give rise to claims for damages from persons who believe they have been injured as a result of their use.

The cost of human health care products continues to be a subject of investigation and action by governmental agencies, legislative bodies, and private organizations in the United States and other countries. In the United States, most states have enacted generic substitution legislation requiring or permitting a dispensing pharmacist to substitute a different manufacturer's version of a pharmaceutical product for the one prescribed. Federal and state governments continue to press efforts to reduce costs of Medicare and Medicaid programs, including restrictions on amounts agencies will reimburse for the use of products. In addition, the federal government follows a diagnosis-related group (DRG) payment system for certain institutional services provided under Medicare or Medicaid and is implementing a prospective payment system (PPS) for services delivered in hospital outpatient, nursing home, and home health settings. DRG and PPS entitle a health care facility to a fixed reimbursement based on diagnosis rather than actual costs incurred in patient treatment, thereby increasing the incentive for the facility to limit or control expenditures for many health care products. Manufacturers must pay certain statutorily-prescribed



rebates on Medicaid purchases for reimbursement on prescription drugs under state Medicaid plans. The Veterans Health Care Act of 1992 requires manufacturers to extend additional discounts on pharmaceutical products to various federal agencies, including the Department of Veterans Affairs, Department of Defense, and Public Health Service entities and institutions.

In the United States, governmental cost-containment efforts have extended to the federally funded Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). All states participate in WIC and have sought and obtained rebates from manufacturers of infant formula whose products are used in the program. Over the last five years, all of the states have conducted competitive bidding for infant formula contracts which require the use of specific infant formula products by the state WIC program. States participating in WIC are required to engage in competitive bidding or to use any other cost containment measure that yields savings equal to or greater than the savings generated by a competitive bidding system.

Governmental regulatory agencies require prescription drug manufacturers to pay fees. The FDA imposes substantial fees on various aspects of the approval, manufacture, and sale of proprietary prescription drugs.

Abbott expects debate to continue during 2001 at both the federal and the state level over the availability, method of delivery, and payment for health care products and services. Abbott believes that if legislation is enacted, it could have the effect of reducing prices, or reducing the rate of price increases, for medical products and services.

International operations are also subject to a significant degree of government regulation. Many countries, directly or indirectly through reimbursement limitations, control the selling price of most health care products. Furthermore, many developing countries limit the importation of raw materials and finished products. International regulations also are having an impact on United States regulations. The International Organization for Standardization (ISO) provides the criteria for meeting the regulations for medical devices within the European Union. Abbott has made significant strides in gaining ISO 9000 and European Norm 46000 certification for facilities that manufacture devices for European markets. FDA regulations governing the manufacture of medical devices appear to encompass and exceed the ISO's

approach to regulating medical devices. The FDA's adoption of the ISO's approach to regulation and other changes to the manner in which the FDA regulates medical devices will increase the cost of compliance with those regulations.

Efforts to reduce health care costs are also being made in the private sector. Health care providers have responded by instituting various cost reduction and containment measures.

It is not possible to predict the extent to which Abbott or the health care industry in general might be affected by the matters discussed above.

## INTERNATIONAL OPERATIONS

Abbott markets products in approximately 130 countries through affiliates and distributors. Most of the products discussed in the preceding sections of this report are also sold outside the United States. In addition, certain products of a local nature and variations of product lines to meet local regulatory requirements and marketing preferences are manufactured and marketed to customers outside the United States. International operations are subject to certain additional risks inherent in conducting business outside the United States, including price and currency exchange controls, changes in currency exchange rates, limitations on foreign participation in local enterprises, expropriation, nationalization, and other governmental action.



## ITEM 2. PROPERTIES

Abbott's corporate offices are located at 100 Abbott Park Road, Abbott Park, Illinois 60064-6400. The locations of Abbott's principal plants are listed below.

| Location | Reportable Revenue Segments of Products Produced |
|---|---|
| Abbott Park, Illinois | Pharmaceutical Products, Diagnostic Products, and Hospital Products |
| Abingdon, England | Diagnostic Products |
| Altavista, Virginia | Ross Products |
| Ashland, Ohio | Hospital Products |
| Austin, Texas | Hospital Products |
| Barceloneta, Puerto Rico | Pharmaceutical Products and Diagnostic Products |
| Bedford, Massachusetts | Diagnostic Products |
| Brockville, Canada | International |
| Campoverde, Italy | International |
| Casa Grande, Arizona | Ross Products |
| Columbus, Ohio | Ross Products |
| Dartford, England | Diagnostic Products |
| Delkenheim, Germany | Diagnostic Products |
| Haina, San Cristoba, Dominican Republic | Hospital Products |
| Irving, Texas | Diagnostic Products |
| Laurinburg, North Carolina | Hospital Products |
| McPherson, Kansas | Hospital Products |
| Mexico City, Mexico | International |
| Montreal, Canada | International |
| Morgan Hill, California | Hospital Products |
| North Chicago, Illinois | Pharmaceutical Products and Hospital Products |
| Queenborough, England | International |
| Rocky Mount, North Carolina | Hospital Products |
| Salt Lake City, Utah | Hospital Products |
| San Jose, Costa Rica | Hospital Products |
| Santa Clara, California | Diagnostic Products |
| Sligo/Donegal/Cootehill/Finisklin, Ireland | Diagnostic Products and International |
| Sturgis, Michigan | Ross Products |
| St. Remy, France | International |
| Tokyo, Japan | Diagnostic Products |
| Zwolle, The Netherlands | International |



In addition to the above, Abbott has manufacturing facilities in six other locations in the United States, including Puerto Rico. Outside the United States manufacturing facilities are located in 15 other countries. Abbott's facilities are deemed suitable, provide adequate productive capacity, and are utilized at normal and acceptable levels.

In the United States, including Puerto Rico, Abbott owns 11 distribution centers. Abbott also has 13 United States research and development facilities located at: Abbott Park, Illinois; Ashland, Ohio; Bedford, Massachusetts; Columbus, Ohio (two locations); Irving, Texas; Long Grove, Illinois; McPherson, Kansas; Morgan Hill, California; North Chicago, Illinois; Redwood City, California; Santa Clara, California; and San Diego, California. Outside the United States, Abbott has research and development facilities in Argentina, Australia, Canada, France, Germany, Ireland, Japan, The Netherlands, South Africa, Spain, and the United Kingdom.

The corporate offices, and those principal plants in the United States that are listed above, are owned by Abbott or subsidiaries of Abbott. The remaining manufacturing plants and all other facilities are owned or leased by Abbott or subsidiaries of Abbott. There are no material encumbrances on the properties.

## ITEM 3. LEGAL PROCEEDINGS

Abbott is involved in various claims and legal proceedings, including (as of January 31, 2001), 125 antitrust lawsuits and 2 investigations in connection with Abbott's pricing of prescription pharmaceuticals, 3 cases involving Abbott's patents for divalproex sodium, a drug that Abbott sells under the trademark Depakote®, 21 antitrust lawsuits and 2 investigations involving Abbott's patents for terazosin hydrochloride, a drug that Abbott sells under the trademark Hytrin®, 5 cases involving Abbott's alleged noncompliance with the United States Food and Drug Administration's Quality System Regulation at Abbott's Diagnostic Products division facilities in Lake County, Illinois, and 6 investigations regarding the marketing and pricing practices of Abbott with respect to certain Medicare and Medicaid reimbursable products.

As of January 31, 2001, 110 prescription pharmaceutical pricing antitrust cases were pending in federal court and 15 were pending in state courts. The prescription pharmaceutical pricing antitrust suits allege that various pharmaceutical manufacturers and pharmaceutical wholesalers have conspired to fix prices for prescription pharmaceuticals and/or to discriminate in pricing to retail pharmacies by providing discounts to mail-order pharmacies, institutional pharmacies, and HMOs in violation of state and federal antitrust laws. The suits have been brought on behalf of individual consumers and retail pharmacies and name both Abbott and certain other pharmaceutical manufacturers and pharmaceutical wholesalers and at least one mail-order pharmacy company as defendants. The cases seek treble damages, civil penalties, and injunctive and other relief. Abbott has filed or intends to file a response to each of the complaints denying all substantive allegations. The federal cases are pending in the United States District Court for the Northern District of Illinois under the Multidistrict Litigation Rules as *In re: Brand Name Prescription Drug Antitrust Litigation, MDL 997.* The state cases are pending in the following state courts: Clarke County, Alabama; Monterey County, California; San Francisco County, California (5 cases); San Joaquin County, California; Santa Clara County, California; Prentiss County, Mississippi; Burleigh County, North Dakota; San Miguel County, New Mexico; Hughes County, South Dakota; Cocke County, Tennessee; and Marshall County, West Virginia. Abbott has settled the consumer lawsuit pending in Prentiss County, Mississippi and is awaiting a formal dismissal order. The investigations are being conducted by the Attorney General of Illinois and the Federal Trade Commission.

As of January 31, 2001, three cases were pending involving Abbott's patents for divalproex sodium, a drug that Abbott sells under the trademark Depakote®. On October 24, 1997, after having been notified that TorPharm, a division of Apotex, Inc. ("TorPharm") had applied to the Federal Food and Drug Administration (the "FDA") for approval for a generic version of divalproex sodium, Abbott sued TorPharm in the United States District Court for the Northern District of Illinois alleging patent



infringement. TorPharm contends that its product does not infringe Abbott's patents and that, in any event, the patents are invalid and unenforceable. A trial had been scheduled for October 17, 2000, but has been postponed. A new trial date has been scheduled for October 16, 2001. On August 28, 1992, after having been notified that Alra Laboratories, Inc. ("Alra") had applied to the FDA for approval for a generic version of divalproex sodium, Abbott sued Alra in the United States District Court for the Northern District of Illinois alleging patent infringement. On October 20, 1997, the court granted Abbott's motion for summary judgment and found that Alra's product infringes Abbott's patents. Alra filed a motion for reconsideration of the court's ruling. That motion was granted in part and denied in part. On November 23, 1999, the court re-affirmed its prior rulings granting Abbott summary judgment. Alra has appealed. On March 9, 2000, after having been notified that Andrx Corporation had filed an abbreviated new drug patent application to market a generic version of divalproex sodium, Abbott filed a patent infringement lawsuit against Andrx Corporation, Andrx Pharmaceutical, and Andrx Pharmaceutical, L.L.C. in the United States District Court for the Northern District of Illinois alleging patent infringement. On April 14, 2000, Abbott filed patent infringment lawsuits aginst these three Andrx companies in the United States District Court for the Southern District of Florida. The case in United States District Court for the Northern District of Illinois was then transferred to United States District Court for the Southern District of Florida and consolidated with the case pending in that court. A trial is scheduled for November 2001.

As of January 31, 2001, 18 antitrust cases were pending in federal court and 3 were pending in state court in connection with the settlement of litigation by Abbott involving terazosin hydrochloride, a drug sold by Abbott under the trademark Hytrin®. Generally, each seeks actual damages, treble damages, and other relief. Each case alleges Abbott violated state or federal antitrust laws, and in some cases, unfair competition laws when it settled 2 cases involving Abbott's patents for terazosin hydrochloride. On March 31, 1998, Abbott and Zenith Laboratories, Inc. ("Zenith") reached an agreement that resolved the patent litigation and the litigation of other claims between the parties. In the settlement, Zenith acknowledged the validity of Abbott's terazosin hydrochloride patents and agreed to refrain from selling a generic version of terazosin hydrochloride until the expiration of one of Abbott's patents for terazosin hydrochloride (U.S. Patent No. 4,251,532). On April 1, 1998, Abbott and Geneva Pharmaceuticals, Inc. ("Geneva") reached an agreement under which Geneva would not market its Food and Drug Administration approved generic terazosin hydrochloride products until resolution of the pending patent litigation between the parties. Abbott agreed to make quarterly payments to Zenith and monthly payments to Geneva until the date on which they could enter the market for terazosin hydrochloride under their agreements. Under the agreements, both Zenith and Geneva would have been free to enter the market for terazosin hydrochloride in the United States if certain of Abbott's patents for terazosin hydrochloride were determined to be invalid and if another company legally entered the generic market in the United States. On August 12, 1999, Abbott and Geneva terminated their April 1, 1998 agreement, and Geneva returned to Abbott a portion of the payments held in escrow under the agreement. On August 13, 1999, Geneva entered the market with its product. The 18 federal court cases are pending in the United States District Court for the Southern District of Florida under the Multidistrict Litigation Rules as *In Re: Terazosin Hydrochloride, MDL No. 1317.* The 3 state court cases: *Asher and New Utrecht Pharmacy v. Abbott Laboratories, Geneva Pharmaceuticals and Zenith Goldline Pharmaceuticals, Inc.*; *Drug Mart Pharmacy Company Corp. v. Abbott Laboratories, Zenith Goldline Pharmaceuticals, Inc. and Geneva Pharmaceuticals, Inc.*; and *Lisanti v. Abbott Laboratories, Zenith Goldline Pharmaceuticals, Inc. and Geneva Pharmaceuticals, Inc.* have been consolidated by and are pending in the Supreme Court of the State of New York, County of New York. Abbott has filed or intends to file a response to each complaint denying all substantive allegations. The State of Florida, Office of the Attorney General, and the State of New York, Office of the Attorney General, are conducting the investigations.

As of January 31, 2001, 5 shareholder derivative suits were pending relating to Abbott's alleged noncompliance with the Food and Drug Administration's Quality System Regulation at Abbott's Diagnostic Products division facilities in Lake County, Illinois. (This matter is discussed in greater detail in



"Regulation" on page 7 and is incorporated herein by this reference.) These lawsuits name as defendants the members of Abbott's Board of Directors as of November 1999, certain other former directors and, nominally, Abbott, and claim that the directors breached their fiduciary duties by, among other things, (a) allowing the alleged regulatory noncompliance, (b) failing to publicly disclose the alleged regulatory noncompliance in supposed violation of federal securities law, (c) misusing or permitting the misuse of corporate information for the personal profit of corporate insiders in supposed violation of federal and state law, and (d) causing Abbott to pay $100 million to the federal government and withdraw certain medical diagnostics kits from the U.S. market. In each case, the plaintiffs request unspecified monetary damages to be paid to Abbott, that the directors indemnify Abbott for all fines, penalties or damages paid by Abbott in connection with the alleged regulatory noncompliance, reimbursement of their legal fees and costs, and various forms of other relief. The United States District Court for the Northern District of Illinois consolidated into *"In Re: Abbott Laboratories Derivative Shareholder Litigation"* the four derivative lawsuits filed by Leonard Bronstein, the Carpenters Pension Fund of Arkansas and David Kaufman, Leo Farrell, and F. David Seinfeld. On November 9, 2000, these plaintiffs filed a second consolidated and amended verified complaint (the court having dismissed without prejudice their original consolidated complaint), generally alleging that the directors' breached their duty of diligence by failing to (i) prevent Abbott's alleged regulatory non-compliance or (ii) create a monitoring system to prevent and correct regulatory non-compliance. The second consolidated complaint seeks unspecified restitution and/or damages, including punitive and exemplary damages, injunctive relief, and reimbursement of their legal fees and costs. Abbott denies all of the substantive allegations in this lawsuit and will vigorously defend against it. Abbott has moved to dismiss the second consolidated complaint. The fifth shareholder derivative lawsuit was filed by Craig Heneghan and Marjory Motiaytis in the Circuit Court for the Nineteenth Judicial Circuit, Lake County, Illinois.

On April 6, 2000, the Lake County Circuit Court granted Abbott's motion to stay the Heneghan/Motiaytis lawsuit until the shareholder derivative suits pending in federal court are decided.

Abbott has previously reported that fourteen other cases were pending that were related to Abbott's alleged noncompliance with the Food and Drug Administration's Quality System Regulation at Abbott's Diagnostic Products division facilities in Lake County, Illinois. Thirteen of these cases were consolidated by and pending in the United States District Court for the Northern District of Illinois as *"In re Abbott Laboratories Securities Litigation."* On January 26, 2001, the court dismissed with prejudice the consolidated complaint and each of the lawsuits. The fourteenth case was filed by Lena Gallagher in the United States District Court for the Eastern District of Illinois and purported to be a class action. On January 26, 2001, the court dismissed with prejudice this complaint. The plaintiffs may appeal these decisions.

Various state and federal agencies, including the United States Department of Justice and the California, Florida, Illinois, Nevada and Texas Attorneys General, are investigating the marketing and pricing practices of Abbott with respect to certain Medicare and Medicaid reimbursable products. These civil investigations seek to determine whether these practices violated any laws, including the Federal False Claims Act or constituted fraud in connection with the Medicare and/or Medicaid reimbursement paid to third parties.

While it is not feasible to predict the outcome of such pending claims, proceedings, and investigations with certainty, management is of the opinion that their ultimate dispositions should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations.

In addition to the claims and legal proceedings involving Abbott described above, the United States Department of Justice is investigating the marketing and pricing practices of TAP Pharmaceutical Products Inc. for leuprolide acetate depot suspension (a drug TAP markets as Lupron Depot®). This investigation seeks to determine whether these practices resulted in any violations of civil and/or criminal laws, including the Federal False Claims Act, the Anti-Kickback Act, and the Prescription Drug Marketing Act, or fraud in connection with the Medicare and/or Medicaid reimbursement paid to third parties. The



Texas Attorney General is also investigating some of these practices. Abbott owns 50 percent of TAP. While it is not feasible to predict the outcome of these proceedings with certainty, management is of the opinion that their ultimate disposition should not have a material adverse effect on Abbott's financial position or ongoing cash flow and results of operations but that they could have a material adverse effect on Abbott's cash flow and results of operations for a particular period.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.



**EXECUTIVE OFFICERS OF THE REGISTRANT**

Executive officers of Abbott are elected annually by the board of directors. All other officers may be elected by the board or appointed by the chairman of the board. All officers are either elected at the first meeting of the board of directors held after the annual shareholder meeting or appointed by the chairman after that board meeting. Each officer holds office until a successor has been duly elected or appointed and qualified or until the officer's death, resignation, or removal. Vacancies may be filled at any meeting of the board. Any officer may be removed by the board of directors when, in its judgment, removal would serve the best interests of Abbott. Any officer appointed by the chairman of the board may be removed by the chairman whenever, in the chairman's judgment, removal would serve the best interests of Abbott. A vacancy in any office appointed by the chairman of the board may be filled by the chairman.

Current corporate officers, and their ages as of March 1, 2001, are listed below. The officers' principal occupations and employment from January 1996 to March 1, 2001 and the dates of their first election as officers of Abbott are also shown. Unless otherwise stated, employment was by Abbott for the period indicated. There are no family relationships between any corporate officers or directors.

**Miles D. White**, 45**

1999 to present — Chairman of the Board and Chief Executive Officer, and Director.

1998 to 1999 — Executive Vice President and Director.

1996 to 1998 — Senior Vice President, Diagnostic Operations.

Elected Corporate Officer — 1993.

**Jeffrey M. Leiden**, 45**

2000 to present — Executive Vice President, Pharmaceuticals and Chief Scientific Officer, and Director.

2000 — Senior Vice President, Chief Scientific Officer and Director.

1999 to 2000 — Elkan R. Blount Professor of Biological Sciences, Harvard School of Public Health and Professor of Medicine, Harvard Medical School.

1996 to 1999 — Frederick H. Rawson Professor of Medicine and Pathology and Chief of the Section of Cardiology, University of Chicago.

Elected Corporate Officer — 2000.

**Richard A. Gonzalez**, 47**

2000 to present — Executive Vice President, Medical Products.

1998 to 2000 — Senior Vice President, Hospital Products.

1996 to 1998 — Vice President, Abbott HealthSystems.

Elected Corporate Officer — 1995.

**Joy A. Amundson**, 46**

1998 to present — Senior Vice President, Ross Products.

1996 to 1998 — Senior Vice President, Chemical and Agricultural Products.

Elected Corporate Officer — 1990.



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**Christopher B. Begley**, 48**

2000 to present — Senior Vice President, Hospital Products.

1999 to 2000 — Senior Vice President, Chemical and Agricultural Products.

1998 to 1999 — Vice President, Abbott HealthSystems.

1996 to 1998 — Vice President, MediSense Operations.

1996 — Vice President, Hospital Products Business Sector.

Elected Corporate Officer — 1993.

**Thomas D. Brown**, 52**

1998 to present — Senior Vice President, Diagnostic Operations.

1996 to 1998 — Vice President, Diagnostic Commercial Operations.

Elected Corporate Officer — 1993.

**Gary P. Coughlan**, 57**

1996 to present — Senior Vice President, Finance and Chief Financial Officer. (Mr. Coughlan has announced that he plans to retire on March 31, 2001).

Elected Corporate Officer — 1990.

**Jose M. de Lasa**, 59**

1996 to present — Senior Vice President, Secretary and General Counsel.

Elected Corporate Officer — 1994.

**William G. Dempsey**, 49**

1999 to present — Senior Vice President, International Operations.

1998 to 1999 — Senior Vice President, Chemical and Agricultural Products.

1996 to 1998 — Vice President, Hospital Products Business Sector.

1996 — Divisional Vice President, Hospital Products Business Sector Sales.

Elected Corporate Officer — 1996.

**Arthur J. Higgins**, 44**

1998 to present — Senior Vice President, Pharmaceutical Operations.

1996 to 1998 — Vice President, Pacific, Asia, and Africa Operations.

1996 — Divisional Vice President, Pacific, Asia, and Africa Operations.

Elected Corporate Officer — 1996.



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**Thomas M. Wascoe**, 54**

1999 to present — Senior Vice President, Human Resources.

1996 to 1999 — Divisional Vice President, Human Resources, Diagnostic Products.

Elected Corporate Officer — 1999.

**Lance B. Wyatt**, 56**

2000 to present — Senior Vice President, Specialty Products.

1996 to 2000 — Vice President, Corporate Engineering.

Elected Corporate Officer — 1995.

**Catherine V. Babington, 48**

1996 to present — Vice President, Investor Relations and Public Affairs.

Elected Corporate Officer — 1995.

**Patrick J. Balthrop, 44**

2001 to present — Vice President, Vascular Devices.

1998 to 2001 — Vice President, Diagnostic Commercial Operations.

1996 to 1998 — Vice President, Diagnostic Operations, U.S. and Canada.

1996 — Divisional Vice President and General Manager, U.S. and Canada, Diagnostic Products.

Elected Corporate Officer — 1996.

**Mark E. Barmak, 59**

2000 to present — Vice President, Government Affairs.

1996 to 2000 — Vice President, Litigation and Government Affairs.

Elected Corporate Officer — 1995.

**Michael G. Beatrice, 53**

1999 to present — Vice President, Corporate Regulatory and Quality Science.

1996 to 1999 — Executive Vice President and General Manager, Quintiles Strategic Product Development Consulting Services (global regulatory and quality systems consultation service organization).

1996 — Deputy Director, Center for Biologics Evaluation and Research, United States Food and Drug Administration.

Elected Corporate Officer — 1999.



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**Christopher A. Bleck, 43**

1999 to present — Vice President, Pediatrics, Ross Products.

1997 to 1999 — Divisional Vice President and President and General Manager, Canada, Abbott International Division.

1996 to 1997 — Divisional Vice President, Business Development, Abbott International Division.

Elected Corporate Officer — 1999.

**Douglas C. Bryant, 43**

1998 to present — Vice President, Diagnostic Operations, Asia and Pacific.

1997 to 1998 — Commercial Director, Asia and Pacific, Diagnostic Products.

1996 to 1997 — General Manager, United Kingdom and Ireland, Diagnostic Products.

Elected Corporate Officer — 1998.

**Gary R. Byers, 59**

1996 to present — Vice President, Internal Audit.

Elected Corporate Officer — 1993.

**Thomas F. Chen, 51**

1998 to present — Vice President, Pacific, Asia, and Africa Operations.

1996 to 1998 — Regional Director, Taiwan and People's Republic of China.

1996 — General Manager, Taiwan and People's Republic of China Task Force.

Elected Corporate Officer — 1998.

**Edward J. Fiorentino, 42**

1998 to present — Vice President, Pharmaceutical Products, Marketing and Sales.

1996 to 1998 — Divisional Vice President, Marketing, Pharmaceutical Products.

Elected Corporate Officer — 1998.

**Gary L. Flynn**, 51**

1999 to present — Vice President and Controller.

1996 to 1999 — Divisional Vice President and Controller, Ross Products.

Elected Corporate Officer — 1999.

**Thomas C. Freyman**, 46**

1999 to present — Vice President, Hospital Products Controller. (Mr. Freyman has been elected Senior Vice President, and Chief Financial Officer, effective April 1, 2001).

1996 to 1999 — Vice President and Treasurer.

Elected Corporate Officer — 1991.



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**Stephen R. Fussell, 43**

1999 to present — Vice President, Compensation and Development.

1996 to 1999 — Divisional Vice President, Compensation and Benefits.

1996 — Vice President, Total Compensation, Nestlé USA (diversified food company).

Elected Corporate Officer — 1999.

**David B. Goffredo, 46**

1998 to present — Vice President, European Operations.

1996 to 1998 — Vice President, Pharmaceutical Products, Marketing and Sales.

Elected Corporate Officer — 1995.

**Robert B. Hance, 41**

1999 to present — Vice President, Diagnostic Operations, Europe, Africa and Middle East.

1997 to 1999 — Divisional Vice President, European Region, Diagnostic Products.

1996 to 1997 — Area Business Development Director, Europe, Middle East and Africa, Diagnostic Products.

1996 — Director, Marketing, IPLS and Clinical Chemistry, Diagnostic Products.

Elected Corporate Officer — 1999.

**Guillermo A. Herrera, 47**

1998 to present — Vice President, Latin America and Canada Operations.

1996 to 1998 — Vice President, Latin America Operations.

1996 — Area Vice President, Latin America.

Elected Corporate Officer — 1996.

**James J. Koziarz, 52**

1996 to present — Vice President, Diagnostic Products Research and Development.

Elected Corporate Officer — 1993.

**John C. Landgraf, 48**

2000 to present — Vice President, Corporate Engineering.

1997 to 2000 — Divisional Vice President, Manufacturing, Abbott International Division.

1996 to 1997 — Divisional Vice President, Commercial Operations, Chemical and Agricultural Products.

Elected Corporate Officer — 2000.



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**Elaine R. Leavenworth, 42**

1999 to present — Vice President, Abbott HealthSystems.

1997 to 1999 — Divisional Vice President, Licensing and New Business Development, Abbott International Division.

1996 to 1997 — Director, Licensing and Acquisitions, Abbott International Division.

1996 — Director, Nutritionals, Abbott International Division.

Elected Corporate Officer — 1999.

**John M. Leonard, 43**

1999 to present — Vice President, Pharmaceutical Development.

1997 to 1999 — Divisional Vice President, Pharmaceutical Development, Pharmaceutical Products Research and Development.

1996 to 1997 — Therapeutic Area Venture Head, Pharmaceutical Products Research and Development.

1996 — Venture Head, Pharmaceutical Products Research and Development.

Elected Corporate Officer — 1999.

**Greg W. Linder, 44**

1999 to present — Vice President and Treasurer.

1996 to 1999 — Divisional Vice President and Controller, Hospital Products.

1996 — Assistant Controller, Corporate Finance.

Elected Corporate Officer — 1999.

**John F. Lussen, 59**

1996 to present — Vice President, Taxes.

Elected Corporate Officer — 1985.

**Edward L. Michael, 44**

1999 to present — Vice President, Diagnostic Assays and Systems.

1997 to 1999 — Vice President, Diagnostic Operations, Europe, Africa, and Middle East.

1996 to 1997 — Director, Area Operations and Scientific Development.

Elected Corporate Officer — 1997.

**Karen L. Miller, 47**

2000 to present — Vice President, Information Technology.

1997 to 2000 — Divisional Vice President, Information Systems, Diagnostic Products.

1996 to 1997 — Director, Business Systems, Diagnostic Products.

Elected Corporate Officer — 2000.

**Daniel W. Norbeck, 42**

1999 to present — Vice President, Pharmaceutical Discovery.

1998 to 1999 — Divisional Vice President, Discovery, Pharmaceutical Products Research and Development.

1996 to 1998 — Divisional Vice President, Area Head, Pharmaceutical Products Research and Development.

Elected Corporate Officer — 1999.

**Edward A. Ogunro, 48**

1999 to present — Vice President, Hospital Products Research and Development, Medical and Regulatory Affairs.

1996 to 1999 — Divisional Vice President, Immunodiagnostics and Chemistry, Diagnostic Products.

Elected Corporate Officer — 1999.

**Marcia A. Thomas, 53**

1999 to present — Vice President, Diagnostic Quality Assurance, Regulatory Affairs and Compliance.

1996 to 1999 — Vice President, Quality Assurance and Regulatory Affairs.

1996 — Divisional Vice President, Quality Assurance and Regulatory Affairs, Diagnostic Products.

Elected Corporate Officer — 1996.

**Steven J. Weger Jr., 56**

1996 to present — Vice President, Corporate Planning and Development.

1996 — Divisional Vice President, Strategic Planning and Technology Assessment, Diagnostic Products.

Elected Corporate Officer — 1996.

**Susan M. Widner, 44**

1998 to present — Vice President, Diagnostic Operations, U.S. and Canada.

1996 to 1998 — Divisional Vice President, Worldwide Marketing, Diagnostic Products.

1996 — Director, Venture Marketing, Diagnostic Products.

Elected Corporate Officer — 1998.

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** Pursuant to Item 401(b) of Regulation S-K, Abbott has identified these persons as "executive officers" within the meaning of Item 401(b).



## PART II

### ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

**Principal Market**

The principal market for Abbott's common shares is the New York Stock Exchange. Shares are also listed on the Chicago Stock Exchange and the Pacific Exchange and are traded on the Boston, Cincinnati, and Philadelphia Exchanges. Outside the United States, Abbott's shares are listed on the London Stock Exchange and the Swiss Stock Exchange.

| | Market Price Per Share | | | |
|---|---|---|---|---|
| | 2000 | | 1999 | |
| | high | low | high | low |
| First Quarter | 36 1/2 | 29 3/8 | 51 7/16 | 43 |
| Second Quarter | 44 11/16 | 35 3/8 | 53 5/16 | 41 5/16 |
| Third Quarter | 48 1/2 | 39 5/16 | 45 7/8 | 36 5/16 |

| | | | | |
|---|---|---|---|---|
| Fourth Quarter | 56 1/4 | 45 7/16 | 42 7/8 | 33 |

Market prices are as reported by the New York Stock Exchange composite transaction reporting system.

**Shareholders**

There were 101,272 shareholders of record of Abbott common shares as of December 31, 2000.

**Dividends**

Quarterly dividends of $.19 per share and $.17 per share were declared on common shares in 2000 and 1999, respectively.

## ITEM 6. SELECTED FINANCIAL DATA

| | Year ended December 31 | | | | |
|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| | (dollars in millions, except per share data) | | | | |
| Net sales | $ 13,745.9 | $ 13,177.6 | $ 12,512.7 | $ 11,889.3 | $ 11,018.0 |
| Net earnings | 2,786.0 | 2,445.8 | 2,334.4 | 2,079.1 | 1,873.8 |
| Basic earnings per common share | 1.80 | 1.59 | 1.52 | 1.34 | 1.19 |
| Diluted earnings per common share | 1.78 | 1.57 | 1.50 | 1.32 | 1.18 |
| Total assets | 15,283.3 | 14,471.0 | 13,259.9 | 12,101.8 | 11,161.1 |
| Long-term debt | 1,076.4 | 1,336.8 | 1,339.7 | 938.0 | 933.1 |
| Cash dividends declared per common share | .76 | .68 | .60 | .54 | .48 |



## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

**Financial Review**

**Results of Operations**

**Sales**

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

| | | Components of Change % | | |
|---|---|---|---|---|
| | Total % Change | Price | Volume | Exchange |
| Total Net Sales | | | | |
| 2000 vs. 1999 | 4.3 | (0.3) | 6.6 | (2.0) |
| 1999 vs. 1998 | 5.3 | (0.1) | 6.1 | (0.7) |
| 1998 vs. 1997 | 5.2 | 0.6 | 7.4 | (2.8) |
| Total U.S. | | | | |
| 2000 vs. 1999 | 6.1 | (0.7) | 6.8 | — |
| 1999 vs. 1998 | 4.8 | (0.5) | 5.3 | — |
| 1998 vs. 1997 | 6.4 | 1.0 | 5.4 | — |
| Total International | | | | |
| 2000 vs. 1999 | 1.5 | 0.4 | 6.3 | (5.2) |
| 1999 vs. 1998 | 6.1 | 0.6 | 7.4 | (1.9) |
| 1998 vs. 1997 | 3.4 | (0.1) | 10.7 | (7.2) |
| Pharmaceutical Products Segment (a) | | | | |
| 2000 vs. 1999 | 7.6 | (2.5) | 10.1 | — |
| 1999 vs. 1998 | 2.7 | — | 2.7 | — |
| 1998 vs. 1997 | 5.2 | 3.4 | 1.8 | — |
| Diagnostic Products Segment (b) | | | | |
| 2000 vs. 1999 | (2.9) | — | 0.7 | (3.6) |
| 1999 vs. 1998 | 8.9 | (1.2) | 10.7 | (0.6) |
| 1998 vs. 1997 | 5.8 | (2.1) | 11.9 | (4.0) |
| Hospital Products Segment (a) | | | | |
| 2000 vs. 1999 | 11.5 | (1.7) | 13.2 | — |
| 1999 vs. 1998 | 2.7 | (1.5) | 4.2 | — |
| 1998 vs. 1997 | 12.3 | (0.4) | 12.7 | — |
| Ross Products Segment (b) | | | | |
| 2000 vs. 1999 | 4.0 | 1.6 | 2.4 | — |
| 1999 vs. 1998 | 6.0 | 0.9 | 5.1 | — |
| 1998 vs. 1997 | (0.2) | 0.9 | (1.1) | — |
| International Segment | | | | |
| 2000 vs. 1999 | 3.2 | 0.9 | 7.1 | (4.8) |
| 1999 vs. 1998 | 6.8 | 1.8 | 7.4 | (2.4) |
| 1998 vs. 1997 | 3.1 | 1.4 | 9.5 | (7.8) |

(a)

In 2000, management of the vascular medicine franchise was transferred from the Pharmaceutical Products Segment to the Hospital Products Segment. Percentage changes for 1999 and 1998 have been restated to reflect this transfer.



(b)

In 2001, management of the FACT PLUS product franchise was transferred from the Diagnostic Products Segment to the Ross Products Segment. Percentage changes for 2000, 1999 and 1998 reflect this transfer.

Sales of new products in 2000 are estimated to be $939 million, led by the Pharmaceutical, Hospital and Diagnostic segments. Increases, as disclosed in Note 13, in adult nutritionals in all three years and in anti-infectives in 1999 were primarily due to unit increases. The decreases in anti-infectives for 2000 and 1998 were due primarily to unit decreases.

**Operating Earnings**

Gross profit margins (sales less cost of products sold, including distribution expenses) were 54.6 percent of net sales in 2000 and 1999, and 56.8 percent in 1998. Excluding the charges described in Note 15 relating to the FDA consent decree, the gross profit margin for 1999 would have been 55.8 percent. Gross profit margins in all three years were affected by unfavorable product mix, primarily pharmaceuticals, and the negative effect of the relatively stronger U.S. dollar. Gross profit margins in all years were also affected by productivity improvements, partially offset by higher project expenses for new products, higher manufacturing capacity costs for anticipated unit growth, and the effects of inflation and competitive pricing pressures in some product lines. In the U.S., states receive price rebates from manufacturers of infant formula under the federally subsidized Special Supplemental Food Program for Women, Infants, and Children. There are also rebate programs for pharmaceutical products. These rebate programs continue to have a negative effect on the gross profit margins of the Ross and Pharmaceutical products segments.

In August 1999, Geneva Pharmaceuticals, Inc. began shipments of generic HYTRIN in the United States, which has adversely impacted Abbott's HYTRIN sales. Sales of HYTRIN in the United States amounted to $141 million, $466 million, and $542 million in 2000, 1999, and 1998, respectively.

As a result of the consent decree entered into with the U.S. government in 1999, as discussed in Note 15, Abbott is prohibited from manufacturing or distributing certain diagnostic products until Abbott ensures the processes in its Lake County, Ill., diagnostics manufacturing operations conform with the U.S. Food and Drug Administration's (FDA) Quality System Regulation (QSR). The consent decree resulted in a charge of $168 million in the third quarter of 1999. Abbott estimates that 2000 sales were negatively impacted by approximately $250 million, and earnings per share were negatively impacted by approximately 10 cents per share. Under the terms of the amended consent decree, Abbott must ensure its diagnostics manufacturing operations are in conformance with the QSR by various dates through January 15, 2001. The FDA will determine Abbott's conformance with the QSR after an inspection of Abbott's facilities. If the FDA concludes that the operations are not in conformance with the QSR as of the date required, Abbott may be subject to additional costs.

Research and development expense was $1.4 billion in 2000 and represented 9.8 percent of net sales in 2000, compared to 9.1 percent of net sales in 1999, and 9.8 percent of net sales in 1998. The increase in research and development expenses in 2000 was concentrated primarily in the Pharmaceutical, Diagnostic and Hospital segments. Research and development expenditures continue to be concentrated on pharmaceutical and diagnostic products.

Selling, general and administrative expenses increased 1.3 percent in 2000, net of the favorable effect of the relatively stronger U.S. dollar of 2.4 percent, compared to increases of 3.5 percent in 1999, and 2.4 percent in 1998. The net increases, exclusive of exchange impact, reflect inflation and additional selling and marketing support primarily in the International, Pharmaceutical and Hospital segments. In addition, 1999 and 1998 reflect litigation charges, and 1999 includes merger costs of approximately $16.2 million.

Abbott's income from TAP Pharmaceutical Products Inc. (TAP) joint venture in 2000 was adversely affected as a result of an increase in a litigation reserve related to the U.S. Department of Justice investigation of TAP's marketing and sales practices for LUPRON. While it is not feasible to predict the



outcome of these proceedings with certainty, management is of the opinion that their ultimate disposition should not have a material adverse effect on Abbott's financial position or ongoing cash flow and results of operations, but that they could have a material adverse effect on Abbott's cash flow and results of operations for a particular period.

**Interest (Income) Expense, Net**

Net interest expense decreased in 2000 and 1999 due to a lower level of borrowings and a higher level of investment securities. Net interest expense increased in 1998 due primarily to a higher level of borrowings as a result of business acquisitions.

**Taxes on Earnings**

The effective income tax rates were 27.0 percent in 2000 and 28.0 percent in 1999 and 1998. The tax rate for 2000 was reduced, in part, by the domestic dividend exclusion applicable to the increased earnings of TAP Pharmaceutical Products Inc. In addition, the tax rates for 1999 and 1998 were unfavorably impacted by the reduction in tax incentive grants for Puerto Rico operations.

**Financial Condition**

**Cash Flow**

Abbott expects annual cash flow from operating activities to continue to approximate or exceed Abbott's capital expenditures and cash dividends.

**Debt and Capital**

At December 31, 2000, Abbott's bond ratings were AAA by Standard & Poor's Corporation and Aa1 by Moody's Investors Service. Abbott has readily available financial resources, including unused domestic lines of credit of $1.5 billion, which support domestic commercial paper borrowing arrangements. As a result of the proposed acquisition of BASF's pharmaceutical business, Abbott's credit ratings are under review, and it is expected that the ratings may be adjusted to reflect the increased borrowings that will finance the acquisition. In addition, available lines of credit, which will support increased commercial paper borrowings, increased to $6.5 billion in February 2001.

Under a registration statement filed with the Securities and Exchange Commission (SEC) in February 2001, Abbott may issue up to $3.5 billion of securities in the future. Of the $3.5 billion, Abbott may issue $268 million either in the form of debt securities or common shares without par value. The remaining $3.2 billion may be issued in the form of debt securities. Previously, under a registration statement filed with the SEC in 1999, Abbott may have issued $518 million of securities, which is now included in the $3.5 billion.

During the last three years, Abbott purchased 31,765,500 of its common shares at a cost of $1.3 billion, including 10.2 million shares of the 25 million shares authorized for purchase by Abbott's Board of Directors in June 2000.

**Working Capital**

At December 31, 2000, 1999, and 1998, working capital was $3.1 billion, $1.9 billion, and $624 million, respectively.

**Capital Expenditures**

Capital expenditures of $1.0 billion in 2000, $987 million in 1999, and $994 million in 1998 were principally for upgrading and expanding manufacturing, research and development, and administrative



support facilities in all segments and for laboratory instruments and hospital equipment placed with customers. This level of capital expenditures is expected to continue, with an increased proportion dedicated to the Hospital, International and Diagnostic segments.

**Legislative Issues**

Abbott's primary markets are highly competitive and subject to substantial government regulation. Abbott expects debate to continue at both the federal and state levels over the availability, method of delivery, and payment for health care products and services. If legislation is enacted, it could have the effect of reducing prices, or reducing the rate of price increases for medical products and services. International operations are also subject to a significant degree of government regulation. 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."

**Business Combinations and Divestiture**

On December 15, 2000, Abbott and BASF A.G. reached an agreement through which Abbott will purchase the pharmaceutical business of BASF, subject to approval of government regulators. The purchase price is $6.9 billion. Abbott estimates that the acquisition, if completed, will result in purchase accounting charges of approximately $1.0 billion for in-process research and development in 2001, and will result in goodwill and intangibles of approximately $5.0 billion. The purchase will be financed by U.S. dollar and euro-based borrowings described under "Debt and Capital."

On November 19, 1999, Abbott completed a merger transaction with Perclose, Inc., which was accounted for as a pooling-of-interests transaction. Abbott issued approximately 15.1 million common shares to Perclose shareholders, and Perclose's outstanding stock options were converted into options to purchase approximately 2.9 million Abbott common shares. Merger-related charges of approximately $16.2 million are included in selling, general and administrative expenses for 1999. Abbott's consolidated financial statements for prior periods have been restated to include Perclose and are not significantly different than previously reported amounts.

In 1999, Abbott acquired certain assets of Glaxo Wellcome Inc.'s U.S. anesthesia business for approximately $217 million in cash. A substantial portion of the purchase price was allocated to intangible assets, which are amortized on a straight-line basis over 15 years. In 1998, Abbott acquired the common stock of International Murex Technologies Corporation, a manufacturer of medical diagnostic products, for approximately $234 million in cash. A substantial portion of the purchase price was allocated to goodwill, which is amortized on a straight-line basis over 20 years. Had these acquisitions taken place on January 1 of the previous years, consolidated sales and income would not have been significantly different from reported amounts.

In January 2000, Abbott sold its agricultural products business to Sumitomo Chemical Co., Ltd., resulting in a $139 million gain. Under the transaction, Sumitomo acquired research and development, sales, marketing, and support operations for Abbott's entire line of naturally occurring biopesticides, plant growth regulators and other products for agriculture, public health and forestry. Bulk active ingredient manufacturing rights were retained by Abbott. For the full year 1999, Abbott recorded approximately $102 million in sales from this business.

**Recently Issued Accounting Standards**

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires the recognition of the fair value of derivatives as either assets or liabilities. Adoption of the provisions of this statement on January 1, 2001, will result in a transition credit to income of approximately $2 million in 2001.



The Emerging Issues Task Force (EITF) issued EITF Issues No. 00-10, "Accounting for Shipping and Handling Fees and Costs," and No. 00-14, "Accounting for Certain Sales Incentives," which address the classification of shipping and handling fees and costs and various sales incentives, and were effective for the fourth quarter of 2000. The adoption of the provisions of these EITF Issues did not have a material effect on Abbott's financial statements.

The Securities and Exchange Commission (SEC) has issued Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," as amended on June 26, 2000. SAB No. 101 provides the SEC staff's views in applying generally accepted accounting principles to selected revenue recognition issues, and was effective beginning in the fourth quarter of 2000. Adoption of the provisions of this SAB did not have a material effect on Abbott's financial statements.

**Euro Conversion**

On January 1, 1999, the European Economic and Monetary Union took effect and introduced the euro as the official single currency of the participating member countries. On that date, the currency exchange rates of the participating countries were fixed against the euro. There is a three-year transition to the euro, and at the end of 2001, the legacy currencies will be eliminated. Costs required to prepare for the euro are not material to Abbott's financial position, results of operations or cash flows. The impact, if any, of the euro on Abbott's competitive position is unknown.

**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 Item 7, 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 Exhibit 99.1.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**Financial Instruments and Risk Management**
**(Unaudited)**

**Interest Rate Sensitive Financial Instruments**

Abbott does not currently use derivative financial instruments, such as interest rate swaps, to manage its exposure to changes in interest rates for its debt instruments and investment securities. As of December 31, 2000, and 1999, Abbott had $185 million and $855 million, respectively, of domestic commercial paper outstanding with an average interest rate of 6.5% and 5.8%, respectively, and with an average remaining life of three days and 13 days, respectively. The fair market value of long-term debt at December 31, 2000, and 1999, amounted to $1.3 billion, and consisted primarily of fixed rate (average of 6.1%) debt with maturities through 2023. As of December 31, 2000, and 1999, the fair market value of current and long-term investment securities maturing through 2023 amounted to $571 million and $734 million, respectively. Approximately 10 percent and 15 percent of these investments as of December 31, 2000, and 1999, respectively, have fixed interest rates (average of 6.9%), while the remaining investments have variable rates. A hypothetical 100-basis point change in the interest rates would not have a material effect on cash flows, income or market values. (A 100-basis point change is a reasonably possible near-term change in rates).



**Market Price Sensitive Financial Instruments**

Abbott maintains a portfolio of available-for-sale equity securities from strategic technology acquisitions. The market value of these investments was approximately $215 million and $282 million, respectively, as of December 31, 2000, and 1999. A hypothetical 20 percent decrease in the share prices of these investments would decrease the fair value by approximately $43 million. (A 20 percent decrease is a reasonably possible near-term change in share prices).

**Foreign Currency Sensitive Financial Instruments —**
**Purchased U.S. Dollar Call Options**

Abbott's foreign subsidiaries purchase U.S. dollar call options as a hedge of anticipated intercompany purchases by these foreign subsidiaries whose functional currency, primarily European currencies and Japanese yen, is not the U.S. dollar. At December 31, 2000, there were no such contracts outstanding and at December 31, 1999, Abbott held $85 million of these contracts.

**Foreign Currency Forward Exchange Contracts**

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 hedged. At December 31, 2000, and 1999, Abbott held $1.3 billion and $1.4 billion, respectively, of such contracts which all mature in the next calendar year. The following table reflects the contracts outstanding at December 31, 2000, and 1999:

| | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| | Contract Amount | Average Exchange Rate | Fair and Carrying Value | Contract Amount | Average Exchange Rate | Fair and Carrying Value |
| | (dollars in millions) | | | | | |
| **Receive primarily U.S. Dollars in exchange for the following currencies:** | | | | | | |
| Euro | $ 318 | 0.87 | $ 1.6 | $ 293 | 1.03 | $ 1.6 |
| British Pound | 269 | 0.67 | 13.0 | 219 | 0.6 | 2.1 |
| Japanese Yen | 212 | 106.5 | 5.3 | 242 | 103.2 | (4.8) |
| Dutch Guilder | 196 | 2.56 | (2.3) | 180 | 2.02 | 7.6 |
| Spanish Peseta | 55 | 179.5 | 3.0 | 77 | 139.6 | 13.8 |
| Canadian Dollar | 49 | 1.54 | (0.1) | 56 | 1.47 | 0.1 |
| Australian Dollar | 38 | 1.92 | (0.4) | 39 | 1.56 | 0.3 |
| Taiwan Dollar | 28 | 31.5 | 1.3 | 26 | 32.0 | (0.3) |
| All other currencies | 106 | N/A | (0.1) | 307 | N/A | (8.5) |
| Total | $ 1,271 | | $ 21.3 | $ 1,439 | | $ 11.9 |



## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**Abbott Laboratories and Subsidiaries**

**Consolidated Statement of Earnings and Comprehensive Income**
**(dollars and shares in thousands except per share data)**

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Net Sales | $ 13,745,916 | $ 13,177,625 | $ 12,512,734 |
| Cost of products sold | 6,238,646 | 5,977,183 | 5,406,635 |
| Research and development | 1,351,024 | 1,193,963 | 1,228,777 |
| Selling, general and administrative | 2,894,178 | 2,857,104 | 2,759,757 |
| Gain on sale of business | (138,507) | — | — |
| Total Operating Cost and Expenses | 10,345,341 | 10,028,250 | 9,395,169 |
| Operating Earnings | 3,400,575 | 3,149,375 | 3,117,565 |
| Net interest expense | 23,221 | 81,765 | 102,540 |
| Income from TAP Pharmaceutical Products Inc. joint venture | (481,340) | (390,152) | (266,347) |
| Net foreign exchange (gain) loss | 7,287 | 26,238 | 31,158 |
| Other (income) expense, net | 35,000 | 34,636 | 8,349 |
| Earnings Before Taxes | 3,816,407 | 3,396,888 | 3,241,865 |
| Taxes on earnings | 1,030,430 | 951,129 | 907,512 |
| Net Earnings | $ 2,785,977 | $ 2,445,759 | $ 2,334,353 |
| Basic Earnings Per Common Share | $ 1.80 | $ 1.59 | $ 1.52 |
| Diluted Earnings Per Common Share | $ 1.78 | $ 1.57 | $ 1.50 |
| Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share | 1,548,015 | 1,536,762 | 1,537,242 |
| Dilutive Common Stock Options | 17,564 | 20,893 | 23,716 |
| Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options | 1,565,579 | 1,557,655 | 1,560,958 |
| Outstanding Common Stock Options Having No Dilutive Effect | 1,038 | 1,807 | 657 |
| Comprehensive Income: | | | |
| Foreign currency translation adjustments | $ (198,475) | $ (172,517) | $ 1,504 |
| Tax benefit (expense) related to foreign currency translation adjustments | (476) | 1,286 | 441 |
| Unrealized gains (loss) on marketable equity securities | 31,252 | (10,548) | 1,000 |
| Tax benefit (expense) related to unrealized gains (loss) on marketable equity securities | (12,500) | 4,171 | (396) |
| Reclassification adjustment for realized gains | (29,520) | — | — |
| Tax benefit related to reclassification adjustment for realized gains | 11,808 | — | — |
| Other comprehensive income (loss), net of tax | (197,911) | (177,608) | 2,549 |
| Net Earnings | 2,785,977 | 2,445,759 | 2,334,353 |
| Comprehensive Income | $ 2,588,066 | $ 2,268,151 | $ 2,336,902 |
| Supplemental Comprehensive Income Information: | | | |
| Cumulative foreign currency translation loss adjustments, net of tax | $ 630,893 | $ 431,942 | $ 260,711 |
| Cumulative unrealized (gains) on marketable equity securities, net of tax | (27,681) | (26,641) | (33,018) |

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



**Abbott Laboratories and Subsidiaries**

**Consolidated Statement of Cash Flows**
**(dollars in thousands)**

| | Year Ended December 31 | | |
|---|---|---|---|
| | **2000** | **1999** | **1998** |
| Cash Flow From (Used in) Operating Activities: | | | |
| Net earnings | $ 2,785,977 | $ 2,445,759 | $ 2,334,353 |
| Adjustments to reconcile net earnings to net cash from operating activities — | | | |
| Depreciation and amortization | 827,431 | 828,006 | 786,380 |
| Investing and financing (gains) losses, net | 69,914 | 93,723 | 90,798 |
| Trade receivables | (260,790) | (176,347) | (147,489) |
| Inventories | (361,377) | (147,778) | (112,692) |
| Prepaid expenses and other assets | (397,714) | (521,265) | (195,020) |
| Trade accounts payable and other liabilities | 621,078 | 299,048 | 179,653 |
| Income taxes payable | (46,394) | 213,936 | (60,705) |
| Gain on sale of business | (138,507) | — | — |
| Net Cash From Operating Activities | 3,099,618 | 3,035,082 | 2,875,278 |
| Cash Flow From (Used in) Investing Activities: | | | |
| Acquisition of certain assets of Glaxo Wellcome Inc.'s U.S. anesthesia business in 1999 and International Murex in 1998, net of cash acquired | — | (217,000) | (249,177) |
| Proceeds from sale of business | 205,000 | — | — |
| Acquisitions of property, equipment and other businesses | (1,035,873) | (987,098) | (993,555) |
| Purchases of investment securities | (68,085) | (210,797) | (353,453) |
| Proceeds from sales of investment securities | 235,839 | 169,356 | 96,748 |
| Other | 45,455 | 12,187 | 18,034 |
| Net Cash Used in Investing Activities | (617,664) | (1,233,352) | (1,481,403) |
| Cash Flow From (Used in) Financing Activities: | | | |
| Proceeds from (repayments of) commercial paper, net | (670,000) | (864,000) | 42,000 |
| Proceeds from issuance of long-term debt | — | — | 400,000 |
| Other borrowing transactions, net | (2,769) | 6,286 | (59,640) |
| Purchases of common shares | (464,856) | — | (876,264) |
| Proceeds from issuance of common shares | — | 329,490 | — |
| Proceeds from stock options exercised | 135,570 | 42,235 | 67,329 |
| Dividends paid | (1,145,894) | (1,003,295) | (891,661) |
| Net Cash Used in Financing Activities | (2,147,949) | (1,489,284) | (1,318,236) |
| Effect of exchange rate changes on cash and cash equivalents | (27,884) | (19,587) | (143) |
| Net Increase in Cash and Cash Equivalents | 306,121 | 292,859 | 75,496 |
| Cash and Cash Equivalents, Beginning of Year | 608,097 | 315,238 | 239,742 |
| Cash and Cash Equivalents, End of Year | $ 914,218 | $ 608,097 | $ 315,238 |
| Supplemental Cash Flow Information: | | | |
| Income taxes paid | $ 1,085,083 | $ 882,957 | $ 1,060,479 |
| Interest paid | 113,922 | 145,055 | 153,891 |

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



**Abbott Laboratories and Subsidiaries**

**Consolidated Balance Sheet**
**(dollars in thousands)**

| | December 31 |
|---|---|

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| **Assets** | | | |
| Current Assets: | | | |
| Cash and cash equivalents | $ 914,218 | $ 608,097 | $ 315,238 |
| Investment securities | 242,500 | 115,199 | 95,827 |
| Trade receivables, less allowances of — 2000: $190,167; 1999: $238,956; 1998: $191,352 | 2,179,451 | 2,055,839 | 1,955,866 |
| Inventories — | | | |
| Finished products | 903,973 | 772,478 | 697,974 |
| Work in process | 370,407 | 338,818 | 347,150 |
| Materials | 466,951 | 384,148 | 367,616 |
| Total inventories | 1,741,331 | 1,495,444 | 1,412,740 |
| Prepaid income taxes | 896,083 | 918,617 | 847,154 |
| Other prepaid expenses and receivables | 1,402,658 | 1,226,558 | 962,936 |
| Total Current Assets | 7,376,241 | 6,419,754 | 5,589,761 |
| Investment Securities | 637,979 | 954,778 | 967,819 |
| Property and Equipment, at Cost: | | | |
| Land | 245,850 | 202,858 | 165,474 |
| Buildings | 1,953,665 | 1,882,439 | 1,860,265 |
| Equipment | 7,597,553 | 7,339,578 | 7,104,805 |
| Construction in progress | 330,830 | 372,692 | 272,949 |
| | 10,127,898 | 9,797,567 | 9,403,493 |
| Less: accumulated depreciation and amortization | 5,310,987 | 5,027,508 | 4,660,555 |
| Net Property and Equipment | 4,816,911 | 4,770,059 | 4,742,938 |
| Net Intangible Assets | 1,555,260 | 1,574,851 | 1,349,822 |
| Deferred Charges, Investments in Joint Ventures and Other Assets | 896,863 | 751,602 | 609,579 |
| | $ 15,283,254 | $ 14,471,044 | $ 13,259,919 |

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



**Abbott Laboratories and Subsidiaries**
**Consolidated Balance Sheet**
**(dollars in thousands)**

| | December 31 | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| **Liabilities and Shareholders' Investment** | | | |
| Current Liabilities: | | | |
| Short-term borrowings and current portion of long-term debt | $ 479,454 | $ 896,271 | $ 1,759,145 |
| Trade accounts payable | 1,355,985 | 1,226,854 | 1,057,417 |
| Salaries, wages and commissions | 401,366 | 383,552 | 375,804 |
| Other accrued liabilities | 1,549,245 | 1,433,424 | 1,379,953 |
| Dividends payable | 293,800 | 263,000 | 227,400 |
| Income taxes payable | 217,690 | 313,610 | 166,183 |
| Total Current Liabilities | 4,297,540 | 4,516,711 | 4,965,902 |
| Long-Term Debt | 1,076,368 | 1,336,789 | 1,339,694 |
| Deferred Income Taxes | — | 23,779 | 108,964 |
| Other Liabilities and Deferrals | 1,338,440 | 1,166,170 | 1,091,768 |

| | | | |
|---|---|---|---|
| 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: 2000: 1,563,436,372; | | | |
| 1999: 1,564,670,440; 1998: 1,548,382,682 | 2,218,234 | 1,939,673 | 1,310,500 |
| Common shares held in treasury, at cost — | | | |
| Shares: 2000: 17,502,239; 1999: 17,650,834; | | | |
| 1998: 17,710,838 | (255,586) | (257,756) | (46,735) |
| Unearned compensation — restricted stock awards | (18,116) | (23,028) | (25,796) |
| Earnings employed in the business | 7,229,586 | 6,174,007 | 4,743,315 |
| Accumulated other comprehensive loss | (603,212) | (405,301) | (227,693) |
| Total Shareholders' Investment | 8,570,906 | 7,427,595 | 5,753,591 |
| | $ 15,283,254 | $ 14,471,044 | $ 13,259,919 |



**Abbott Laboratories and Subsidiaries**

**Consolidated Statement of Shareholders' Investment**
**(dollars in thousands except per share data)**

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Common Shares: | | | |
| Beginning of Year | | | |
| Shares: 2000: 1,564,670,440; 1999: 1,548,382,682; 1998: 1,560,865,737 | $ 1,939,673 | $ 1,310,500 | $ 985,575 |
| Issued shares: 1999: 9,000,000 | — | 329,490 | — |
| Issued under incentive stock programs | | | |
| Shares: 2000: 11,424,234; 1999: 11,476,536; 1998: 13,929,668 | 245,668 | 240,897 | 259,058 |
| Tax benefit from option shares and vesting of restricted stock awards | | | |
| (no share effect) | 50,219 | 62,458 | 85,070 |
| Retired — Shares: 2000: 12,658,302; 1999: 4,188,778; 1998: 26,412,723 | (17,326) | (3,672) | (19,203) |
| End of Year | | | |
| Shares: 2000: 1,563,436,372; 1999: 1,564,670,440; 1998: 1,548,382,682 | $ 2,218,234 | $ 1,939,673 | $ 1,310,500 |
| Common Shares Held in Treasury: | | | |
| Beginning of Year | | | |
| Shares: 2000: 17,650,834; 1999: 17,710,838; 1998: 18,280,398 | $ (257,756) | $ (46,735) | $ (48,238) |
| Private transaction in 1999 | | | |
| Shares purchased: 5,099,720 | | | |
| Shares issued: 4,985,475 | — | (211,822) | — |
| Issued under incentive stock programs | | | |
| Shares: 2000: 148,595; 1999: 174,249; 1998: 569,560 | 2,170 | 801 | 1,503 |
| End of Year | | | |
| Shares: 2000: 17,502,239; 1999: 17,650,834; 1998: 17,710,838 | $ (255,586) | $ (257,756) | $ (46,735) |
| Unearned Compensation — Restricted Stock Awards: | | | |
| Beginning of Year | $ (23,028) | $ (25,796) | $ (26,187) |
| Issued at market value — | | | |
| Shares: 2000: 133,000; 1999: 162,500; 1998: 554,000 | (5,479) | (7,186) | (20,584) |
| Lapses — Shares: 2000: 8,500; 1998: 22,000 | 320 | — | 705 |
| Amortization | 10,071 | 9,954 | 20,270 |
| End of Year | $ (18,116) | $ (23,028) | $ (25,796) |
| Earnings Employed in the Business: | | | |
| Beginning of Year | $ 6,174,007 | $ 4,743,315 | $ 4,355,426 |
| Net earnings | 2,785,977 | 2,445,759 | 2,334,353 |

| | | | |
|---|---|---|---|
| Cash dividends declared on common shares (per share — 2000: $.76; 1999: $.68; 1998: $.60) | (1,176,694) | (1,038,895) | (917,611) |
| Cost of common shares retired in excess of stated capital amount | (557,628) | (194,990) | (1,048,500) |
| Cost of treasury shares issued below market value | 3,924 | 218,818 | 19,647 |
| End of Year | $ 7,229,586 | $ 6,174,007 | $ 4,743,315 |
| Accumulated Other Comprehensive Loss: | | | |
| Beginning of Year | $ (405,301) | $ (227,693) | $ (230,242) |
| Other comprehensive income (loss) | (197,911) | (177,608) | 2,549 |
| End of Year | $ (603,212) | $ (405,301) | $ (227,693) |

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



**Abbott Laboratories and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 1 — Summary of Significant Accounting Policies**

NATURE OF BUSINESS AND CONCENTRATION OF RISK — Abbott's principal business is the discovery, development, manufacture and sale of a broad line of health care products and services. Due to the nature of its operations, Abbott is not subject to significant concentration risks relating to customers, products or geographic locations.

BASIS OF CONSOLIDATION — The consolidated financial statements include the accounts of the parent company and subsidiaries, after elimination of intercompany transactions. The accounts of foreign subsidiaries are consolidated as of November 30, due to the time needed to consolidate these subsidiaries. No events occurred related to these foreign subsidiaries in December 2000, 1999 and 1998 that materially affected the financial position or results of operations. Certain prior year amounts in the Consolidated Statement of Cash Flows have been reclassified to conform with the 2000 presentation.

USE OF ESTIMATES — The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts. Significant estimates include amounts for litigation, income taxes, sales rebates, and inventory and accounts receivable exposures.

CASH, CASH EQUIVALENTS AND INVESTMENT SECURITIES — Cash equivalents consist of time deposits and certificates of deposit with original maturities of three months or less. 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). Impairment losses are charged to income for other than temporary declines in fair value of equity securities. 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 a component of interest income.

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

LONG-LIVED ASSETS — 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 | Expected Useful Lives |
|---|---|
| Buildings | 10 to 50 years (average 29 years) |
| Equipment | 3 to 20 years (average 11 years) |

Intangible assets, primarily purchased intangible assets and goodwill resulting from business acquisitions, are amortized on a straight-line basis over up to 40 years. Accumulated amortization as of December 31, 2000, 1999, and 1998, was $334 million, $228 million, and $163 million, respectively.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable based on projected undiscounted cash flows associated with the affected assets. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference. Fair value is determined based on market quotes, if available, or is based on valuation techniques.

PRODUCT LIABILITY — Provisions are made for the portions of probable losses that are not covered by product liability insurance.



TRANSLATION ADJUSTMENTS — For foreign operations in highly inflationary economies, translation gains and losses are included in net foreign exchange (gain) loss. For remaining foreign operations, translation adjustments are included as a component of accumulated other comprehensive income (loss).

REVENUE RECOGNITION — Revenue from product sales is recognized upon shipment to customers. Provisions for discounts and rebates to customers, and returns and other adjustments are provided for in the period the related sales are recorded. Sales of product rights 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.

RESEARCH AND DEVELOPMENT — Internal research and development costs are expensed as incurred. Third-party research and development costs are expensed when the contracted work has been performed or as milestone results have been achieved.

**Note 2 — Supplemental Financial Information (dollars in thousands)**

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Other prepaid expenses and receivables: | | | |
| Receivables purchased from TAP Pharmaceutical Products Inc. under a factoring agreement | $ 514,200 | $ 431,801 | $ 310,993 |
| All other | 888,458 | 794,757 | 651,943 |
| Total | $ 1,402,658 | $ 1,226,558 | $ 962,936 |
| Other liabilities and deferrals: | | | |
| Accrued post-employment costs | $ 597,910 | $ 537,309 | $ 477,417 |
| All other | 740,530 | 628,861 | 614,351 |
| Total | $ 1,338,440 | $ 1,166,170 | $ 1,091,768 |
| Net interest expense: | | | |
| Interest expense | $ 113,938 | $ 144,689 | $ 159,986 |
| Interest income | (90,717) | (62,924) | (57,446) |
| Total | $ 23,221 | $ 81,765 | $ 102,540 |

**Note 3 — Taxes on Earnings (dollars in thousands)**

Deferred income taxes reflect the tax consequences on future years of temporary differences between the tax bases of assets and liabilities and their financial reporting amounts. U.S. income taxes are provided on those earnings of foreign subsidiaries and subsidiaries operating in Puerto Rico under tax incentive grants, which are intended to be remitted to the parent company. Undistributed earnings reinvested indefinitely in foreign subsidiaries as working capital and plant and equipment aggregated $2,432,433 at December 31, 2000. Deferred income taxes not provided on these earnings would be approximately $572,016.



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

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Earnings Before Taxes: | | | |
| Domestic | $ 2,773,244 | $ 2,505,060 | $ 2,520,985 |
| Foreign | 1,043,163 | 891,828 | 720,880 |
| Total | $ 3,816,407 | $ 3,396,888 | $ 3,241,865 |

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Taxes on Earnings: | | | |
| Current: | | | |
| U.S. Federal and Possessions | $ 825,608 | $ 785,709 | $ 744,124 |
| State | 67,898 | 70,376 | 49,869 |
| Foreign | 194,944 | 235,459 | 184,100 |
| Total current | 1,088,450 | 1,091,544 | 978,093 |
| Deferred: | | | |
| Domestic | (70,383) | (112,398) | (92,681) |
| Foreign | 11,812 | (30,215) | 25,219 |
| Enacted tax rate changes | 551 | 2,198 | (3,119) |
| Total deferred | (58,020) | (140,415) | (70,581) |
| Total | $ 1,030,430 | $ 951,129 | $ 907,512 |

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

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Statutory tax rate | 35.0% | 35.0% | 35.0% |
| Benefit of tax exemptions in Puerto Rico, the Dominican Republic, Ireland, the Netherlands, and Costa Rica | (5.0) | (5.2) | (4.9) |
| State taxes, net of federal benefit | 1.2 | 1.4 | 1.0 |
| Domestic dividend exclusion | (3.5) | (3.2) | (2.3) |

| | | | |
|---|---|---|---|
| All other, net | (0.7) | — | (0.8) |
| Effective tax rate | 27.0% | 28.0% | 28.0% |

As of December 31, 2000, 1999, and 1998, total deferred tax assets were $1,458,707, $1,364,867, and $1,286,341, respectively, and total deferred tax liabilities were $463,406, $441,404, and $487,207,



respectively. Valuation allowances for deferred tax assets were not significant. The temporary differences that give rise to deferred tax assets and liabilities were as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Compensation and employee benefits | $ 344,641 | $ 293,893 | $ 254,026 |
| Trade receivable reserves | 155,178 | 178,157 | 173,525 |
| Inventory reserves | 124,759 | 150,100 | 115,693 |
| Deferred intercompany profit | 204,052 | 184,687 | 177,515 |
| State income taxes | 53,610 | 46,964 | 26,585 |
| Depreciation | (204,595) | (174,396) | (197,832) |
| Other, primarily other accruals and reserves not currently deductible, and the excess of book basis over tax basis of intangible assets | 277,033 | 215,433 | 188,678 |
| Total | $ 954,678 | $ 894,838 | $ 738,190 |

**Note 4 — Investment Securities (dollars in thousands)**

The following is a summary of investment securities at December 31:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Current Investment Securities: | | | |
| Time deposits and certificates of deposit | $ 232,500 | $ 95,000 | $ 50,000 |
| Other, primarily debt obligations issued or guaranteed by various governments or government agencies | 10,000 | 20,199 | 45,827 |
| Total | $ 242,500 | $ 115,199 | $ 95,827 |

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Long-Term Investment Securities: | | | |
| Time deposits and certificates of deposit, maturing through 2003 | $ 120,000 | $ 391,500 | $ 486,500 |
| Corporate debt obligations, maturing through 2008 | 70,000 | 73,037 | 112,320 |
| Debt obligations issued or guaranteed by various governments or government agencies, maturing through 2023 | 158,301 | 183,184 | 185,022 |
| Equity securities | 289,678 | 307,057 | 183,977 |
| Total | $ 637,979 | $ 954,778 | $ 967,819 |

Of the investment securities listed above, $590,678, $742,610, and $858,809 were held at December 31, 2000, 1999, and 1998, respectively, by subsidiaries operating in Puerto Rico under tax incentive grants expiring from 2002 through 2007. In addition, these subsidiaries held cash equivalents of $85,925, $11,900, and $74,900 at December 31, 2000, 1999, and 1998, respectively.



**Note 5 — Post-Employment Benefits (dollars in thousands)**

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 | | |
|---|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| Projected benefit obligations, January 1 | $ 2,259,741 | $ 2,348,620 | $ 2,000,329 | $ 635,700 | $ 714,946 | $ 646,448 |
| Service cost — benefits earned during the year | 118,863 | 131,670 | 108,754 | 30,034 | 31,933 | 30,664 |
| Interest cost on projected benefit obligations | 171,790 | 157,004 | 140,287 | 50,216 | 44,297 | 43,770 |
| Losses (gains), primarily changes in discount rate, plan design changes, and differences between estimated and actual health care costs | 162,753 | (283,135) | 182,829 | 65,375 | (124,269) | 18,057 |
| Benefits paid | (109,589) | (97,399) | (85,722) | (39,953) | (31,207) | (23,993) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other, primarily translation | (31,332) | 2,981 | 2,143 | — | — | — |
| Projected benefit obligations, December 31 | $ 2,572,226 | $ 2,259,741 | $ 2,348,620 | $ 741,372 | $ 635,700 | $ 714,946 |
| Plans' assets at fair value, January 1, principally listed securities | $ 3,100,222 | $ 2,550,971 | $ 2,192,486 | $ 77,749 | $ 82,528 | $ 86,600 |
| Actual return on plans' assets | (154,748) | 608,805 | 426,023 | (6,097) | 23,407 | 18,656 |
| Company contributions | 23,639 | 24,623 | 18,945 | 3,636 | 3,021 | 1,265 |
| Benefits paid | (109,589) | (97,399) | (85,722) | (39,953) | (31,207) | (23,993) |
| Other, primarily translation | (30,723) | 13,222 | (761) | — | — | — |
| Plans' assets at fair value, December 31 | $ 2,828,801 | $ 3,100,222 | $ 2,550,971 | $ 35,335 | $ 77,749 | $ 82,528 |
| Projected benefit obligations less than (greater than) plans' assets, December 31 | $ 256,575 | $ 840,481 | $ 202,351 | $ (706,037) | $ (557,951) | $ (632,418) |
| Unrecognized actuarial (gains) losses, net | (287,242) | (837,234) | (143,876) | 136,188 | 63,324 | 137,701 |
| Unrecognized prior service cost | 834 | 3,210 | 6,134 | (64,390) | (68,682) | — |
| Unrecognized transition obligation | (1,808) | (10,486) | (21,015) | — | — | — |
| Prepaid (accrued) benefit cost | $ (31,641) | $ (4,029) | $ 43,594 | $ (634,239) | $ (563,309) | $ (494,717) |
| Service cost — benefits earned during the year | $ 118,863 | $ 131,670 | $ 108,754 | $ 30,034 | $ 31,933 | $ 30,664 |
| Interest cost on projected benefit obligations | 171,790 | 157,004 | 140,287 | 50,216 | 44,297 | 43,770 |
| Expected return on plans' assets | (233,056) | (200,260) | (179,194) | (6,176) | (6,813) | (7,211) |
| Net amortization | (3,994) | (3,082) | (7,728) | (1,573) | 1,396 | 2,290 |
| Net cost | $ 53,603 | $ 85,332 | $ 62,119 | $ 72,501 | $ 70,813 | $ 69,513 |



**Note 5 — Post-Employment Benefits (dollars in thousands) (Continued)**

The projected benefit obligations for certain foreign defined benefit plans that do not have plan assets were $65,116, $63,904, and $62,719 at December 31, 2000, 1999, and 1998, respectively.

Assumptions used for major benefit plans as of December 31 include:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Discount rate for determining obligations and interest cost | 7 1/2% | 7 3/4% | 6 3/4% |
| Expected aggregate average long-term change in compensation | 5% | 5% | 5% |
| Expected long-term rate of return on assets | 9 1/2% | 9 1/2% | 9 1/2% |

A five percent annual rate of increase in the per capita cost of covered health care benefits is assumed.

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, 2000, by approximately $125,739/$(75,875), and the total of the service and interest cost components of net post-employment health care cost for the year then ended by approximately $16,347/$(10,122).

The Abbott Stock Retirement Plan is the principal defined contribution plan. Company contributions to this plan were approximately $86,000 in 2000, $76,000 in 1999, and $67,000 in 1998, equal to 7.33 percent of dividends declared, as provided under the plan.

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

**Note 6 — Financial Instruments and Derivatives**

Abbott enters into foreign currency forward exchange contracts to hedge intercompany loans and trade accounts payable where the receivable or payable is denominated in a currency other than the functional currency of the entity. Such contracts are also used to hedge foreign currency denominated third-party trade payables and receivables. For intercompany loans, the contracts require Abbott to sell 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 currencies hedged are primarily the U.S. dollar, European currencies and Japanese yen. At December 31, 2000, 1999, and 1998, Abbott held $1.3 billion, $1.4 billion, and $1.6 billion, respectively, of foreign currency forward exchange contracts. The contracts outstanding at December 31, 2000, mature in 2001. These contracts are marked-to-market each month. The resulting gains or losses are reflected in income and are generally offset by losses or gains on the exposures being hedged.

Abbott's foreign subsidiaries whose functional currency is not the U.S. dollar purchase U.S. dollar call options as a hedge of anticipated intercompany purchases. These contracts give Abbott the right, but not the requirement, to purchase U.S. dollars in exchange for foreign currencies, primarily European currencies and Japanese yen, at predetermined exchange rates. At December 31, 1999, and 1998, Abbott held $85 million and $406 million, respectively, of U.S. dollar call option contracts. Realized and unrealized gains and losses on contracts that qualify as hedges of anticipated purchases by foreign subsidiaries are recognized in the same period that the foreign currency exposure is recognized. Contracts that do not qualify for hedge accounting are marked-to-market each month, and the resulting gains or losses are reflected in income.

Net unrealized losses on foreign currency forward exchange contracts are included in other prepaid expenses and receivables, and net unrealized gains are included in other accrued liabilities. Gains and losses are classified as net foreign exchange (gain) loss. For U.S. dollar call options, net unrealized gains



and losses and unamortized premiums are included in other prepaid expenses and receivables. For U.S. dollar call options that do not qualify for hedge accounting, gains and losses are included as net foreign exchange (gain) loss. For U.S. dollar call options that qualify for hedge accounting treatment, gains and losses are included in cost of products sold at the time the products are sold.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement requires the recognition of the fair value of derivatives as either assets or liabilities. Adoption of the provisions of this statement on January 1, 2001, will not have a material effect on the financial statements of Abbott. The transition credit that was recorded to income on January 1, 2001, was approximately $2 million.

The gross unrealized holding gains (losses) on current and long-term held-to-maturity investment securities totaled $1.3 million and $(21.4) million, respectively, at December 31, 2000; $1.1 million and $(29.9) million, respectively, at December 31, 1999; and $3.7 million and $(9.6) million, respectively, at December 31, 1998. The gross unrealized holding gains (losses) on available-for-sale equity securities totaled $80.3 million and $(34.0) million, respectively, at December 31, 2000; $49.3 million and $(4.7) million, respectively, at December 31, 1999; and $61.7 million and $(6.7) million, respectively, at December 31, 1998.

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. Fair value is the quoted market price of the instrument held or the quoted market price of a similar instrument. The counterparties to financial instruments consist of select major international financial institutions. Abbott does not expect any losses from nonperformance by these counterparties.

| | 2000 | | 1999 | | 1998 | |
|---|---|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | (dollars in millions) | | | | | |
| Investment Securities: | | | | | | |
| Current | $ 242.5 | $ 238.0 | $ 115.2 | $ 114.4 | $ 95.8 | $ 96.4 |
| Long-Term: | | | | | | |
| Held-to-Maturity Debt Securities | 348.3 | 332.7 | 647.7 | 619.7 | 783.8 | 777.3 |
| Available-for-Sale Equity Securities | 289.7 | 289.7 | 307.1 | 307.1 | 184.0 | 184.0 |
| Total Long-Term Debt | (1,326.5) | (1,328.6) | (1,337.0) | (1,280.2) | (1,340.8) | (1,400.9) |
| Foreign Currency Forward Exchange Contracts: | | | | | | |
| (Payable) position | (8.1) | (8.1) | (23.9) | (23.9) | (14.2) | (14.2) |
| Receivable position | 29.4 | 29.4 | 35.8 | 35.8 | 21.7 | 21.7 |
| Foreign Currency Option Contracts | — | — | 3.5 | — | 14.4 | 3.6 |

**Note 7 — Incentive Stock Program**

The 1996 Incentive Stock Program authorizes the granting of stock options, replacement stock options, stock appreciation rights, limited stock appreciation rights, restricted stock awards, performance units, and foreign qualified benefits. Stock options, replacement stock options, limited stock appreciation rights, restricted stock awards and foreign qualified benefits have been granted and are currently outstanding under this program and prior programs. 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 granted in 2000, 1999 and 1998 vest equally over three or four years except for



replacement options, which generally vest in six months. Upon a change in control of Abbott, all outstanding stock options become fully exercisable, and all terms and conditions of all restricted stock awards are deemed satisfied.

At January 1, 2001, 37.0 million shares were reserved for future grants under the 1996 Program. Subsequent to year end, the Board of Directors granted approximately 18.5 million stock options from this reserve.

| | Options Outstanding | | Exercisable Options | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| January 1, 1998 | 60,555,672 | $ 20.27 | | |
| Granted | 21,346,846 | 33.76 | | |
| Exercised | (13,892,080) | 18.04 | | |
| Lapsed/Cancelled | (3,405,409) | 20.22 | | |
| December 31, 1998 | 64,605,029 | 25.20 | 35,990,189 | $ 19.90 |
| Granted | 18,682,834 | 44.68 | | |
| Exercised | (11,428,496) | 20.74 | | |
| Lapsed | (837,026) | 32.16 | | |
| December 31, 1999 | 71,022,341 | 30.96 | 42,410,885 | 25.42 |

| | | | | |
|---|---|---|---|---|
| Granted | 18,922,849 | 36.03 | | |
| Exercised | (11,390,803) | 21.21 | | |
| Lapsed | (1,460,206) | 33.99 | | |
| December 31, 2000 | 77,094,181 | $ 33.59 | 45,315,980 | $ 30.12 |

| | Options Outstanding at December 31, 2000 | | | Exercisable Options at December 31, 2000 | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Shares | Weighted Average Remaining Life (Years) | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| $12 to $30 | 26,045,304 | 4.2 | $ 21.48 | 25,686,901 | $ 21.58 |
| 31 to 38 | 29,797,570 | 8.0 | 35.56 | 9,356,531 | 36.40 |
| 39 to 56 | 21,251,307 | 6.8 | 45.66 | 10,272,548 | 45.77 |
| $12 to $56 | 77,094,181 | 6.4 | $ 33.59 | 45,315,980 | $ 30.12 |

Abbott measures compensation cost using the intrinsic value-based method of accounting. Had compensation cost been determined using the fair market value-based accounting method, pro forma net income and earnings per share (EPS) amounts would have been as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Pro Forma Net Income (in billions) | $ 2.6 | $ 2.3 | $ 2.2 |
| Pro Forma Basic EPS | 1.71 | 1.51 | 1.45 |
| Pro Forma Diluted EPS | 1.69 | 1.49 | 1.44 |



The weighted average fair value of an option granted in 2000, 1999 and 1998 was $10.60, $12.26 and $11.02, respectively. For purposes of fair market value disclosures, the fair market value of an option grant was estimated using the Black-Scholes option pricing model with the following assumptions:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Risk-Free Interest Rate | 6.8% | 5.1% | 5.4% |
| Average Life of Options (years) | 5.4 | 5.3 | 5.5 |
| Volatility | 26.0% | 24.0% | 30.0% |
| Dividend Yield | 2.0% | 1.4% | 1.3% |

**Note 8 — Debt and Lines of Credit (dollars in thousands)**

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

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| 6.5% debentures, due 2001 | $ — | $ 250,000 | $ 250,000 |
| 5.6% debentures, due 2003 | 200,000 | 200,000 | 200,000 |
| 6.8% debentures, due 2005 | 150,000 | 150,000 | 150,000 |
| 6.4% debentures, due 2006 | 250,000 | 250,000 | 250,000 |
| 6.0% debentures, due 2008 | 200,000 | 200,000 | 200,000 |
| 5.4% debentures, due 2008 | 200,000 | 200,000 | 200,000 |
| Other | 76,368 | 86,789 | 89,694 |
| Total, net of current maturities | $ 1,076,368 | $ 1,336,789 | $ 1,339,694 |

Payments required on long-term debt outstanding at December 31, 2000, are $250,172 in 2001, $1,059 in 2002, $200,059 in 2003, $59 in 2004, and $150,050 in 2005.

At December 31, 2000, Abbott had $1,505,000 of unused domestic lines of credit, which support domestic commercial paper borrowing arrangements. Related compensating balances, which are subject to withdrawal by Abbott at its option, and commitment fees are not material. Abbott's weighted average interest rate on short-term borrowings was 5.9%, 5.7%, and 5.5% at December 31, 2000, 1999, and 1998, respectively.

**Note 9 — Equity Method Investments (dollars in millions)**

Abbott's 50 percent owned joint venture, TAP Pharmaceutical Products Inc. (TAP), is accounted for under the equity method of accounting. Abbott's share of TAP's income was $481, $390, and $266 in 2000, 1999, and 1998, respectively. The investment in TAP was $491, $521, and $368 at December 31, 2000, 1999,



and 1998, respectively. Dividends received from TAP were $511, $237, and $209 in 2000, 1999, and 1998, respectively. Summarized financial information for TAP is as follows:

| | Year Ended December 31 |
|---|---|

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Net sales | $ 3,538.9 | $ 2,927.5 | $ 2,062.7 |
| Cost of products sold | 881.5 | 686.4 | 426.5 |
| Income before income taxes | 1,503.7 | 1,240.4 | 836.3 |
| Net income | 962.7 | 780.3 | 532.7 |

| | December 31 | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Current assets | $ 1,675.8 | $ 1,595.4 | $ 1,088.8 |
| Total assets | 2,019.4 | 1,850.2 | 1,251.1 |
| Current liabilities | 1,022.6 | 759.1 | 514.2 |

Undistributed earnings of investments accounted for under the equity method amounted to $467 as of December 31, 2000.

**Note 10 — Quarterly Results (Unaudited) (dollars in millions except per share data)**

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| **First Quarter** | | | |
| Net Sales | $ 3,353.2 | $ 3,313.3 | $ 3,050.7 |
| Gross Profit | 1,856.7 | 1,860.3 | 1,768.4 |
| Net Earnings | 693.0 | 668.7 | 588.0 |
| Basic Earnings Per Common Share | .45 | .44 | .38 |
| Diluted Earnings Per Common Share | .44 | .43 | .38 |
| **Second Quarter** | | | |
| Net Sales | $ 3,370.2 | $ 3,259.2 | $ 3,075.1 |
| Gross Profit | 1,839.9 | 1,844.0 | 1,774.1 |
| Net Earnings | 685.2 | 645.0 | 585.9 |
| Basic Earnings Per Common Share | .44 | .42 | .38 |
| Diluted Earnings Per Common Share | .44 | .41 | .38 |
| **Third Quarter** | | | |
| Net Sales | $ 3,317.9 | $ 3,137.2 | $ 3,044.9 |
| Gross Profit | 1,802.4 | 1,547.0 | 1,666.6 |
| Net Earnings | 654.4 | 468.1 | 532.5 |
| Basic Earnings Per Common Share | .42 | .30 | .35 |
| Diluted Earnings Per Common Share | .42 | .30 | .34 |
| **Fourth Quarter** | | | |
| Net Sales | $ 3,704.6 | $ 3,467.9 | $ 3,342.0 |
| Gross Profit | 2,008.3 | 1,949.1 | 1,897.0 |
| Net Earnings | 753.4 | 664.0 | 628.0 |
| Basic Earnings Per Common Share | .49 | .43 | .41 |
| Diluted Earnings Per Common Share | .48 | .43 | .40 |



**Note 11 — Stock Purchase Rights**

Common shares outstanding are subject to stock purchase rights. The rights, which are exercisable only under certain conditions, entitle the holder to purchase common shares at prices specified in the Rights Agreement. The rights were not exercisable at December 31, 2000.

**Note 12 — Business Combinations and Divestiture**

On December 15, 2000, Abbott and BASF A.G. reached an agreement through which Abbott will purchase the pharmaceutical business of BASF, subject to approval of government regulators. The purchase price is $6.9 billion. Abbott estimates that the acquisition, if completed, will result in purchase accounting charges of approximately $1.0 billion for in-process research and development in 2001, and will result in goodwill and intangibles of approximately $5.0 billion. The purchase will be financed by U.S. dollar and euro-based borrowings.

On November 19, 1999, Abbott completed a merger transaction with Perclose, Inc., which was accounted for as a pooling-of-interests transaction. Abbott issued approximately 15.1 million common shares to Perclose shareholders, and Perclose's outstanding stock options were converted into options to purchase approximately 2.9 million Abbott common shares. Merger-related charges of approximately $16.2 million are included in selling, general and administrative expenses for 1999. Abbott's consolidated financial statements for prior periods have been restated to include Perclose and are not significantly different than previously reported amounts.

In 1999, Abbott acquired certain assets of Glaxo Wellcome Inc.'s U.S. anesthesia business for approximately $217 million in cash. A substantial portion of the purchase price was allocated to intangible assets, which are amortized on a straight-line basis over 15 years. In 1998, Abbott acquired the common stock of International Murex Technologies Corporation, a manufacturer of medical diagnostic products, for approximately $234 million in cash. A substantial portion of the purchase price was allocated to goodwill, which is amortized on a straight-line basis over 20 years. Had these acquisitions taken place on January 1 of the previous years, consolidated sales and income would not have been significantly different from reported amounts.

In January 2000, Abbott sold its agricultural products business to Sumitomo Chemical Co., Ltd., resulting in a $139 million gain. Under the transaction, Sumitomo acquired research and development, sales, marketing, and support operations for Abbott's entire line of naturally occurring biopesticides, plant growth regulators and other products for agriculture, public health and forestry. Bulk active ingredient manufacturing rights were retained by Abbott. For the full year 1999, Abbott recorded approximately $102 million in sales from this business.

**Note 13 — Segment and Geographic Area Information (dollars in millions)**

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

PHARMACEUTICAL PRODUCTS — U.S. sales of a broad line of pharmaceuticals.

DIAGNOSTIC PRODUCTS — Worldwide sales of diagnostic systems for blood banks, hospitals, consumers, commercial laboratories and alternate-care testing sites.

HOSPITAL PRODUCTS — U.S. sales of intravenous and irrigation fluids and related administration equipment, drugs and drug-delivery systems, anesthetics, critical care products, and other medical specialty products for hospitals and alternate-care sites.

ROSS PRODUCTS — U.S. sales of a broad line of adult and pediatric nutritional products, pediatric pharmaceuticals and consumer products.

INTERNATIONAL — Non-U.S. sales of all of Abbott's pharmaceutical, hospital and nutritional products. Products sold by International are manufactured by domestic segments and by international manufacturing locations.

Abbott's underlying accounting records are maintained on a legal entity basis for government and public reporting requirements. Segment disclosures are on a performance basis consistent with internal management reporting. Intersegment transfers of inventory are recorded at standard cost and are not a measure of segment operating earnings. The cost of some corporate functions and the cost of certain employee benefits are sold to segments at predetermined rates which approximate cost. Remaining costs, if any, are not allocated to revenue segments. Effective January 1, 2001, certain intangibles and related amortization are excluded from performance measures by revenue segments. Segment information for 2000, 1999 and 1998 reflects this change. 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 | | | Operating Earnings | | | Depreciation and Amortization | | | Additions to Long-Term Assets | | | Total Assets | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| Pharmaceutical (a) | $ 2,580 | $ 2,398 | $ 2,336 | $ 1,013 | $ 1,238 | $ 1,222 | $ 43 | $ 46 | $ 40 | $ 145 | $ 177 | $ 54 | $ 1,719 | $ 1,528 | $ 1,315 |
| Diagnostics (b)(d) | 2,924 | 3,010 | 2,764 | 331 | 561 | 477 | 200 | 215 | 211 | 292 | 305 | 304 | 2,626 | 2,593 | 2,527 |
| Hospital (a)(c) | 2,507 | 2,249 | 2,190 | 660 | 523 | 605 | 111 | 115 | 103 | 183 | 161 | 161 | 1,702 | 1,567 | 1,417 |
| Ross (b) | 2,035 | 1,957 | 1,846 | 720 | 634 | 545 | 65 | 71 | 72 | 47 | 42 | 66 | 899 | 870 | 919 |
| International (d) | 3,307 | 3,204 | 3,001 | 782 | 675 | 607 | 86 | 104 | 95 | 150 | 180 | 207 | 2,576 | 2,485 | 2,352 |
| Total Reportable Segments | 13,353 | 12,818 | 12,137 | $ 3,506 | $ 3,631 | $ 3,456 | $ 505 | $ 551 | $ 521 | $ 817 | $ 865 | $ 792 | $ 9,522 | $ 9,043 | $ 8,530 |
| Other | 393 | 360 | 376 | | | | | | | | | | | | |
| Net Sales | $ 13,746 | $ 13,178 | $ 12,513 | | | | | | | | | | | | |

(a) In 2000, management of the vascular medicine franchise was transferred from the Pharmaceutical segment to the Hospital segment. The above segment information for 1999 and 1998 has been restated to reflect this transfer.

(b) In 2001, management of the FACT PLUS product franchise was transferred from the Diagnostics segment to the Ross segment. The above segment information reflects this transfer.

(c) As of January 2001, certain intersegment royalties are no longer charged to the Hospital segment. Operating earnings for the Hospital segment reflect this change.



(d) Net sales and operating earnings were unfavorably affected by the relatively stronger U.S. dollar in each year presented.

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Total Segment Operating Earnings | $ 3,506 | $ 3,631 | $ 3,456 |
| Corporate functions | 147 | 118 | 114 |
| Benefit plans costs | 46 | 109 | 94 |
| Non-reportable segments | (12) | (32) | (48) |
| Gain on sale of business | (139) | — | — |
| Net interest expense | 23 | 82 | 103 |
| Income from TAP Pharmaceutical Products Inc. | (481) | (390) | (266) |
| Net foreign exchange (gain) loss | 7 | 26 | 31 |
| Other expenses, net (e) | 99 | 321 | 186 |
| Consolidated Earnings Before Taxes | $ 3,816 | $ 3,397 | $ 3,242 |
| Total Segment Assets | $ 9,522 | $ 9,043 | $ 8,530 |
| Cash and investments | 1,795 | 1,678 | 1,379 |
| Investment in TAP Pharmaceutical Products Inc. | 491 | 521 | 368 |
| Prepaid income taxes | 896 | 919 | 847 |
| Non-reportable segments | 440 | 391 | 394 |
| All other, net | 2,139 | 1,919 | 1,742 |
| Total Assets | $ 15,283 | $ 14,471 | $ 13,260 |

(e)

All years include intangibles amortization previously reported by reportable segments and 1999 includes charges of $168 relating to the FDA consent decree, as described in Note 15.

| | Net Sales to External Customers (f) | | | Long-Term Assets | | |
|---|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 2000 | 1999 | 1998 |
| United States | $ 8,762 | $ 8,291 | $ 7,954 | $ 6,689 | $ 6,820 | $ 6,431 |
| Japan | 708 | 664 | 528 | 143 | 164 | 133 |
| Germany | 411 | 452 | 446 | 160 | 164 | 186 |
| Canada | 408 | 374 | 345 | 49 | 49 | 64 |
| The Netherlands | 340 | 309 | 292 | 71 | 62 | 51 |
| Italy | 308 | 335 | 328 | 95 | 97 | 106 |
| All Other Countries | 2,809 | 2,753 | 2,620 | 700 | 695 | 699 |
| Consolidated | $ 13,746 | $ 13,178 | $ 12,513 | $ 7,907 | $ 8,051 | $ 7,670 |

(f)

Sales by country are based on the country that sold the product or service.

The classes of products that contributed at least 10 percent to consolidated net sales in at least one of the last three years were:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Anti-Infectives | $ 1,370 | $ 1,431 | $ 1,415 |
| Adult Nutritionals | 1,426 | 1,357 | 1,257 |

**Note 14 — Litigation and Environmental Matters**

Abbott is involved in various claims and legal proceedings including numerous antitrust suits and investigations in connection with the pricing of prescription pharmaceuticals. These suits and investigations allege that various pharmaceutical manufacturers have conspired to fix prices for prescription



pharmaceuticals and/or to discriminate in pricing to retail pharmacies by providing discounts to mail-order pharmacies, institutional pharmacies and HMOs in violation of state and federal antitrust laws. The suits have been brought on behalf of individuals and retail pharmacies and name both Abbott and certain other pharmaceutical manufacturers and pharmaceutical wholesalers and at least one mail-order pharmacy company as defendants. The cases seek treble damages, civil penalties, and injunctive and other relief. Abbott has filed or intends to file a response to each of the remaining complaints denying all substantive allegations.

In addition, there are several lawsuits and one investigation pending in connection with the sales of HYTRIN. These suits and the investigation allege that Abbott violated state or federal antitrust laws and, in some cases, unfair competition laws by signing separate agreements with Geneva Pharmaceuticals, Inc. and Zenith Laboratories, Inc. Those agreements related to pending patent infringement lawsuits between Abbott and the two companies. Some of the suits also allege that Abbott violated various state or federal laws by filing frivolous patent infringement lawsuits to protect HYTRIN from generic competition. The cases seek treble damages, civil penalties and other relief. Abbott has filed or intends to file a response to each of the complaints denying all substantive allegations.

The U.S. Department of Justice is investigating the marketing and sales practices of TAP Pharmaceutical Products Inc. (TAP) for LUPRON. In addition, various state and federal agencies are investigating the pricing practices of TAP with respect to LUPRON and/or Abbott with respect to certain other Medicare and Medicaid reimbursable products.

Abbott has also 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 expects that within the next year, legal proceedings will occur that may result in a change in the estimated reserves recorded by Abbott. While it is not feasible to predict the outcome of such pending claims, proceedings, investigations and remediation activities with certainty, management is of the opinion that their ultimate disposition should not have a material adverse effect on Abbott's financial position, ongoing cash flows, or ongoing results of operations. But an adverse outcome in the U.S. Department of Justice's investigation of TAP could have a material adverse effect on Abbott's cash flows and results of operations for a particular period.

**Note 15 — U.S. Food and Drug Administration Consent Decree**

In November 1999, Abbott reached agreement with the U.S. government to have a consent decree entered to settle issues involving Abbott's diagnostics manufacturing operations in Lake County, Ill. The decree, which was amended in December 2000, requires Abbott to ensure its diagnostics manufacturing processes in Lake County, Ill., conform with the U.S. Food and Drug Administration's (FDA) Quality System Regulation (QSR). The decree allows for the continued manufacture and distribution of medically necessary diagnostic products made in Lake County, Ill. However, Abbott is prohibited from manufacturing or distributing certain diagnostic products until Abbott ensures the processes in its Lake County, Ill., diagnostics manufacturing operations conform with the QSR. The decree allows Abbott to export diagnostic products and components for sale and distribution outside the United States if they meet the export requirements of the Federal Food, Drug and Cosmetic Act. Under the terms of the amended consent decree, Abbott must ensure its diagnostics manufacturing operations are in conformance with the QSR by various dates through January 15, 2001. The FDA will determine Abbott's conformance with the QSR after an inspection of Abbott's facilities. If the FDA concludes that the operations are not in conformance with the QSR as of the date required, Abbott may be subject to additional costs.



**Abbott Laboratories and Subsidiaries**

**Report of Independent Public Accountants**

To the Shareholders of Abbott Laboratories:

We have audited the accompanying consolidated balance sheet of Abbott Laboratories (an Illinois corporation) and Subsidiaries as of December 31, 2000, 1999, and 1998, and the related consolidated statements of earnings and comprehensive income, shareholders' investment, and cash flows for the years then ended. These financial statements are the responsibility of Abbott's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 financial position of Abbott Laboratories and Subsidiaries as of December 31, 2000, 1999, and 1998, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Chicago, Illinois
January 15, 2001

Arthur Andersen LLP

**Management Report on Financial Statements**

Management has prepared, and is responsible for, Abbott's consolidated financial statements and related notes. They have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on judgments and estimates by management. All financial information in this annual report is consistent with the consolidated financial statements.

Abbott maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied upon for the preparation of consolidated financial statements and other financial information. The design, monitoring and revision of internal accounting control systems involve, among other things, management's judgment with respect to the relative cost and expected benefits of specific control measures. Abbott also maintains an internal auditing function that evaluates and formally reports on the adequacy and effectiveness of internal accounting controls, policies and procedures.

Abbott's consolidated financial statements have been audited by independent public accountants who have expressed their opinion with respect to the fairness of these statements.

Miles D. White
CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Gary P. Coughlan
SENIOR VICE PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

Gary L. Flynn
VICE PRESIDENT AND CONTROLLER



## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Incorporated herein by reference are "Committees of the Board of Directors" and "Information Concerning Nominees for Directors" to be included in the 2001 Abbott Laboratories Proxy Statement. The 2001 Proxy Statement will be filed on or about March 13, 2001. Also incorporated herein by reference is the text found under the caption, "Executive Officers of The Registrant" on pages 14 through 20 hereof.

### ITEM 11. EXECUTIVE COMPENSATION

The material to be included in the 2001 Proxy Statement under the heading "Executive Compensation," other than the Report of the Compensation Committee and the Performance Graph, is incorporated herein by reference. The 2001 Proxy Statement will be filed on or about March 13, 2001.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Incorporated herein by reference is the text to be included under the caption "Information Concerning Security Ownership" and the material under the heading "Security Ownership of Executive Officers and Directors" in the 2001 Proxy Statement. The 2001 Proxy Statement will be filed on or about March 13, 2001.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.



## PART IV

### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) *Documents filed as part of this Form 10-K.*

1. *Financial Statements:* See Item 8, "Financial Statements and Supplementary Data," on page 28 hereof, for a list of financial statements.

2. *Financial Statement Schedules:* The required financial statement schedules are found on the pages indicated below. These schedules should be read in conjunction with the Consolidated Financial Statements:

| Schedules | Page No. |
|---|---|
| Valuation and Qualifying Accounts (Schedule II) | 53 |
| Schedules I, III, IV, and V are not submitted because they are not applicable or not required. | |
| Supplemental Report of Independent Public Accountants | 54 |
| Individual Financial Statements of the registrant have been omitted pursuant to Rule 3.05, paragraph (1) of Regulation S-X. | |

3. *Exhibits Required by Item 601 of Regulation S-K:* The information called for by this paragraph is incorporated herein by reference to the Exhibit Index on pages 56, 57 and 58 of this Form 10-K.

(b) *Reports on Form 8-K during the quarter ended December 31, 2000:*

No reports on Form 8-K were filed during the quarter ended December 31, 2000. In a Form 8-K dated December 15, 2000, Abbott furnished both (i) its press release, also dated December 15, 2000, regarding Abbott's pending acquisition of the pharmaceutical business of BASF, including its global Knoll operations and (ii) questions and answers regarding the acquisition of the pharmaceutical business of BASF.

(c) *Exhibits filed (see Exhibit Index on pages 56, 57 and 58).*

(d) *Financial Statement Schedules filed (page 53).*



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Abbott Laboratories has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ABBOTT LABORATORIES

By /s/ MILES D. WHITE

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

Date: February 9, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Abbott Laboratories on February 9, 2001 in the capacities indicated below.

/s/ MILES D. WHITE

Miles D. White
Chairman of the Board, Chief Executive
Officer and Director of Abbott Laboratories
(principal executive officer)

/s/ H. LAURANCE FULLER

H. Laurance Fuller
Director of Abbott Laboratories

/s/ JEFFREY M. LEIDEN

Jeffrey M. Leiden
Executive Vice President, Pharmaceuticals,
Chief Scientific Officer, and Director
of Abbott Laboratories

/s/ JACK M. GREENBERG

Jack M. Greenberg
Director of Abbott Laboratories

/s/ GARY P. COUGHLAN

Gary P. Coughlan
Senior Vice President, Finance and
Chief Financial Officer
(principal financial officer)

/s/ DAVID A. JONES

David A. Jones
Director of Abbott Laboratories

/s/ GARY L. FLYNN

Gary L. Flynn
Vice President and Controller
(principal accounting officer)

/s/ DAVID A. L. OWEN

David A. L. Owen
Director of Abbott Laboratories

/s/ ROXANNE S. AUSTIN

/s/ BOONE POWELL JR.

Roxanne S. Austin
Director of Abbott Laboratories

Boone Powell Jr.
Director of Abbott Laboratories

/s/ A. BARRY RAND

A. Barry Rand
Director of Abbott Laboratories



/s/ W. ANN REYNOLDS

W. Ann Reynolds
Director of Abbott Laboratories

/s/ WILLIAM D. SMITHBURG

William D. Smithburg
Director of Abbott Laboratories

/s/ ROY S. ROBERTS

Roy S. Roberts
Director of Abbott Laboratories

/s/ JOHN R. WALTER

John R. Walter
Director of Abbott Laboratories



**ABBOTT LABORATORIES AND SUBSIDIARIES**

**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**

**FOR THE YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998**

| Allowances for Doubtful Accounts and Sales Deductions | Balance at Beginning of Year | Provisions Charged to Income(a) | Amounts Charged Off Net of Recoveries | Balance at End of Year |
|---|---|---|---|---|
| 2000 | 238,956 | (8,169) | (40,620) | 190,167 |
| 1999 | 191,352 | 67,645 | (20,041) | 238,956 |
| 1998 | 167,592 | 41,655 | (17,895) | 191,352 |

(a) Represents provisions related to allowances for doubtful accounts and net change in the allowances for sales deductions.



**SUPPLEMENTAL REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To Abbott Laboratories:

We have audited in accordance with auditing standards generally accepted in the United States, the financial statements included in this Annual Report on Form 10-K, and have issued our report thereon dated January 15, 2001. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. Schedule II is the responsibility of Abbott's management, is presented for purposes of complying with the Securities and Exchange Commission's rules, and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Chicago, Illinois
January 15, 2001



**CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS**

As independent public accountants, we hereby consent to the incorporation by reference of the following into Abbott's previously filed Form S-8 Registration Statements 33-4368 for the Abbott Laboratories 1986 Incentive Stock Program, 33-39798 for the Abbott Laboratories 1991 Incentive Stock Program, 333-09071, 333-43381, 333-69547, 333-93253 and 333-52768 for the Abbott Laboratories 1996 Incentive Stock Program, 333-13091 for the Abbott Laboratories Ashland Union 401(k) Plan and Trust, and 33-26685, 33-51585, 33-56897, 33-65127, 333-19511, 333-43383, 333-69579, and 333-93257 for the Abbott Laboratories Stock Retirement Plan and Trust; Abbott's previously filed post-effective Amendment No. 1 to Registration Statement on Form S-8 333-85867 for the Perclose, Inc. 1992 Stock Plan, Perclose, Inc. 1995 Director Option Plan, Perclose, Inc. 1997 Stock Plan and Perclose, Inc. 1995 Employee Stock Purchase Plan; and into Abbott's previously filed S-3 Registration Statements 33-50253, 333-06155, 333-63481, 333-65601, 333-83647 and 333-55446:

1. Our supplemental report dated January 15, 2001 included in this Annual Report on Form 10-K for the year ended December 31, 2000; and

2. Our report dated January 15, 2001 included in this Annual Report on Form 10-K for the year ended December 31, 2000.

ARTHUR ANDERSEN LLP

Chicago, Illinois
February 15, 2001



**EXHIBIT INDEX**
**ABBOTT LABORATORIES**
**ANNUAL REPORT**
**FORM 10-K**
**2000**

| 10-K Exhibit Table Item No. | |
|---|---|
| 2.1 | Purchase Agreement between BASF Aktiengesellschaft and Abbott Laboratories recorded on December 14, 2000.*** |
| 3.1 | * Articles of Incorporation-Abbott Laboratories, filed as Exhibit 3.1 to the Abbott Laboratories Quarterly Report for the quarter ended March 31, 1998 on Form 10-Q. (see also Exhibit 4.23, below.) |
| 3.2 | Corporate By-Laws-Abbott Laboratories. |
| 4.1 | * Indenture dated as of October 1, 1993, between Abbott Laboratories and Harris Trust and Savings Bank, filed as Exhibit 4.1 to the Abbott Laboratories Quarterly Report for the quarter ended September 30, 1993, on Form 10-Q. |
| 4.2 | * Form of 5.6% Note issued pursuant to the Indenture filed as Exhibit 4.2 to the Abbott Laboratories Quarterly Report for the quarter ended September 30, 1993, on Form 10-Q. |
| 4.3 | * Form of Medium-Term Note, Series A (Fixed Rate) to be issued pursuant to the Indenture filed as Exhibit 4.3 to the Abbott Laboratories Quarterly Report for the quarter ended September 30, 1993, on Form 10-Q. |
| 4.4 | * Form of Medium-Term Note, Series A (Floating Rate) to be issued pursuant to the Indenture filed as Exhibit 4.4 to the Abbott Laboratories Quarterly Report for the quarter ended September 30, 1993, on Form 10-Q. |
| 4.5 | * Resolution of Abbott's Board of Directors filed as Exhibit 4.5 to the Abbott Laboratories Quarterly Report for the quarter ended September 30, 1993, on Form 10-Q. |
| 4.6 | * Actions of the Authorized Officers with respect to Abbott's $200,000,000 5.6% Notes filed as Exhibit 4.6 to the Abbott Laboratories Quarterly Report for the quarter ended September 30, 1993, on Form 10-Q. |
| 4.7 | * Actions of the Authorized Officers with respect to Abbott's Medium-Term Notes, Series A filed as Exhibit 4.7 to the Abbott Laboratories Quarterly Report for the quarter ended September 30, 1993, on Form 10-Q. |
| 4.8 | * Officers' Certificate and Company Order with respect to Abbott's $200,000,000 5.6% Notes filed as Exhibit 4.8 to the Abbott Laboratories Quarterly Report for the quarter ended September 30, 1993, on Form 10-Q. |
| 4.9 | * Form of 6.8% Note issued pursuant to Indenture filed as Exhibit 4.9 to the 1995 Abbott Laboratories Annual Report on Form 10-K. |
| 4.10 | * Actions of Authorized Officers with respect to Abbott's $150,000,000 6.8% Notes filed as Exhibit 4.10 to the 1995 Abbott Laboratories Annual Report on Form 10-K. |
| 4.11 | * Officers' Certificate and Company Order with respect to Abbott's $150,000,000 6.8% Notes filed as Exhibit 4.11 to the 1995 Abbott Laboratories Annual Report on Form 10-K. |
| 4.12 | * Resolution of Abbott's Board of Directors relating to the 6.4% Notes filed as Exhibit 4.12 to the 1996 Abbott Laboratories Annual Report on Form 10-K. |
| 4.13 | * Form of $50,000,000 6.4% Note issued pursuant to Indenture filed as Exhibit 4.13 to the 1996 Abbott Laboratories Annual Report on Form 10-K. |



| | |
|---|---|
| 4.14 | * Form of $200,000,000 6.4% Note issued pursuant to Indenture filed as Exhibit 4.14 to the 1996 Abbott Laboratories Annual Report on Form 10-K. |
| 4.15 | * Actions of Authorized Officers with respect to Abbott's 6.4% Notes filed as Exhibit 4.15 to the 1996 Abbott Laboratories Annual Report on Form 10-K. |
| 4.16 | * Officers' Certificate and Company Order with respect to Abbott's 6.4% Notes filed as Exhibit 4.16 to the 1996 Abbott Laboratories Annual Report on Form 10-K. |
| 4.17 | * Form of $200,000,000 6.0% Note issued pursuant to Indenture filed as Exhibit 4.2 to the Abbott Laboratories Quarterly Report for the quarter ended June 30, 1998, on Form 10-Q. |
| 4.18 | * Actions of Authorized Officers with respect to Abbott's 6.0% Note filed as Exhibit 4.3 to the Abbott Laboratories Quarterly Report for the quarter ended June 30, 1998, on Form 10-Q. |
| 4.19 | * Officers' Certificate and Company Order with respect to Abbott's 6.0% Note filed as Exhibit 4.4 to the Abbott Laboratories Quarterly Report for the quarter ended June 30, 1998, on Form 10-Q. |
| 4.20 | * Form of $200,000,000 5.40% Note issued pursuant to Indenture filed as Exhibit 4.2 to the Abbott Laboratories Quarterly Report for the quarter ended September 30, 1998, on Form 10-Q. |
| 4.21 | * Actions of Authorized Officers with respect to Abbott's 5.40% Note filed as Exhibit 4.3 to the Abbott Laboratories Quarterly Report for the quarter ended September 30, 1998, on Form 10-Q. |
| 4.22 | * Officers' Certificate and Company Order with respect to Abbott's 5.40% Note filed as Exhibit 4.4 to the Abbott Laboratories Quarterly Report for the quarter ended September 30, 1998, on Form 10-Q. |
| 4.23 | * Certificate of Designations, Preferences and Rights of the Series A Junior Participating Preferred Stock, filed as Exhibit 4.1 to the Abbott Laboratories Current Report on Form 8-K filed on November 15, 1999. |
| 4.24 | * Rights Agreement, dated as of November 11, 1999, between Abbott Laboratories and BankBoston, N.A., as Rights Agent, filed as Exhibit 99.1 to the Abbott Laboratories Current Report on Form 8-K filed on November 15, 1999. |
| 4.25 | * Amendment No. 1 to Rights Agreement, dated as of December 7, 1999, between Abbott Laboratories and BankBoston, N.A., as Rights Agent, filed as Exhibit 99.1 to the Abbott Laboratories Current Report on Form 8-K |

filed on December 20, 1999.

4.26 * Amendment No. 2 to Rights Agreement dated as of May 19, 2000 filed as Exhibit 99.1 to the Abbott Laboratories Current Report on Form 8-K filed on May 19, 2000.

4.27 * Indenture dated as of February 9, 2001, between Abbott Laboratories and Bank One Trust Company, N.A., filed as Exhibit 4.1 to Registration Statement 333-55446.

Other debt instruments are omitted in accordance with Item 601(b)(4)(iii)(A) of Regulation S-K. Copies of such agreements will be furnished to the Securities and Exchange Commission upon request.

10.1 * Supplemental Plan Abbott Laboratories Extended Disability Plan, filed as an exhibit (pages 50-51) to the 1992 Abbott Laboratories Annual Report on Form 10-K.**

10.2 * The Abbott Laboratories 1986 Incentive Stock Program filed as Exhibit 10.2 to the 1997 Abbott Laboratories Annual Report on Form 10-K.**



10.3 * The Abbott Laboratories 1991 Incentive Stock Program filed as Exhibit 10.3 to the 1997 Abbott Laboratories Annual Report on Form 10-K.**

10.4 * Abbott Laboratories 401(k) Supplemental Plan, filed as Exhibit 10.7 to the Abbott Laboratories 1993 Annual Report on Form 10-K.**

10.5 * Abbott Laboratories Supplemental Pension Plan filed as Exhibit 10.1 to the Abbott Laboratories Quarterly Report for the quarter ended June 30, 1998 on Form 10-Q.**

10.6 * The 1986 Abbott Laboratories Management Incentive Plan filed as Exhibit 10.1 to the Abbott Laboratories Quarterly Report for the quarter ended June 30, 1997 on Form 10-Q.**

10.7 * Abbott Laboratories Non-Employee Directors' Fee Plan filed as Exhibit 10.2 to the Abbott Laboratories Quarterly Report for the quarter ended June 30, 2000 on Form 10-Q.**

10.8 * The Abbott Laboratories 1996 Incentive Stock Program filed as Exhibit 10.1 to the Abbott Laboratories Quarterly Reportfor the quarter ended June 30, 2000 on Form 10-Q .**

10.9 * 1998 Abbott Laboratories Performance Incentive Plan filed as Exhibit 10.1 to the Abbott Laboratories Quarterly Report for the quarter ended March 31, 1998 on Form 10-Q. **

10.10 Form of Agreement Between Abbott Laboratories and each of M. D. White, G. P. Coughlan, R. A. Gonzalez, J. A. Amundson, W. G. Dempsey, regarding Change in Control.**

10.11 * Agreement Between Abbott Laboratories and R. L. Parkinson Jr. filed as Exhibit 10.1 to the Abbott Laboratories Quarterly Report for the quarter ended September 30, 2000 on Form 10-Q.**

12 Computation of Ratio of Earnings to Fixed Charges.

21 Subsidiaries of Abbott Laboratories.

23 Consent of Independent Public Accountants.

99.1 Cautionary Statement Regarding Forward-Looking Statements.

The 2001 Abbott Laboratories Proxy Statement will be filed with the Securities and Exchange Commission under separate cover on or about March 13, 2001.

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* Incorporated herein by reference. Commission file number 1-2189.

** Denotes management contract or compensatory plan or arrangement required to be filed as an exhibit hereto.

*** Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment separately filed with the Securities and Exchange Commission.

Abbott will furnish copies of any of the above exhibits to a shareholder upon written request to the Corporate Secretary, Abbott Laboratories, 100 Abbott Park Road, Abbott Park, Illinois 60064-6400.



QuickLinks

PURCHASE AGREEMENT

between

BASF AKTIENGESELLSCHAFT
67056 LUDWIGSHAFEN
("Seller")

on the one hand

and

ABBOTT LABORATORIES
("Purchaser")

on the other hand

DEFINITIONS

"ACCRUED TAXES" shall mean currently payable Tax liabilities and provisions for deferred Tax liabilities;

"ACTIVE INGREDIENTS" shall mean active chemical substances intended for use in Pharmaceutical Products and any intermediates of such active chemical substances;

"ACTUAL KNOWLEDGE OF SELLER" shall have the meaning described in Section 14.3;

"AFFILIATES" shall mean any company or other entity which is an affiliated company within the meaning of Sections 15 ET SEQ. Aktiengesetz (German Stock Corporation Act);

"AGGREGATE PURCHASE PRICE" shall have the meaning as described in Section 8.1;

"ASSIGNMENTS" shall have the meaning as described in Section 12.1;

"BASF PHARMACEUTICAL BUSINESS" shall mean the business activities conducted by Seller and its Affiliates within the BASF Pharmaceutical Field;

"BASF PHARMACEUTICAL FIELD" shall mean the research, development, importation, use, registration, manufacture, distribution or sale of (a) BASF Pharmaceutical Products and (b) Exclusive Active Ingredients and Mutual Active Ingredients but excluding the BASF Pharmachemical Field;

"BASF PHARMACEUTICAL PRODUCTS" shall mean Pharmaceutical Products being researched, developed, imported, used, registered, manufactured, distributed or sold by Seller or any of its Affiliates, including the Companies, as of the date of this Agreement or the Closing, including without limitation (a) the products listed in Exhibit 13.27(a) and clinical compounds listed in Exhibit 13.27(b) and (b) all line extensions and generic versions of the foregoing provided, however, that BASF Pharmaceutical Products shall not include the finished pharmaceutical products that are manufactured as of the date hereof at Knoll AG's production facility in Uetersen, Germany;

"BASF PHARMACHEMICAL BUSINESS" shall mean the business activities conducted by Seller and its Affiliates within the BASF Pharmachemical Field;

"BASF PHARMACHEMICAL FIELD" shall mean the Pharmachemical Field but excluding any Exclusive Active Ingredients;

"BEST KNOWLEDGE OF SELLER" shall have the meaning as described in Section 14.3;

"BPC" shall have the meaning as described in Section 1.1;

"BPC SUBSIDIARIES" shall have the meaning as described in Section 1.2;

"CASH" shall mean liquid funds and non-trade receivables from Affiliates;

"CLOSING CONDITIONS" shall have the meaning as described in Section 11.1.1;

"CLOSING NET ASSET VALUE" shall have the meaning as described in Section 9.1(b);

"CLOSING NET ASSET VALUE STATEMENT" shall have the meaning as described in Section 10.1;

"COMPANIES" shall have the meaning as described in Section 13.1;

"CONVERSION EXCHANGE RATES" shall mean the local currency exchange rates in effect on the second day prior to Closing, as reported on the Reuters screen at approximately 9:00AM CST.;

"D2E7" shall mean the compound known as D2E7, and any Pharmaceutical Product that includes D2E7 as an Active Ingredient;

"DAMAGES" shall have the meaning given to it in Sections 249 et seq. of the German Civil Code;

"DISCONTINUED/EXCLUDED BUSINESSES" shall mean any or all of the businesses, operations, personnel and assets of the Seller or any Affiliate of Seller, including Knoll AG and the Companies (or any predecessor thereof), that prior to the Closing Date were or are in the process of being (i) closed, wound-up or otherwise terminated, (ii) ceased to be used in connection with such business or operations, or (iii) sold or otherwise disposed of to any third person or entity. Such Discontinued/Excluded Businesses shall include, without limitation, (a) the Uetersen Business as well as any other businesses of Knoll AG other than the Knoll Business, (b) the site, operations and businesses conducted at the site in Nottingham, U.K., (c) the Generics Business as described in Exhibit A hereto and (d) BASF Pharmachemikalien GmbH & Co. KG.

"DISCONTINUED/EXCLUDED BUSINESSES LIABILITIES" means, except as otherwise expressly provided for in this Agreement, any and all obligations, liabilities and expenses arising out of or associated with, or alleged to arise out of or be associated with, the Discontinued/Excluded Businesses, including, without limitation, any of the foregoing arising under any applicable environmental laws, with respect to the employment or termination of employment of any individual, or under or with respect to any employee benefit plan or program, including pension, disability, post-retirement medical or severance or income continuation plan;

"DISPUTED ITEM" shall have the meaning as described in Section 10.4;

"EMPLOYEES" shall mean all individuals who are employed by the Companies on the Closing Date;

"EXCLUSIVE ACTIVE INGREDIENTS" shall mean all Active Ingredients used in any BASF Pharmaceutical Product other than the Mutual Active Ingredients. The material Exclusive Active Ingredients are described on Exhibit 13.27(c);

"FINANCIAL DEBT" shall mean financial indebtedness and non-trade liabilities to Affiliates;

"GROUP PENSION ARRANGEMENT" shall mean a pension plan or vehicle for the financing and administration of pension promises which is used by the Seller and its Affiliates in a particular country for providing pension benefits and in which the Companies participate in connection with providing pension benefits to their respective employees, except for the Seller U.S. Defined Benefit Plans;

"GROUP PENSION TRANSFER AMOUNT" shall have the meaning as described in Section 23.3;

"HOKURIKU SHARES" shall mean the shares in Hokuriku Seiyaku K. K., a stock corporation organised under Japanese law, held by Transpharm GmbH and Lupharma GmbH in the amounts and as described on Exhibit 2;

"INDIA SHARES" shall mean the shares in Knoll Pharmaceuticals LTD India, a stock corporation organised under Indian law;

"INTERCOMPANY AGREEMENTS" shall mean the agreements listed in Exhibit 13.10 hereto;

"KNOLL AG" shall have the meaning as described in Section 3.1.1;

"KNOLL BUSINESS" shall have the meaning as described in Section 3.2;

"KNOLL BUSINESS EMPLOYEES" shall have the meaning as described in Section 29.3;

"MATERIAL ADVERSE EFFECT" shall mean any event, change, circumstance or effect that, individually or in the aggregate, is, or could reasonably be expected to be (a) materially adverse to the BASF Pharmaceutical Business, or the assets, operations , results of operations, financial condition of the BASF Pharmaceutical Business, taken as a whole, other than any event, change, circumstance or effect relating (x) to the economy in general, or (y) in general to the pharmaceutical industry and not specifically relating to the BASF Pharmaceutical Business, or the transactions contemplated by this Agreement;

"MUTUAL ACTIVE INGREDIENTS" shall mean the Active Ingredients manufactured by Seller or its Affiliates as of the date of this Agreement which are used in both BASF Pharmaceutical Products and other Pharmaceutical Products of third parties as described in Exhibit 13.27(c);

"OTHER FOREIGN SUBSIDIARIES" shall have the meaning as described in Section 2;

"PAKISTAN SHARES" shall mean the shares in Knoll Pharmaceuticals LTD Pakistan, a stock corporation organised under Pakistan law;

"PARTNERSHIP" shall have the meaning as described in Section 4.1;

"PENSION ARRANGEMENT" shall mean a defined benefit pension promise which has been made by any of the Companies on an individual, collective or local labor law basis to one or more of their employees prior to Closing, including pension-type indemnities provided upon retirement on a mandatory basis as, for example in Austria, Italy and France, supplemental executive retirement programs, defined benefit cash balance plans, seniority awards, disability pension benefits, survivor

pension benefits, early or accelerated retirement arrangements and post-employment medical benefits, but excluding purely defined contribution promises such as, for example, 401(k) plans;

"PENSION LIABILITIES" shall mean the liabilities under Pension Arrangements pertaining to the BASF Pharmaceutical Business whether organized under either internally or externally financed arrangements, which are transferred to and assumed by Purchaser, but excluding the pension liabilities which are financed via the BASF Pensionskasse VVaG. Such obligations shall be determined as of the Closing valued as the Projected Benefit Obligation on an FAS 87, 106 or 112 basis, as applicable (or, if FAS 87, 106 or 112 is not applicable, using accounting principles consistent with FAS 87, 106, or 112, as appropriate) using the Projected Unit Credit Method (PUC) based on plan provisions as in effect at Closing and applying the following economic assumptions for Pension Arrangements in Germany, the USA and Japan:

| | | | | |
|---|---|---|---|---|
| | *** | *** | *** | *** |
| Germany | *** | *** | *** | *** |
| U.S.A. | *** | *** | *** | *** |
| Japan Hokuriku | *** | *** | *** | *** |

All other assumptions for Pension Arrangements in such countries and all assumptions for Pension Arrangements in other countries shall be mutually agreed upon by Purchaser and Seller within 45 days after the date of this Agreement. If Purchaser and Seller have not agreed within said 45 day period on such assumptions to be applied, then within an additional five days they shall appoint a mutually acceptable actuary who shall establish those assumptions prior to Closing; provided, however, that in establishing those assumptions the actuary shall be limited to selecting on a plan by plan basis either the assumptions proposed by Purchaser or the assumptions proposed by Seller. The costs of the actuary shall be borne jointly by Seller and Purchaser.

"PHARMACEUTICAL FIELD" shall mean the research, development, importation, use, registration, manufacture, distribution or sale of Pharmaceutical Products;

"PHARMACEUTICAL PRODUCTS" shall mean drug products in finished form for human or animal use;

"PHARMACHEMICAL FIELD" shall mean (a) the research, development, importation, use, registration, manufacture, distribution, physical or galenic processing or sale of Active Ingredients and (b) custom manufacturing for third parties of Pharmaceutical Products other than BASF Pharmaceutical Products not based upon Mutual Active Ingredients;

"REFERENCE NET ASSET VALUE" shall have the meaning as described in Section 9.1(a);

"REMAINING PATENTS" shall have the meaning as described in Section 5.2;

"SEPARATE SALE AND TRANSFER CONTRACTS" shall have the meaning as described in Section 7.1;

"SHARED SUBSTANCES" shall have the meaning as described in Section 5.3;

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*** Confidential information omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission.

"SHARED SUBSTANCE RELATED PATENTS" shall have the meaning as described in Section 5.4;

"SHARES" shall have the meaning as described in Section 6.2;

"SHARES/INTERESTS VERWALTUNGS-GMBH/PARTNERSHIP" shall have the meaning as described in Section 6.1;

"STRADDLE PERIOD" shall mean any taxable period beginning on or before and ending after the Closing Date;

"STRUCTURE OPTION" shall have the meaning as described in Section 7 (A) 1;

"TAX" OR "TAXES" shall mean all taxes of any kind imposed by a federal, state, local or foreign governmental authority, and any payments made to another party pursuant to a tax sharing arrangement, indemnity or other similar arrangement, including but not limited to those on, or measured by or referred to as income, gross receipts, financial operation, sales, use, AD VALOREM, value added, franchise, profits, license, withholding, payroll (including all contributions or premiums pursuant to industry or governmental social security laws or pursuant to other tax laws and regulations), employment, excise, severance, stamp, occupation, premium, property, transfer or windfall profit taxes, customs, duties or similar fees, assessments or charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by such governmental authority with respect to such amounts;

"TAX ASSETS" shall mean all deferred tax assets valued according to U.S. GAAP including, but not limited to, those resulting from loss carry forwards or credit carry forwards, as far as they relate to the BASF Pharmaceutical Business and are not used up by Seller prior to Closing;

"TRANSACTIONS" or "TRANSACTIONS" contemplated by this Agreement shall include without limitation, the Demerger and the transactions contemplated by the Demerger, the Merger, the transfer of the Shares and the transfer of the Transferred Patents;

"TRANSFERRED PATENTS" shall have the meaning as described in Section 5.1;

"UETERSEN BUSINESS" shall mean the business activities conducted as of the date hereof by Knoll AG at its production facility in Uetersen, Germany;

"U.S. EMPLOYEES" shall mean all individuals who are employed by the Companies on the Closing Date in the United States;

"VERWALTUNGS-GMBH" shall have the meaning as described in Section 4.1.

# I.
# DESCRIPTION OF SHARES AND ASSETS

## SECTION 1
## US SUBSIDIARIES

1.1 BASF Pharma Corporation is a corporation validly existing under the laws of the State of Delaware with 1,000 issued shares with no par value (hereinafter referred to as "BPC"). All such issued shares are directly or indirectly owned by Seller as described in Exhibit 1.1.

1.2 BPC has direct or indirect legal ownership of the participations in the companies which are set forth in Exhibit 1.2 (hereinafter referred to as "BPC Subsidiaries").

## SECTION 2
## OTHER FOREIGN SUBSIDIARIES

Seller has direct or indirect legal ownership of the participations in the companies and other entities which are set forth in Exhibit 2 (hereinafter referred to as "Other Foreign Subsidiaries").

## SECTION 3
## KNOLL AG AND KNOLL DEUTSCHLAND GMBH

3.1

3.1.1 Knoll AG is a stock corporation under the laws of the Federal Republic of Germany registered in the Commercial Register of the local court Ludwigshafen under docket number HR B 4300 with a registered share capital of EUR 50,000,000.00 (hereinafter referred to as "Knoll AG") which is directly and indirectly held by Seller.

3.1.2 Knoll Deutschland GmbH is a limited liability company (Gesellschaft mit beschraenkter Haftung) under the laws of the Federal Republic of Germany registered in the Commercial Register of the local court Ludwigshafen under docket number HR 3767 with a registered share capital of DM 4,000,000.00 (hereinafter referred to as "Knoll GmbH") which is indirectly held by Seller.

3.2 Knoll AG and Knoll GmbH operate the BASF Pharmaceutical Business in Germany (such Business being the "Knoll Business").

3.3 Knoll AG also operates a business of manufacturing pharmaceutical substances in Uetersen.

## SECTION 4
## KNOLL BUSINESS

4.1 Knoll AG will form a limited partnership in the legal form of a GmbH & Co KG (hereinafter referred to as the "Partnership"). The sole general partner will be a GmbH with a fully paid up registered share capital of EUR 25,000.- (hereinafter referred to as "Ver-

waltungs-GmbH"). All capital interest in the Partnership and shares in the Verwaltungs GmbH will be held by Knoll AG.

4.2 Seller shall cause Knoll Deutschland GmbH to be merged into Knoll AG with economic effect as of January 1, 2001 (the "Merger"). Subject to the Merger becoming effective, Knoll AG will transfer the Knoll Business to the Partnership by way of a demerger (Ausgliederung) in the meaning of Section 123 para 3 no. 1 Conversion Act (Umwandlungsgesetz) with economic effect as of January 2, 2001 (the "Demerger"). Copies of the Merger agreement and the Demerger agreement, including the exhibits and attachments thereto, will be provided to Purchaser for its review and comment a reasonable period of time prior to the execution thereof (collectively, the "Merger/Demerger Agreements"). Neither this Agreement nor the transactions contemplated hereby shall release Seller from its liability under the Business Sale and Purchase Agreement dated April 27, 2000 by and among Kanoldt Arzneimittel GmbH, Knoll AG and Abbott GmbH.

4.3 At the Closing, the Partnership will own as a result of the Demerger:

a) the shares in the companies set forth in Exhibit 4.2 (b); and

b) the other assets and liabilities including contracts of the Knoll Business.

4.4 If the Structure Option has been exercised by Seller pursuant to Section 7 (A), Seller shall not complete the transactions referred to in items 4.1 and 4.2 unless such transactions have already been commenced at the time of the exercise of the Structure Option and Purchaser requires Seller by notice in writing to complete those actions.

## SECTION 5
## PATENTS, SHARED SUBSTANCES

5.1 Seller owns, or owns in part as described on Exhibit 5.1 patents and patent applications exclusively relating to the Pharmaceutical Field and/or the BASF Pharmaceutical Business (hereinafter referred to as "Transferred Patents") as listed in Exhibit 5.1, including, without limitation, all patents and patent applications relating to compounds and substances being researched or developed, or that have been researched or developed, at the Nottingham site which compounds and substances are described in Exhibit 5.1(a).

5.2 Seller owns certain other patents and patent applications as listed in Exhibit 5.2 which also relate but not exclusively relate to the Pharmaceutical Field and/or the BASF Pharmaceutical Business which are hereinafter referred to as "Remaining Patents".

5.3 The substances (Substanzen) collected in the "Compound Library" of Seller are physically available on the premises of both the Partnership or, if the Structure Option has been exercised by Seller pursuant to Section 7 (A), Knoll AG, and Seller in Ludwigshafen, Germany (and will hereinafter be referred to as "Shared Substances").

5.4 Patents and patent applications, whether owned by Seller or by Seller's Affiliates, which relate to any of the Shared Substances will hereinafter be referred to as "Shared Substance Related Patents".

SECTION 6
SHARES

6.1 The shares in Knoll AG are hereinafter referred to as the "Knoll AG Shares", the shares in the Verwaltungs-GmbH and the interests in the Partnership are hereinafter jointly referred to as "Shares/Interests Verwaltungs-GmbH/Partnership".

6.2 "The Shares" shall mean (a) the shares or other equity interests or equity in BPC, in the Other Foreign Subsidiaries, in the Verwaltungs-GmbH and in the Partnership, or (b) in the event of the exercise of the Structure Option the shares or other equity in BPC, in the Other Foreign Subsidiaries and the Knoll AG Shares.

II.
SALE, STRUCTURE OPTION, PURCHASE PRICE

SECTION 7
SALE

7.1 Seller hereby sells, or shall cause its Affiliates to sell, the Shares and the Transferred Patents to Purchaser or to entities designated by Purchaser, subject to the occurrence and fulfillment or waiver of all of the Closing Conditions and with commercial effect as amongst the parties as of the Closing except as otherwise provided in Section 7.4 and Seller hereby agrees to transfer, or to cause its Affiliates to transfer, the Shares and the Transferred Patents by separate sale and transfer contracts (hereinafter referred to as "Separate Sale and Transfer Contracts") to Purchaser or to entities designated by Purchaser at and effective as of the Closing.

7.2 The Separate Sale and Transfer Contracts shall be entered into and completed at the Closing in accordance with Section 12.1, except for the sale of the Hokuriku Shares which shall be completed pursuant to Section 7.4 below.

7.3 Seller shall cause the businesses described in clauses (a) through (d) in the definition of "Discontinued/Excluded Businesses" to be transferred to Seller prior to the Closing and Purchaser shall upon Seller's request and at Seller's expense cause such transfer to be made or completed after the Closing as far as not made or completed prior thereto and shall hold such Discontinued/Excluded Businesses until completion of their transfer for the account of Seller.

7.4 As far as the Hokuriku Shares are concerned, Purchaser agrees to commence within 5 business days after the completion of the procedures set forth in Exhibit 7.4 a tender offer procedure as required under Japanese law for the acquisition of all outstanding shares in Hokuriku Seiyaku K. K. with the commitment that Purchaser shall be required to purchase all of the tendered shares in Hokuriku Seiyaku K. K. including the Hokuriku Shares tendered by Seller directly or indirectly and to complete such tender offer procedure within 21 to 60 days after the commencement of such tender offer procedure (the "Hokuriku Tender Offer"). Seller agrees to (a) tender the Hokuriku Shares at the price per share offered by Purchaser in the course of such tender offer (the "Per Share Tender Price") and (b) provide such information and take such actions as may be necessary to enable Purchaser to comply

with applicable Japanese law. The Per Share Tender Price multiplied by the number of Hokuriku Shares tendered by Seller in the Hokuriku Tender Offer (such amount, converted from Yen to USD using the Conversion Exchange Rates, being the "Final BASF Tender Amount") together with Seller's pro rata portion of the Excess Hokuriku Payment, if any, shall determine the amount of the Aggregate Purchase Price that shall be allocated to the Hokuriku Shares.

SECTION 7 (A)
STRUCTURE OPTION

7 (A).1 Up to and through 10 working days prior to Closing, Seller shall have the option ("Structure Option") to choose to sell the shares in Knoll AG ("Knoll AG Shares") rather than the shares in the Verwaltungs-GmbH and the interests in the Partnership ("Shares/Interests Verwaltungs-GmbH/Partnership").

7 (A).2 The Structure Option can be exercised whether or not the Demerger within the meaning of Section 4.2 has been commenced but may not be exercised if the Demerger has been completed.

7 (A).3 In order to exercise the Structure Option, Seller shall communicate in writing to Purchaser that it has decided to make use of the Structure Option.

7 (A).4 If the Structure Option is exercised, provisions in this Agreement intended to address issues associated with the termination and maintenance of the Partnership, including Sections 29 and 30, shall be of no further force and effect.

SECTION 8
PURCHASE PRICE

8.1 The aggregate purchase price for the Shares and Transferred Patents and the license granted in Section 25.1 below shall be USD 6,900,000,000.00 (six billion nine hundred million United States Dollar) (hereinafter referred to as the "Aggregate Purchase Price"), and shall be allocated as set forth in Exhibit 8.1. To the extent permitted by law such allocation of the Aggregate Purchase Price shall be binding for Seller and Purchaser for all aspects including but not limited to tax filings. At the Closing, the Aggregate Purchase Price less (i) the Provisional Hokuriku Tender Amount (the "Provisional Non-Hokuriku Purchase Price") and (ii) any sums heldback pursuant to Section 12.5, shall be paid by transfer of immediately available funds and free of wire transfer charges and transfer taxes to such bank as Seller may specify in writing within 5 business days prior to the Closing.

8.2 The Aggregate Purchase Price shall be adjusted as provided for in Sections 9 and 10 below or as a result of a claim for indemnification pursuant to Sections 15, 18 and 21 below.

8.3 The "Provisional Hokuriku Tender Amount" shall mean an amount, denominated in USD using the Conversion Exchange Rate for Yen to USD, equal to (a) the number of Hokuriku Shares held by Seller, times (b) the average of the closing prices of the Hokuriku Shares on

the Tokyo Stock Exchange for the five trading days immediately prior to the fifth day prior to the Closing Date. If the Final BASF Tender Amount exceeds the Provisional Hokuriku Tender Amount (the "Hokuriku Overpayment"), an amount of the Provisional Non-Hokuriku Purchase Price equal to the Hokuriku Overpayment shall be refunded by Seller to Purchaser and the allocation to such other Shares (other than the Hokuriku Shares) or assets shall be reduced by the Hokuriku Overpayment in such manner as Purchaser and Seller shall mutually agree in good faith. If the Provisional Hokuriku Tender Amount exceeds the Final BASF Tender Amount (the "Hokuriku Underpayment") an amount equal to the Hokuriku Underpayment shall be refunded by Purchaser to Seller and allocated to such other Shares (other than the Hokuriku Shares) or assets of the Companies upon which Purchaser and Seller shall mutually agree in good faith. "Non Hokuriku Purchase Price" shall be equal to the Aggregate Purchase Price less the Final BASF Tender Amount, including any Excess Hokuriku Payments.

## SECTION 9
## NON-HOKURIKU PURCHASE PRICE ADJUSTMENT

9.1 The Non-Hokuriku Purchase Price shall be adjusted as follows:

a) As of September 30, 2000, the net asset value of the BASF Pharmaceutical Business amounts to *** (such amount, net of the Hokuriku Reference Net Asset Value, being hereinafter referred to as "Reference Net Asset Value"). The Reference Net Asset Value has been determined on the basis of the unaudited proforma balance sheet contained in the attached Exhibit 9.1 (a) in item 3.2 thereof taking into account adjustments, as shown in Exhibit 9.1 (b) by the elimination of (i) Cash, Financial Debt, deferred Taxes and Accrued Taxes as shown in Exhibit 9.1 (a), (ii) deferrals shown in Exhibit 9.1 (a) as miscellaneous liabilities related to expenses of Seller allocated to the BASF Pharmaceutical Business; and (iii) other current assets as shown in Exhibit 9.1 (a) related to one-time payments of American Home Products to Seller with regard to a certain patent ("Enbrel"). Notwithstanding anything to the contrary set forth in this Section 9.1, Exhibit 9.1 (a) or Exhibit 9.1 (b), Section 21.4 shall govern to the exclusion of this Section 9.1 with respect to the calculations described therein.

b) If the net asset value of the BASF Pharmaceutical Business as of the Closing (net of the Hokuriku Closing Net Asset Value) as determined in accordance with the principles set forth in Section 10 below and as shown on the Final Closing Net Asset Value Statement (hereinafter referred to as the ("Closing Net Asset Value") is less than the Reference Net Asset Value, Seller shall pay to Purchaser the amount by which the Closing Net Asset Value is less than the Reference Net Asset Value.

c) If the Closing Net Asset Value exceeds the Reference Net Asset Value, Purchaser shall pay to Seller in addition to the Aggregate Purchase Price the amount by which the Closing Net Asset Value exceeds the Reference Net Asset Value.

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*** Confidential information omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission.

9.2 The amount determined in accordance with Section 9.1 above shall be paid by Seller or Purchaser, as the case may be in USD, together with any accrued interest at a rate of six percent per annum as of the Closing within 5 working days after the Closing Net Asset Value Statement has become final in accordance with Section 10.5 hereof in immediately available funds free of wire transfer charges and transfer taxes to the bank account set forth in Section 8.1 above, if payment is to be made to Seller, and to Citibank, N.A., New York, New York (ABA #021000089) for credit to Abbott Laboratories *** if payment is to be made to Purchaser. Any credit to Purchaser shall be made in USD at the spot exchange rate in effect at two business days prior to the date of payment.

## SECTION 10
## FINAL CLOSING NET ASSET VALUE STATEMENT

10.1 For the purpose of determining the amount of the purchase price adjustment, if any, pursuant to Section 9 above, Seller shall deliver to Purchaser as promptly as practicable (but in any event no more than 45 days) after the Closing an audited consolidated balance sheet and statement of changes in shareholder's equity of the Companies as of the Closing (the "Closing Balance Sheet") and the Closing Net Asset Value Statement, each prepared by Seller and audited by Deloitte & Touche GmbH ("Seller's Auditors") (hereinafter referred to as "Closing Net Asset Value Statement") reflecting the Closing Net Asset Value, together with the report of Seller's Auditors thereon ("Auditor's Report"). The Closing Balance Sheet and the statement of changes in shareholder's equity included in the Auditor's Report shall be prepared in accordance with the Report Principles (as defined in Section 13.20) as of the Closing Date, and prepared and consolidated in a manner consistent with Exhibit 9.1(a). The Closing Net Asset Value Statement included in the Auditor's Report shall be prepared on the basis of, and derived from, the balance sheet contained in the Closing Balance Sheet, and adjusted in a manner consistent with Exhibit 9.1(b), and further adjusted in accordance with the principles set forth in Exhibit 10.1 hereto. The audit of the Closing Balance Sheet shall include a physical count and valuation of the Companies' inventory. The Auditor's Report shall provide at least as much detail by financial statement line item as is included in Exhibit 9.1(a). Intercompany Obligations shall be dealt with as provided in Section 19. NOTWITHSTANDING ANYTHING TO THE CONTRARY SET FORTH IN THIS SECTION 10.1, EXHIBIT 7.4 SHALL GOVERN THE CALCULATION OF THE HOKURIKU NET ASSET VALUE DESCRIBED THEREIN.

10.2 To the extent to which the Closing Net Asset Value Statement arrives at a Closing Net Asset Value resulting in an adjustment of the Non-Hokuriku Purchase Price pursuant to Section 9, the Closing Net Asset Value Statement must also state how the amount by which the Non-Hokuriku Purchase Price, as so adjusted, should be allocated.

10.3 For the purpose of preparing and auditing the Closing Balance Sheet and Closing Net Asset Value Statement, Purchaser shall grant, or cause Companies to grant, Seller and Seller's auditors access to all relevant information and shall cause Purchaser's employees and the employees of the Companies to give Seller and its auditors all support and assistance reasonably requested by Seller free of charge. Purchaser and Purchaser's outside

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*** Confidential information omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission.

accountants, Arthur Andersen, shall be permitted to observe all procedures with respect to the counting and valuation of inventories.

10.4 Purchaser shall have 30 days after receipt of the Closing Net Asset Value Statement during which it may review the Closing Net Asset Value Statement, and raise in writing and in reasonable detail any objections against specified items of the Closing Net Asset Value Statement, indicating precisely the higher or lower value which in Purchaser's opinion should be allocated to each item in dispute. During this period of time, Purchaser and its auditors shall be granted access to all relevant information produced by Seller or Seller's Auditors; provided, however, that the work papers of Seller's Auditors shall be made available only to Purchaser's Auditors. The objections raised by Purchaser pursuant to the preceding sentence must also specify how the amounts in dispute should be allocated in Purchaser's opinion. Any item in the Closing Net Asset Value Statement objected to by Purchaser shall hereinafter be referred to as "Disputed Item".

10.5 If and insofar as Purchaser does not raise objections to the Closing Net Asset Value Statement in accordance with Section 10.4 above, the Closing Net Asset Value arrived at in the Closing Net Asset Value Statement shall be final and binding upon the parties. To the extent to which the Net Asset Value arrived at in the Closing Net Asset Value Statement is final and binding upon the parties, the adjustment payment to be made by Purchaser or Seller according to Section 9.1 shall be made forthwith.

10.6 The parties shall use their best efforts to resolve the Disputed Items within 15 working days following the receipt by Seller of Purchaser's objections pursuant to Section 10.4 above.

10.7 Any Disputed Items not resolved pursuant to Section 10.6 above shall be submitted by the parties to Ernst & Young for review. Should Ernst & Young become unavailable, the parties shall agree on another accounting firm of international standing. If they cannot reach agreement within 15 working days, such accounting firm shall be determined at the request of either party by the Institut der Wirtschaftsprufer e.V. Dusseldorf.

10.8 In rendering its decision, the accounting firm shall consider only the Disputed Items and, with respect to each such Disputed Item, shall stay within the range of the values allocated to it by the parties. The accounting firm shall deliver in writing to Seller and Purchaser as promptly as practicable its determination of the Disputed Items stating the reasons of its decision. The reasons shall specifically address the arguments brought forward by the parties with respect to each Disputed Item. Such determination shall be final and binding upon the parties absent manifest mathematical errors. The accounting firm shall allocate its fees to the parties in accordance with Sections 91 et seq. of the German Civil Procedure (ZPO).

10.9 No later than 45 days after the Closing, as part of, and concurrently with, its preparation of the financial statements described in Section 10.1, Seller shall prepare and Seller's Auditors shall audit and report on, in accordance with U.S. GAAP and the Securities Exchange Act of 1934 and the rules and regulations of the U.S. Securities and Exchange Commission thereunder (including Regulation S-X) (the "U.S. Securities Laws"), such financial statements of the BASF Pharmaceutical Business and the Companies as may be

required to be filed by Purchaser under Item 7 of Form 8-K under the U.S. Securities Laws (the "U.S. Financial Statements"). Seller and Seller's Auditors shall permit Purchaser and Purchaser's Auditors to have access to all information, including Seller's Auditor's work papers, as Purchaser may reasonably request in connection therewith; provided, however, that the work papers of Seller's Auditors shall be made available only to Purchaser's Auditors. The engagement of Seller's Auditors will be governed by a separate agreement between Purchaser and Seller's Auditors and be based on the General Conditions of Assignment for Wirtschaftsprufer and Wirtschaftsprufungsgesellschaften as of July 1, 2000 including a limitation of liabilities for all damages arising from or in connection with the engagement. All fees and expenses of Seller's Auditors incurred in connection with the preparation of the U.S. Financial Statements shall be paid by Purchaser. After the Closing, Seller shall permit Seller's Auditors, Purchaser and its representatives to have access, upon reasonable advance notice, to the assets, employees, books and records of Seller and its Affiliates and shall furnish, or cause to be furnished, to Seller's Auditors and Purchaser, such financial, tax and operating data and other available information with respect to the BASF Pharmaceutical Business as Seller's Auditors and Purchaser may from time to time request or otherwise require to prepare the U.S. Financial Statements. Seller shall provide such certifications, support and attestations, including certifications and attestations as to the accuracy of the financial information that forms the basis of the U.S. Financial Statements or that is otherwise provided to Seller's Auditors. Purchaser and Purchaser's outside accountants shall be entitled to observe and participate in Seller's and Seller's Auditors preparation and audit of the US Financial Statements.

## III.
## CLOSING

### SECTION 11
### CLOSING

11.1 The transactions set forth in this Agreement shall be consummated at the time, place and manner provided below (the "Closing"). The date of the Closing (the "Closing Date") shall be, unless otherwise agreed between the parties or terminated pursuant to Section 33, on the fifth working day after the Closing Conditions have been fulfilled, but not earlier than on March 2, 2001.

11.1.1 The obligation of Purchaser and Seller to effect the Closing shall be subject to the satisfaction of the following conditions (hereinafter referred to as the "General Closing Conditions" and, together with the Purchaser Conditions (as defined in Section 11.1.2), the "Closing Conditions"):

a) The transactions contemplated by this Agreement have been, or are treated as being, approved

aa) under the EU merger control rules;

bb) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR Act") as amended, including, without limitation, the expiration or early termination of any waiting period applicable to the consummation of the purchase under the HSR Act; and

cc) under the Industrial Site Recovery Act implemented by the New Jersey Department of Environmental Protection; and

b) Except if the Structure Option has been exercised by Seller pursuant to Section 7 (A), the Merger shall have been registered in the Commercial Register of Knoll GmbH and Knoll AG, and the Demerger shall have been registered in the Commercial Register of both Knoll AG and the Partnership;

c) No preliminary or permanent injunction or other order, decree or ruling issued by a court of competent jurisdiction or by a governmental authority shall be in effect that would prevent the consummation of the transactions contemplated by this Agreement in the United States of America or the European Union.

11.1.2. The obligation of Purchaser to effect the Closing shall be subject to satisfaction of the following conditions ("Purchaser Conditions"):

a) The Representations of Seller made in Section 13 of this Agreement (other than the representation in the last sentence of Section 13.2) shall be true and correct on and as of the Closing Date as so made anew on and as of such date, unless such failure to be so true and correct would not have, or would not reasonably be expected to have, a Material Adverse Effect. Purchaser shall have received a certificate, dated the Closing Date, to such effect by an officer of Seller.

b) Seller shall have performed and complied in all material respects with all covenants, terms and agreements to be performed and complied with by it on or before the Closing Date, unless any failure to so perform or comply would not have, or would not reasonably be expected to have, a Material Adverse Effect. Purchaser shall have received a certificate, dated the Closing Date, to such effect by an officer of Seller.

c) Seller shall have obtained, or shall have caused the Companies to have obtained, all Material Agreement Consents (as defined in Section 13.21).

11.2 Each of the parties will inform the other promptly of the fulfillment of the Closing Conditions.

11.3 The Closing shall take place at the offices of Hengeler Mueller Weitzel Wirtz, Frankfurt am Main, Germany, or such other place as agreed upon by the parties.

## SECTION 12
## ACTIONS TO BE TAKEN AT THE CLOSING

12.1 At the Closing, Seller and Purchaser shall deliver:

a. except if the Structure Option has been exercised by Seller pursuant to Section 7 (A) a notarial deed between Knoll AG and Purchaser or its designee on the transfer of title to the shares in Verwaltungs-GmbH;

b. except if the Structure Option has been exercised by Seller pursuant to Section 7 (A) a duly executed agreement between Knoll AG and Purchaser or its designee on the transfer of the limitedccccc partnership interests in the Partnership;

c. except if the Structure Option has been exercised by Seller pursuant to Section 7 (A) an application for registration of the change of the limited partner of the Partnership in the commercial register duly executed by Knoll AG, Verwaltungs-GmbH and Purchaser or its designee;

d. duly executed assignments, in recordable form, of each of the Transferred Patents entered into by Seller and Purchaser or its designees (the "Assignments");

e. duly executed Separate Sales and Transfer Contracts

f. a duly executed license agreement relating to the Remaining Patents to be negotiated in good faith by Purchaser and Seller.

12.2 At the Closing, Seller shall deliver or cause to be delivered to Purchaser:

a. certificates representing the Shares sold pursuant to Section 12.1 (e) above and, if the Structure Option is exercised by Seller pursuant to Section 7 (A), the Knoll AG Shares duly endorsed for transfer to Purchaser or its designees or such evidence of the transfer of such Shares as required by the applicable law of the jurisdictions of incorporation of the companies to which the shares relate;

b. except if the Structure Option has been exercised by Seller pursuant to Section 7 (A), executed copies of all Merger/Demerger documents, including, without limitation, all executed instruments of assignment and assumption and filings made in connection therewith; and

c. a duly executed assignment of (i) all Intellectual Property owned or licensed by Seller or any of its Affiliates that relates exclusively to the Pharmaceutical Field or the BASF Pharmaceutical Business, and (ii) all Intellectual Property relating to the compounds and substances described in Exhibit 5.1(a).

12.3 At the Closing, Purchaser shall pay to Seller such portion of the Aggregate Purchase Price as is payable at Closing in accordance with Section 8.

12.4 The deliveries of the agreements and other documents set forth in Section 12.1, deliveries to be made by Seller pursuant to Section 12.2, and the payment of the purchase price by Purchaser pursuant to Section 12.3 above shall all be made concurrently (Zug um Zug).

12.5 If and insofar as the transfer of any of the Shares and/or the Transferred Patents is prohibited due to a missing approval from antitrust authorities or governmental authorities other than those mentioned in Section 11.1.1(a), this shall not delay or prevent the Closing pursuant to Sections 12.1, 12.2 and 12.3 provided, however, that the portion of the Aggregate Purchase Price attributable to such Shares and/or Transferred Patents shall not be delivered and paid at Closing, but shall be held by Purchaser until such approval(s) have been obtained and such Shares and/or Transferred Patents shall have been transferred. The parties shall use their best efforts to obtain such approvals. All earnings from the relevant Companies shall be held for the account of Purchaser.The respective Shares or Transferred Patents shall be transferred without undue delay after the approval has

been obtained with commercial effect as amongst the parties as of the Closing and the respective portion of the Aggregate Purchase Price attributable to such Shares and/or Transferred Patents shall be paid simultaneously together with interest thereon for the period from the Closing Date to the receipt of payment at an interest rate of six percent per annum.

## IV.
## REPRESENTATIONS OF SELLER

### SECTION 13
### REPRESENTATIONS OF SELLER

Seller hereby absolutely and unconditionally represents and warrants in the form of an independent guarantee to Purchaser that the following statements (the "Representations") are true and accurate as of the date of this Agreement and as of the Closing Date except as otherwise provided herein:

13.1 (a) BPC, BPC Subsidiaries, Other Foreign Subsidiaries, the Partnership and Verwaltungs GmbH or, in the event of an exercise of the Structure Option pursuant to Section 7 (A), BPC, BPC Subsidiaries, Other Foreign Subsidiaries, Knoll Deutschland GmbH and Knoll AG, (together in either case, hereinafter referred to as the "Companies") are duly organized, validly existing and (where such concept applies) in good standing under the laws of the jurisdiction of their respective incorporation and each of them has the requisite corporate power and authority to own, operate or lease the properties that it purports to own, operate or lease and to carry on its businesses as they are now being conducted. Each of the Companies is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary. Seller and each of its Affiliates (as applicable) including the Companies has all requisite corporate power and authority to enter into this Agreement and to consummate the Transactions contemplated hereby.

(b) The execution and delivery of this Agreement and the consummation of the Transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of Seller and each of its Affiliates (as applicable), including the Companies, shareholder approval not being required by any of them. This Agreement and transaction documents provided for herein have been, or upon execution, shall have been, duly executed and delivered by Seller, its Affiliates (as applicable), including the Companies and constitutes a valid and binding agreement of each of them, enforceable against them in accordance with their terms.

13.2 Except for the manufacture of the Mutual Active Ingredients and certain of the Exclusive Active Ingredients pursuant to certain Intercompany Agreements (the "Intercompany Manufacturing Agreements"), Seller conducts the BASF Pharmaceutical Business only through the Companies, and neither Seller nor any of Seller's Affiliates (including the entities and operations listed in clauses (a)-(d) of the definition of Discontinued Excluded Businesses) other than the Companies owns, leases or uses, or has any interest in, any assets or properties, real or personal, tangible or intangible, including Intellectual Property, related to the BASF Pharmaceutical Business, other than (i) the manufacturing facilities operated in connection with the Intercompany Manufacturing Agreements, and (ii) the Transferred Patents and the Remaining Patents. Except as disclosed on Exhibits 1.1, 1.2, 2 and 4.2(b), Seller has no direct or indirect subsidiary corporations, and owns no interest, direct or indirect, in any other business enterprise, firm or corporation that, in each

case, is engaged in the BASF Pharmaceutical Business. Seller holds, as set forth in Exhibits 1.1, 1.2, 2 and 4.2(b), good and marketable title to the Shares (including all the issued and outstanding shares of the BPC Subsidiaries) and the Shares are free and clear of all liens, encumbrances, pledges, options, claims, charges and restrictions of any nature and, except as disclosed in Exhibit 13.2(d), are free of other third party rights and can be freely disposed of by the respective assignors. Each respective assignor has the full right and power to transfer to Purchaser the Shares (including all the issued and outstanding shares of the BPC Subsidiaries) pursuant to this Agreement, without obtaining the consent of any third party except as set forth on Exhibit 13.2(d). No consent, approval, order or authorization of, or registration, declaration or filing with, any governmental entity is required by or with respect to Seller or the Companies in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby, except the necessary consents and approvals described in Section 11.1.1 (a) ("Consents").

13.3 The authorized and issued share capital of each of the Companies is described, and is held by the persons and in the amounts as set forth in Sections 1 through 4 and the appertaining Exhibits and all shares of such share capital are duly authorized, validly issued, outstanding, fully paid and non-assessable. There are no outstanding contractual obligations of any of the Companies to repurchase, redeem or otherwise acquire or to issue, sell or otherwise dispose of any outstanding shares or capital of, or otherwise ownership interests in or any warrant, option or other security exercisable, for exchange for, or convertible into any shares of, any of the Companies, or to make any investment (in the form of a loan, capital contribution or otherwise) in any other entity. No bonds, debentures, notes or other indebtedness of any of the Companies having the right to vote on any matters on which stockholders may vote are issued or outstanding.

13.4 Except if the Structure Option has been exercised by Seller pursuant to Section 7 (A), as of the Closing, the Demerger set forth in Section 4 above will have been duly authorized and implemented in accordance with governing law and will have resulted in the transfer to the Partnership of all assets and liabilities as described in Section 4.3 above.

13.5 Except as set forth in Exhibit 13.5, the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, will not (i) conflict with or violate the articles of incorporation or bylaws or equivalent organizational documents of Seller, any of its Affiliates, or any of the Companies, (ii) subject to making the filings and obtaining the approvals identified in Section 11.1.1(a) and Exhibit 13.2(e) or such other filings and approvals the absence of which would not reasonably be expected to have a Material Adverse Effect and are necessary under other applicable merger, investment, drug or environmental control statutes, conflict with or violate any statute, rule, regulation or other legal requirement or temporary, preliminary or permanent order, judgment or decree or any memorandum of understanding with any governmental entity applicable to Seller, any of its Affiliates, as applicable, or any of the Companies or by which any property or asset of Seller, any of its Affiliates, as applicable, or any of the Companies is bound or affected, or (iii) result in any breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, result in the loss of a benefit under, or give to others any right of purchase or sale, or any right of termination, amendment, acceleration, increased payments or cancellation of, or result in the creation of a lien on any property or asset of Seller, any of its Affiliates, as applicable, or any of the Companies pursuant to, any note, bond, mortgage, indenture, con-

tract, agreement, lease, license, permit, franchise, authorization or other instrument or obligation to which Seller, any of its Affiliates, as applicable, or any of the Companies is a party or by which Seller, any of its Affiliates, as applicable, or any of the Companies or any property or asset of Seller, any of its Affiliates, as applicable, or any of the Companies is bound or affected, except, in the case of clauses (ii) and (iii) for any such conflicts, violations, breaches, defaults, events, losses, rights, payments, cancellations, encumbrances or other occurrences that could not either (x) result in a default or event of default or accelerate or require that Seller, any of its Affiliates, as applicable, or any of the Companies pay prior to the scheduled maturity date or repurchase or offer to repurchase indebtedness owed to any person that is in excess of EUR 10,000,000 or indebtedness in excess of EUR 30,000,000 in the aggregate, or (y) with respect to any other obligation, document or instrument, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect.

13.6 As of the Closing, there exist no obligations of the Companies under any tax sharing agreements between the Companies and the Seller which will survive with effect after Closing , agreements of domination or profit and loss pooling agreements or agreements of a similar kind or effect between any of the Companies and Seller or any of Seller's Affiliates.

13.7.1 All Tax returns required to have been filed by or with respect to any of the Companies have been duly and timely filed, and all Taxes shown to be due on such Tax returns for which any of the Companies is liable have been timely paid. To the Best Knowledge of Seller, the Tax Assets represent valid reductions of Tax that will be available to the Purchaser or the Companies after the Closing.

13.7.2 All Tax assessments relating to any of the Companies with respect to Tax periods ending on or before the date of this Agreement have been timely paid or are being contested in good faith

13.7.3 Except for the ongoing audits listed in Exhibit 13.7.3, there is no action, suit or investigation, claim or assessment pending or to the Best Knowledge of Seller threatened with respect to Taxes of the Companies.

13.8 Except as disclosed in Exhibit 13.8, none of the Companies has received any written Tax ruling or entered into any written and legally binding agreement or is currently under negotiations to enter into any such agreements with any Tax authority which would affect the Tax situation of any of the Companies in any time period ending after the Closing.

13.9 a) Except for (i) the manufacturing facilities operated in connection with the Intercompany Manufacturing Agreements, and (ii) the Transferred Patents and the Remaining Patents, the assets, properties, rights and interests owned by the Companies, or which the Companies have valid, subsisting and enforceable rights to use constitute all of the assets, properties, rights and interests necessary to conduct the BASF Pharmaceutical Business in substantially the same manner as conducted by Seller and its Affiliates, including the Companies, prior to the date of this Agreement. The Companies have good and marketable title, or are otherwise legally entitled to use, all assets whether tangible or intangible, (except for (i) the manufacturing facilities operated in connection with the Intercompany Manufacturing Agreements, and (ii) the intellectual property rights as otherwise

addressed in Sections 13.15 through 13.17) which are used in, or are necessary for, the conduct of the BASF Pharmaceutical Business as currently conducted free and clear of material restrictions on, or conditions to, transfer or assignment, and of liens, pledges, charges, encumbrances, security interest, equities, claim, covenants, conditions and restrictions, except as set forth in Exhibit 13.9(a).

13.10 The Intercompany Agreements listed in Exhibit 13.10 are validly existing and binding on the parties thereto.

13.11.1 For purposes of this Section 13.11, the following terms have the definitions set forth below:

a) "ERISA Affiliate" means, with respect to any entity, trade or business, any other entity, trade or business that is a member of a group described in Section 414(b), (c), (m) or (o) of the Internal Revenue Code of 1986, as amended (hereinafter referred to as "Code"), or Section 4001(b)(1) of the Employee Retirement Income Security Act of 1974, as amended (hereinafter referred to as "ERISA"), that includes the first entity, trade or business, or that is a member of the same "controlled group" as the first entity, trade or business pursuant to Section 4001(a)(14) of ERISA.

b) An "Employee Benefit Plan" means any employee benefit plan, program, policy, practice, or other arrangement providing benefits to any current or former employee, officer or director of any of the Companies or any beneficiary or dependent thereof that is sponsored or maintained by the Seller, any of the Companies or any Affiliate of the Seller or any of the Companies or to which the Seller, any of the Companies or any Affiliate of Seller or any of the Companies contributes or is obligated to contribute, whether or not written or funded or unfunded, including without limitation any Pension Arrangement, disability, death benefit, hospitalization, medical or other employee welfare benefit plan or employee pension benefit plan (including any employee welfare benefit plan within the meaning of Section 3(1) of ERISA or any employee pension benefit plan within the meaning of Section 3(2) of ERISA whether or not such employee welfare benefit or employee pension benefit plan is subject to ERISA), and any bonus, incentive, deferred compensation, vacation, stock purchase, stock option, stock appreciation, severance, early retirement, seniority, employment, change of control or fringe benefit plan, program or agreement.

13.11.2 As of the Closing, Exhibit 13.11.2 includes a complete list of all Employee Benefit Plans which (i) represent Pension Arrangements, (ii) cover 100 or more Employees or former employees, (iii) represent an annual operating expense of USD 250,000 or more, or (iv) represent post-retirement obligations of which the market value or present value is USD 250,000 or more, none of which is a multiemployer plan subject to Title IV of ERISA. True and complete copies of all such Employee Benefit Plans, including, but not limited to, any trust instrument or insurance contract forming a part of any such Employee Benefit Plan, and all amendments thereto, have been provided or made available to Purchaser.

13.11.3 Each Employee Benefit Plan complies with all applicable local laws, including but not limited to the Code and ERISA, and any contract or labor, works council or collective bargaining agreement, and has been administered in accordance with its terms. All contributions, premiums and other payments due from Seller, the Companies or any of their

Affiliates to (or under) any Employee Benefit Plan through the date of this Agreement and as of the Closing have been fully paid or, to the extent not required to be paid on or before such date, have been provided for in accordance with Exhibit 13.20 (a) (the Report Principles). There are no liabilities arising out of or under any Employee Benefit Plan or other employee benefit plan sponsored, maintained or contributed to by Seller or any of its Affiliates or ERISA Affiliates, whether absolute, accrued, contingent or otherwise, that could become a liability of Purchaser and its Affiliates, including the Companies, upon or after the consummation of the transactions contemplated by this Agreement other than those liabilities (i) specifically assumed by Purchaser under Sections 22 and 23 or accrued on the Closing Net Asset Value Statement, or (ii) which arise out of an event occurring after the Closing under an Employee Benefit Plan then maintained by any of the Companies.

13.11.4 Except as disclosed by Jeffrey Rosen of Wasserstein Perella & Co. Inc. to Steve Fussell, William Dempsey and Jeffrey Leiden of Purchaser on December 12, 2000 at the offices of Hengeler Mueller, Bockenheimer Landstrasse 51, 60325 Frankfurt am Main, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will, either alone or in conjunction with any other event, (i) result in any payment becoming due, or increase the amount or value of compensation or benefits due, any current or former Employee, including, without limitation, any severance payment or benefit; (ii) increase any benefits otherwise payable under any Employee Benefit Plan or (iii) result in the acceleration of the time of payment, funding or vesting of any such benefits.

13.12 Except as disclosed in Exhibit 13.12(a), there is no court, administrative or arbitration proceeding, litigation, action, suit, investigation or claim (including, but not limited to, product liability cases) that (a) would reasonably be expected to have a Material Adverse Effect, or (b) involves an amount in dispute, individually or in the aggregate, in excess of EUR 5,000,000 pending or, to the Best Knowledge of Seller, threatened in writing against any of the Companies or Seller with respect to the BASF Pharmaceutical Business. Neither any of the Companies nor Seller or any of its Affiliates (with respect to the BASF Pharmaceutical Business) is subject to, or bound by, any judgment, order, injunction or decree of any court, agency or instrumentality. Neither BASF (with respect to the BASF Pharmaceutical Business), nor any of the Companies have received any notice, citations or order from any government authority or from any professional or consumer body (a) asserting that any product is or may be defective or dangerous, or fails to meet any applicable standards promulgated by any governmental or regulatory authority or agency, (b) constituting any warning or similar notice, or (c) requesting that any of them recall any of its products or to inform the public or its customers of an adverse effect, or a defect or danger in any of their products or linked to their use and, to the Best Knowledge of Seller, no facts or conditions exist which could reasonably be expected to result in any of the foregoing.

13.13 By January 31, 2001 Seller shall deliver to Purchaser a complete and accurate list of all real property and leaseholds belonging to the Companies and material to the BASF Pharmaceutical Business, as well as all other facilities used or occupied by the Companies in connection with the BASF Pharmaceutical Business and shared with Seller, or any Affiliate of Seller other than one of the Companies (collectively, the "Real Property"). The Companies own, or have a valid leasehold or other valid interest in the Real

Property. None of the owned Real Property is subject to any lien against such Real Property or to any encumbrance other than minor imperfections of title, if any, none of which is substantial in amount, detracts from the value or impairs the use of the property subject thereto or which would reasonably be expected to have a Material Adverse Effect. All of the leased Real Property is subject to valid lease agreements that are in full force and effect in accordance with their terms, the Companies have the right to quiet enjoyment with respect to such leased Real Property, and there exists no material breach or default thereunder on part of any of the Companies or, to the Actual Knowledge of Seller, any other party thereto. The Companies are in sole possession of each parcel of Real Property and no portion of the leased Real Property has been sublet nor has any portion of the document creating such leasehold interest been assigned.

13.14 As of the date of this Agreement, Exhibit 13.14(a) lists all patents owned, and applications made for registration of such rights, by Seller or its Affiliates, including any of the Companies (excluding the Transferred Patents and the Remaining Patents listed in Exhibit 5.1 and Exhibit 5.2) which relate to or are used in the BASF Pharmaceutical Business. Within 30 days of the date of this Agreement Seller shall furnish to Purchaser a list of all trademarks owned, and applications made for registration of such rights, by Seller or its Affiliates, including any of the Companies which relate to or are used in the BASF Pharmaceutical Business, which list shall be deemed part of Exhibit 13.14(a). Exhibit 13.14(b) lists all contracts, all of which are valid, binding and enforceable, under which Seller or its Affiliates, including any of the Companies is licensed or otherwise permitted to use any Intellectual Property right which is material to the BASF Pharmaceutical Business. Exhibit 13.14(a), Exhibit 13.14(b), Exhibit 5.1 and Exhibit 5.2 list all the patents and, upon delivery of the list referred to in the second sentence of this Section 13.14, trademarks, owned, and applications made for registration of such rights which are used in, or are necessary for, the conduct of the BASF Pharmaceutical Business as currently conducted. Exhibit 5.1 list all patents owned by Seller and its Affiliates relating to D2E7.

13.15.1 To the Best Knowledge of Seller, none of the Intellectual Property listed in Exhibit 13.14(a), Exhibit 13.14(b), Exhibit 5.1 and Exhibit 5.2 has lapsed, has been abandoned or is subject to any pending opposition or cancellation proceeding before any registration authority in any jurisdiction, and no party thereto is in breach of any of the license agreements listed in Exhibit 13.14(b).

13.15.2 To the Best Knowledge of Seller no person is infringing on any of the intellectual property rights listed in any Exhibit to this Agreement or on any of the Transferred Patents.

13.15.3 (a) The Companies own, or, giving effect to the license of the patents contemplated by Section 13.14 will be licensed to use (in each case, free and clear of any liens or encumbrances whatsoever), all Intellectual Property used in or necessary for the conduct of the BASF Pharmaceutical Business as currently conducted; (b) to the Best Knowledge of Seller, no person is challenging, infringing on or otherwise violating any right of the Companies or Seller with respect to the BASF Pharmaceutical Business with respect to any Intellectual Property owned by or, to Seller's Actual Knowledge licensed to, the Companies or Seller with respect to the BASF Pharmaceutical Business and (c) neither the Companies nor Seller has received any written notice of any pending claim with respect to any Intellectual Property used by Seller or its Affiliates in connection with the BASF Pharmaceutical Business or the Companies and to the Best Knowledge of Seller no Intellectual Property owned or, to Seller's Actual Knowledge licensed by, Seller or its Affiliates in connection with the BASF Pharmaceutical Business or the Companies is

being used or enforced in a manner that would result in the abandonment, cancellation or unenforceability of such Intellectual Property.

For purposes of this Agreement, "Intellectual Property" shall mean trademarks, service marks, brand names, certification marks, trade dress and other indications of origin, the goodwill associated with the foregoing and registrations in any jurisdiction of, and applications in any jurisdiction to register, the foregoing, including any extension, modification or renewal of any such registration or application; inventions, discoveries and ideas, whether patentable or not, in any jurisdiction; patents, applications for patents (including, without limitation, divisions, continuations, continued prosecution applications, continuations in part and renewal applications), and any renewals, extensions or reissues thereof, in any jurisdiction; know-how, trade secrets and confidential information and rights in any jurisdiction to limit the use or disclosure thereof by any person; writings and other works, whether copyrightable or not, in any jurisdiction; registrations or applications for registration of copyrights in any jurisdiction, and any renewals or extensions thereof; and any similar intellectual property or proprietary rights.

13.15.4 Except for the Remaining Patents, all Intellectual Property used in the BASF Pharmaceutical Business and developed, owned or held, directly or indirectly, by any officer, director, employee or contractor of any of the Companies or, with respect to the BASF Pharmaceutical Business, Seller or any of its Affiliates, has been or prior to or as of the Closing will have been, duly and effectively transferred to the Companies or Purchaser. Except to the extent accrued on the balance sheet included as Exhibit 9.1(a) or as will be accrued on the Closing Net Asset Value Statement, neither the Companies nor, with respect to the BASF Pharmaceutical Business, Seller or any of its Affiliates, has any liabilities or obligations outstanding at the Closing Date under any invention or similar agreement or otherwise to any officer, director, employee or contractor with respect to Intellectual Property.

13.16.1 With respect to products manufactured or distributed by the BASF Pharmaceutical Business which are already in the market as of the date of this Agreement, to the Best Knowledge of Seller, none of such products infringes on and, to the Best Knowledge of Seller, except as disclosed in Exhibit 13.16.1, no third party has asserted that any such products infringe on, any intellectual property rights of any other person .

13.16.2 With respect to the products listed in Exhibit 13.16.2 which are in development as of the date of this Agreement, to the Best Knowledge of Seller, no third party has asserted in writing that such products infringe on any intellectual property rights of such third party. Except for the opinions of counsel to Seller and/or its Affiliates (which shall be delivered to Purchaser prior to Closing), Seller has provided to Purchaser or its representatives all material information available to Seller relating to D2E7.

13.16.3 Except as expressly set forth in Sections 13.16.1, 13.16.2, 15.1 (II) and 15.1 (III), Seller (a) does not make any representation with respect to infringement of third party rights, and (b) does not assume any responsibility and liability with respect to infringement of third party rights, with respect to any products or product ideas or product proposals which, in each case, are under consideration for the BASF Pharmaceutical Business.

13.17 As of the Closing Date, all renewal fees shall have been paid and all other "administrative steps" shall have been taken which are required for the registration or maintenance of the intellectual property rights listed in Exhibit 13.14(a) and 13.14(b) to the extent they

are registered or eligible for registration and of the Transferred Patents and the Remaining Patents.

13.18.1 As of the Closing Date, and to Seller's Actual Knowledge as of the date of this Agreement, the Companies have obtained and hold all permits, licenses or approvals required by environmental laws and necessary to the conduct of the BASF Pharmaceutical Business in the manner in which it has routinely been conducted. The Companies are in compliance with such permits and other requirements of applicable environmental laws.

13.18.2 None of the Companies has received any written request for information, demand letter, administrative inquiry, or formal or informal complaint notices from any governmental authority or otherwise of violation of any environmental laws which has not been complied with or any condition that might require remediation.

13.18.3 To the Actual Knowledge of Seller, the Real Property referred to in Section 13.13 above does not contain any underground storage tanks, surface impoundments containing any hazardous substances, PCB-containing materials, or any exposed, friable asbestos-containing materials.

13.18.4 Except as disclosed in Exhibit 13.18.4, none of the Companies has received any written notice, claim, or request for information relating to any third-party waste disposal site alleging that any of them is or may be liable to any person or governmental authority as a result of a release or threatened release or any other form of disposal of hazardous materials generated by any of the Companies or any third party on behalf of any of the Companies.

13.18.5 The Companies and to Seller's Best Knowledge, any entity for which any of them may be responsible, are not subject to any Environmental Liabilities and, to the Best Knowledge of Seller, no facts, circumstances or conditions relating to, arising from, associated with or attributable to any real property currently or, to the Best Knowledge of Seller, formerly, owned, operated or leased by the Companies or any entity for which any of them may be responsible, or operations thereon would reasonably be expected to result in Environmental Liabilities. Seller has provided to Purchaser all Environmental Reports prepared or dated since January 1, 1995 and available to Seller and any of its Affiliates.

13.18.6 As used in this Agreement, "Environmental Liabilities" with respect to any person means any and all liabilities of or relating to such person or any of its subsidiaries (including any entity which is, in whole or in part, a predecessor of such person or any of such subsidiaries), whether vested or unvested, contingent or fixed, actual or potential, known or unknown, which arise under or relate to matters covered by environmental laws or with respect to hazardous materials. As used in this Agreement, "Environmental Report" means any report, study, assessment, audit, or other similar document that addresses any issue of noncompliance with, or liability under, any environmental law that may affect any of the Companies.

13.19 Except as set forth in Exhibit 13.19: (a) the Companies have obtained, and are in compliance with, all licenses, permits and other authorizations required by applicable law or government regulations in connection with their business as now conducted, (b) none of the Companies has received any written notice from any governmental authority of violation of any laws which has not been complied with, and (c) the BASF Pharmaceutical Business has been conducted and each of the Companies is currently in compliance with

all applicable laws (including without limitation, all laws relating to drug and pharmaceutical regulation, reporting, pharmacovigilance, sales and marketing, civil rights, occupational health and safety, antitrust, consumer protection, currency exchange, equal opportunity, and the Worker Adjustment Retraining Notification Act and similar state, local and foreign "plant closing" or reduction in force laws).

13.20 (a) Seller has delivered to Purchaser prior to the execution of this Agreement the WEDIT Deloitte & Touche "Report on the draft Pro forma Financial Statements for the Pharmaceutical Business for the Periods ending December 31, 1999, June 30, 2000, and September 30, 2000" attached to this Agreement as Exhibit 9.1(a) and hereinafter referred to as the "Report". The Report has been prepared in accordance with the provisions of the German Commercial Code taking into account as far as permissible under the German Commercial Code, U.S. GAAP as described in more detail in Exhibit 13.20(a) (the "Report Principles").

(b) Each of the financial statements included in the Report (including the related notes and schedules) presents fairly, in all material respects, the consolidated financial position of the BASF Pharmaceutical Business and the Companies as of their respective dates or, as applicable, the consolidated results of operations, retained earnings or cash flows, as the case may be, of the BASF Pharmaceutical Business and the Companies for the periods set forth therein, in each case in accordance with the Report Principles consistently applied during the periods involved, except as may be noted therein. Except for inventories for which a reserve has been taken in preparation of the balance sheet included in Exhibit 9.1(a) or on the Closing Net Asset Value Statement, the inventories of the BASF Pharmaceutical Business and the Companies do not consist of, in any material amount, items that are obsolete or damaged, or of below standard quality. Such inventories are not (as of the date hereof) and will not be (as of the Closing Date) excessive, in any material respect, in kind or amount in light of the ordinary and normal course of business and reasonably anticipated needs of the BASF Pharmaceutical Business.

(c) To Seller's Actual Knowledge, the companies have no liabilities or obligations of any nature (whether accrued, absolute, contingent or otherwise) that would be required to be reflected on, or reserved against in, a consolidated balance sheet of the Companies or described or referred to in the notes thereto, prepared in accordance with the Report Principles consistently applied, except for (i) liabilities or obligations accrued on the September 30, 2000 balance sheet contained in the Report, and (ii) liabilities or obligations arising in the ordinary course of business (including trade indebtedness) since September 30, 2000. To Seller's Actual Knowledge, any liabilities for government or customer paybacks or rebate programs, customs liability or similar arrangements have either been paid or are accrued on the September 30, 2000 balance sheet contained in the Report.

(d) Prior to January 31, 2001 Seller shall deliver to Purchaser Exhibit 13.20 (d), which shall be a listing of all of the Companies' third party indebtedness for borrowed money outstanding, setting forth in each case the principal amount thereof. No payment defaults have occurred and are continuing under the agreements and instruments governing the terms of such indebtedness.

(e) Since September 30, 2000 (i) except for the sale or transfer of the businesses described in clauses (a) through (d) in the definition "Discontinued/Excluded Businesses" (as defined above) the Companies have conducted their respective businesses, and Seller has conducted the BASF Pharmaceutical Business, only in, and have not engaged in any transaction other than in accordance with, the ordinary and usual course of such businesses, and (ii) there has not been any Material Adverse Effect.

13.21 Exhibit 13.21 and Exhibit 13.10, taken together, set forth a true and complete list of

(i) each contract pursuant to which any of the Companies is obligated to expend more than EUR 5,000,000 per annum and which is not terminable pursuant to its terms by the respective Company on not more than sixty (60) days' notice (without liability, premium or penalty), other than purchase orders in the ordinary course of business;

(ii) each contract between any of the Companies and Seller or any of Seller's Affiliates, including the Intercompany Manufacturing Agreements;

(iii) each loan or credit agreement, security agreement, guaranty, indenture, mortgage, pledge or other agreement or instrument evidencing indebtedness of any of the Companies in excess of EUR 5,000,000 and that will continue in effect or with respect to which any of the Companies will have any liabilities following the Closing;

(iv) any non-competition, restrictive covenant or other agreement that restricts any of the Companies from operating its business, including the BASF Pharmaceutical Business, or that would, after the Closing, to the Best Knowledge of Seller, limit or restrict Purchaser or any of its Affiliates (including the Companies) or any successor thereto, from engaging or competing in any line of business or in any geographic area anywhere in the world;

(v) any material research and development agreement, sales and marketing agreement, or co-promotion agreement relating to the BASF Pharmaceutical Business not otherwise listed on Exhibit 13.14 (b);

(vi) joint venture agreement,

(vii) agreement for the sale, disposition, transfer or closure of any facilities, businesses or operation of Seller relating to the BASF Pharmaceutical Business or of the Companies, and

(viii) any other contract, agreement, commitment or undertaking which is otherwise material to the BASF Pharmaceutical Business taken as a whole (clauses (i) through (viii) collectively, the "Material Agreements"). Exhibit 13.21 sets forth a correct and complete list of Material Agreements pursuant to which consents or waivers are or may be required prior to consummation of the transactions contemplated by this Agreement (the consents and waivers disclosed on Exhibit 13.21 being the "Material Agreement Consents"). The Intercompany Agreements are adequate and sufficient to permit the Companies to conduct the BASF Pharmaceutical Business as previously conducted, without any interruption of supply of materials or services thereunder, and have been negotiated on terms comparable to or better than those that could be obtained from third parties under similar circumstances. None of the Companies are a party to, or otherwise bound by, any con-

tracts or agreements imposing off balance sheet commitments, including any foreign exchange or derivative contract.

13.22 Except as otherwise set forth in Exhibit 13.10, to the Best Knowledge of Seller, each of the Companies has performed all the obligations required to be performed by them under, and none of the Companies is in breach or default under, any Material Agreements. True and complete copies of all contracts listed in Exhibits 13.10, 13.14(b) and 13.21 have been delivered to Purchaser, and there are no amendments to, modifications of or significant agreements of the parties relating to any thereof, which have not been disclosed to Purchaser. Neither Seller nor any of the Companies has received any written notice from any other party to any of the Material Agreements threatening the cancellation or termination thereof.

13.23 As of the date of this Agreement there is no labor strike or other work stoppage of employees of any of the Companies currently in effect, and to the Best Knowledge of Seller, none is threatened. None of the Companies is a party to any collective bargaining, works council, union contracts, or other agreements which create any obligation or restriction on the Companies or Purchaser in the USA with respect to the termination of any employee or employees, and, to the Best Knowledge of the Seller, there is no activity or proceeding by any union, works council or other labor organization to organize or seek to represent any Employees in the USA.

13.24 The Companies maintain insurance coverage with reputable insurers in such amounts and covering such risks as are in accordance with normal industry practice for companies engaged in businesses similar to that of the Companies (taking into account the cost and availability of such insurance).

13.25 No broker, investment banker, financial advisor or other person other than Wasserstein Perella & Co., Inc., the fees and expenses of which will be paid by Seller, is entitled to any broker's, finder's, financial advisor's or other similar fee or commission in connection with the transactions contemplated by this Agreement.

13.26 To the Best Knowledge of Seller neither any of the Companies, nor any of their respective Affiliates, officer, director, employee or agent (or any Person acting on behalf of any of the foregoing) has given or agreed to give (i) any gift or similar benefit of more than nominal value to any customer, supplier, governmental authority (including any governmental employee or official) or any other person who is or may be in a position to help, hinder or assist any of the Companies, the BASF Pharmaceutical Business or the person giving such gift or benefit in connection with any actual or proposed transaction relating to the BASF Pharmaceutical Business, which gifts or similar benefits would individually or in the aggregate subject the Companies, any of their respective Affiliates, officer, director, employee or agent to any fine, penalty, cost or expense or to any criminal sanctions, (ii) receipts from or payments to any governmental officials or employees, (iii) commercial bribes or kick-backs, (iv) political contributions, or (v) any receipts or disbursements in connection with any unlawful boycott and no such gift or benefit is required in connection with the operation of the Companies or the BASF Pharmaceutical Business to avoid any fine, penalty, cost, expense or Material Adverse Effect.

13.27 (a) Seller shall deliver no later than 30 days after the date of this Agreement Exhibit 13.27 (a) that shall list all major Pharmaceutical Products currently marketed by Seller and its Affiliates and the Active Ingredients used therein.

(b) Exhibit 13.27(b) lists all compounds of Seller and any of its Affiliates that are in clinical development;

(c) Exhibit 13.27(c) contains a true, accurate and correct list, separated by type, of all material Exclusive Active Ingredients and all Mutual Active Ingredients manufactured by Seller.

(d) Exhibit 13.27 (d) lists all BASF Pharmaceutical Products that are custom manufactured by Seller or any of its Affiliates (except the Companies) for third parties.

(e) As of the date hereof, to the Best Knowledge of Seller, there are no circumstances or facts concerning suppliers (including Seller, and its Affiliates as suppliers) of active ingredient, bulk product and finished product to the Companies that would reasonably be expected to have a Material Adverse Effect on the continued supply of such materials.

13.28 To the Actual Knowledge of the Seller, none of the data room files and records or the writings referred to in Section 14.2 contain an untrue statement of a material fact or omit to state a material fact necessary to make the statements and facts contained herein and therein, in the light of the circumstances in which they were or are made, false and materially misleading or materially misleading. Purchaser acknowledges that the opinions of counsel referred to in Section 13.16.2 have not been delivered to it or provided in the writings referred to in Section 14.2.

## SECTION 14
## LIMITATIONS OF REPRESENTATIONS

14.1 Except as expressly set forth in Section 13 above, Seller does not make any express or implied representations under this Agreement. Any statutory warranties are hereby excluded to the extent permissible under mandatory law.

14.2 Any inaccuracy in any Representation made by Seller shall not trigger any rights of Purchaser under this Agreement to seek indemnity under Section 15.1(a) to the extent that such inaccuracy was disclosed prior to the date of this Agreement in a clear and comprehensible manner in any Exhibits to Section 13 of this Agreement, in the data room files and records made available to Purchaser on November 8, 9, 10 and 13, 2000 (a full and complete copy of which has been provided to Purchaser prior to the date of this Agreement), or in a writing (provided such writing was delivered prior to the date, and in the context of this Agreement), in each case to one or more of the following individuals: Brian Smith, Honey Lynn Goldberg, Jeffrey Leiden, Steven Weger, James L. Tyree, Steve Lichter, Terrence Kearney, John Poulos, John Leonard, Daniel Norbeck, Arthur Higgins and William Dempsey; provided, however, that no Environmental Reports delivered to Purchaser after December 13, 2000, or information contained therein, shall be deemed delivered, disclosed or made available prior to the date of this Agreement.

14.3 Wherever referred to in Section 13 above, "Actual Knowledge of Seller" means actual knowledge of any of Thorlef Spickschen, Ulrich Grau, Robert Kamen, Chris Schroder, Carter Eckert, Jurg Ambuhl, Markus Kramer, Fried-Walter Munstermann, Robert Anderson, John Conway, Andreas Biberbach, Joachim Scholz and the individuals listed on Ex-

hibit 24.3(d), and "Best Knowledge of Seller" means actual knowledge of the aforementioned individuals and such additional knowledge which any such person could reasonably have obtained upon due inquiry into the matter concerned.

## SECTION 15
## INDEMNIFICATION

15.1 (I) Seller shall indemnify and hold harmless the Purchaser and each of its Affiliates, (including the Companies) (each a member of the "Purchaser Group") from and against any and all Damages (including, without limitation, costs and expenses of litigation and reasonable attorneys' fees) arising out of or related to:

a) (i) The inaccuracy or breach of any of the Representations; or (ii) any inaccuracy or breach of any Representation that relates to any of the Companies in which the Seller currently has less than a 100 % direct or indirect ownership interest (each, a "Non-Wholly Owned Company"); provided, however, that Seller's obligation to indemnify the Purchaser pursuant to this subsection (a)(ii) for each inaccuracy or breach shall be limited to (x) the liability associated with such inaccuracy or breach multiplied by (y) the percentage of the Seller's ownership interest in the Non-Wholly Owned Company to which the inaccuracy or breach relates.

b) The failure to perform or the breach of any of the covenants, obligations or other agreements of Seller contained in this Agreement; or

c) Any Discontinued/Excluded Businesses or any Discontinued/ Excluded Businesses Liabilities.

(II) Seller shall reimburse each member of the Purchaser Group for *** of all Excess D2E7 Royalties ("Seller D2E7 Payments"). "Excess D2E7 Royalties" shall mean the aggregate of all royalties paid on a worldwide basis under D2E7 License Agreements and that are in excess of *** of the Annual Net Sales of D2E7. "Annual Net Sales of D2E7" shall mean the aggregate worldwide annual net sales of D2E7 up to a maximum of ***. "D2E7 License Agreements" shall mean license and sublicense agreements executed prior to or after the date of this Agreement covering patents or patent applications published on the date of this Agreement, including, without limitation, ***. Seller shall pay Seller D2E7 Payments to Purchaser within 30 days after the receipt by Seller of a statement from Purchaser that sets forth the amount of the Seller D2E7 Payments and the basis upon which the Excess D2E7 Royalties were calculated, which statements shall be issued by Purchaser on a quarterly basis.

(III) Seller shall reimburse each member of the Purchaser Group for *** of any and all expenses, including attorneys fees, incurred in connection with the defense of any claim, action, complaint, cause of action or proceeding commenced or threatened, based upon, arising out of, or related to the allegation that the manufacture, use or sale of D2E7 by any member of the Purchaser Group infringes patents or patent applications published on the date of this Agreement, including, without limitation, *** ("D2E7 Proceeding"). Purchaser shall have the right to control the defense and settlement of any D2E7 Proceeding. Purchaser shall keep Seller reasonably informed of all material developments and events relating to such D2E7 Proceeding, and Seller shall be entitled,

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*** Confidential information omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission.

at its expense, to employ its own counsel and to participate in, but not control, any D2E7 Proceeding. Expenses payable pursuant to this Section 15.1 (III) shall be paid within 30 days of Seller's receipt of Purchaser's quarterly invoice therefor.

Seller shall be entitled to audit annually, at Seller's expense, the calculation of amounts payable pursuant to Section 15.1 (II) and (III).

15.2 Unless expressly provided for otherwise in this Section 15 or in Section 16.2, Purchaser and the other members of the Purchaser Group shall be entitled to indemnification pursuant to Section 15.1 (a) above only if:

a) a claim for indemnification based on an individual breach or inaccuracy of a Representation exceeds the amount of *** (each, an "Individual Claim"); and

b) the total amount of all Individual Claims exceeds the amount of ***.

For purposes of calculating amounts pursuant to this Section 15, all acts, occurrences, conduct or sets of facts that relate to the same subject matter (or, in the case of a breach of the Representation made in Section 13.11.2, all acts, occurences, conduct or sets of facts that relate to all breaches of such Representation) shall be considered aggregated as a single Individual Claim.

15.3 If the aforementioned threshold of *** is exceeded, Seller shall be liable for the entire claim amount that exceeds *** up to a maximum amount equal to *** of the Aggregate Purchase Price as adjusted pursuant to this Agreement.

15.4 The limitation of the liability of Seller set forth in Sections 15.2 and 15.3 above shall not apply in case of a violation of any Representation made in Sections 13.1 through 13.4, Section 13.9 and Section 13.15.3(a). In this case, the liability of the Seller shall be limited to the amount of the Aggregate Purchase Price as adjusted pursuant to Section 9.

15.5 Any amounts owing or paid by Seller to Purchaser pursuant to Section 15.1 shall be reduced or refunded if and to the extent Purchaser or any other member of the Purchaser Group has received or receives insurance proceeds under any policy of insurance.

15.6 If and to the extent to which specific provisions have been made in the Closing Net Asset Value Statement with respect to a matter which is the subject of a claim for indemnification pursuant to Section 15.1 above, such claim for indemnification shall be reduced by the amount of such provision.

15.7 Any payment made by Seller to Purchaser or any other member of the Purchaser Group with respect to a claim of Purchaser pursuant to Section 15.1 above or Section 19 below is an adjustment of the Aggregate Purchase Price as allocated pursuant to this agreement.

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15.8 Except as set forth in Section 16.2, any claims of Purchaser or any other member of the Purchaser Group pursuant to Section 15.1(a) above are subject to the following survival periods (Verjahrungsfristen), unless Purchaser has notified Seller of a specific claim in writing before the expiration of the applicable survival period and has initiated arbitration proceedings in the subject matter within six months of such notification in which case the survival period for such claim shall be interrupted (unterbrochen):

a) claims pursuant to Sections 13.1 through 13.4, 13.9 and 13.15.3(a) above, and claims pursuant to Sections 13.13 and 13.14 which are based on a defect of title, shall be subject to a survival period of ***;

b) claims related to environmental issues pursuant to Section 13.18.1 through 13.18.5 shall be subject to a survival period of ***; and

c) claims not based on a defect in title and related to intellectual property pursuant to Sections 13.14 through 13.17 shall be subject to a survival period of ***; and

d) all other claims shall be subject to a survival period of ***.

All survival periods shall commence at the Closing.

15.9 The provisions of this Section 15 shall not apply to any indemnity under any provision of this Agreement other than pursuant to Section 15.1, including indemnification with respect to Taxes set forth in Section 18, which shall be governed solely by Section 18.

## SECTION 16
## EXCLUSION OF OTHER CLAIMS

16.1 Following the Closing, except for (a) Purchaser's right to adjust the Aggregate Purchase Price pursuant to Section 9 above, (b) claims for indemnification pursuant to Section 15 above, (c) claims pursuant to Section 16.2, (d) claims under the Tax indemnity in Section 18, (e) claims under Sections 19, 21, 22, 23 and 26 below, and (f) claims for specific performance of covenants and obligations of Seller under this Agreement, Purchaser and the other members of the Purchaser Group shall not be entitled to bring any claims against the Seller under this Agreement in connection with the condition of the BASF Pharmaceutical Business whether for reduction of the purchase price, rescission, damages or any other legal remedies regardless of their legal basis including breach of duty prior to contract (culpa in contrahendo) and tort. For the avoidance of doubt, this Section 16 shall not limit a party's ability to bring other claims under any other agreement, including any Intercompany Agreement, executed by Seller or any Affiliate of Seller.

16.2 Claims based on fraud or intentional acts of Seller are not excluded from the immediately preceding paragraph, nor are any such claims subject to the limitations on indemnification contained in Section 15.

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## V.
## COOPERATION, INDEMNITIES, CONTESTS

### SECTION 17
### COOPERATION

17.1 Each party hereto shall, and shall cause the Companies to, provide to the respective other party hereto such cooperation and information as any of them reasonably may request in filing any Tax return, mandatory Tax return or claim for refund or for the preparation of any audit and the Party requesting such cooperation shall reimburse the other Party for any reasonable out of pocket expenses incurred by such cooperating Party in complying with the request for cooperation. Such cooperation and information shall include providing copies of all relevant portions of relevant Tax returns and relevant records. Each party will retain and Purchaser will cause the Companies to retain all Tax returns and all material records and other documents relating to Tax matters of the Companies for any taxable period or a portion thereof ending on or before the Closing Date until the later of the expiration of the statute of limitations for the taxable periods to which the Tax returns and other documents relate or eight years following the due date for such Tax returns. Thereafter, the party holding such Tax returns or other documents may dispose of them, provided that such party shall give to the other party written notice and an opportunity to take custody thereof prior to disposing of them.

17.2 Seller or Purchaser, respectively, shall be responsible for the preparation and filing of all Tax returns related to the Companies for fiscal years, or other periods for which Tax returns are due, ending on or prior to the Closing Date, consistent with the past practice of Seller and its Affiliates in the normal course of business prior to Closing, as follows: Seller shall be responsible for those Companies for which Seller or any Seller Companies prepared and filed Tax returns prior to Closing, and Purchaser shall be responsible for those Companies for which such Company or any other Company prepared and filed Tax returns prior to Closing. Seller and Purchaser shall provide each other, for review and approval, with a copy of each such Tax return at least 3 weeks prior to the due date (including any extension thereof) for the filing of such return. Each party's approval may not be unreasonably withheld, and in no event shall this Section operate to cause any such return to be filed after the due date (including any extension thereof) for filing such return.

17.3 The Seller and its Affiliates, and the Purchaser and the Companies shall each have the duty to reasonably cooperate in the prosecution or defense of all lawsuits and claims involving the BASF Pharmaceutical Business for events occurring prior to Closing, and the party requesting such cooperation shall reimburse the other party for any reasonable expenses incurred by such cooperating party in complying with the request for cooperation. Notwithstanding the foregoing, neither party shall be obligated to take or omit to take any action in connection with a lawsuit or claim which the party, acting reasonably and in good faith does not believe to be in its best interest.

### SECTION 18
### TAX INDEMNITY

18.1 Seller shall indemnify Purchaser on an After-Tax Basis against any liability for Taxes including any reduction of any tax loss carry forward or tax credit carry forward included in the Closing Net Asset Value, relating to the Companies for any taxable period ending

on or before the Closing Date and any Pre-Closing Straddle Period if and to the extent such liability exceeds the liabilities or accruals taken into account by the Closing Net Asset Value Statement in accordance with Section 10.1 for Taxes relating to said period provided, however, that such obligation to indemnify shall be limited to the percentage of such liability which corresponds to the percentage of the direct or indirect ownership interest of Seller in the Companies sold hereunder. The foregoing obligation of Seller shall not apply if and to the extent to which the liability results from an adjustment for depreciation or accruals or from a write-up after previous depreciation or any other reallocation of deductible expenses made as regards a taxable period ending on or prior to the Closing Date or any Pre-Closing Straddle Period into a taxable period beginning after the Closing Date or in a Post-Closing Straddle Period and is compensated for by a Tax reduction in a taxable period beginning after the Closing Date or a Post-Closing Straddle Period that arises solely as a result of such adjustment; provided, however, that the net present value of such future Tax reduction shall be discounted at an interest rate of 6 percent p.a. "After-Tax Basis" shall mean grossing up of an indemnification payment under this Agreement for a Tax cost, if any, to the person receiving such payment arising from the receipt or accrual thereof, and in the case of indemnification payments under this agreement, reduced by the Tax benefit, if any, to the person receiving such payment resulting from its or a Company's incurring the Damages, loss, liability, damage or expense giving rise to such payment or the payment of any Taxes indemnified under Section 18. "Straddle Period" shall mean any taxable period beginning on or before and ending after the Closing Date. "Post-Closing Straddle Period" shall mean the portion of the Straddle Period beginning after the Closing Date. "Pre-Closing Straddle Period" shall mean the portion of the Straddle Period ending on the Closing Date.

18.2 Provided there are no amounts due from Seller to Purchaser under Section 18.1 hereof, Purchaser shall pay to Seller any Tax refund or credit received which relates to the Companies and is attributable to any taxable period that ends on or before the Closing Date or any Pre-Closing Straddle Period provided that such refund or credit has not been booked in the Closing Net Asset Value Statementor is not attributable to the use in such period of a loss, credit or other Tax item attributable to a taxable period beginning after the Closing Date or a Post-Closing Straddle Period.

18.3 For the purpose of Section 18.1 and 18.2, Taxes relating to the BASF Pharmaceuticals Business for any Pre-Closing Straddle Period shall be computed as if this period were a separate business year and will not be affected by developments in the Post-Closing Straddle Period. Depreciations and similar items will be allocated to the Pre-Closing Straddle Period on the one hand and the rest of the Post-Closing Straddle Period on the other hand on a PRO RATA TEMPORIS basis. All other items of income, gain, loss, expense, deduction or credit of the Pre-Closing Straddle Period and the Post-Closing Straddle Period shall be determined based on an interim closing of the books as of the close of business on the Closing Date. In case of a loss incurred in the Pre-Closing Straddle Period, the Tax loss carry forward shall be treated as a Tax Asset.

18.4 Any claim under this Section 18 shall be subject to a survival period expiring *** after the Tax assessment for the relevant Tax and the relevant period has become final.

18.5 Any payment made by Seller or by Purchaser pursuant to this Section 18 is an adjustment of the Aggregate Purchase Price.

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## SECTION 19
## SETTLEMENT AND ELIMINATION OF INTERCOMPANY OBLIGATIONS

19.1 For purposes of this Agreement, the term (i) "BASF Intercompany Obligations" means all intercompany notes, cash advances, receivables and payables between any Seller Company, on the one hand, and any of the Companies, on the other hand, except for Intercompany Trade Accounts, (ii) "Intercompany Trade Accounts" shall mean trade payables and trade receivables arising from transactions between any of the Companies, on the one hand, and any of the Seller Companies, on the other hand, (iii) "Intracompany Trade Accounts" shall mean trade payables and trade receivables arising from transactions between any of the Companies, as shown on the books and records of the relevant Companies as of the Closing Date, and (iv) "Seller Company" means Seller or any of its Affiliates , other than any Companies.

19.2 Prior to the Closing, Seller shall cause all Intercompany Trade Accounts and Intracompany Trade Accounts, which are outstanding as of the month ending no more than 30 days prior to Closing to be settled and paid.

19.3 Effective as of the Closing, all BASF Intercompany Obligations due and payable as of the Closing Date or attributable to any period ending on or prior to the Closing Date shall, for all purposes of this Agreement, be netted as between the appropriate obligors and obligees and the resulting balances shall be settled as of the Closing in a manner reasonably satisfactory to Purchaser, with the result that as of and following the Closing, there shall be no further obligation or liability with respect to any BASF Intercompany Obligations as of the Closing Date.

19.4 Within 60 days following Closing, Purchaser and Seller shall determine and reconcile all remaining Intercompany Trade Accounts outstanding as of the Closing.

19.5 Effective as of the Closing, Seller shall not assert and hereby waives or agrees to cause to be waived, claims by Seller or any of its Affiliates against the Companies (a) relating to transfer pricing of supplies and/or services including but not limited to research and development activities provided prior to Closing or (b) arising out of German tax sharing agreements (Korperschaft- and Gewerbesteuerumlage) between the Seller and any of its Affiliates, on the one hand, and any of the Companies, on the other hand, in effect during the time prior to the Closing (clauses (a) and (b) collectively, "Non-Asserted Claims"). Purchaser shall cause the Companies to not assert, and to waive any Non-Asserted Claims of such Companies against the Seller or Affiliates of the Seller (other than the Companies) insofar as such claims relate to the time prior to the Closing. Nothing set forth in this Section 19.5 shall affect, derogate, limit or otherwise prejudice Purchaser's rights under this Agreement, including, without limitation, Section 18, or any other agreement entered into in connection with this Agreement, or any written agreement between Seller or its Affiliates, and any of the Companies, that survives the Closing with respect to periods after the Closing.

## SECTION 20
## CERTAIN CONTEST PROVISIONS

20.1 After acquiring knowledge of any claim of a third party which may trigger a claim by Purchaser or any other member of the Purchaser's Group against Seller for indemnification pursuant to Section 15 above or of any notice of administrative or judicial proceeding or proposed audit or Tax assessments relating to or affecting any of the Companies and with respect to which Purchaser or any other member of the Purchaser's Group intends to seek indemnification against Seller, Purchaser shall promptly give written notice thereof to Seller., provided, however, that any failure of Purchaser to so notify the Seller shall not relieve the Seller from any obligations hereunder to provide indemnification to the extent Seller is not materially prejudiced by such failure and in any event shall not relieve it from any liability which it may have otherwise than on account of Section 15. Such notice shall specify in reasonable detail the issue for such claim and shall include a copy of any relevant correspondence so far exchanged in this matter, if any. Within thirty (30) days of its receipt of such notice, Seller may elect to assume control over such administrative or judicial proceeding, audit or assessment or the defense of such claim, so long as Seller acknowledges in writing its obligation to indemnify Purchaser and/or any other member of the Purchaser's Group, as the case may be, in full with respect to such claims. If Seller so elects, Seller may so assume control and may employ counsel reasonably acceptable to the Purchaser, at the Seller's sole costs, expense and risk. As long as Seller is defending a claim in accordance with this Section 20.1, Purchaser shall provide or cause to be provided to Seller, any information reasonably requested by Seller relating to such claim, and Purchaser shall otherwise cooperate with and support Seller and its representatives in good faith in order to facilitate the effective contest of such claim, any reasonable out of pocket expenses expenses incurred by Purchaser in this regard to be paid by the Seller. Seller shall inform Purchaser of all developments and events relating to such claim and Purchaser shall be entitled, at its expense, to employ its own counsel and to attend and participate in , but not control, all conferences, meetings and proceedings relating to such claim. If Seller elects not to control such proceeding, audit or assessment or the defense of such claim, Seller shall be entitled, at its expense, to employ its own counsels, and to attend and participate in but not control all conferences, meetings and proceedings relating to such claim. After having given written notice to Purchaser of Seller's election to assume control of defense of any such claim, Seller shall, however, not be liable to Purchaser for any legal expenses subsequently incurred by Purchaser in connection with the defense as long as Seller assumes and conducts such defense in a timely and diligent manner. Notwithstanding the foregoing, this Section 20 shall not apply to Individual Claims unless and until all such claims exceed the amounts contained in Section 15.2. With respect to any third party claim for which indemnification is available ("Indemnified Claim") that is combined or joined with one or more claims which are not Indemnified Claims or with respect to an Indemnified Claim under which both the indemnified party and the indemnifying party may be liable, which either party desires to contest, control of such claim shall rest with the party having the larger amount in dispute, and the party in control may not settle or compromise any such claim without the prior written consent of the other party.

20.2 If Seller does not assume control of a defense of a specific claim in accordance with the provisions in Section 20.1, Purchaser shall have full control of such defense and such proceedings, including the right to settle, and Seller shall have no right to object to the results obtained by the Purchaser with respect to such claim. If requested by Purchaser,

Seller shall cooperate in good faith with Purchaser in order to contest effectively such claim. Seller shall be entitled, at its expense, to employ its own counsel and to attend and participate in, but not control, all conferences, meetings and proceedings relating to such claim.

20.3 If Seller does assume control of a defense of a claim in accordance with the provisions in Section 20.1, it may, without the prior consent of Purchaser, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, on any claim whatsoever in respect of which indemnification could be sought: (i) under Sections 15 and 18, but only if such settlement, compromise or consent satisfies the conditions described in clauses (i), (ii) and (iii) of Section 26.4; or (ii) under Section 18, but only if such settlement, compromise or consent does not materially affect Taxes, (including by way establishing a precedent for Tax treatment of a Tax item of the Purchaser or any of the Companies in a taxable period beginning after the Closing Date or in a Post-Closing Straddle Period. If the Seller does not receive the written consent of the Purchaser which may not be unreasonably withheld Purchaser is deemed to have assumed control of the defense and the liability of Seller to indemnify the Purchaser is limited to the amount payable under the proposed settlement, compromise or consent. If any such proposed settlement compromise or consent does not satisfy all of the conditions in clause (i) of the preceding sentence or the condition in clause (ii) of the preceding sentence as applicable, the Seller must receive the written consent of the Purchaser prior to entering into same.

20.4 The provisions of this Section 20 shall not apply to Section 15.1(II) or 15.1(III).

## VI.
## EMPLOYEE MATTERS

### SECTION 21
### GENERAL EMPLOYEE MATTERS

21.1 Seller and its Affiliates shall be responsible for any and all payments, withholding and reporting obligations that arise on or after the Closing Date under terms of the Seller's stock option programs including payments, if any, which may be made by the Seller in its sole discretion, to settle option rights under the programs.

21.2 No employee or any other person (except the parties to this Agreement) shall be entitled to assert any claim against the Purchaser, its Affiliates or any of the Companies relating to the employment, compensation, employee benefits or benefit plans or programs based on or arising from any provisions of this Agreement.

21.3 Seller shall terminate, or cause to be terminated, prior to the Closing the participation of Employees in any stock purchase plan maintained by Seller or its Affiliates, and Seller and its Affiliates shall be responsible for any and all payments, withholding and reporting obligations that arise under the terms of any such stock purchase plan.

21.4 If the Pension Liabilities exceed the sum of (x) any cash, and the fair market value of the other assets as determined by mutual agreement of Purchaser and Seller, transferred to

pension arrangements of Purchaser pursuant to Section 23.3 as part of the Group Pension Transfer Amount, (y) any cash, and the fair market value of other assets as determined by mutual agreement of Purchaser and Seller transferred to the Purchaser U.S. Defined Benefit Plan as part of the U.S. Pension Transfer Amount (excluding any accruals or interest credited after the Closing Date), and (z) the pension obligations as reflected in the Closing Net Asset Value Statement (the sum of (x), (y) and (z) hereinafter referred to as the "Transferred Amounts"), Seller agrees to indemnify Purchaser for such excess amount (such excess hereinafter referred to as "Purchaser Pension Indemnification Amount"). Seller agrees to pay Purchaser in cash the Purchaser Pension Indemnification Amount as soon as practicable but not later than 30 days after the date of the actuarial determination which fixes the Pension Liabilities. If the Transferred Amounts exceed the Pension Liabilities, Purchaser agrees to indemnify Seller for such excess amount (such excess amount hereinafter referred to as "Seller Pension Indemnification Amount"). Purchaser agrees to pay Seller in cash the Seller Pension Indemnification Amount as soon as practicable but not later than 30 days after the date of the actuarial determination which fixes the Pension Liabilities. Interest from the Closing Date to the date of payment, at a rate of 6% compounded annually, shall be paid along with the Purchaser Pension Indemnification Amount or Seller Pension Indemnification Amount, as applicable. Seller and Purchaser jointly shall provide Seller's and Purchaser's actuaries with all relevant plans and employee census information needed to calculate the Pension Liabilities within 45 days after Closing. The Pension Liabilities shall be determined by mutual agreement between Seller and Purchaser within 180 days after their actuaries' receipt of said information. If Seller and Purchaser cannot agree on the amount of the Pension Liabilities within said 180 period, the Seller and Purchaser shall appoint within five days a mutually acceptable actuary who shall review their calculations and within 45 days after appointment, render a final and binding decision on the amount of the Pension Liabilities and who shall, in making such decision, be limited on a plan by plan basis to either the position of Seller or Purchaser. The cost of the actuary shall be borne jointly by Seller and Purchaser. In connection with the procedures referred to herein, Seller and Purchaser shall provide each other and the actuaries referred to herein access to the relevant business records and other relevant documents, and shall permit the other party to consult with its employees and the employees of its Affiliates.

21.5 The indemnifications provided for in Section 21.4 above are separate and apart from any other indemnification provision of this Agreement. Any payment made by Seller or by Purchaser pursuant to Section 21.4 shall be treated as an adjustment of the Aggregate Purchase Price.

## SECTION 22
## US EMPLOYEE BENEFIT MATTERS

22.1 Seller and Purchaser agree that the transactions contemplated by this Agreement shall not constitute a severance of employment of any of the U.S. Employees. Purchaser agrees to continue, without interruption, the employment of the U.S. Employees. The Purchaser may, however, terminate any U.S. Employee at any time for any reason provided, however, Purchaser shall be responsible for any severance obligations incurred with respect to the termination of any U.S. Employee after the Closing.

22.2 Subject to the provisions of this Section 22, U.S. Employees shall be eligible to participate in and be subject to the provisions of all employee benefit plans, programs and policies of Purchaser and its Affiliates, other than Purchaser's defined benefit plans, qualified

or unqualified, on the same basis as similarly situated employees of the Purchaser and its Affiliates including any applicable severance pay plan or policy.

22.3 To the extent that service is relevant for purposes of determining participation, vesting or eligibility for benefits under any health, welfare, post-employment medical or life insurance plan, or any vacation or severance plan, program or policy established, maintained or contributed to by the Purchaser or any of its Affiliates, U.S. Employees shall receive credit under the terms of such employee benefit plan, program or arrangement for service with the Seller and its Affiliates prior to the Closing.

22.4 Effective as of the Closing, each U.S. Employee and their eligible dependents who was participating in the health and welfare benefit plans and programs of the Seller and its Affiliates shall become entitled to participate in the medical, dental, life insurance and other welfare benefit plans provided by Purchaser or its Affiliates to similarly situated employees. To the extent that any welfare benefit plan in which any U.S. Employee participates after the Closing Date (i) imposes any pre-existing condition limitation, such condition shall be waived, or (ii) has a deductible or requires a co-payment that is subject to maximum out-of-pocket limitation, each U.S. Employee will receive credit toward any such co-payments and deductibles under such welfare benefit plan of Purchaser or its Affiliates for any costs paid by the U.S. Employee under the applicable Seller welfare benefit plan or program during the portion of the relevant plan year or other period preceding the Closing under such welfare plan of Purchaser or its Affiliates.

22.5.1 Effective as of the Closing, U.S. Employees shall cease active participation in all qualified and non-qualified defined benefit pension arrangements maintained by the Sellers' BASF Corporation Affiliate (the "Seller U.S. Defined Benefit Plans"), and Seller shall take, or cause to be taken, all such action as may be necessary to effect such cessation of their participation under Seller U.S. Defined Benefit Plans as of the Closing. Purchaser will take, or cause to be taken, all action as may be necessary to cause such U.S. Employees who are participants in the BASF Corporation Salaried Employees' Pension Plan (the "Seller U.S. Qualified Defined Benefit Plan") to become participants in a defined benefit pension plan which meets the requirements for qualification under Section 401 (a) of the Code to be established by Purchaser or one of its Affiliates (the "Purchaser U.S. Defined Benefit Plan") as of the Closing and which provides each such U.S. Employee benefits which are substantially similar to those provided under the Seller U.S. Qualified Defined Benefit Plan as of the Closing. Each U.S. Employee who was a participant in the Seller U.S. Qualified Defined Benefit Plan on the Closing shall be granted credit for service with Seller and its Affiliates which was recognized under the terms of the Seller U.S. Qualified Defined Benefit Plan as of the Closing for purposes of participation, eligibility, vesting, retirement eligibility and, subject to the transfer of assets and liabilities contemplated by Section 22.5.2 below, benefit accrual under the Purchaser U.S. Defined Benefit Plan.

Purchaser will take, or cause to be taken, all action necessary to cause (i) U.S. Employees and (ii) retirees who were employees of the Companies immediately prior to retirement (the "Retirees"), participating in the BASF Corporation Supplemental Executive Retirement Plan, the BASF Corporation Policy No. BCR 008 Retirement Supplement Plan, the Excess Retirement Plan of BASF Corporation or the Boots Company Supplemental Executive Retirement Plan (collectively, the "Seller U.S. Non-Qualified Defined Benefit Plan") to become participants in a non-qualified defined benefit plan to be established by Purchaser or one of its Affiliates (the "Purchaser U.S. Non-Qualified Defined Benefit

Plans") which shall (i) accept the Pension Liabilities with respect to such U.S. Employees or Retirees and (ii) provide such U.S. Employees and Retirees benefits which are substantially similar to the Pension Liabilities associated with such U.S. Employees and Retirees under the Seller U.S. Non-Qualified Defined Benefit Plans as of the Closing. Each U.S. Employee or Retiree who was a participant in the Seller U.S. Non-Qualified Defined Benefit Plans on the Closing shall be granted credit for service with Seller and its Affiliates which was recognized under the terms of the Seller U.S. Non-Qualified Defined Benefit Plans as of the Closing for purposes of participation, eligibility, vesting, retirement eligibility and, to the extent included in the Pension Liabilities, benefit accrual under the Purchaser U.S. Non-Qualified Defined Benefit Plan.

22.5.2 As soon as practicable after Closing, Seller shall cause the Seller U.S. Qualified Defined Benefit Plan to transfer to the Purchaser U.S. Defined Benefit Plan an amount (hereinafter referred to as the "U.S. Pension Transfer Amount") in cash, or in securities to be mutually agreed on by Seller and Purchaser, in respect of the Pension Liabilities determined with respect to the Seller U.S. Qualified Defined Benefit Plan. The U.S. Pension Transfer Amount will be a total amount of assets equal to the amount required to make the transfer compliant in all respects with requirements under Section 414(l) of the Code. Interest on the U.S. Pension Transfer Amount from the date the U.S. Pension Transfer Amount is determined to the date of transfer at a rate of 6% compounded annually shall be transferred along with the U.S. Pension Transfer Amount. The amount necessary to comply with Section 414(l) of the Code shall be determined using the actuarial assumptions provided in the attached Exhibit 22.5.2.

22.5.3 Prior to any transfer of assets and liabilities, Seller shall present an opinion of counsel reasonably satisfactory to Purchaser to the effect that the terms of the Seller U.S. Qualified Defined Benefit Plan meet in all material respects the requirements of Section 401(a) of the Code (or can be timely amended to meet such requirements) and other applicable laws, and Purchaser shall present an opinion of counsel reasonably satisfactory to Seller to the effect that the terms of Purchaser U.S. Defined Benefit Plan meets in all material respects the requirements of Section 401(a) of the Code (or can be timely amended to meet such requirements).

22.5.4 Seller and Purchaser jointly shall provide Seller's and Purchaser's actuaries all relevant documents and employee census information needed to calculate the U.S. Pension Transfer Amount within 45 days after Closing. The U.S. Pension Transfer Amount shall be determined by mutual agreement between Seller and Purchaser within 60 days after receipt of said information. If Seller and Purchaser cannot agree on the amount of the U.S. Pension Transfer Amount within said 60 day period, the Seller and Purchaser shall appoint within five days a mutually acceptable actuary who shall review their determinations and within 45 days after appointment, render a final binding decision on the amount of the U.S. Pension Transfer Amount and who shall, in making such decision, be limited to either the position of Seller or Purchaser. The cost of the actuary shall be borne by Seller and Purchaser. In connection with the procedures referred to herein, Seller and Purchaser shall provide each other and the actuaries referred to herein access to the relevant business records and other relevant documents and shall permit the other party to consult with its employees and the employees of its Affiliates.

22.5.5 In transferring the assets and liabilities from the Seller U.S. Qualified Defined Benefit Plan to Purchaser U.S. Defined Benefit Plan, Purchaser and its Affiliates and Seller and its Affiliates shall comply with all applicable requirements of Sections 411(d)(6), 414(l)

and 401(a)(12) of the Code. Purchaser and its Affiliates shall, in the administration of Purchaser U.S. Defined Benefit Plan, comply with Sections 411(d)(6), 414(l) and 401(a)(12) of the Code and regulations thereunder with regard to accrued benefits transferred from the Seller U.S. Qualified Defined Benefit Plan. Further, the Purchaser U.S. Defined Benefit Plan shall honor the provisions of the domestic relations orders that are contained in the personnel and pension files of the U.S. Employees which are delivered to Purchaser and which previously have been determined qualified by Seller pursuant to Section 206(d)(3) of ERISA and Section 414(p) of the Code, and shall administer such orders in accordance with the terms thereof. Notwithstanding anything to the contrary in this Section 22.5, Purchaser reserves the right to amend, modify or suspend the Purchaser U.S. Defined Benefit Plan at any time or from time to time or terminate such plan at any time.

22.5.6 In connection with the implementation of this Section 22.5, Purchaser and its Affiliates and Seller and its Affiliates shall cooperate in the exchange of information, the notification of affected employees and in the preparation of any documentation required to be filed with the IRS, DOL (U.S. Department of Labor), PBGC (U.S. Pension Benefit Guaranty Corporation) or any other applicable governmental agency.

22.5.7 Except with respect to the liabilities that have been actually transferred to the Purchaser pursuant to Section 22.5, on and after the date of this Agreement, Seller shall retain all liability for the administration, management and funding of Seller's U.S. Defined Benefit Plans, qualified and non-qualified, and Purchaser shall have no such liability with respect to those Plans.

22.6 As of the Closing Date, the U.S. Employees shall cease active participation in the Seller Employee Savings Plan (the "Seller U.S. Defined Contribution Plan") and Purchaser will take, or cause to be taken, all action as may be necessary to cause such U.S. Employees to become eligible to participate in a U.S. Qualified Defined Contribution Plan of Purchaser or one of its Affiliates (the "Purchaser U.S. Defined Contribution Plan") as of such Date, or as soon thereafter as is administratively practical, on the same basis as similarly situated employees of the Purchaser. Service of each U.S. Employee recognized under terms of the Seller's U.S. Defined Contribution Plan for periods prior to the Closing Date shall be credited to the U.S. Employee for all purposes (including eligibility and vesting) under the Purchaser U.S. Defined Contribution Plan.

Seller shall advise participants in the Seller U.S. Defined Contribution Plan who are U.S. Employees of their right to elect to receive a rollover distribution of their individual nonforfeitable account balances and nonforfeitable accrued benefits, respectively, in accordance with the terms of such plan by reason of the transactions contemplated by this Agreement. Any U.S. Employees who are participants in the Seller U.S. Defined Contribution Plan shall be 100% vested in their accrued benefits and individual account balances under such Seller U.S. Defined Contribution Plan as of the Closing Date. Purchaser and Seller may agree to allow U.S. Employees who are participants in the Seller U.S. Defined Contribution Plan to elect direct rollover distributions from such Seller U.S. Defined Contribution Plan to the Purchaser U.S. Defined Contribution Plan in a directed rollover. Effective as of the Closing Date, Purchaser shall amend the Purchaser U.S. Defined Contribution Plan to the extent necessary to enable U.S. Employees who were participants in the Seller U.S. Defined Contribution Plan to elect rollover distributions, which may include any outstanding loan notes from such Seller U.S. Defined Contribution Plan in accordance with Section 402 of the Code. In order to rollover an out-

standing loan note, a U.S. Employee shall be required to execute (i) an acknowledgement that the Purchaser U.S. Defined Contribution Plan will be substituted for the applicable Seller U.S. Defined Contribution Plan as the obligee of the loan note, (ii) a payroll authorization form and (iii) any other forms deemed necessary by the plan administrator for the Purchaser U.S. Defined Contribution Plan. No other assets shall be transferred from any Seller U.S. Defined Contribution Plan to the Purchaser U.S. Defined Contribution Plan other than as specified herein. All directed rollovers between any Seller U.S. Defined Contribution Plan and any Purchaser U.S. Defined Contribution Plan will be in the form of cash and loan notes, as described herein.

## SECTION 23
## NON-US EMPLOYEE PENSION BENEFIT MATTERS

23.1 Seller and Purchaser agree that the transaction contemplated by this Agreement shall not constitute a severance of employment of any of the Employees participating in a Group Pension Arrangement regardless of whether or not a transfer of Pension Liabilities will be made from a Group Pension Arrangement to a pension arrangement of the Purchaser.

23.2 To the extent that service is relevant for purposes of determining participation, vesting or eligibility for benefits under a Purchaser's pension arrangement in which an Employee may participate, the Employees shall receive credit under the terms of such pension arrangement for pensionable service they had under the Group Pension Arrangement. Seller shall use its best endeavours to allow Purchaser to continue the membership of the Employees in the Group Pension Arrangement for one year after Closing or, if shorter, such period which is admissible under the respective local law or plan rules. During the temporary period of participation the Purchaser shall make contributions or premiums to the Group Pension Arrangement at an equivalent rate as Seller makes for its similarly situated employees.

In Germany, Purchaser may ask for approval to continue the membership of the relevant Employees in the BASF Pensionskasse VVaG for life, and in such event Seller shall use its best endeavours to assist Purchaser in securing such approval and assure that it will be granted. Purchaser shall then be required to accept the statutes and general policy conditions of the BASF Pensionskasse VVaG provided that the statutes and policy conditions are applied on a uniform and non-discriminatory basis as to the Seller's employees and employees of the Companies. In particular, Purchaser shall be required to pay as and when required the necessary contributions, at an equivalent rate as Seller contributes for its similarly situated employees, to fund the pension liabilities accruing after Closing, including any reasonable administration fee to which Seller and Purchaser shall mutually agree.

23.3 If a transfer of Pension Liabilities shall be made from a Group Pension Arrangement to a pension arrangement of the Purchaser, Seller and Purchaser agree to use their best endeavours to procure that any necessary approval of the appropriate regulatory authority is obtained as soon as reasonably practicable after the expiry of the Seller's participation period in the Group Pension Arrangement. If the Purchaser becomes responsible for meeting any Pension Liabilities accrued prior to Closing under a Group Pension Arrangement following transfer of such liabilities, Seller shall use its best endeavours to ensure that assets held in trust funds or insurance contracts in respect of such liabilities are transferred to suitable pension arrangements of the Purchaser. Seller will endeavour to ensure that such asset transfers shall be equivalent to such amount required under locally applicable

transfer law and regulations (the "Group Pension Transfer Amount"). Interest on the Group Pension Transfer Amount from the Closing Date to the date of transfer at a rate of 6% compounded annually shall be transferred along with the Group Pension Transfer Amount.

In the event that, during the period of temporary participation in a Group Pension Arrangement, a contribution or premium is paid in respect of Pension Liabilities that is subsequently assumed by the Purchaser, then Seller shall use its best endeavours to ensure that the amount of these premiums or contributions, including appropriate interest, is transferred to the Purchaser's pension arrangements, less reasonable deduction for administrative costs, as determined by mutual agreement of Seller and Purchaser. In the event any such transfer for post-Closing contributions or premiums, or interest thereon, cannot be made for any reason, Seller shall make a direct cash payment to Purchaser to reimburse Purchaser for any such amounts. Such payment will be within 30 days after Purchaser's notification to Seller.

23.4 Seller will permit no transfer of the Pension Liabilities and the assets related thereto from a Group Pension Arrangement unless Seller is satisfied as to the nature of the pension benefits which will be provided by Purchaser for the respective Employees.

23.5 In transferring Pension Liabilities from the Group Pension Arrangement to the pension arrangement of Purchaser, Seller and Purchaser shall comply with all applicable legal requirements.

23.6 If under local requirements the consent of an employee is required to a transfer of Pension Liabilities, such consent shall be sought by Seller and Purchaser.

## VII.
## ADDITIONAL OBLIGATIONS PRIOR TO THE CLOSING

### SECTION 24
### CONDUCT OF BUSINESS PRIOR TO CLOSING

24.1.1 Seller covenants that it will, or, subject to the restrictions established by applicable mandatory law, will cause the Companies to, conduct the BASF Pharmaceutical Business in the ordinary course of business and consistent with past practices for the period between the execution of this Agreement and the Closing and, to the extent consistent therewith, use their best efforts to preserve intact their assets, including Intellectual Property and Patents and current business organizations (except as provided in Section 4), use their best efforts to keep available the services of their key employees (without, however, any obligation to improve their employment terms) and preserve their relationships with those persons having business dealings with them.

24.1.2 Except as required by law, Seller shall not, and will not permit any of the Companies to, voluntarily take any action that would, or that could reasonably be expected to, result in any of the Closing Conditions not being satisfied.

24.1.3 (a) Upon the terms and subject to the conditions set forth in this Agreement, including Section 32.6 hereof, each of the parties will use their best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things, necessary, proper or advisable to consummate and make

effective, in the most expeditious manner practicable and, if practicable, before March 31, 2001, the transactions contemplated hereby, including best efforts to (i) obtain all necessary actions or non-actions, waivers, consents and approvals from governmental entities and make all necessary registrations and filings (including filings with governmental entities) and take all reasonable steps as may be necessary to obtain an approval or waiver from, or to avoid an action or proceeding by, any governmental entity, (ii) obtain all necessary material consents, approvals or waivers from third parties, (iii) execute and deliver any additional instruments necessary to consummate the transactions contemplated by, and to fully carry out the purposes of, this Agreement, (iv) when the Structure Option is exercised by Seller, have the Demerger registered in the Commercial Register of both Knoll AG and the Partnership, and (v) with respect to the India Shares and the Pakistan Shares, use best efforts to effect their transfer to Purchaser by taking such actions as may be necessary under applicable law.

24.1.4 Seller and the Companies shall continue their course of action and strategies, as outlined to Purchaser in the presentations made on November 13, 2000, with respect to state and federal regulatory submissions affecting Synthroid.

24.1.5 Unless the Structure Option is exercised by Seller, Seller shall cause Knoll Deutschland GmbH to be merged into Knoll AG pursuant to Section 4.

24.2 During the period between the execution of this Agreement and the Closing, Seller shall not, and, subject to the restrictions established by applicable mandatory law, will procure that each of the Companies shall not, without the prior written consent of Purchaser such consent not to be unreasonably withheld, do any of the following unless expressly provided for in Section 24.3 or elsewhere in this Agreement:

a) sell, dispose of, pledge, license, assign or otherwise encumber any of (i) the assets of the BASF Pharmaceutical Business other than in the ordinary course of business consistent with past practice or any of the Shares or (ii) its Intellectual Property including without limitation the patents and patent applications described in Section 15.1 (II);

b) authorize for issuance or issue any capital stock of the Companies or securities or rights convertible into or exchangeable for shares or securities or rights convertible into or exchangeable for such shares or amend their articles of association;

c) purchase or otherwise acquire or offer to purchase or otherwise acquire any (i) shares or other participation in a corporation, partnership or other entity by any of the Companies, or (ii) other assets with the purchase price in excess of EUR 500,000 other than in accordance with the Companies' capital plan, a copy of which has been provided to Purchaser;

d) enter into any collective bargaining or shop agreements with respect to any of the Companies or, except for increases required by applicable collective bargaining agreements or shop agreements, grant any increase in the rates of pay or benefits to, or enter into any new Employee Benefit Plan or make any other change in the employment terms for, any of their directors, officers and employees in the BASF Pharmaceutical Business;

e) enter into any contract or other arrangement which (i) may result in a material change in the nature or scope of the BASF Pharmaceutical Business, or (ii) if it existed on the date hereof, would be required to be listed on Exhibit 13.13, 13.14 or 13.21, or amend or terminate any of the agreements listed on Exhibit 13.13, 13.14 or 13.21;

f) abandon, or take or omit to take any action that may limit the scope or value of, any of its assets, including without limitation, any patent or patent application filed by it or any of its Affiliates (including the Companies) unless such abandonment, action or omission, individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect;

g) except as otherwise expressly permitted by this Agreement (i) initiate any action, suit, proceeding or submission before any court or governmental authority; and (ii) enter into any compromise or settlement of any litigation, proceeding or governmental investigation relating to it or its properties, operations or business, except for settlements within applicable insurance coverage limits, and settlements complying with the conditions of Section 20.3 or 26.4 and against which Seller shall indemnify Purchaser;

h) lend any money or otherwise pledge its credit except in the ordinary course of business consistent with past practices;

i) materially increase the number of individuals employed by the Companies;

j) take, and shall use its best efforts not to suffer or permit, any action which would render untrue any of the Representations of Seller contained herein;

k) accelerate orders or sales or offer any special terms, discounts or purchase programs (including by providing credit terms outside of ordinary and normal course);

l) materially change or diminish the nature, scope and level of effort associated with research and development activities (including protocols, clinical programs, funding and expenditure levels), including, without limitation, any of the foregoing associated with D2E7; or

m) enter into any nontrade, intercompany financing or loan arrangement with any Company that is a non-wholly-owned subsidiary or Affiliate of Seller.

24.3 During the period between the execution of this Agreement and the Closing, Seller shall have the right, but shall not be obligated, to take, or cause to be taken by the Companies, the following action:

a) pay off Financial Debt,

b) except as otherwise provided in Section 24.2(m) distribute cash dividends or withdraw cash from Companies that are wholly owned by Seller in other forms permissible under applicable law e.g. by repurchase of shares or reduction of capital,

c) eliminate debt of the BASF Pharmaceutical Business in forms other than payment of debt, e.g. waive debt owed to Seller, or cause the BASF Pharmaceuticals Business to be released from debt owed to third party creditors,

d) cause the employees listed in Exhibit 24.3(f) to cease to be employed by the BASF Pharmaceutical Business,

e) transfer the Shares to any other wholly-owned Affiliate of BASF.

24.4 Seller shall ensure that each of the Companies shall have adequate insurance coverage in line with past practice and custom with regard to coverage, terms and costs from the date of this Agreement until the Closing.

24.5 During the period between the execution of this Agreement and the Closing, Seller covenants that it will, and will cause the Companies to:

a) except with respect to competitively sensitive information restricted by applicable merger control and antitrust laws, permit Purchaser and its representatives to have reasonable access, upon reasonable advance notice, to the assets, employees, books and records of Seller and its Affiliates, with respect to the BASF Pharmaceutical Business and the Companies, and shall furnish, or cause to be furnished, to Purchaser, such financial, tax, regulatory, R&D, and operating data and other available information with respect to the BASF Pharmaceutical Business as Purchaser may from time to time reasonably request or that may otherwise be reasonably required by Purchaser, including such data and information as may be necessary for Purchaser, Deloitte & Touche GmbH and Purchaser's representatives to prepare the U.S. Financial Statements and any pension calculations required to be included therein;

b) permit Purchaser and its representatives to conduct Phase I environmental reviews at the Real Property. Purchaser shall conduct any such reviews in a manner that minimizes the disruption conduct of the ongoing business at the site; and

c) make available to Purchaser for its inspection and copying such documents and instruments for the purpose of establishing that Seller owns the Companies in the manner and in the percentages as set forth on the Exhibits identified in Sections 13.1-13.4.

24.6 Seller will promptly advise Purchaser in writing if it obtains knowledge of (i) any Representation set forth in this Agreement becoming untrue or inaccurate in any respect, or (ii) a failure by it to comply with or satisfy any material covenant or agreement to be complied with or satisfied under this Agreement which, in either case would result in the failure of the condition described in Section 11.1.2.

24.7. Purchaser shall as promptly as practicable after the date hereof, with such assistance from Seller as Purchaser may reasonably request, file for and use its best efforts to obtain all applicable (including Drug Enforcement Agency "DEA") governmental registrations and/or licenses regarding controlled substances that are required for Purchaser to conduct the BASF Pharmaceutical Business as currently conducted. In the event that all applicable DEA and other registrations and/or licenses regarding controlled substances required for Purchaser to conduct the BASF Pharmaceutical Business as currently conducted are

not in effect at the time of the Closing, Purchaser and Seller agree to cooperate and use all commercially reasonable efforts to obtain all DEA and other required registrations and/or licenses regarding controlled substances that Purchaser may require to conduct the BASF Pharmaceutical Business as currently conducted and to own and operate the Companies. Upon Purchaser's request, Seller shall apply to the DEA and other relevant government entities and regulatory agencies for permission for Purchaser to operate the BASF Pharmaceutical Business under Sellers' existing DEA and comparable controlled substance registrations and/or licenses from the Closing Date until Purchaser receives all required DEA and controlled substance registrations and/or licenses for the BASF Pharmaceutical Business.

24.8 After the Closing, Seller will exercise its ownership rights to cause Hokuriku (and such other Companies, if any, the Shares of which are not transferred at Closing pursuant to Section 12.5) to conduct their business only in the ordinary course consistent with past practice, and otherwise will exercise its ownership rights with respect to Hokuriku in a manner consistent with Section 24. Without limiting the generality of the foregoing, the business of such Companies shall be operated after the Closing for the account of Purchaser, and no dividends or distribution or other payments with respect to shares held in such Companies may be made or declared following the Closing.

24.9 Prior to Closing, the parties to this Agreement will negotiate in good faith any amendments to the Intercompany Agreements or new Intercompany Agreements (including a transition and support services agreement) as may be necessary to meet the reasonable needs of Purchaser, and otherwise to ensure that the BASF Pharmaceutical Business continues to be operated after the Closing in a manner consistent with the manner it was operated prior to the Closing including, without limitation, any amendments to the lease (the "Wyandotte Lease") of the real property located in Wyandotte, Michigan ("Wyandotte Property"). Without limiting the foregoing, the Wyandotte Lease will contain as of the Closing or will be amended to contain appropriate cross-indemnity provisions relating to Environmental Liabilities arising from the operations at the Wyandotte Property by Purchaser and Seller, respectively. Notwithstanding any provision in a given Intercompany Agreement, Purchaser may elect at any time for a period of five years from the Closing Date and upon 30 days prior written notice to Seller, to terminate any of the Intercompany Agreements in whole or in part.

24.10 At Closing, as far as practicable, or after the Closing, Seller shall, without further consideration, promptly execute and deliver, or cause to be executed and delivered, to Purchaser such deeds, assignments, bills of sale, Consents and other instruments in addition to those required by this Agreement, in form and substance satisfactory to Purchaser, and take all such other action, as Purchaser may reasonably deem necessary or desirable to implement any provision of this Agreement or to more effectively transfer, convey and assign to Purchaser good and marketable title to, and to put Purchaser in actual possession and operating control of the Shares, the Transferred Patents and the BASF Pharmaceutical Business, free and clear of all liens and encumbrances. Without limiting the generality of the foregoing, if any assets or rights, including any and all rights in Intellectual Property, that are to be held by or transferred to the Companies or licensed for the benefit of Purchaser in accordance with the terms of this Agreement, have not been so held, transferred or licensed as of the Closing, Seller shall, and shall cause its Affiliates to, as applicable, take such actions as are necessary to ensure that the title to such assets

and/or licenses to use such rights are so held, transferred or licensed without undue delay as soon as commercially practicable or lawfully possible.

Within 60 days after the date of this Agreement, Seller will provide or make available to Purchaser true, correct and complete copies of all policies of insurance to which any of the Companies is a party or is a beneficiary or named insured.

After the Closing, Seller will cooperate with Purchaser in ensuring the effective transfer to Purchaser of any trade names, corporate logos, the content of all websites of Seller that relate to the BASF Pharmaceutical Business and any registered domain names that relate to the BASF Pharmaceutical Business.

24.11 No later than the following dates Seller shall identify and represent inventory levels, in sufficient detail to enable Purchaser to understand inventory levels of the BASF Pharmaceutical Business as of the listed dates:

| DELIVERY DATE | INVENTORY DATE |
|---|---|
| January 15, 2001 | November 30, 2000 |
| January 31, 2001 | December 31, 2000 |
| Each month end thereafter through Closing | Previous month |

Purchaser and Seller shall work cooperatively and Seller shall use and shall cause the Companies to use, their best efforts to reduce inventory levels below *** for periods after December 31, 2000 through the Closing.

24.12 Prior to Closing Seller shall repay the intercompany loan payable to Hokuriku.

24.13 Seller shall cooperate with Purchaser prior to closing to allow to take such steps as are necessary to convert Knoll AG into a GmbH, effective no earlier than one day after the Closing Date.

## VIII.
## ADDITIONAL OBLIGATIONS OF THE PARTIES

### SECTION 25
### SHARED SUBSTANCES LIBRARY, PATENTS, LICENSES

25.1 With respect to the Remaining Patents, Seller hereby grants to Purchaser an irrevocable, exclusive, paid-up license for the life of the respective patent, with the right to grant sublicenses, in the Pharmaceutical Field and a corresponding exclusive license to make, use and sell the Exclusive Active Ingredients and a corresponding non exclusive license with respect to the Mutual Active Ingredients, which licenses shall be subject to the terms and conditions of a separate license agreement.

25.2 With respect to Shared Substances located on the premises of Seller or Seller's Affiliates, Seller upon request of Purchaser shall permit Purchaser or the Companies to screen such

*** Confidential information omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission.

Shared Substances free of charge subject to the provisions of Section 25.4 below, and Seller hereby grants to Purchaser with respect to Seller's Shared Substance Patents an irrevocable, exclusive, paid-up license for the life of the respective patent with the right to grant sublicenses in the Pharmaceutical Field and the Pharmachemical Field. However, to the extent that physical inventories of Shared Substances which are located on the premises of Seller have been depleted, Seller shall not be obligated to reproduce any Shared Substances for the Purchaser which in its turn shall have the right to reproduce such Shared Substances.

25.3 With respect to Shared Substances located on the premises of the Partnership, Purchaser on request of Seller hereby permits Seller or Affiliates of Seller to screen such Shared Substances free of charge subject to the provisions of Section 25.4 below, solely for use outside both the Pharmaceutical Field and the Pharmachemical Field and hereby grants to Seller with respect to such Shared Substance Patents an irrevocable, paid-up, exclusive license for the life of the respective patent with the right to grant sublicenses outside the Pharmaceutical Field and the Pharmachemical Field. However, as far as Shared Substances which were located on the premises of the Partnership have been depleted, Purchaser shall not be obligated to reproduce any Shared Substances for the Seller which in its turn shall have the right to reproduce Shared Substances.

25.4 The right to screen Shared Substances shall not apply to (i) Shared Substances which are available in less than 100 mg quantity, (ii) Shared Substances being developed or sold commercially and closely related structures thereto, or (iii) Shared Substances which have been licensed to one or more third parties or are still subject to active evaluation and/or development by a party and/or a prospective or actual licensee of such party.

## SECTION 26
## CONDUCT AND LITIGATION

26.1 Indemnification. Seller agrees to indemnify and hold harmless Purchaser and each of Purchaser's Affiliates and Subsidiaries, including the Companies, from and against:

(i) any and all loss, liability, damage and expense whatsoever arising from any pending and/or future claim, actions, complaints, causes of action, and/or governmental investigation or proceeding (collectively "action"), commenced or threatened, based upon, arising out of, or related to the Section 26 Conduct;

(ii) any and all loss, liability, damage and expense whatsoever arising from or related to the Section 26 Litigation;

(iii) any and all loss, liabilities, damage and expense whatsoever arising from or relating to the Insurance Litigation; and

(iv) any and all expense whatsoever (including the fees and disbursements of counsel and other professional advisors and experts chosen by Purchaser), reasonably incurred in responding to requests of Seller to assist or cooperate in the Section 26 Litigation and/or the Insurance Litigation and/or any action under Section 26(a)(i) above, including costs and expenses of discovery, witness preparation or court testimony.

26.2 Actions against Parties; Notification. Purchaser shall give notice as promptly as reasonably practicable to Seller of any action commenced against it in respect of which indem-

nity may be sought under this Section 26, but failure to so notify Seller shall not relieve Seller from any liability hereunder to the extent Seller is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this Section 26. Subject to Section 26.3 below, Purchaser may, at its own option, participate in or assume control of the defense of any such action; provided, however, that counsel to the Purchaser shall not (except with the consent of Seller) also be counsel to the Seller. Seller shall indemnify Purchaser for all fees and costs incurred if Purchaser decides to assume control of the defense of any such action.

26.3 Control of Section 26 Litigation. Subject to Section 26.4 below and provided that Seller shall have first agreed in writing to assume responsibility for the action and acknowledged its indemnity obligation hereunder, Seller shall retain control over and continue the defense of the Section 26 Litigation, provided, however, that (i) Purchaser shall retain control over all dealings, communications and negotiations with and/or submissions to any regulatory body, including but not limited to the United States Food and Drug Administration and the Canadian Health Protection Bureau; and (ii) Purchaser shall retain control over all dealings, communications and negotiations with and/or submissions to any state department of public health or advisory committees, or to any state formulary, such as the Illinois formulary or equivalent. Seller and the Purchaser shall cooperate and take such measures as may be necessary to preserve the attorney-client and other privileges arising from any Section 26 Litigation.

26.4 Compromise or Settlement. Seller may, without the prior written consent of Purchaser, settle or compromise or consent to the entry of any judgment with respect to the Section 26 Litigation, the Insurance Litigation or any other action commenced against it in respect of which indemnification is sought under this Section 26, if such settlement, compromise or consent (i) includes an unconditional release of Purchaser and its Affiliates and Subsidiaries (including the Companies) from all liability arising out of such action, (ii) includes no express or implied statement as to or any admission of fault, culpability or a failure to act by or on behalf of Purchaser, its Affiliates, or its Subsidiaries, and (iii) provides for relief solely in the form of a liquidated monetary payment (which in the case of the Section 26 Litigation shall be paid fully by Seller). Seller may not, without the prior written consent of Purchaser (which may be withheld for any reason), settle or compromise or consent to the entry of any judgment with respect to the Section 26 Litigation or the Insurance Litigation, any other action, which provides for remedies other than the payment of a liquidated monetary sum, including, without limitation, any injunctive or declaratory relief, consent decree, assurance of voluntary compliance and/or any other directive, order or agreement issued by or entered with any other person or governmental authority.

26.5 Access. To the extent that Seller shall direct or control the defense or settlement of the Section 26 Litigation or any other action in respect of which indemnification is sought hereunder, Purchaser will give Seller and its counsel, during normal business hours, access to the relevant business records and other documents relating to the claim, and shall permit them to consult with employees and counsel of Purchaser; provided, however, that any expenses incurred by Purchaser, including reasonable disbursements and fees and disbursements of counsel incurred in connection such access and consultation, shall be at Seller's sole cost and expense and reimbursed by Seller as incurred. In connection with any claim hereunder which has been assumed by Seller, Seller shall keep Purchaser reasonably informed of the status thereof at all stages, including providing to Purchaser

copies of all pleadings and other material papers and correspondence in connection with any such claim.

26.6 Insurance Proceeds and Settlement Amounts. If and to the extent that Seller has agreed to prosecute, at its own expense and with its own counsel, the Insurance Litigation, and has performed its obligations under this Section 26, Seller shall be entitled to (i) any proceeds or recovery arising from or out of the Insurance Litigation, and (ii) IN RE SYNTHROID-Registered Trademark-MARKETING LITIGATION Settlement Amounts.

26.7 Certain Definitions. For purposes of this Agreement:

(i) "Section 26 Litigation" shall mean (1) , IN RE SYNTHROID-Registered Trademark-MARKETING LITIGATION Lead Case No. 97 C 6017, MDL No. 1182, United States District Court for the Northern District of Illinois, including all consumer and/or third party payor opt-out claims and any claims by state Attorneys General, and any and all appeals therefrom; (2) Uwimana v. Boots, et al. (Quebec, Canada); Annibale v. Boots, et al. (Ontario, Canada); Tesluk v. Boots, et al. (Ontario, Canada); Malc-Barmherzig v. Boots, et al. (Ontario, Canada); and Aruliah v. Boots, et al. (British Columbia, Canada) (collectively "Canadian Litigation") and such other actions as are described in the Stipulation of Settlement and Compromise for MDL No. 1182 Master File Number 97 C 6017, and any and all appeals from the Canadian Litigation; and (3) IN RE BRAND NAME PRESCRIPTION DRUGS ANTITRUST LITIGATION, Lead Case No. 94 C 987, MDL No. 997, United States District Court for the Northern District of Illinois, and any and all appeals therefrom

(ii) "Section 26 Conduct" shall mean the conduct alleged, or conduct substantially similar to that alleged, in the Section 26 Litigation;

(iii) "Insurance Litigation" shall mean Knoll Pharmaceutical Co. v. Automobile Insurance Co. of Hartford, et al., Case No. 00 C 6733, pending in the United States District Court for the Northern District of Illinois, Eastern Division, involving defendants Automobile Insurance Co. of Hartford ("Automobile"), National Union Fire Insurance Co. of Pittsburgh, PA ("National Union"), and Royal Insurance Co. of America ("Royal"), or any insurance policy disputed in Case No. 00 C 6733, including but not limited to (i) Automobile issued to Boots Pharmaceuticals, Inc. ("Boots") commercial general liability policy no. 048 ACM 5269323; (ii) Automobile issued to Boots commercial general liability policy no. 048 ACM 5602370; (iii) Automobile issued to Boots commercial general liability policy no. 048 ACM 5604447; (iv) Royal issued to Boots commercial general liability policy no. PST 13 45 30; (v) National Union issued to Boots commercial general liability policy no. GL 381-00-97; (vi) National Union issued to Boots commercial general liability policy no. GL 381-10-54; and

(iv) "IN RE SYNTHROID-Registered Trademark-MARKETING LITIGATION Settlement Amounts" shall mean alL settlement amounts and funds described in Judge Bucklo's August 4, 2000, Memorandum Order and Opinion, in MDL 1182, including but not limited to the consumer class fund, the third party payor class fund, and funds relating to plaintiff's payment of amounts to states' attorneys general and in cy pres remedies to the pharmacy industry

## SECTION 27
## NON-COMPETE COVENANT

27.1 For a period of *** effective from the Closing, or with respect to the restrictions contained in clause (b) in countries other than EU member countries the later of *** following the Closing, neither Seller nor any of its Affiliates shall, anywhere in the world, directly or indirectly (a) engage in the Pharmaceutical Field, (b) agree to develop, import, register, manufacture, distribute, supply or sell any BASF Pharmaceutical Products or any Active Ingredient used in any BASF Pharmaceutical Product for any third party, (c) otherwise assist any third party to compete with Purchaser, in the BASF Pharmaceutical Business or otherwise with respect to business or activities related to Exclusive Active Ingredients, or (d) acquire a participation in a company or other entity that competes in the BASF Pharmaceutical Field, or business or activities related to Exclusive Active Ingredients, except ownership of a less than *** equity interest in a publicly traded company solely for investment purposes. For a period of *** from the Closing, neither Seller nor its Affiliates shall directly or indirectly solicit any employees of the Companies to terminate his or her employment with any of the Companies or Purchaser.

27.2 However, the preceding paragraph shall not prevent Seller from (I) activities in the BASF Pharmachemical Field and (II) taking over by purchase of shares or assets or by way of a merger another business even if such business includes activities competing with Purchaser in the BASF Pharmaceutical Field, provided that (a) the gross sales with respect to competitive activity of such business in the year preceding the acquisition constitute less than *** of the total gross sales of such business, and (b) Seller, within 90 days from the completion of such acquisition, offers to Purchaser the right to purchase the activities taken over and which are competing with Purchaser or the Companies specifying the price (which shall be fair market value) and other reasonable terms and conditions of such offer (the "Seller Terms"). If Purchaser has not accepted the offer on Seller Terms or if Purchaser and Seller have not agreed to different terms, in each case within 90 days from the receipt of the offer, Seller shall use its best efforts to divest (by sale or IPO or otherwise) the activities in question within a period of *** from the date on which Seller had offered them for purchase to the Purchaser at a price equal to, or higher than, the price and at terms not more favorable to an acquiror than the ones previously offered to Purchaser. Seller may only sell the activities in question at a price lower than the price contained in the previous offer to Purchaser if Seller has again offered the activities in question to Purchaser at such lower price and Purchaser has not accepted such offer within 15 working days from receipt of the offer.

## SECTION 28
## USE OF TRADE NAMES

28.1 Seller (a) may change the corporate names of the Companies insofar as this is necessary in order to eliminate from such corporate names references to "BASF" and shall use its best efforts to give Purchaser an opportunity to make proposals for the new corporate name to be chosen in connection with the elimination of such references, and (b) shall change the corporate names of all Affiliates of Seller (other than the Companies) to eliminate from such corporate names references to "Knoll." Seller shall use its best efforts to complete such changes prior to the Closing or as soon as possible thereafter. Purchaser shall assist Seller in making or completing the changes after the Closing to the extent they not have been completed by the time of the Closing.

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*** Confidential information omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission.

28.2 As soon as commercially possible upon the consummation of the Closing but in no event longer than the later to occur of (x) 12 months after the Closing, or (y) Purchaser's exhaustion and depletion of all inventories and stores of materials described below, Purchaser agrees to cause all of the Companies to cease making use of the trade names and product or service marks of Seller or any of its Affiliates containing "BASF" and to remove any reference to any such names or marks from all products, products promotions or advertising materials, business cards or any other items. Seller hereby grants Purchaser a non exclusive, worldwide, royalty free license to use such names for the period described in this Section 28.2.

28.3 As soon as commercially possible upon the consummation of the Closing but in no event longer than the later of (x) 12 months after the Closing, or (y) Seller's exhaustion and depletion of all inventories and stores of materials described below, Seller will and will cause its Affiliates, including, without limitation, Knoll AG, to cease making use of the trade names, trademarks and product or service marks of the BASF Pharmaceutical Business or any of the Companies, including "Knoll" and to remove any reference to any such names or marks from all products, product promotions or advertising materials, business cards or any other items. Purchaser hereby grants Seller a non-exclusive, worldwide, royalty free license to use such names for the period described in this Section 28.3.

## SECTION 29
## INDEMNITY AGAINST LIABILITIES OF KNOLL BUSINESS

29.1 Purchaser shall indemnify Seller and its Affiliates against any responsibility under Section 133 Conversion Act (Umwandlungsgesetz) for liabilities exclusively relating to the Knoll Business, other than liabilities against which Purchaser is indemnified by Seller pursuant to this Agreement, including Section 15 hereof. Seller shall indemnify Purchaser and its Affiliates against any responsibility under Section 133 Conversion Act (Umwandlungsgesetz) for all liabilities of Knoll AG except for those exclusively relating to the Knoll Business.

29.2 Seller shall ensure that no creditor of Knoll AG will request from the Partnership a security interest pursuant to Sections 133, 125 and 22 Conversion Act.

29.3 Seller shall ensure that only those current employees of Knoll AG and Knoll Deutschland GmbH who work exclusively or mainly for the Knoll Business (the "Knoll Business Employees") will be transferred to the Partnership, and should any employee of the Seller Group or Knoll AG other than the Knoll Business Employees, be transferred to the Partnership by operation of law or as a result of an act or omission of a member of the Seller Group, Seller shall indemnify and hold the Partnership, Purchaser and its Affiliates harmless from any obligations or liabilities relating to such employees, including such employees' remuneration or severance claims.

29.4 Seller shall ensure that, at the Closing, the Partnership will, whether as a result of the Demerger or otherwise, not be liable for any Pension Liabilities other than those of the Knoll Business Employees.

## SECTION 30
## MAINTENANCE OF PARTNERSHIP STRUCTURE

30.1 Purchaser shall be obligated to continue the operation of the Partnership substantially as conducted as of the Closing Date by the Partnership in the Federal Republic of Germany in the legal form of the Partnership ***.

30.2 It is understood that the provision in Section 30.1 above does not prevent the Purchaser from (a) transferring any activities, personnel or assets of the Knoll Business or the Partnership to locations or entities domiciled outside the Federal Republic of Germany, or (b) transferring personnel of the Knoll Business or the Partnership to other locations within the Federal Republic of Germany.

30.3 If the laws in the Federal Republic of Germany concerning the Tax treatment of a partnership are changed in a way that maintenance of the legal form would have a Material Adverse Effect on the Partnership, Purchaser shall have the right to change the legal form of the Partnership as far as necessary to avoid that effect subject to prior written approval by Seller which approval shall not be unreasonably withheld.

30.4 In case of a sale of the Partnership or its business operation, Purchaser shall impose the obligations under this Section 30 on the acquirer.

## SECTION 31
## CONFIDENTIALITY, PUBLICATION

31.1 The Parties hereto shall keep the content of this Agreement confidential except for reporting and disclosure requirements under statutory law, including reporting and disclosure requirements under the United States securities laws.

31.2 None of the Parties hereto will issue a press release on the transaction without the prior written consent of the other Party except as may be required by the reporting and disclosure requirements under the United States securities laws.

31.3 From and after the Closing, neither Seller nor any of its Affiliates or representatives shall use or disclose any non-public or proprietary information including any such information included in the Intellectual Property, exclusively relating to the BASF Pharmaceutical Business except to perform their obligations pursuant to this Agreement or the Intercompany Agreements. This Section 25.11 shall not apply to any such information that (i) through no fault of Seller becomes generally known in the relevant industry, or (ii) is received after the Closing from a third party free of any limitations on its use or disclosure. Seller may make any legally required disclosure of the such information, but Seller shall use its best efforts to notify Purchaser before making any such disclosure, and at Purchaser's expense to limit the amount of such information so disclosed and to protect its confidentiality to the extent reasonably practicable. Upon request by Purchaser, Seller shall permit Purchaser to have access to, with an opportunity to make copies of, such information and to deliver all of such information to Purchaser.

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## IX.
## MERGER CONTROL, RIGHT OF WITHDRAWAL

### SECTION 32
### MERGER CONTROL

32.1 Purchaser will promptly notify the European Commission of the merger provided for in this Agreement pursuant to the Merger Control Regulation.

32.2 Purchaser will promptly file, and Seller will promptly cause any of the Companies legally required to do so to file, for approval of the transaction contemplated by this Agreement in accordance with the Hart-Scott-Rodino Antitrust Improvements Act of 1976 as amended.

32.3 Seller and Purchaser shall promptly make all other filings legally required with any other antitrust authorities or other governmental authorities with respect to the transaction contemplated by this Agreement, including, without limitation, the filings described in Section 11.1.1(a).

32.4 No filing by a party hereunder shall be made without first having provided a draft of the notification to the respective other party.

32.5 In the event that meetings with officials of the European Commission, or the US Antitrust Authorities, or of any other antitrust governmental authorities become necessary, representatives of both Seller and Purchaser shall be entitled to attend such meetings. Seller and Purchaser shall, without undue delay (insofar as possible, in advance), exchange all information about their contacts with authorities referred to in the preceding sentence.

32.6 Seller and Purchaser shall, if necessary, provide such additional information, as may be required to respond to a second request for information, and shall take such action as may be reasonably necessary to obtain the approvals required by this Agreement as soon as possible.

### SECTION 33
### TERMINATION

33.1 This Agreement may be terminated at any time prior to the Closing.

a) by mutual written consent of Seller and Purchaser;

b) by either the Seller or Purchaser if:

(i) the transactions contemplated by this Agreement are prohibited by any of the antitrust authorities mentioned in Section 11.1 (a) above; or

(ii) the Closing Conditions have not been fulfilled on or prior to ***, provided, however, that such party shall not be entitled to the right to terminate which has caused the failure of the Closing Condition by breaching any of its obligations under this Agreement; provided further however that such date shall be extended to *** if by *** the approvals described in Section 11.1(a) shall not have been obtained; or

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c) by Purchaser if prior to the Closing Date there shall have been a breach of any Representation, covenant or agreement on the part of Seller contained in this Agreement, which breach is (x)(i) incapable of being cured by Seller or is not cured within 30 days of notice of such breach and (ii) would cause a failure of a condition specified in Section 11.1.2. (a) or (b), or (y) constitutes an intentional and material breach by Seller of any material covenant or agreement of Seller contained in this Agreement that is not cured within 30 days of notice of such breach; or

d) by Seller if prior to the Closing Date there shall have been a breach of any Representation, covenant or agreement on the part of Purchaser contained in this Agreement, which breach constitutes an intentional and material breach by Purchaser of any material covenant or agreement of Purchaser contained in this Agreement that is not cured within 30 days of notice of such breach.

33.2 Claims for breach of contract, if any, under this Agreement, of either party shall not be affected by a termination. In case of a termination, the parties are obligated to return all documents received from the respective other party, to keep secret all confidential information they have received in connection with the transaction and shall not use any such information for their own purposes. Seller's and Purchaser's legal counsel shall be exempt from the obligation to return such documents to the extent they are part of their files.

## X.
## MISCELLANEOUS

### SECTION 34
### NOTICES

All notices, statements and other communications to be given with respect to this Agreement shall be in the English language and sent by registered mail, by facsimile transmission or by messenger to the parties at the following addresses or at such other addresses as shall be specified by the parties:

If to Seller:
BASF Aktiengesellschaft
Central Legal Department
67056 Ludwigshafen, Germany
Telefax: 49.621.60.20410

If to Purchaser:
Abbott Laboratories
One Abbott Park Road
Abbott Park, Illinois 60053-3500
Telephone: 847-937-6100
Attn: General Counsel

### SECTION 35
### ENTIRE AGREEMENT, WRITTEN FORM

35.1 This Agreement (including the attached Exhibits) constitutes the entire agreement and supersedes all other prior agreements and undertakings both written and oral among the

parties. In the event of any translation of this Agreement, the English version shall govern.

35.2 In case any provision of the Separate Sale and Transfer Contracts is inconsistent with the provisions of this Agreement, the latter shall prevail and the parties hereto shall treat each other accordingly.

35.3 Any changes in this Agreement including, but not limited to, this clause shall only be valid if made in writing and executed by both Purchaser and Seller or, if necessary, in a stricter form.

## SECTION 36
## ASSIGNMENT, SET-OFF

36.1 Neither Seller nor Purchaser may assign any rights or obligations under this Agreement to any third party without the consent of the respective other party except for Purchaser's right to have any of the Shares and Transferred Patents acquired by a designee.

36.2 Purchaser shall not be entitled to offset any claim it may have against Seller (whether under this Agreement or otherwise) against the claim of Seller for payment of the Aggregate Purchase Price pursuant to Section 8 above unless Purchaser's claim has become final (rechtskraftig) or is undisputed.

## SECTION 37
## GOVERNING LAW, JURISDICTION

37.1 This Agreement shall be governed by and construed in accordance with the laws of the Federal Republic of Germany, other than Section 26 which shall be governed by the law of the State of Illinois, USA without regard to its choice of law rules.

37.2 Except as otherwise expressly stated elsewhere in this Agreement, all disputes arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration in accordance with the Rules of the German Institute of Arbitration e.V. (DIS) without recourse to the ordinary courts of law, provided that the Chairman of the Arbitral Tribunal shall not be of the same nationality as that of any of the parties to a given dispute. The place of arbitration shall be Frankfurt; the language of the arbitration shall be English.

37.3 All disputes arising out of or in connection with Section 26 shall be referred to and finally resolved by the court having jurisdiction over the Section 26 Litigation or Insurance Litigation to which the dispute relates.

## SECTION 38
## EXPENSES

38.1 Except as specifically provided otherwise in this Agreement, each party shall bear its own expenses and fees (including attorneys', accountants', consultants' and advisors' fees) in connection with this Agreement or any of the transactions contemplated herein, including any merger control filing and filings with other governmental authorities made by such party.

38.2 Fees and costs triggered by the implementation of this Agreement (other than the Merger and the Demerger), including but not limited to any notarial fees, any transfer or sales Tax (including value added Tax and stamp duties and property transfer Tax according to Section 5 para 3 Grunderwerbssteuergesetz), any registration or publication fees shall be borne by Purchaser.

## SECTION 39
## SEVERABILITY

Should any of the provisions of this Agreement be or become fully or partly invalid or unenforceable, the remainder of the Agreement shall be valid or enforceable. The invalid or unenforceable provision shall be replaced by a provision which shall come as close as possible to the economic purpose of the invalid provision. Any gaps in this Agreement shall be filled by a provision which the parties as prudent businessmen would in good faith have agreed to, had they considered the matter not covered by this Agreement.

TABLE OF CROSS-REFERENCES FOR ADDITIONAL DEFINITIONS

"FINAL BASF TENDER AMOUNT" shall have the meaning as described in Section 7.4;

"BASF INTERCOMPANY OBLIGATIONS" shall have the meaning described in Section 19.1;

"CLOSING" shall have the meaning as described in Section 11.1;

"CLOSING DATE" shall have the meaning as described in Section 11.1;

"CLOSING FINANCIAL STATEMENTS" shall have the meaning as described in Section 10.1;

"CODE" shall have the meaning described in Section 13.11.1(a);

"CONSENTS" shall have the meaning described in Section 13.2;

"DEA" shall have the meaning as described in Section 24.7;

"DEMERGER" shall have the meaning as described in Section 4.2;

"EMPLOYEE BENEFIT PLAN" shall have the meaning described in Section 13.11.1(b);

"ENVIRONMENTAL LIABILITIES" shall have the meaning described in Section 13.18.5;

"ENVIRONMENTAL REPORT" shall have the meaning described in Section 13.18.5;

"ERISA" shall have the meaning described in Section 13.11.1(a);

"ERISA AFFILIATE" shall have the meaning described in Section 13.11.1(a);

"GENERAL CLOSING CONDITIONS" shall have the meaning as described in Section 11.1.1;

"HOKURIKU OVERPAYMENT" shall have the meaning as described in Section 8.3;

"HOKURIKU UNDERPAYMENT" shall have the meaning as described in Section 8.3;

"HOKURIKU TENDER OFFER" shall have the meaning as described in Section 7.4;

"HSR ACT" shall have the meaning as described in Section 11.1.1;

"INDEMNIFIED CLAIM" shall have the meaning as described in Section 20.1;

"INDIVIDUAL CLAIM" shall have the meaning described in Section 15.2(a);

"PROVISIONAL HOKURIKU TENDER AMOUNT" shall have the meaning described in Section 8.3;

"INSURANCE LITIGATION" shall have the meaning as described in Section 26.7(iii);

"INTELLECTUAL PROPERTY" shall have the meaning as described in Section 13.15.3;

"INTERCOMPANY MANUFACTURING AGREEMENTS" shall have the meaning described in Section 13.2;

"INTERCOMPANY TRADE ACCOUNTS" shall have the meaning described in Section 19.1'

"INTRACOMPANY TRADE ACCOUNTS" shall have the meaning described in Section 19.1'

"MATERIAL AGREEMENTS" shall have the meaning described in Section 13.21;

"MATERIAL AGREEMENT CONSENT" shall have the meaning described in Section 13.21;

"MERGER" shall have the meaning as described in Section 4.2;

"MERGER/DEMERGER AGREEMENTS" shall have the meaning described in Section 4.2;

"NON-HOKURIKU PURCHASE PRICE" shall have the meaning described in Section 8.3;

"PER SHARE TENDER PRICE" shall have the meaning described in Section 7.4;

"PURCHASER CONDITIONS" shall have the meaning as described in Section 11.1.2;

"PURCHASER GROUP" shall have the meaning described in Section 15.1;

"PURCHASER U.S. DEFINED BENEFIT PLAN" shall have the meaning as described in Section 22.5.1;

"PURCHASER U.S. DEFINED CONTRIBUTION PLAN" shall have the meaning as described in Section 22.6.;

"REAL PROPERTY" shall have the meaning described in Section 13.13;

"REPORT" shall have the meaning described in Section 13.20(a);

"REPORT PRINCIPLES" shall have the meaning described in Section 13.20(a);

"REPRESENTATIONS" shall have the meaning as described in the introductory paragraph of Section 13;

"SECTION 26 CONDUCT" shall have the meaning as described in Section 26.7(ii);

"SECTION 26 LITIGATION" shall have the meaning as described in Section 26.7(i);

"SELLER'S AUDITORS" shall have the meaning as described in Section 10.1;

"SELLER COMPANY" shall have the meaning described in Section 19.1;

"SELLER U.S. DEFINED BENEFIT PLANS" shall have the meaning as described in Section 22.5.1;

"SELLER U.S. QUALIFIED DEFINED BENEFIT PLAN" shall have the meaning as described in Section 22.5.1;

"SELLER U.S. DEFINED CONTRIBUTION PLAN" shall have the meaning as described in Section 22.6;

"SHARED SUBSTANCES" shall have the meaning as described in Section 5.3;

"U.S. FINANCIAL STATEMENTS" shall have the meaning described in Section 10.9;

"U.S. PENSION TRANSFER AMOUNT" shall have the meaning described in Section 22.5.2;

"U.S. SECURITIES LAWS" shall have the meaning described in Section 10.9.

LIST OF EXHIBITS TO THE PURCHASE AGREEMENT

| EXHIBIT NUMBER | EXHIBIT DESCRIPTION |
|---|---|
| Exhibit A | Description of Generics Business |
| Exhibit 1.1 | Description of BASF Pharmaceutical Corporation |
| Exhibit 1.2 | Description of BASF Pharmaceutical Corporation subsidiaries |
| Exhibit 2 | Description of Other Foreign Subsidiaries |
| Exhibit 4.2(b) | List of Transferred Patents |
| Exhibit 5.1 | List of Nottingham site compounds and substances |
| Exhibit 5.2 | List of Remaining Patents |
| Exhibit 7.4 | Description of Hokuriku Tender Offer |
| Exhibit 8.1 | Allocation of Aggregate Purchase Price |
| Exhibit 9.1(a) | Unaudited Proforma Balance Sheet |
| Exhibit 9.1(b) | Reference Net Asset Value account adjustments |
| Exhibit 10.1 | Closing Net Asset Value Statement adjustment principles |
| Exhibit 13.2(d) | List of third party rights in the Shares |
| Exhibit 13.5 | List if conflicts with the Purchase Agreement |
| Exhibit 13.7.3 | List of ongoing tax audits with respect to the Companies |
| Exhibit 13.8 | Tax rulings with respect to the Companies |
| Exhibit 13.10 | List of Intercompany Agreements |
| Exhibit 13.11.2 | List of certain Employee Benefit Plans |
| Exhibit 13.12(a) | List of certain proceedings |
| Exhibit 13.14(a) | List of certain patents and patent applications |
| Exhibit 13.14(b) | List of certain license contracts |
| Exhibit 13.16.1 | List of alleged infringement by certain products |
| Exhibit 13.16.2 | List of alleged infringement by products in development |
| Exhibit 13.18.4 | List of written notices alleging hazardous material releases |
| Exhibit 13.19 | Compliance with laws |
| Exhibit 13.20(a) | Report Principles |
| Exhibit 13.21 | List of certain agreements |
| Exhibit 13.27(a) | List of certain Pharmaceutical Products and Active Ingredients |
| Exhibit 13.27(b) | List of certain compounds |
| Exhibit 13.27(c) | List of Exclusive and Mutual Active Ingredients |
| Exhibit 13.27(d) | List of certain BASF Pharmaceutical Products |
| Exhibit 22.5.2 | Actuarial assumptions |
| Exhibit 24.3(f) | List of certain employees |

These exhibits are omitted as permitted under Item 601(b)(2) of Regulation S-K. Abbott agrees to furnish supplementally a copy of any omitted exhibit to the Purchase Agreement.

Exhibit 3.2

# BY-LAWS

# OF

# ABBOTT LABORATORIES

Adopted by the Board of Directors
of Abbott Laboratories at the
Annual Meeting, April 11, 1963
as amended and restated, effective February 9, 2001

# BY-LAWS OF ABBOTT LABORATORIES

## ARTICLE I

## OFFICES

The principal office of the Corporation in the State of Illinois shall be located at the intersection of State Routes 43 and 137 in the County of Lake. The Corporation may have such other offices either within or without the State of Illinois as the business of the Corporation may require from time to time.

The registered office of the Corporation may be, but need not be, identical with the principal office in the State of Illinois. The address of the registered office may be changed from time to time by the Board of Directors.

## ARTICLE II

## SHAREHOLDERS

SECTION 1. ANNUAL MEETING; TRANSACTION OF BUSINESS, NOMINATION OF DIRECTORS. The annual meeting of the shareholders shall be held in the month of April in each year on such date and at such time as the Board of Directors shall provide. The meeting shall be held for the purpose of electing Directors and for the transaction of such other business as is properly brought before the meeting in accordance with these By-Laws. If the election of Directors shall not be held on the day designated for any annual meeting, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a meeting of the shareholders as soon thereafter as conveniently may be.

To be properly brought before the meeting, business must be either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (b) otherwise properly brought before the meeting by or at the direction of the Board of Directors or (c) otherwise properly brought before the meeting by a shareholder. In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal office of the Corporation, not earlier than October 1 nor later than the first business day of January immediately prior to the date of the meeting; PROVIDED, HOWEVER, that in the event that the date of such meeting is not in the month of April and less than sixty-five days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the fifteenth day following the day on which such notice of the date of the annual meeting was mailed or such public disclosure was made, whichever first occurs. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (i) a brief

description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the shareholder proposing such business, (iii) the class and number of shares of the Corporation which are beneficially owned by the shareholder and (iv) any material interest of the shareholder in such business.

Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section 1, PROVIDED, HOWEVER, that nothing in this Section 1 shall be deemed to preclude discussion by any shareholder of any business properly brought before the annual meeting.

The Chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 1, and if he should so determine, he shall so declare to the meeting and such business not properly brought before the meeting shall not be transacted.

Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation at the annual meeting may be made at such annual meeting of shareholders by or at the direction of the Board of Directors, by any nominating committee or person appointed by the Board of Directors, or by any shareholder of the Corporation entitled to vote for the election of directors at such meeting who complies with the notice procedures set forth in this Section 1. Such nominations, other than those made by or at the direction of the Board of Directors or by a committee or person appointed by the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal office of the Corporation not earlier than October 1 nor later than the first business day of January immediately prior to the date of the meeting; PROVIDED, HOWEVER, that in the event that the date of such meeting is not in the month of April and less than sixty-five days' notice or prior public disclosure of the date of the meeting is given or made to shareholders, notice by the shareholder to be timely must be so received not later than the close of business on the fifteenth day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made, whichever first occurs. Such shareholder's notice to the Secretary shall set forth: (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class and number of shares of capital stock of the Corporation which are beneficially owned by the person and (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended; and (b) as to the shareholder giving the notice, (i) the name and record address of such shareholder and (ii) the class and number of shares of the Corporation which are beneficially owned by such shareholder. The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as

director of the Corporation. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth herein.

The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

SECTION 2. SPECIAL MEETINGS. Special meetings of the shareholders may be called by the Chairman of the Board, the Chief Executive Officer, the President, the Board of Directors or by the holders of not less than one-fifth of all the outstanding shares entitled to vote on the matter for which the meeting is called.

SECTION 3. PLACE OF MEETING. The Board of Directors may designate any place, either within or without the State of Illinois, as the place of meeting for any annual meeting or for any special meeting called by the Board of Directors. If no designation is made, or if a special meeting be otherwise called, the place of meeting shall be the principal office of the Corporation in the State of Illinois.

SECTION 4. NOTICE OF MEETINGS. Written notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than sixty days before the date of the meeting, or in the cases of a merger, consolidation, share exchange, dissolution or sale, lease or exchange of assets not less than twenty nor more than sixty days before the meeting, either personally or by mail, by or at the direction of the Chairman of the Board, the Chief Executive Officer, the President, or the Secretary or the persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the shareholder at his or her address as it appears on the records of the Corporation, with postage thereon prepaid.

SECTION 5. FIXING RECORD DATE. For the purpose of determining shareholders entitled to notice of or to vote at any meeting of shareholders, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors of the Corporation may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than sixty days and, for a meeting of shareholders, not less than ten days, or in the case of a merger, consolidation, share exchange, dissolution or sale, lease or exchange of assets not less than twenty days, immediately preceding such meeting.

SECTION 6. VOTING LISTS. The Secretary shall make, or cause to have made, within twenty days after the record date for a meeting of shareholders or ten days before such meeting, whichever is earlier, a complete list of the shareholders entitled to vote at such meeting, arranged in alphabetical order, with the address of and the number of shares held by each, which list, for a period of ten days prior to such meeting, shall be kept on file at the registered office of the

Corporation and shall be subject to inspection by any shareholder and to copying at the shareholder's expense, at any time during usual business hours. Such list shall also be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting. The original share ledger or transfer book, or a duplicate thereof kept in this State, shall be prima facie evidence as to who are the shareholders entitled to examine such list or share ledger or transfer book or to vote at any meeting of shareholders.

SECTION 7. QUORUM. A majority of the outstanding shares of the Corporation entitled to vote on a matter, represented in person or by proxy, shall constitute a quorum for consideration of such matter at a meeting of shareholders. If a quorum is present, the affirmative vote of the majority of the shares represented at the meeting and entitled to vote on a matter shall be the act of the shareholders, unless the vote of a greater number or voting by classes is required by The Business Corporation Act of 1983 or the Articles of Incorporation, as in effect on the date of such determination. If a quorum is not present, a majority of the shares of the Corporation entitled to vote on a matter and represented in person or by proxy at such meeting may adjourn the meeting from time to time without further notice.

SECTION 8. PROXIES. A shareholder may appoint a proxy to vote or otherwise act for the shareholder by delivering a valid appointment to the person so appointed or such person's agent; PROVIDED, HOWEVER, no shareholder may name more than three persons as proxies to attend and to vote the shareholder's shares at any meeting of shareholders. Without limiting the manner in which a shareholder may appoint such a proxy pursuant to these By-Laws, the following shall constitute valid means by which a shareholder may make such an appointment:

(a) A shareholder may sign a proxy appointment form. The shareholder's signature may be affixed by any reasonable means, including, but not limited to, by facsimile signature.

(b) A shareholder may transmit or authorize the transmission of a telegram, cablegram, or other means of electronic transmission; provided that any such transmission must either set forth or be submitted with information from which it can be determined that the telegram, cablegram, or other electronic transmission was authorized by the shareholder. If it is determined that the telegram, cablegram, or other electronic transmission is valid, the inspectors or, if there are no inspectors, such other persons making that determination shall specify the information upon which they relied.

No proxy shall be valid after the expiration of eleven months from the date thereof unless otherwise provided in the proxy. Each proxy continues in full force and effect until revoked by the person appointing the proxy prior to the vote pursuant thereto, except as otherwise provided by law. Such revocation may be effected by a writing delivered to the secretary of the Corporation stating that the proxy is revoked or by a subsequent delivery of a valid proxy by, or

by the attendance at the meeting and voting in person by the person appointing the proxy. The dates of the proxy shall presumptively determine the order of appointment.

SECTION 9. VOTING OF SHARES. Each outstanding share, regardless of class, shall be entitled to one vote in each matter submitted to a vote at a meeting of shareholders and, in all elections for Directors, every shareholder shall have the right to vote the number of shares owned by such shareholder for as many persons as there are Directors to be elected, or to cumulate such votes and give one candidate as many votes as shall equal the number of Directors multiplied by the number of such shares or to distribute such cumulative votes in any proportion among any number of candidates; provided that, vacancies on the Board of Directors may be filled as provided in Section 9, Article III of these By-Laws. A shareholder may vote either in person or by proxy.

SECTION 10. VOTING OF SHARES BY CERTAIN HOLDERS. Shares of this Corporation held by the Corporation in a fiduciary capacity may be voted and shall be counted in determining the total number of outstanding shares entitled to vote at any given time.

Shares registered in the name of another corporation, domestic or foreign, may be voted by any officer, agent, proxy or other legal representative authorized to vote such shares under the law of incorporation of such corporation.

Shares registered in the name of a deceased person, a minor ward or a person under legal disability may be voted by his or her administrator, executor, or court appointed guardian, either in person or by proxy without a transfer of such shares into the name of such administrator, executor, or court appointed guardian. Shares registered in the name of a trustee may be voted by him or her, either in person or by proxy.

Shares registered in the name of a receiver may be voted by such receiver, and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his or her name if authority so to do is contained in an appropriate order of the court by which such receiver was appointed.

A shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

SECTION 11. VOTING BY BALLOT. Voting on any question or in any election may be viva voce unless the presiding officer shall order that voting be by ballot.

SECTION 12. INSPECTORS OF ELECTION. The Board of Directors in advance of any meeting of shareholders may appoint inspectors to act at such meeting or any adjournment thereof. If inspectors of election are not so appointed, the officer or person acting as chairman at any such meeting may, and on the request of any shareholder or his proxy, shall make such appointment. In case any person appointed as inspector shall fail to appear or to act, the vacancy

may be filled by appointment made by the Board of Directors in advance of the meeting or at the meeting by the officer or person acting as chairman.

Such inspectors shall ascertain and report the number of shares represented at the meeting, based upon their determination of the validity and effect of proxies; count all votes and report the results; and do such other acts as are proper to conduct the election and voting with impartiality and fairness to all the shareholders.

Each report of an inspector shall be in writing and signed by him or her or by a majority of them if there be more than one inspector acting at such meeting. If there is more than one inspector, the report of a majority shall be the report of the inspectors. The report of the inspector or inspectors on the number of shares represented at the meeting and the results of the voting shall be prima facie evidence thereof.

## ARTICLE III

## DIRECTORS

SECTION 1. GENERAL POWERS. The business and affairs of the Corporation shall be managed under the direction of the Board of Directors.

SECTION 2. NUMBER, TENURE AND QUALIFICATIONS. The number of Directors of the Corporation shall be thirteen. The terms of all Directors shall expire at the next annual meeting of shareholders following their election. Despite the expiration of a Director's term, he or she shall continue to serve until the next meeting of shareholders at which Directors are elected. Directors need not be residents of Illinois or shareholders of the Corporation.

SECTION 3. REGULAR MEETINGS. A regular annual meeting of the Board of Directors shall be held without other notice than this By-Law, immediately after, and at the same place as, the annual meeting of shareholders. Other regular meetings of the Board of Directors shall be held at the principal office of the Corporation on the second Friday of every month at 9:00 a.m. without other notice than this By-Law. The Board of Directors may provide, by resolution, for the holding of the regular monthly meetings at a different time and place, either within or without the State of Illinois, or for the omission of the regular monthly meeting altogether. Where the Board of Directors has, by resolution, changed or omitted regular meetings, no other notice than such resolution shall be given.

SECTION 4. SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the Chairman of the Board, the Chairman of the Executive Committee, the Chief Executive Officer, the President, or of any four Directors. The persons authorized to call special meetings of the Board of Directors may fix any place, either within or without the State of Illinois, as the place for holding any special meeting of the Board of Directors.

SECTION 5. NOTICE. Notice of any special meeting shall be given: (i) at least one day prior thereto if the notice is given personally or by an electronic transmission, (ii) at least two business days prior thereto if the notice is given by having it delivered by a third party entity that provides delivery services in the ordinary course of business and guarantees delivery of the notice to the Director no later than the following business day, and (iii) at least seven days prior thereto if the notice is given by mail. For this purpose, the term "electronic transmission" may include, but shall not be limited to, a telex, facsimile, or other electronic means. Notice shall be delivered to the Director's business address and/or telephone number and shall be deemed given upon electronic transmission, upon delivery to the third party delivery service, or upon being deposited in the United States mail with postage thereon prepaid. Any Director may waive notice of any meeting by signing a written waiver of notice either before or after the meeting. Attendance of a Director at any meeting shall constitute a waiver of notice of such meeting, except where a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need to be specified in the notice or waiver of notice of such meeting.

SECTION 6. QUORUM. A majority of the number of Directors fixed by these By-Laws shall constitute a quorum for transaction of business at any meeting of the Board of Directors; provided, that if less than a majority of such number of Directors are present at said meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

SECTION 7. MANNER OF VOTING. The act of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

SECTION 8. INFORMAL ACTION BY DIRECTORS. Any action required to be taken at a meeting of the Board of Directors, or any other action which may be taken at a meeting of the Board of Directors or a committee thereof, may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the Directors entitled to vote with respect to the subject matter thereof, or by all the members of such committee, as the case may be.

The consent shall be evidenced by one or more written approvals, each of which sets forth the action taken and bears the signature of one or more Directors. All the approvals evidencing the consent shall be delivered to the Secretary of the Corporation to be filed in the corporate records. The action taken shall be effective when all the Directors have approved the consent unless the consent specifies a different effective date.

Any such consent signed by all the Directors or all the members of a committee shall have the same effect as a unanimous vote.

SECTION 9. VACANCIES. Any vacancy occurring in the Board of Directors and any directorship to be filled by reason of an increase in the number of Directors, may be filled by

election at an annual meeting or at a special meeting of shareholders called for that purpose. A Director elected to fill a vacancy shall serve until the next annual meeting of shareholders. A majority of Directors then in office may also fill one or more vacancies arising between meetings of shareholders by reason of an increase in the number of Directors or otherwise, and any Director so selected shall serve until the next annual meeting of shareholders, provided that at no time may the number of Directors selected to fill vacancies in this manner during any interim period between meetings of shareholders exceed 33-1/3 per cent of the total membership of the Board of Directors.

SECTION 10. PRESUMPTION OF ASSENT. A Director of the Corporation who is present at a meeting of the Board of Directors or any committee thereof at which action on any corporate matter is taken is conclusively presumed to have assented to the action taken unless his or her dissent is entered in the minutes of the meeting or unless he or she files his or her written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or forwards such dissent by registered or certified mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favor of such action.

SECTION 11. APPOINTMENT OF AUDITORS. Upon the recommendation of the Audit Committee, the Board of Directors shall appoint annually a firm of independent public accountants as auditors of the Corporation. Such appointment shall be submitted to the shareholders for ratification at the Annual Meeting next following such appointment. Should the holders of a majority of the shares represented at the meeting fail to ratify the appointment of any firm as auditors of the Corporation, or should the Board of Directors for any reason determine that such appointment be terminated, the Board of Directors shall appoint another firm of independent public accountants to act as auditors of the Corporation and such appointment shall be submitted to the shareholders for ratification at the Annual or Special Shareholders Meeting next following such appointment.

## ARTICLE IV

## COMMITTEES

SECTION 1. APPOINTMENT. A majority of the Board of Directors may create one or more committees and appoint members of the Board to serve on the committee or committees. Each committee shall have three or more members, who serve at the pleasure of the Board. The Board shall designate one member of each committee to be chairman of the committee. The Board shall designate a secretary of each committee who may be, but need not be, a member of the committee or the Board.

SECTION 2. COMMITTEE MEETINGS. A majority of any committee shall constitute a quorum and a majority of the committee is necessary for committee action. A committee may act by unanimous consent in writing without a meeting. Committee meetings may be called by the Chairman of the Board, the chairman of the committee, or any two of the committee's

members. The time and place of committee meetings shall be designated in the notice of such meeting. Notice of each committee meeting shall be given to each committee member. Each Committee shall keep minutes of its proceedings and such minutes shall be distributed to the Board of Directors.

SECTION 3. EXECUTIVE COMMITTEE. The Board shall appoint an Executive Committee. A majority of the members of the Committee shall be selected from those Directors who are not then serving as full-time employees of the Corporation or any of its subsidiaries.

SECTION 4. DUTIES OF THE EXECUTIVE COMMITTEE. The Executive Committee may, when the Board of Directors is not in session, exercise the authority of the Board in the management of the business and affairs of the Corporation; provided, however, the Committee may not:

(1) authorize distributions;

(2) approve or recommend to shareholders any act the Business Corporation Act of 1983 requires to be approved by shareholders.

(3) fill vacancies on the Board or on any of its committees;

(4) elect or remove Officers or fix the compensation of any member of the Committee;

(5) adopt, amend or repeal the By-Laws;

(6) approve a plan of merger not requiring shareholder approval;

(7) authorize or approve reacquisition of shares, except according to a general formula or method prescribed by the Board;

(8) authorize or approve the issuance or sale, or contract for sale, of shares or determine the designation and relative rights, preferences, and limitations of a series of shares, except that the Board may direct the Committee to fix the specific terms of the issuance or sale or contract for sale or the number of shares to be allocated to particular employees under an employee benefit plan; or

(9) amend, alter, repeal, or take action inconsistent with any resolution or action of the Board of Directors when the resolution or action of the Board of Directors provides by its terms that it shall not be amended, altered or repealed by action of the Committee.

SECTION 5. AUDIT COMMITTEE. The Board of Directors shall appoint an Audit Committee. All of the members of the Committee shall be selected from those Directors who are not then serving as full-time employees of the Corporation or any of its subsidiaries.

SECTION 6. DUTIES OF THE AUDIT COMMITTEE. The Audit Committee shall:

(1) recommend to the Board of Directors annually a firm of independent public accountants to act as auditors of the Corporation;

(2) review with the auditors in advance the scope of and fees for their annual audit;

(3) review with the auditors and the management, from time to time, the Corporation's accounting principles, policies, and practices and its reporting policies and practices;

(4) review with the auditors annually the results of their audit; and

(5) review from time to time with the auditors and the Corporation's financial personnel the adequacy of the Corporation's accounting, financial and operating controls.

SECTION 7. COMPENSATION COMMITTEE. The Board of Directors shall appoint a Compensation Committee. The members of the Committee shall be selected from those Directors who are not then serving as full-time employees of the Corporation or any of its subsidiaries and who are "non-employee directors" under Rule 16b-3 promulgated under the Securities Exchange Act of 1934, or any similar successor rule.

SECTION 8. DUTIES OF THE COMPENSATION COMMITTEE. The Compensation Committee shall:

(1) administer the stock option plans of the Corporation;

(2) review, at least annually, the compensation of Directors who are not then serving as full-time employees of the Corporation or any of its subsidiaries and recommend for approval by the Board any change in the compensation of such Directors;

(3) review, at least annually, the compensation of all Officers of the Corporation. The committee shall have the authority to approve changes in the base compensation, and any proposed special separation arrangements of Officers, except the Chairman of the Board of Directors, the Chief Executive Officer, and the President, whose base compensation,

and any special separation arrangements, shall be subject to approval by the Board of Directors.

SECTION 9. NOMINATIONS AND BOARD AFFAIRS COMMITTEE. The Board of Directors shall appoint a Nominations and Board Affairs Committee. A majority of the members of the Committee shall be selected from those Directors who are not then serving as full-time employees of the Corporation or any of its subsidiaries.

SECTION 10. DUTIES OF THE NOMINATIONS AND BOARD AFFAIRS COMMITTEE. The Nominations and Board Affairs Committee shall:

(1) develop general criteria for selection of and qualifications desirable in members of the Board of Directors and Officers of the Corporation and aid the Board in identifying and attracting qualified candidates to stand for election to such positions;

(2) recommend to the Board annually a slate of nominees to be proposed by the Board to the shareholders as nominees for election as Directors, and, from time to time, recommend persons to fill any vacancy on the Board;

(3) review annually, or more often if appropriate, the performance of individual members of the management of the Corporation and the membership and performance of committees of the Board and make recommendations deemed necessary or appropriate to the Board;

(4) recommend to the Board persons to be elected as Officers of the Corporation; and

(5) serve in an advisory capacity to the Board of Directors and Chairman of the Board on matters of organization, management succession plans, major changes in the organizational structure of the Corporation, and the conduct of Board activities, including assisting in the evaluation of the Board's own performance.

SECTION 11. PUBLIC POLICY COMMITTEE. The Board of Directors shall appoint a Public Policy Committee. A majority of the members of the Committee shall be selected from those Directors who are not then serving as full time employees of the Corporation or any of its subsidiaries.

SECTION 12. DUTIES OF THE PUBLIC POLICY COMMITTEE. The Public Policy Committee shall have an advisory role with respect to public policy, regulatory and government affairs issues that affect the Corporation.

## ARTICLE V

## OFFICERS

SECTION 1. NUMBER. The Officers of the Corporation shall be the Chairman of the Board, the Chief Executive Officer, the President, one or more Executive, Group or Senior Vice Presidents, one or more Vice Presidents, a Treasurer, a Secretary, a Controller, a General Counsel and such Assistant Treasurers and Assistant Secretaries as the Board of Directors may elect or the Chairman of the Board may appoint. Any two or more offices may be held by the same person.

SECTION 2. ELECTION AND TERM OF OFFICE. The Board of Directors may elect any Officer. The Chairman of the Board may appoint any Vice President, a Controller, a Treasurer, a Secretary and any Assistant Treasurers and Assistant Secretaries.

The Officers of the Corporation shall be elected or appointed annually. Each year, the Board of Directors shall elect Officers at the first meeting of the Board of Directors held after the annual meeting of shareholders. If the Board of Directors does not elect Officers at such meeting, such election shall be held as soon thereafter as conveniently may be. Each year, immediately following the election of Officers by the Board of Directors or as soon thereafter as conveniently may be, the Chairman of the Board shall appoint such additional Officers within the scope of the Chairman's authority as the Chairman deems necessary or appropriate.

Vacancies or new offices may be filled at any time as set forth in Section 4 of this Article V.

Each Officer shall hold office until his or her successor shall have been duly elected or appointed and shall have qualified or until his or her death or until he or she shall resign or shall have been removed in the manner hereinafter provided.

SECTION 3. REMOVAL OF OFFICERS. Any Officer may be removed by the Board of Directors whenever in its judgment the best interests of the Corporation will be served thereby. Any Officer appointed by the Chairman of the Board may be removed by the Chairman whenever, in the Chairman's judgment, the best interests of the Corporation will be served thereby.

SECTION 4. VACANCIES. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term. A vacancy in any office appointed by the Chairman of the Board may be filled by the Chairman of the Board for the unexpired portion of the term.

SECTION 5. CHAIRMAN OF THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER. The Chairman shall preside at all meetings of the Board of Directors

and the shareholders. The Chief Executive Officer shall be responsible for the overall management of the Corporation subject to the direction of the Board of Directors.

SECTION 6. PRESIDENT. The President shall be the Chief Operating Officer. The President shall perform such duties as may be prescribed by the Board of Directors or by the Chief Executive Officer.

SECTION 7. EXECUTIVE, GROUP AND SENIOR VICE PRESIDENTS. Each Executive, Group, or Senior Vice President shall be responsible for supervising and coordinating a major area of the Corporation's activities subject to the direction of the Chief Executive Officer or the President.

SECTION 8. VICE PRESIDENTS. Each of the Vice Presidents shall be responsible for those activities designated by an Executive, Group, or Senior Vice President, the President, the Chief Executive Officer or by the Board of Directors.

SECTION 9. TREASURER. The Treasurer shall administer the investment, financing, insurance and credit activities of the Corporation.

SECTION 10. SECRETARY. The Secretary will be the custodian of the corporate records and of the seal of the Corporation, will countersign certificates for shares of the Corporation, and in general will perform all duties incident to the office of the Secretary. The Secretary shall have the authority to certify the By-Laws, resolutions of the shareholders and the Board of Directors and committees thereof, and other documents of the Corporation as true and correct copies hereof.

SECTION 11. CONTROLLER. The Controller will conduct the accounting activities of the Corporation, including the maintenance of the Corporation's general and supporting ledgers and books of account, operating budgets, and the preparation and consolidation of financial statements.

SECTION 12. GENERAL COUNSEL. The General Counsel will be the chief consultant of the Corporation on legal matters. He or she will supervise all matters of legal import concerning the interests of the Corporation.

SECTION 13. ASSISTANT TREASURER. The Assistant Treasurer shall, in the absence or incapacity of the Treasurer, perform the duties and exercise the powers of the Treasurer, and shall perform such other duties as shall from time to time be given to him or her by the Treasurer.

SECTION 14. ASSISTANT SECRETARY. The Assistant Secretary shall, in the absence or incapacity of the Secretary, perform the duties and exercise the powers of the Secretary, and shall perform such other duties as shall from time to time be given to him or her by the Secretary. The Assistant Secretary shall be, with the Secretary, keeper of the books,

records, and the seal of the Corporation, and shall have the authority to certify the By-Laws, resolutions and other documents of the Corporation.

SECTION 15. GENERAL POWERS OF OFFICERS. The Chairman of the Board, the Chief Executive Officer, the President, and any Executive, Group or Senior Vice President, may sign without countersignature any deeds, mortgages, bonds, contracts, reports to public agencies, or other instruments whether or not the Board of Directors has expressly authorized execution of such instruments, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these By-Laws solely to some other Officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed. Any other Officer of this Corporation may sign contracts, reports to public agencies, or other instruments which are in the regular course of business and within the scope of his or her authority, except where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these By-Laws to some other Officer or agent of the Corporation, or shall be required by law to be otherwise signed or executed.

## ARTICLE VI

## CERTIFICATES FOR SHARES AND THEIR TRANSFER

SECTION 1. CERTIFICATES FOR SHARES. Certificates representing shares of the Corporation shall be in such form as may be determined by the Board of Directors. Such certificates shall be signed by any one of the Chairman of the Board, the Chief Executive Officer, the President or an Executive Vice President, and shall be countersigned by the Secretary or an Assistant Secretary and shall be sealed with the seal, or a facsimile of the seal, of the Corporation. If a certificate is countersigned by a Transfer Agent or Registrar, other than the Corporation itself or its employee, any other signatures or countersignature on the certificate may be facsimiles. In case any Officer of the Corporation, or any officer or employee of the Transfer Agent or Registrar who has signed or whose facsimile signature has been placed upon such certificate ceases to be an Officer of the Corporation, or an officer or employee of the Transfer Agent or Registrar before such certificate is issued, the certificate may be issued by the Corporation with the same effect as if the Officer of the Corporation, or the officer or employee of the Transfer Agent or Registrar had not ceased to be such at the date of its issue. Each certificate representing shares shall state: that the Corporation is organized under the laws of the State of Illinois; the name of the person to whom issued; the number and class of shares; and the designation of the series, if any, which such certificate represents. Each certificate shall be consecutively numbered or otherwise identified. The name of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the books of the Corporation. All certificates surrendered to the Corporation for transfer shall be canceled, and no new certificate shall be issued in replacement until the former certificate for a like number of shares shall have been surrendered and canceled, except in the case of lost, destroyed or mutilated certificates.

SECTION 2. TRANSFER AGENT AND REGISTRAR. The Board of Directors may from time to time appoint such Transfer Agents and Registrars in such locations as it shall determine, and may, in its discretion, appoint a single entity to act in the capacity of both Transfer Agent and Registrar in any one location.

SECTION 3. TRANSFER OF SHARES. Transfers of shares of the Corporation shall be made only on the books of the Corporation at the request of the holder of record thereof or of his attorney, lawfully constituted in writing, and on surrender for cancellation of the certificate for such shares. The person in whose name shares stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation.

SECTION 4. LOST, DESTROYED OR MUTILATED CERTIFICATES. In case of lost, destroyed or mutilated certificates, duplicate certificates shall be issued to the person claiming the loss, destruction or mutilation, provided:

(a) That the claimant furnishes an affidavit stating the facts of such loss, destruction or mutilation so far as known to him or her and further stating that the affidavit is made to induce the Corporation to issue a duplicate certificate or certificates; and that issuance of the duplicate certificate or certificates is approved:

(i) in a case involving a certificate or certificates for more than 1,000 shares, by the Chairman of the Board, the Chief Executive Officer, the President, an Executive Vice President, or the Secretary; or

(ii) in a case involving a certificate or certificates for 1,000 shares or less, by the Transfer Agent appointed by the Board of Directors for the transfer of the shares represented by such certificate or certificates;

upon receipt of a bond, with one or more sureties, in the amount to be determined by the party giving such approval; or

(b) that issuance of the said duplicate certificate or certificates is approved by the Board of Directors upon such terms and conditions as it shall determine.

## ARTICLE VII

## FISCAL YEAR

The fiscal year of the Corporation shall begin on the first day of January in each year and end on the last day of December in each year.

## ARTICLE VIII

## VOTING SHARES OR INTERESTS IN OTHER CORPORATIONS

The Chairman of the Board, the Chief Executive Officer, the President, an Executive, Group, or Senior Vice President and each of them, shall have the authority to act for the Corporation by voting any shares or exercising any other interest owned by the Corporation in any other corporation or other business association, including wholly or partially owned subsidiaries of the Corporation, such authority to include, but not be limited to, power to attend any meeting of any such corporation or other business association, to vote shares in the election of directors and upon any other matter coming before any such meeting, to waive notice of any such meeting and to consent to the holding thereof without notice, and to appoint a proxy or proxies to represent the Corporation at any such meeting with all the powers that the said Officer would have under this section if personally present.

## ARTICLE IX

## DISTRIBUTIONS TO SHAREHOLDERS

The Board of Directors may authorize, and the Corporation may make, distributions to its shareholders, subject to any restriction in the Articles of Incorporation and subject also to the limitations prescribed by law.

## ARTICLE X

## SEAL

The Corporate Seal of the Corporation shall be in the form of a circle in the center of which is the insignia "[CORPORATE SEAL]" and shall have inscribed thereon the name of the Corporation and the words "an Illinois Corporation."

## ARTICLE XI

## WAIVER OF NOTICE

Whenever any notice whatever is required to be given under the provisions of these By-Laws or under the provisions of the Articles of Incorporation or under the provisions of The Business Corporation Act of 1983, a waiver thereof in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. Attendance at any meeting shall constitute waiver of notice thereof unless the person at the meeting objects to the holding of the meeting because proper notice was not given.

## ARTICLE XII

## AMENDMENTS

These By-Laws may be made, altered, amended or repealed by the shareholders or the Board of Directors.

AGREEMENT REGARDING
CHANGE IN CONTROL

THIS AGREEMENT ("Agreement"), is made and entered into as of the 8th day of December, 2000, by and between Abbott Laboratories (the "Company") and _____(the "Executive") and amends and restates, in its entirety, an Agreement regarding Change in Control dated as of the 1st day of January, 2000 (the "Effective Date") also by and between the Company and the Executive (the "Original Agreement");

WITNESSETH THAT:

WHEREAS, the Company considers it essential to the best interests of its shareholders to foster the continuous employment of key management personnel, and the Board of Directors of the Company (the "Board") recognizes that, as is the case with many publicly held corporations, a change in control might occur and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders; and

WHEREAS, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Executive, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a change in control of the Company;

NOW, THEREFORE, to induce the Executive to remain in the employ of the Company and in consideration of the premises and mutual covenants set forth herein, IT IS HEREBY AGREED by and between the parties as follows:

1. AGREEMENT TERM. The initial "Agreement Term" shall begin on the Effective Date and shall continue through December 31, 2002. As of December 31, 2000, and as of each December 31 thereafter, the Agreement Term shall extend automatically to the third anniversary thereof unless the Company gives notice to the Executive prior to the date of such extension that the Agreement Term will not be extended. Notwithstanding the foregoing, if a Change in Control (as defined in Section 7 below), occurs during the Agreement Term, the Agreement Term shall continue through and terminate on the second anniversary of the date on which the Change in Control occurs.

2. ENTITLEMENT TO CHANGE IN CONTROL BENEFITS. The Executive shall be entitled to the Change in Control Benefits described in Section 3 hereof if the Executive's employment by the Company is terminated during the Agreement Term but after a Change in Control (i) by the

Company for any reason other than Permanent Disability or Cause, or (ii) by the Executive for Good Reason. For purposes of this Agreement:

(a) A termination of the Executive's employment shall be treated as a termination by reason of "Permanent Disability" only if, due to a mental or physical disability, the Executive is absent from the full time performance of duties with the Company for a period of at least twelve consecutive months and fails to return to the full time performance of duties within 30 days after receipt of a demand by the Company to do so.

(b) The term "Cause" shall mean the willful engaging by the Executive in illegal conduct or gross misconduct which is demonstrably and materially injurious to the Company. For purposes of this Agreement, no act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's action or omission was in the best interest of the Company. Notwithstanding the foregoing, the Executive shall not be deemed to have been terminated for Cause unless and until the Company delivers to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice to the Executive and an opportunity for the Executive, together with counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth above and specifying the particulars thereof in detail.

(c) The term "Good Reason" shall mean the occurrence of any of the following circumstances without the Executive's express written consent:

(i) a significant adverse change in the nature, scope or status of the Executive's position, authorities or duties from those in effect immediately prior to the Change in Control;

(ii) the failure by the Company to pay the Executive any portion of the Executive's current compensation, or to pay the Executive any portion of any installment of deferred compensation under any deferred compensation program of the Company, within seven days of the date such compensation is due;

(iii) a reduction in the Executive's annual base salary (or a material change in the frequency of payment) as in effect immediately prior to the Change in Control as the same may be increased from time to time;

(iv) the failure by the Company to award the Executive an annual bonus in any year which is at least equal to the annual bonus, awarded to the Executive under the

annual bonus plan of the Company for the year immediately preceding the year of the Change in Control;

(v) the failure by the Company to award the Executive equity-based incentive compensation (such as stock options, shares of restricted stock, or other equity-based compensation) on a periodic basis consistent with the Company's practices with respect to timing, value and terms prior to the Change in Control;

(vi) the failure by the Company to continue to provide the Executive with the welfare benefits, fringe benefits and perquisites enjoyed by the Executive immediately prior to the Change in Control under any of the Company's plans or policies, including, but not limited to, those plans and policies providing pension, life insurance, medical, health and accident, disability, vacation, executive automobile, executive tax or financial advice benefits or club dues;

(vii) the relocation of the Company's principal executive offices to a location more than thirty-five miles from the location of such offices immediately prior to the Change in Control or the Company requiring the Executive to be based anywhere other than the Company's principal executive offices except for required travel to the Company's business to an extent substantially consistent with the Executive's business travel obligations immediately prior to the Change in Control; or

(viii) the failure of the Company to obtain a satisfactory agreement from any successor to the Company to assume and agree to perform this Agreement as contemplated by Section 16.

3. CHANGE IN CONTROL BENEFITS. In the event of a termination of employment entitling the Executive to benefits in accordance with Section 2, the Executive shall receive the following:

(a) The Executive shall be entitled to receive the following employee welfare benefits: medical, accident, dental, prescription, and life insurance coverage for the Executive (and, where applicable under the Company's welfare benefit plans, the Executive's family) through the third anniversary of the Executive's date of termination of employment, or, if earlier, the date on which the Executive becomes employed by another employer. The benefits provided by the Company shall be no less favorable in terms of coverage and cost to the Executive than those provided under the Company's welfare benefit plans applicable to the Executive (and, where applicable, the Executive's family) prior to the Change in Control, determined as if the Executive remained in the employ of the Company through such third anniversary. For purposes of determining eligibility of the Executive for retiree welfare benefits, the Executive shall be considered to have remained in the employ of the Company through such third anniversary.

(b) If the Executive's date of termination occurs after the end of a performance period applicable to an annual incentive (bonus) award, and prior to the payment of the award for the period, the Executive shall be entitled to a lump sum payment in cash no later than

twenty (20) business days after the date of termination equal to the greatest of (i) the Executive's annual incentive (bonus) award for that period, as determined under the terms of that incentive award arrangement, (ii) the Executive's annual incentive (bonus) award for that period, with the determination of the amount of such award based on an assumption that the target level of performance had been achieved or (iii) the Participant's average annual incentive (bonus) award for the three annual performance periods preceding that period (provided that if the Participant was not a participant in the incentive award arrangement for any of those three prior years, the averaging period shall be reduced from three years to the number of years during the three year period in which the Participant was a participant; and further provided that if the Participant's award for any such year was reduced because the Participant was not a participant for the full year, such amount shall be annualized for purposes of the computation in this clause (iii)).

(c) For any annual incentive (bonus) plan or arrangement in which the Executive participates for the performance period in which the Executive's termination of employment occurs, the Executive shall be entitled to a lump sum payment in cash no later than twenty (20) business days after the date of termination equal to the greater of (i) the Executive's annual incentive (bonus) award for the performance period that includes the date of termination, with the determination of the amount of such award based on an assumption that the target level of performance has been achieved or (ii) the Executive's average annual incentive (bonus) award for the three annual performance periods preceding the performance period that includes the date of termination (provided that if the Executive was not a participant in the incentive award arrangement for any of those three prior years, the averaging period shall be reduced from three years to the number of years during the three year period in which the Executive was a participant; and further provided that if the Executive's award for any such year was reduced because the Executive was not a participant for the full year, such amount shall be annualized for purposes of the computation in this clause (ii)); provided that such payment shall be subject to a pro-rata reduction to reflect the number of days in the performance period following the date of termination. The amount payable under this paragraph (c) shall be in lieu of any amounts that may otherwise be due to the Executive with respect to any annual incentive (bonus) plan or arrangement in which the Executive participates for the performance period in which the Executive's date of termination occurs.

(d) The Executive shall be entitled to a lump sum payment in cash no later than twenty business days after the Executive's date of termination equal to the sum of:

(i) an amount equal to three times the Executive's annual salary rate in effect on the date of the Change in Control or, or if greater, as in effect immediately prior to the date of termination; plus

(ii) an amount equal to three times the greater of (x) the Executive's annual incentive (bonus) award for the performance period that includes the date of the Executive's termination of employment, with the determination of the amount of such award based on an assumption that the target level of performance has been achieved or (y) the Executive's average annual incentive (bonus) award for the three annual performance periods preceding the performance period that includes the date of termination (provided that if the Executive was not a participant in the incentive award arrangement for any of those three prior years, the averaging period shall be reduced from three years to the number of years during the three year period in which the Executive was a participant; and further provided that if the Executive's award for any such year was reduced because the Executive was not a participant for the full year, such amount shall be annualized for purposes of the computation in this subparagraph (ii)).

The amount payable under this paragraph (d) shall be inclusive of the amounts, if any, to which the Executive would otherwise be entitled as severance pay under any severance pay plan, or by law and shall be in addition to (and not inclusive of) any amount payable under any written agreement(s) directly between the Executive and the Company or any of its subsidiaries.

(e) The Executive shall be entitled to benefits under the Abbott Laboratories Supplemental Pension Plan (the "Supplemental Plan") which shall be determined as if the Executive had been credited for benefit accrual purposes with three additional years of service and three additional years of eligible earnings at the higher of the Executive's eligible earnings on the date of termination or the Executive's eligible earnings on the date of the Change in Control and, for purposes of determining the Executive's eligibility for subsidized early retirement benefits, determined as if the Executive were three years older than the Executive's actual age on the date of termination. For purposes of this paragraph (e), "eligible earnings" shall include salary, annual incentive (bonus) awards and all other forms of compensation used to calculate benefits under the Supplemental Plan. The amounts of the annual incentive (bonus) awards shall be calculated in accordance with this paragraph (e) and, to the extent applicable, paragraphs (b) and (c) above. The Executive's benefits under the Supplemental Plan shall be determined, paid and administered without regard to any termination or amendment (including any amendment affecting actuarial factors) of such plan or of any other plan, which is adopted on or after a Change in Control or in contemplation of a Change in Control and, subject to paragraph (f) below, shall be paid in accordance with the terms of that plan and the Executive's elections under that plan. Within twenty (20) days of Executive's date of termination, the Company shall provide the Executive with all forms, elections and materials required in connection with the funding or payment of the Executive's benefits under that plan. Within twenty (20) days of the Company's receipt of properly executed and completed

forms, elections and other required materials from the Executive, the Company shall fund the additional benefits to the extent provided by the terms of such plan.

(f) The Executive shall be entitled to elect that all or any portion of the amounts payable under paragraphs 3(b) and 3(c) and subparagraph 3(d)(ii) above (less applicable tax withholding) be paid directly to a grantor trust established by the Executive to the same extent as bonuses payable under the 1986 Abbott Laboratories Management Incentive Plan, the 1998 Abbott Laboratories Performance Incentive Plan, or any successor plans thereto with all of the rights and entitlements attendant thereto.

If the Executive is a participant in the 1998 Abbott Laboratories Performance Incentive Plan or any successor thereto, the Executive's annual incentive (bonus) award for the performance period which includes the date of termination under paragraphs (c) and (d)(ii) above and, if applicable, for the period preceding the date of termination under paragraph (b) shall, be determined under the bonus levels communicated in writing to the Executive by the Company for such year and shall not be the Executive's individual base award allocation as defined in Section 4.2 of the 1998 Abbott Laboratories Performance Incentive Plan (or any corresponding provision of any successor plan).

4. MITIGATION. The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise. Except as set forth in paragraph 3(a) with respect to benefits, the Company shall not be entitled to set off against the amounts payable to the Executive under this Agreement any amounts owed to the Company by the Executive, any amounts earned by the Executive in other employment after the Executive's termination of employment with the Company, or any amounts which might have been earned by the Executive in other employment had the Executive sought such other employment.

5. MAKE-WHOLE PAYMENTS. If any payment or benefit to which the Executive (or any person on account of the Executive) is entitled, whether under this Agreement or otherwise, in connection with a Change in Control or the Executive's termination of employment (a "Payment") constitutes a "parachute payment" within the meaning of section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), and as a result thereof the Executive is subject to a tax under section 4999 of the Code, or any successor thereto, (an "Excise Tax"), the Company shall pay to the Executive an additional amount (the "Make-Whole Amount") which is intended to make the Executive whole for such Excise Tax, other than the portion thereof that is attributable solely to equity-based compensation. The Make-Whole Amount shall be equal to (x) minus (y) where (x) is equal to (i) the amount of the Excise Tax, plus (ii) the aggregate amount of any interest, penalties, fines or additions to any tax which are imposed in connection with the imposition of such Excise Tax, plus (iii) all income, excise and other applicable taxes imposed on the Executive under the laws of any Federal, state or local government or taxing authority by reason of the payments required under clauses (i) and (ii) and this clause (iii), and (y) is the amount that would be determined under such clauses (i), (ii), and (iii) if the only parachute payments received by the Executive were equity-based Payments, including but not limited to

the accelerated vesting of stock options, shares of restricted stock, or any other equity based award.

(a) For purposes of determining the Make-Whole Amount, the Executive shall be deemed to be taxed at the highest marginal rate under all applicable local, state, federal and foreign income tax laws for the year in which the Make-Whole Amount is paid. The Make-Whole Amount payable with respect to an Excise Tax shall be paid by the Company coincident with the Payment with respect to which such Excise Tax relates.

(b) All calculations under this Section 5 shall be made initially by the Company and the Company shall provide prompt written notice thereof to the Executive to enable the Executive to timely file all applicable tax returns. Upon request of the Executive, the Company shall provide the Executive with sufficient tax and compensation data to enable the Executive or the Executive's tax advisor to independently make the calculations described in subparagraph (a) above and the Company shall reimburse the Executive for reasonable fees and expenses incurred for any such verification.

(c) If the Executive gives written notice to the Company of any objection to the results of the Company's calculations within 60 days of the Executive's receipt of written notice thereof, the dispute shall be referred for determination to independent tax counsel selected by the Company and reasonably acceptable to the Executive ("Tax Counsel"). The Company shall pay all fees and expenses of such Tax Counsel. Pending such determination by Tax Counsel, the Company shall pay the Executive the Make-Whole Amount as determined by it in good faith. The Company shall pay the Executive any additional amount determined by Tax Counsel to be due under this Section 5 (together with interest thereon at a rate equal to 120% of the Federal short-term rate determined under section 1274(d) of the Code) promptly after such determination.

(d) The determination by Tax Counsel shall be conclusive and binding upon all parties unless the Internal Revenue Service, a court of competent jurisdiction, or such other duly empowered governmental body or agency (a "Tax Authority") determines that the Executive owes a greater or lesser amount of Excise Tax with respect to any Payment than the amount determined by Tax Counsel.

(e) If a Taxing Authority makes a claim against the Executive which, if successful, would require the Company to make a payment under this Section 5, the Executive agrees to contest the claim with counsel reasonably satisfactory to the Company, on request of the Company subject to the following conditions:

(i) The Executive shall notify the Company of any such claim within 10 days of becoming aware thereof. In the event that the Company desires the claim to be contested, it shall promptly (but in no event more than 30 days after the notice

from the Executive or such shorter time as the Taxing Authority may specify for responding to such claim) request the Executive to contest the claim. The Executive shall not make any payment of any tax which is the subject of the claim before the Executive has given the notice or during the 30-day period thereafter unless the Executive receives written instructions from the Company to make such payment together with an advance of funds sufficient to make the requested payment plus any amounts payable under this Section 5 determined as if such advance were an Excise Tax, in which case the Executive will act promptly in accordance with such instructions.

(ii) If the Company so requests, the Executive will contest the claim by either paying the tax claimed and suing for a refund in the appropriate court or contesting the claim in the United States Tax Court or other appropriate court, as directed by the Company; PROVIDED, HOWEVER, that any request by the Company for the Executive to pay the tax shall be accompanied by an advance from the Company to the Executive of funds sufficient to make the requested payment plus any amounts payable under this Section 5 determined as if such advance were an Excise Tax. If directed by the Company in writing the Executive will take all action necessary to compromise or settle the claim, but in no event will the Executive compromise or settle the claim or cease to contest the claim without the written consent of the Company; PROVIDED, HOWEVER, that the Executive may take any such action if the Executive waives in writing the Executive's right to a payment under this Section 5 for any amounts payable in connection with such claim. The Executive agrees to cooperate in good faith with the Company in contesting the claim and to comply with any reasonable request from the Company concerning the contest of the claim, including the pursuit of administrative remedies, the appropriate forum for any judicial proceedings, and the legal basis for contesting the claim. Upon request of the Company, the Executive shall take appropriate appeals of any judgment or decision that would require the Company to make a payment under this Section 5. Provided that the Executive is in compliance with the provisions of this section, the Company shall be liable for and indemnify the Executive against any loss in connection with, and all costs and expenses, including attorneys' fees, which may be incurred as a result of, contesting the claim, and shall provide to the Executive within 30 days after each written request therefor by the Executive cash advances or reimbursement for all such costs and expenses actually incurred or reasonably expected to be incurred by the Executive as a result of contesting the claim.

(f) Should a Tax Authority finally determine that an additional Excise Tax is owed, then the Company shall pay an additional Make-Whole Amount to the Executive in a manner consistent with this Section 5 with respect to any additional Excise Tax and any assessed interest, fines, or penalties. If any Excise Tax as calculated by the Company or Tax

Counsel, as the case may be, is finally determined by a Tax Authority to exceed the amount required to be paid under applicable law, then the Executive shall repay such excess to the Company within 30 days of such determination; provided that such repayment shall be reduced by the amount of any taxes paid by the Executive on such excess which is not offset by the tax benefit attributable to the repayment.

6. TERMINATION DURING POTENTIAL CHANGE IN CONTROL. If a Potential Change in Control (as defined in Section 8) occurs during the Agreement Term, and the Company terminates the Executive's employment for reasons other than Permanent Disability or Cause during such Potential Change in Control, the Executive shall be entitled to receive the benefits that the Executive would have received under Section 3, such benefits to be calculated based upon the Executive's compensation prior to the actual termination of employment but paid within 20 business days of the date of such termination.

7. CHANGE IN CONTROL. For purposes of this Agreement, a "Change in Control" shall be deemed to have occurred on the earliest of the following dates:

(a) the date any entity or person (including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act")) shall have become the beneficial owner of, or shall have obtained voting control over, twenty percent (20%) or more of the outstanding common shares of the Company;

(b) the date on which the Company (i) merges or consolidates with or into another corporation, or merges another corporation into the Company, in which the Company is not the continuing or surviving corporation or pursuant to which any common shares of the Company are converted into cash, securities of another corporation, or other property, other than a merger or consolidation of the Company in which holders of common shares immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation or its parent corporation immediately after the merger as immediately before, or (ii) sells or otherwise disposes of substantially all of the assets of the Company; or

(c) the date there shall have been a change in a majority of the Board of Directors of the Company within a twelve (12) month period unless the nomination for election by the Company's shareholders of each new director was approved by the vote of two-thirds of the directors then still in office who were in office at the beginning of the twelve (12) month period.

8. POTENTIAL CHANGE IN CONTROL. A "Potential Change in Control" shall exist during any period in which the circumstances described in paragraphs (a), (b), (c) or (d), below, exist (provided, however, that a Potential Change in Control shall cease to exist not later than the occurrence of a Change in Control):

(a) The Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control, provided that a Potential Change in Control described in this paragraph (a) shall cease to exist upon the expiration or other termination of all such agreements.

(b) Any person (including the Company) publicly announces an intention to take or to consider taking actions the consummation of which would constitute a Change in Control; provided that a Potential Change in Control described in this paragraph (b) shall cease to exist upon the withdrawal of such intention, or upon a reasonable determination by the Board that there is no reasonable chance that such actions would be consummated.

(c) The acquisition by any person (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934) of beneficial ownership of 10 percent or more of the then outstanding shares of common stock of the Company; but excluding, for this purpose, any such acquisition by:

(i) the Company, any subsidiary, any employee benefit plan (or related trust, or a fiduciary of the plan or trust) maintained by the Company or any Subsidiary, or any person who satisfies the requirements set forth in Rule 13d-1(b)(1)(i) and (ii) promulgated under the Securities Exchange Act of 1934; or

(ii) any corporation with respect to which, following such acquisition, more than 50 percent of the then outstanding shares of common stock of such corporation is then beneficially owned by all or substantially all of the individuals and entities who were the beneficial owners of common stock of the Company immediately prior to such acquisition, and in substantially the same proportion as their ownership, immediately prior to such acquisition, of the then outstanding shares of common stock of the Company.

(d) The Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control exists; provided that a Potential Change in Control described in this paragraph (d) shall cease to exist upon a reasonable determination by the Board that the reasons that gave rise to the resolution providing for the existence of a Potential Change in Control have expired or no longer exist.

9. STOCK AND OPTION AWARDS. With respect to any award granted to the Executive under the Company's 1996 Incentive Stock Program (the "Program"), any Prior Program (as defined in the Program) or any successor program, the following shall apply:

(a) if the award (other than incentive stock options granted pursuant to Section 422 of the Internal Revenue Code [each an "Incentive Stock Option"] prior to the date on which the Original Agreement was executed) includes a provision substantially similar to the

provision contained on Appendix A, then after a Change in Control no forfeiture shall be effected pursuant to such provision unless the Executive shall have been terminated for "Cause" within the meaning of paragraph 2(b) above; and

(b) if the Executive becomes entitled to Change in Control Benefits under Section 2 above, then in determining the Executive's rights with respect to that award, other than Incentive Stock Options granted prior to the later of:

(i) December 8, 2000, or

(ii) the date on which the Original Agreement was executed,

the Executive shall be treated as having incurred a termination of employment due to retirement.

10. WITHHOLDING. All payments to the Executive under this Agreement will be subject to withholding of applicable taxes. The Company shall withhold the applicable taxes in an amount calculated at the minimum statutory rate and shall pay the amount so withheld to the appropriate tax authority.

11. NONALIENATION. The interests of the Executive under this Agreement are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Executive or the Executive's beneficiary.

12. AMENDMENT. This Agreement may be amended or canceled only by mutual agreement of the parties in writing without the consent of any other person. So long as the Executive lives, no person, other than the parties hereto, shall have any rights under or interest in this Agreement or the subject matter hereof.

13. APPLICABLE LAW. The provisions of this Agreement shall be construed in accordance with the laws of the State of Illinois, without regard to the conflict of law provisions of any state.

14. SEVERABILITY. The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of any other provision of this Agreement, and this Agreement will be construed as if such invalid or unenforceable provision were omitted (but only to the extent that such provision cannot be appropriately reformed or modified).

15. WAIVER OF BREACH. No waiver by any party hereto of a breach of any provision of this Agreement by any other party, or of compliance with any condition or provision of this Agreement to be performed by such other party, will operate or be construed as a waiver of any subsequent breach by such other party of any similar or dissimilar provisions and conditions at the same or any prior or subsequent time. The failure of any party hereto to take any action by

reason of such breach will not deprive such party of the right to take action at any time while such breach continues.

16. SUCCESSORS, ASSUMPTION OF CONTRACT. This Agreement shall be binding upon and inure to the benefit of the Company and any successor of the Company. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no succession had taken place. This Agreement is personal to the Executive and may not be assigned by the Executive without the written consent of the Company. However, to the extent that rights or benefits under this Agreement otherwise survive the Executive's death, the Executive's heirs and estate shall succeed to such rights and benefits pursuant to the Executive's will or the laws of descent and distribution; provided that the Executive shall have the right at any time and from time to time, by notice delivered to the Company, to designate or to change the beneficiary or beneficiaries with respect to such benefits.

17. NOTICES. Notices and all other communications provided for in this Agreement shall be in writing and shall be delivered personally or sent by registered or certified mail, return receipt requested, postage prepaid (provided that international mail shall be sent via overnight or two-day delivery), or sent by facsimile or prepaid overnight courier to the parties at the addresses set forth below. Such notices, demands, claims and other communications shall be deemed given:

(a) in the case of delivery by overnight service with guaranteed next day delivery, the next day or the day designated for delivery;

(b) in the case of certified or registered U.S. mail, five days after deposit in the U.S. mail; or

(c) in the case of facsimile, the date upon which the transmitting party received confirmation of receipt by facsimile, telephone or otherwise;

provided, however, that in no event shall any such communications be deemed to be given later than the date they are actually received. Communications that are to be delivered by the U.S. mail or by overnight service or two-day delivery service are to be delivered to the addresses set forth below:

to the Company:

Senior Vice President, Human Resources
Abbott Laboratories
100 Abbott Park Road
Abbott Park, Illinois 60064

with a copy (which shall not constitute notice) to:

General Counsel and Secretary
Abbott Laboratories
100 Abbott Park Road
Abbott Park, Illinois 60064

or to the Executive:

Name
Address
City, State Zip

Each party, by written notice furnished to the other party, may modify the applicable delivery address, except that notice of change of address shall be effective only upon receipt.

18. RESOLUTION OF ALL DISPUTES. Any controversy or claim arising out of or relating to this Agreement (or the breach thereof) shall be settled by alternative dispute resolution procedures in accordance with Appendix B hereto.

19. LEGAL AND ENFORCEMENT COSTS. The provisions of this Section 19 shall apply if it becomes necessary or desirable for the Executive to retain legal counsel or incur other costs and expenses in connection with enforcing any and all rights under this Agreement:

(a) The Executive shall be entitled to recover from the Company reasonable attorneys' fees, costs and expenses incurred in connection with such enforcement or defense.

(b) Payments required under this Section 19 shall be made by the Company to the Executive (or directly to the Executive's attorney) promptly following submission to the Company of appropriate documentation evidencing the incurrence of such attorneys' fees, costs, and expenses.

(c) The Executive shall be entitled to select legal counsel; provided, however, that such right of selection shall not affect the requirement that any costs and expenses reimbursable under this Section 19 be reasonable.

(d) The Executive's rights to payments under this Section 19 shall not be affected by the final outcome of any dispute with the Company.

20. SURVIVAL OF AGREEMENT. Except as otherwise expressly provided in this Agreement, the rights and obligations of the parties to this Agreement shall survive the termination of the Executive's employment with the Company.

21. ENTIRE AGREEMENT. Except as otherwise provided herein, this Agreement constitutes the entire agreement between the parties concerning the subject matter hereof and supersedes all prior or contemporaneous agreements, between the parties relating to the subject matter hereof including but not limited to the Original Agreement; provided, however, that nothing in this Agreement shall be construed to limit any policy or agreement that is otherwise applicable relating to confidentiality, rights to inventions, copyrightable material, business and/or technical information, trade secrets, solicitation of employees, interference with relationships with other businesses, competition, and other similar policies or agreement for the protection of the business and operations of the Company and the subsidiaries.

22. COUNTERPARTS. This Agreement may be executed in two or more counterparts, any one of which shall be deemed the original without reference to the others.

IN WITNESS THEREOF, the Executive has hereunto set his hand, and the Company has caused these presents to be executed in its name and on its behalf, and its corporate seal to be hereunto affixed on this _____ day of _____, 2001, all as of the Effective Date.

---

EXECUTIVE

ABBOTT LABORATORIES

By
---

Its
---

ATTEST:

- ---

(Seal)

APPENDIX A

AGREEMENT REGARDING CHANGE IN CONTROL
FORFEITURE PROVISION REFERENCED IN SECTION 9

Notwithstanding paragraphs (x*), (y*) and (z*), these options (this restricted stock award, etc.) shall immediately terminate (be forfeited), if in the sole opinion and discretion of the Compensation Committee or its delegate, the employee (a) engages in a material breach of the company's Code of Business Conduct; (b) commits an act of fraud, embezzlement or theft in connection with the employee's duties or in the course of employment; or (c) wrongfully discloses secret processes or confidential information of the company or its subsidiaries.

* Provisions contained in the agreements pertaining to nonforfeiture for death, disability, etc.

AGREEMENT REGARDING CHANGE IN CONTROL
ALTERNATIVE DISPUTE RESOLUTION PROCEDURES

The parties to the Agreement Regarding Change in Control dated as of the 1st day of January, 2000 (the "Agreement") recognize that a bona fide dispute as to certain matters may arise from time to time during the term of the Agreement which relates to either party's rights and/or obligations. To have such a dispute resolved by this Alternative Dispute Resolution ("ADR") provision, a party first must send written notice of the dispute to the other party for attempted resolution by good faith negotiations between the Executive and the Company within twenty-eight (28) days after such notice is received (all references to "days" in the ADR provision are to calendar days).

If the matter has not been resolved within twenty-eight (28) days of the notice of dispute, or if the parties fail to meet within such twenty-eight (28) days, either party may initiate an ADR proceeding as provided herein. The parties shall have the right to be represented by counsel in such a proceeding.

1. To begin an ADR proceeding, a party shall provide written notice to the other party of the issues to be resolved by ADR. Within fourteen (14) days after its receipt of such notice, the other party may, by written notice to the party initiating the ADR, add additional issues to be resolved within the same ADR.

2. Within twenty-one (21) days following receipt of the original ADR notice, the parties shall select a mutually acceptable neutral to preside in the resolution of any disputes in this ADR proceeding. If the parties are unable to agree on a mutually acceptable neutral within such period, either party may request the President of the CPR Institute for Dispute Resolution ("CPR"), 366 Madison Avenue, 14th Floor, New York, New York 10017, to select a neutral pursuant to the following procedures:

   (a) The CPR shall submit to the parties a list of not less than five (5) candidates within fourteen (14) days after receipt of the request, along with a CURRICULUM VITAE for each candidate. No candidate shall be an employee, director or shareholder of either party or any of their subsidiaries or affiliates.

   (b) Such list shall include a statement of disclosure by each candidate of any circumstances likely to affect his or her impartiality.

(c) Each party shall number the candidates in order of preference (with the number one (1) signifying the greatest preference) and shall deliver the list to the CPR within seven (7) days following receipt of the list of candidates. If a party believes a conflict of interest exists regarding any of the candidates, that party shall provide a written explanation of the conflict to the CPR along with its list showing its order of preference for the candidates. Any party failing to return a list of preferences on time shall be deemed to have no order of preference.

(d) If the parties collectively have identified fewer than three (3) candidates deemed to have conflicts, the CPR immediately shall designate as the neutral the candidate for whom the parties collectively have indicated the greatest preference. If a tie should result between two candidates, the CPR may designate either candidate. If the parties collectively have identified three (3) or more candidates deemed to have conflicts, the CPR shall review the explanations regarding conflicts and, in its sole discretion, may either (i) immediately designate as the neutral the candidate for whom the parties collectively have indicated the greatest preference, or (ii) issue a new list of not less than five (5) candidates, in which case the procedures set forth in subparagraphs 2(a)-2(d) shall be repeated.

3. No earlier than twenty-eight (28) days or later than fifty-six (56) days after selection, the neutral shall hold a hearing to resolve each of the issues identified by the parties. The ADR proceeding shall take place at a location agreed upon by the parties. If the parties cannot agree, the neutral shall designate a location other than the principal place of business of either party or any of the subsidiaries or affiliates.

4. At least seven (7) days prior to the hearing, each party shall submit the following to the other party and the neutral:

(a) a copy of all exhibits on which such party intends to rely in any oral or written presentation to the neutral;

(b) a list of any witnesses such party intends to call at the hearing, and a short summary of the anticipated testimony of each witness;

(c) a proposed ruling on each issue to be resolved, together with a request for a specific damage award or other remedy for each issue. The proposed rulings and remedies shall not contain any recitation of the facts or any legal arguments and shall not exceed one (1) page per issue.

(d) a brief in support of such party's proposed rulings and remedies, provided that the brief shall not exceed twenty (20) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

Except as expressly set forth in subparagraphs 4(a) - 4(d), no discovery shall be required or permitted by any means, including deposition, interrogatories, requests for admissions or production of documents.

5. The hearing shall be conducted on two (2) consecutive days and shall be governed by the following rules:

(a) Each party shall be entitled to five (5) hours of hearing time to present its case. The neutral shall determine whether each party has had the five (5) hours to which it is entitled.

(b) Each party shall be entitled, but not required, to make an opening statement, to present regular or rebuttal testimony, documents or other evidence, to cross-examine witnesses and to make a closing argument. Cross-examination of witnesses shall occur immediately after their direct testimony, and cross-examination time shall be charged against the party conducting the cross-examination.

(c) The party initiating the ADR shall begin the hearing and, if it chooses to make an opening statement, shall address not only issues it raised, but also any issues raised by the responding party. The responding party, if it chooses to make an opening statement, also shall address all issues raised in the ADR. Thereafter, the presentation of regular and rebuttal testimony and documents, other evidence and closing arguments shall proceed in the same sequence.

(d) Except when testifying, witnesses shall be excluded from the hearing until closing arguments.

(e) Settlement negotiations, including any statements made therein, shall not be admissible under any circumstances. Affidavits prepared for purposes of the ADR hearing also shall not be admissible. As to all other matters, the neutral shall have sole discretion regarding the admissibility of any evidence.

6. Within seven (7) days following completion of the hearing, each party may submit to the other party and the neutral a post-hearing brief in support of its proposed rulings and remedies, provided that such brief shall not contain or discuss any new evidence and shall not exceed ten (10) pages. This page limitation shall apply regardless of the number of issues raised in the ADR proceeding.

7. The neutral shall rule on each disputed issue within fourteen (14) days following completion of the hearing. Such ruling shall adopt in its entirety the proposed ruling and remedy of one of the parties on each disputed issue but may adopt one party's proposed

rulings and remedies on some issues and the other party's proposed rulings and remedies on other issues. The neutral shall not issue any written opinion or otherwise explain the basis of the ruling.

8. The neutral shall be paid a reasonable fee plus expenses by the Company. The Company shall bear its own fees and expenses. The Executive's fees and expenses shall be paid or reimbursed by the Company to the extent provided by the Agreement.

9. The rulings of the neutral and the allocation of fees and expenses shall be binding, non-reviewable, and non-appealable, and may be entered as a final judgment in any court having jurisdiction.

10. Except as provided in Section 9 or as required by law, the existence of the dispute, any settlement negotiations, the ADR hearing, any submissions (including exhibits, testimony, proposed rulings, and briefs), and the rulings shall be deemed Confidential Information. The neutral shall have the authority to impose sanctions for unauthorized disclosure of Confidential Information.

EXHIBIT 12

Abbott Laboratories and Subsidiaries

CALCULATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Unaudited)

(dollars in millions except ratios)

| | Year Ended December 31 | | | | |
|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| Net Earnings | $2,786 | $2,446 | $2,334 | $2,079 | $1,874 |
| Add (deduct): | | | | | |
| Income taxes | 1,030 | 951 | 908 | 856 | 788 |
| Capitalized interest cost, net of amortization | (3) | (1) | 1 | (1) | (4) |
| Minority interest | 8 | 8 | 7 | 11 | 16 |
| Net earnings as adjusted | $3,821 | $3,404 | $3,250 | $2,945 | $2,674 |
| Fixed Charges: | | | | | |
| Interest on long-term and short-term debt | $ 114 | $ 145 | $ 160 | $ 135 | $ 96 |
| Capitalized interest cost | 18 | 13 | 14 | 14 | 16 |
| Rental expense representative of an interest factor | 48 | 44 | 40 | 29 | 26 |
| Total Fixed Charges | 180 | 202 | 214 | 178 | 138 |
| Total adjusted earnings available for payment of fixed charges | $4,001 | $3,606 | $3,464 | $3,123 | $2,812 |
| Ratio of earnings to fixed charges | 22.2 | 17.9 | 16.2 | 17.5 | 20.4 |

NOTE: For the purpose of calculating this ratio, (i) earnings have been calculated by adjusting net earnings for taxes on earnings; interest expense; capitalized interest cost, net of amortization; minority interest; and the portion of rentals representative of the interest factor, (ii) the Company considers one-third of rental expense to be the amount representing return on capital, and (iii) fixed charges comprise total interest expense, including capitalized interest and such portion of rentals.

Exhibit 21

SUBSIDIARIES OF ABBOTT LABORATORIES

The following is a list of subsidiaries of Abbott Laboratories. Abbott Laboratories is not a subsidiary of any other corporation. Where ownership of a subsidiary is less than 100% by Abbott Laboratories or an Abbott Laboratories' subsidiary, such has been noted by designating the percentage of ownership.

| Domestic Subsidiaries | Incorporation |
|---|---|
| Abbott Chemicals Plant, Inc. | Puerto Rico |
| Abbott Equity Investments LLC | Delaware |
| Abbott Exchange Inc. | Delaware |
| Abbott Fermentation Products de Puerto Rico, Inc. | Puerto Rico |
| Abbott Health Products, Inc. | Delaware |
| Abbott Home Infusion Services of New York, Inc. | New York |
| Abbott International Ltd. | Delaware |
| Abbott International Ltd. of Puerto Rico | Puerto Rico |
| Abbott Laboratories Inc. | Delaware |
| Abbott Laboratories International Co. | Illinois |

| | |
|---|---|
| Abbott Laboratories Pacific Ltd. | Illinois |
| Abbott Laboratories (Puerto Rico) Incorporated | Puerto Rico |
| Abbott Laboratories Purchasing Company LLC | Delaware |
| Abbott Laboratories Residential Development Fund, Inc. | Illinois |
| Abbott Laboratories Services Corp. | Illinois |
| Abbott Trading Company, Inc. | Virgin Islands |
| Abbott Universal Ltd. | Delaware |
| CMM Transportation, Inc. | Delaware |
| Corporate Alliance, Inc. | Delaware |
| IMTC Technologies, Inc. | Delaware |
| Murex Diagnostics, Inc. | Delaware |
| North Shore Properties, Inc. | Delaware |
| Oximetrix de Puerto Rico, Inc. | Delaware |
| Perclose, Inc. | Delaware |
| Solartek Products, Inc. | Delaware |
| Sorenson Research Co., Inc. | Utah |

| | | |
|---|---|---|
| Swan-Myers, Incorporated | Indiana | |
| TAP Finance Inc. | Delaware | |
| TAP Pharmaceuticals Inc. | Delaware | 50%(1) |
| TAP Pharmaceutical Products Inc. | Delaware | 50% |
| Tobal Products Incorporated | Illinois | |

- ------------------------
(1) TAP Pharmaceuticals Inc. is a wholly-owned subsidiary of TAP Holdings, Inc.

| Foreign Subsidiaries | Country in Which Organized | |
|---|---|---|
| Abbott Laboratories Argentina, S.A. | Argentina | |
| Abbott Australasia Pty. Limited | Australia | |
| Abbott Laboratories Executive Superannuation Pty. Limited | Australia | |
| Abbott Laboratories Superannuation Pty. Limited | Australia | |
| MediSense Australia Pty. Ltd. | Australia | |
| Abbott Gesellschaft m.b.H. | Austria | |
| Abbott Hospitals Limited | Bahamas | |
| Abbott Laboratories de Costa Rica Ltd. | Bahamas | |
| Abbott Laboratories (Bangladesh) Ltd. | Bangladesh | 85% |
| Murex Diagnostics International, Inc. | Barbados | |
| Abbott, S.A. | Belgium | |
| Abbott Ireland | Bermuda | |
| Abbott Laboratorios do Brasil Ltda. | Brazil | |
| Abbott Laboratories Limited | Canada | |
| International Murex Technologies Corporation | Canada | |

| | | |
|---|---|---|
| Abbott Laboratories de Chile Limitada | Chile | |
| Ningbo Asia-Pacific Biotechnology, Ltd. | China | 25% |
| Shanghai Abbott Pharmaceutical Co., Ltd. | China | 75%(2) |
| Abbott Laboratories de Colombia, S.A. | Colombia | |
| Abbott Laboratories s.r.o. | Czech Republic | |
| Abbott Laboratories A/S | Denmark | |
| Abbott Laboratorios del Ecuador, S.A. | Ecuador | |
| Abbott, S.A. de C.V. | El Salvador | |
| Abbott Investments Limited | England | |
| Abbott Laboratories Limited | England | |
| Abbott (UK) Finance Limited | England | |
| Abbott (UK) Holdings Limited | England | |
| Abbott Laboratories Trustee Company Limited | England | |
| IMTC Holdings (UK) Limited | England | |

- -------------------------

(2) Shanghai Abbott Pharmaceutical Co., Ltd. is 75% owned by Abbott Laboratories Ltd. (Hong Kong)

| | |
|---|---|
| MediSense UK Ltd. | England |
| Murex Biotech Limited (UK) | England |
| Murex Biotech (UK) Limited (Sales) | England |
| Abbott OY | Finland |
| Abbott France S.A. | France |
| Alcyon Analyzer S.A. | France |
| MediSense France SARL | France |
| Murex Diagnostics (France) S.A. | France |
| Abbott G.m.b.H. | Germany |
| Abbott Diagnostics G.m.b.H | Germany |
| Murex Diagnostica GmbH | Germany |
| Abbott Laboratories (Hellas) S.A. | Greece |
| Abbott Grenada Limited | Grenada |
| Abbott Laboratorios, S.A. | Guatemala |
| Abbott Laboratories Limited | Hong Kong |
| Abbott Laboratories (Hungary) Ltd. | Hungary |

| | | |
|---|---|---|
| Abbott Laboratories (India) Ltd. | India | 51% |
| Abind Healthcare Private Limited | India | |
| P. T. Abbott Indonesia | Indonesia | 97% |
| Abbott Laboratories, Ireland, Limited | Ireland | |
| Abbott Ireland Ltd. | Ireland | |
| Murex Medical Research Limited | Isle of Mann | |
| Technology License Company Limited | Isle of Mann | |
| Abbott S.p.A. | Italy | |
| Murex Diagnostici S.p.A. | Italy | |
| Abbott West Indies Limited | Jamaica | 51% |
| Consolidated Laboratories Limited | Jamaica | |
| Abbott Japan K.K. | Japan | |
| Dainabot Co., Ltd. | Japan | 82% |
| Abbott Korea Limited | Korea | |
| Abbott Middle East S.A.R.L. | Lebanon | |
| Abbott Laboratories (Malaysia) Sdn. Bhd. | Malaysia | |

| | |
|---|---|
| Abbott Laboratories de Mexico, S.A. de C.V. | Mexico |
| Abbott Laboratories (Mozambique) Limitada | Mozambique |
| Abbott Logistics B.V. | The Netherlands |
| Abbott B.V. | The Netherlands |
| Abbott Laboratories B.V. | The Netherlands |
| Abbott Finance B.V. | The Netherlands |

| | | |
|---|---|---|
| Abbott Holdings B.V. | The Netherlands | |
| MediSense Europe B.V. | The Netherlands | |
| MediSense Netherlands, B.V. | The Netherlands | |
| IMTC Holdings B.V. | The Netherlands | |
| IMTC Finance B.V. | The Netherlands | |
| Murex Diagnostics Benelux B.V. | The Netherlands | |
| Abbott Laboratories (N.Z.) Limited | New Zealand | |
| Abbott Laboratories Nigeria Limited | Nigeria | 40% |
| Abbott Norge A S | Norway | |
| Abbott Laboratories (Pakistan) Limited | Pakistan | 83.42% |
| Abbott Laboratories, C.A. | Panama | |
| Abbott Overseas, S.A. | Panama | |
| Abbott Laboratorios S.A. | Peru | |
| Abbott Laboratories | Philippines | |
| Union-Madison Realty Company, Inc. | Philippines | 40% |

| | |
|---|---|
| Abbott Laboratories Sp. z.o.o. | Poland |
| Abbott Laboratorios, Limitada | Portugal |
| Abbottfarma - Promocao de Produtos Farmaceuticos, Limitada | Portugal |
| Abbott Laboratories (Singapore) Private Limited | Singapore |
| Abbott Laboratories South Africa (Pty.) Limited | South Africa |
| Abbott Laboratories, S.A. | Spain |
| Abbott Cientifica, S.A. | Spain |
| Murex Diagnosticos, S.A. | Spain |
| Abbott Scandinavia A.B. | Sweden |
| Abbott A.G. | Switzerland |
| Abbott Laboratories S.A. | Switzerland |
| Abbott Finance Company S.A. | Switzerland |
| Abbott Laboratories Taiwan Limited | Taiwan |
| Abbott Laboratories Limited | Thailand |
| Abbott Laboratuarlari Ithalat Ihracat Ve Tecaret Limited Sirketi | Turkey |

| | |
|---|---|
| Abbott Laboratories Uruguay Limitada | Uruguay |
| Abbott Laboratories, C.A. | Venezuela |
| Medicamentos M & R, S.A. | Venezuela |

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of the following into Abbott's previously filed Form S-8 Registration Statements 33-4368 for the Abbott Laboratories 1986 Incentive Stock Program, 33-39798 for the Abbott Laboratories 1991 Incentive Stock Program, 333-09071, 333-43381, 333-69547, 333-93253 and 333-52768 for the Abbott Laboratories 1996 Incentive Stock Program, 333-13091 for the Abbott Laboratories Ashland Union 401(k) Plan and Trust, and 33-26685, 33-51585, 33-56897, 33-65127, 333-19511, 333-43383, 333-69579, and 333-93257 for the Abbott Laboratories Stock Retirement Plan and Trust; Abbott's previously filed post-effective Amendment No. 1 to Registration Statement on Form S-8 333-85867 for the Perclose, Inc. 1992 Stock Plan, Perclose, Inc. 1995 Director Option Plan, Perclose, Inc. 1997 Stock Plan and Perclose, Inc. 1995 Employee Stock Purchase Plan; and into Abbott's previously filed S-3 Registration Statements 33-50253, 333-06155, 333-63481, 333-65601, 333-83647 and 333-55446:

1. Our supplemental report dated January 15, 2001 included in this Annual Report on Form 10-K for the year ended December 31, 2000; and

2. Our report dated January 15, 2001 included in this Annual Report on Form 10-K for the year ended December 31, 2000.

ARTHUR ANDERSEN LLP

Chicago, Illinois
February 15, 2001

Exhibit 99.1

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The Financial Review and other sections of this Form 10-K contain forward-looking statements that are based on management's current expectations, estimates and projections. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of these words and similar expressions are intended to identify these forward-looking statements. Certain factors, including but not limited to those listed below, may cause actual results to differ materially from current expectations, estimates, projections and from past results.

- Economic factors including changes in the rate of inflation, business conditions, interest rates, foreign currency exchange rates, and market value of Abbott's equity investments.

- Competitive factors, including: (i) pricing pressures, both in the United States and abroad, primarily from managed care groups and government agencies, (ii) the development of new products by competitors having lower prices or superior performance or that are otherwise competitive with Abbott's current products, (iii) generic competition when Abbott's products lose their patent protection, (iv) technological advances and patents obtained by competitors and (v) problems with licensors, suppliers and distributors.

- Difficulties and delays inherent in the development, manufacturing, marketing, or sale of products including: (i) efficacy or safety concerns, (ii) delays in the receipt of or the inability to obtain required approvals, (iii) the suspension or revocation of the authority necessary for manufacture, marketing, or sale, (iv) the imposition of additional or different regulatory requirements, such as those affecting labeling, (v) seizure or recall of products, (vi) the failure to obtain, the imposition of limitations on the use of, or the loss of patent and other intellectual property rights, and (vii) manufacturing or distribution problems.

- Governmental action including: (i) new laws, regulations and judicial decisions related to health care availability, method of delivery and payment for health care products and services, (ii) changes in the Federal Food and Drug Administration and foreign regulatory approval processes that may delay or prevent the approval of new products and result in lost market opportunity, (iii) new laws, regulations and judicial decisions affecting pricing or marketing and (iv) changes in the tax laws relating to Abbott's operations.

- Changes in accounting standards promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission or the American Institute of Certified Public Accountants.

- Changes in costs or expenses, including variations resulting from changes in product mix, changes in tax rates both in the United States and abroad, the effects of acquisitions, dispositions or other events occurring in connection with evolving business strategies.

- Costs or difficulties related to the integration of Abbott and the pharmaceutical business of BASF, which includes the global operations of Knoll, may be greater than expected.

- Complying with the consent decree between Abbott and the United States Food and Drug Administration (this consent decree is described in the portion of this Form 10-K captioned "Regulation") and Abbott's ability to return diagnostic products to market successfully.

- Legal difficulties, any of which could preclude commercialization of products or adversely affect profitability, including: claims asserting antitrust violations, claims asserting securities law violations, claims asserting violations of the Federal False Claims Act, Anti-Kickback Act, the Prescription Drug Marketing Act or other violations in connection with Medicare and/or Medicaid reimbursement, derivative actions, product liability claims, disputes over intellectual property rights (including patents) and environmental matters.

No assurance can be made that any expectation, estimate or projection contained in a forward-looking statement can be achieved. Readers are cautioned not to place undue reliance on such statements, which speak only as of the date made. Abbott undertakes no obligation to release publicly any revisions to forward-looking statements as the result of subsequent events or developments.