
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2001

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 1-2189

ABBOTT LABORATORIES

An Illinois Corporation

I.R.S. Employer Identification
No. 36-0698440

100 Abbott Park Road
Abbott Park, Illinois 60064-6400

Telephone: (847) 937-6100

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 No

As of April 30, 2001, the Corporation had 1,548,857,347 common shares without par value outstanding.

PART I. FINANCIAL INFORMATION

Abbott Laboratories and Subsidiaries Condensed Consolidated Financial Statements (Unaudited)

Abbott Laboratories and Subsidiaries Condensed Consolidated Statement of Earnings (Unaudited) (dollars and shares in thousands except per share data)

	Three Months Ended March 31	
	2001	2000
Net Sales	\$ 3,559,880	\$ 3,353,178
Cost of products sold	1,643,318	1,496,447
Research and development	318,280	321,367
Acquired in-process research and development	1,015,000	—
Selling, general and administrative	747,013	730,304

Gain on sale of business	—	(46,304)
Total Operating Cost and Expenses	3,723,611	2,501,814
Operating (Loss) Earnings	(163,731)	851,364
Net interest expense	26,721	12,034
Loss (income) from TAP Pharmaceutical Products Inc. joint venture	193,943	(118,914)
Net foreign exchange loss	9,070	841
Other (income) expense, net	(4,781)	8,147
(Loss) Earnings Before Taxes	(388,684)	949,256
Taxes on (loss) earnings	(165,071)	256,299
Net (Loss) Earnings	\$ (223,613)	\$ 692,957
Basic (Loss) Earnings Per Common Share	\$ (0.14)	\$ 0.45
Diluted (Loss) Earnings Per Common Share	\$ (0.14)	\$ 0.44
Cash Dividends Declared Per Common Share	\$ 0.21	\$ 0.19
Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share	1,547,072	1,548,066
Dilutive Common Stock Options	—	11,489
Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options	1,547,072	1,559,555
Outstanding Common Stock Options Having No Dilutive Effect	92,791	49,936

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

Abbott Laboratories and Subsidiaries
Condensed Consolidated Statement of Cash Flows
(Unaudited)
(dollars in thousands)

	Three Months Ended March 31	
	2001	2000
Cash Flow (Used in) From Operating Activities:		
Net (loss) earnings	\$ (223,613)	\$ 692,957
Adjustments to reconcile net earnings to net cash from operating activities—		
Depreciation and amortization	230,068	224,430
Trade receivables	74,907	80,183
Inventories	(166,095)	(166,898)
Gain on sale of business	—	(46,304)
Other, net	(11,701)	(342,570)
Net Cash (Used in) From Operating Activities	(96,434)	441,798
Cash Flow From (Used in) Investing Activities:		
Proceeds from sale of business	—	116,000
Acquisition of the pharmaceutical business of BASF excluding acquired in-process research and development of \$1,015,000	(5,361,439)	—
Acquisitions of property and equipment	(236,773)	(300,562)
Investment securities transactions	(29,884)	(14,985)

Other	11,808	63,761
Net Cash (Used in) Investing Activities	(5,616,288)	(135,786)
Cash Flow From (Used in) Financing Activities:		
Proceeds from (repayments of) commercial paper, net	5,506,000	(25,000)
Other borrowing transactions, net	(8,147)	31,216
Common share transactions	30,896	27,321
Dividends paid	(288,803)	(263,062)
Net Cash From (Used in) Financing Activities	5,239,946	(229,525)
Effect of exchange rate changes on cash and cash equivalents	50,748	(3,690)
Net (Decrease) Increase in Cash and Cash Equivalents	(422,028)	72,797
Cash and Cash Equivalents, Beginning of Year	914,218	608,097
Cash and Cash Equivalents, End of Period	\$ 492,190	\$ 680,894

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

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

	March 31 2001	December 31 2000
	(Unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 492,190	\$ 914,218
Investment securities	266,000	242,500
Trade receivables, less allowances of \$193,442 in 2001 and \$190,167 in 2000	2,553,814	2,179,451
Inventories:		
Finished products	1,300,727	903,973
Work in process	398,730	370,407
Materials	540,271	466,951
Total inventories	2,239,728	1,741,331
Prepaid expenses, income taxes, and other receivables	2,639,638	2,298,741
Total Current Assets	8,191,370	7,376,241
Investment Securities Maturing after One Year	597,543	637,979
Property and Equipment, at Cost	10,895,311	10,127,898
Less: accumulated depreciation and amortization	5,478,139	5,310,987
Net Property and Equipment	5,417,172	4,816,911
Deferred Charges, Intangible and Other Assets	2,239,419	2,452,123
Intangible assets of the pharmaceutical business of BASF	5,533,021	—
	\$ 21,978,525	\$ 15,283,254
Liabilities and Shareholders' Investment		
Current Liabilities:		
Short-term borrowings and current portion of long-term debt	\$ 5,966,820	\$ 479,454
Trade accounts payable	1,453,288	1,355,985
Salaries, income taxes, dividends payable, and other accruals	2,751,293	2,462,101
Amounts payable for the acquisition of the pharmaceutical business of BASF	717,421	—
Total Current Liabilities	10,888,822	4,297,540

Long-Term Debt	1,076,372	1,076,368
Other Liabilities and Deferrals	1,913,837	1,338,440
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: 2001: 1,565,747,627; 2000: 1,563,436,372	2,314,811	2,218,234
Common shares held in treasury, at cost— Shares: 2001: 17,492,239; 2000: 17,502,239	(255,440)	(255,586)
Unearned compensation—restricted stock awards	(16,334)	(18,116)
Earnings employed in the business	6,643,168	7,229,586
Accumulated other comprehensive loss	(586,711)	(603,212)
Total Shareholders' Investment	8,099,494	8,570,906
	\$ 21,978,525	\$ 15,283,254

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

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Abbott Laboratories and Subsidiaries
Notes to Condensed Consolidated Financial Statements
March 31, 2001
(Unaudited)

Note 1—Basis of Presentation

The accompanying unaudited, condensed consolidated financial statements have been prepared pursuant to rules and regulations of the Securities and Exchange Commission and, therefore, do not include all information and footnote disclosures normally included in audited financial statements. However, in the opinion of management, all adjustments (which include only normal adjustments) necessary to present fairly the results of operations, financial position and cash flows have been made. It is suggested that these statements be read in conjunction with the financial statements included in Abbott's Annual Report on Form 10-K for the year ended December 31, 2000.

Certain prior year amounts in the Condensed Consolidated Statement of Cash Flows have been reclassified to conform with the 2001 presentation.

Note 2—Supplemental Financial Information

(dollars in thousands)

	Three Months Ended March 31	
	2001	2000
Net interest expense:		
Interest expense	\$ 51,046	\$ 32,215
Interest income	(24,325)	(20,181)
Total	\$ 26,721	\$ 12,034

Note 3—Taxes on Earnings

The effective tax rate on earnings in 2001, excluding the charge for acquired in-process research and development, approximated the statutory U.S. federal income tax rate. Tax incentive grants related to subsidiaries operating in Puerto Rico, the Dominican Republic, Ireland, the Netherlands and Costa Rica reduced the effective tax rate. However, this was offset by the low tax benefit recorded for the loss from the TAP Pharmaceutical Products Inc. joint venture. The acquired in-process research and development charge was tax benefited using a rate of 38 percent, which is equal to the U.S. federal income tax rate plus state income taxes, net of the federal tax effect. The combination of these items resulted in a tax rate of 42.5 percent. The effective tax rate for 2000 was less than the statutory U.S. federal income tax rate principally due to the domestic dividend exclusion applicable to earnings of TAP Pharmaceutical Products Inc. and tax incentive grants related to subsidiaries operating in Puerto Rico, the Dominican Republic, Ireland, the Netherlands and Costa Rica.

Note 4—Abbott 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 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 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 patent settlement 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.

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 environmental 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, results of operations or cash flows.

The matters above are discussed more fully in Note 14 to the financial statements included in Abbott's Annual Report on Form 10-K, which is available upon request.

Note 5—TAP Pharmaceutical Products Inc.

The U.S. Department of Justice is investigating the marketing and sales practices of TAP Pharmaceutical Products Inc. (TAP) for LUPRON during the 1990s. Prior to the first quarter 2001, Abbott had recorded a minimum liability, in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, for losses related to the U.S. Department of Justice investigation of TAP. In April 2001, Abbott determined that a best estimate, in accordance with SFAS No. 5, could be determined. Accordingly, in the first quarter 2001, Abbott recorded a \$344 million increase in the litigation reserve for Abbott's portion of TAP's after-tax increase in the reserve related to the U.S. Department of Justice investigation.

While it is not feasible to predict the outcome of this matter with certainty, management is of the opinion that its ultimate disposition should not have a material adverse effect on Abbott's financial position, results of operations or cash flows.

Note 6—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.

Note 7—Comprehensive Income

(dollars in thousands)

	Three Months Ended March 31	
	2001	2000
Foreign currency translation adjustments	\$ 45,676	\$ (31,062)
Tax (expense) related to foreign currency translation adjustments	(245)	(418)
Unrealized gains (losses) on marketable equity securities	(31,278)	32,566
Tax (expense) benefit related to unrealized gains (losses) on marketable equity securities	19,831	(10,846)
Reclassification adjustment for gains included in net income	(18,299)	—
Unrealized gain on an interest rate hedge	1,360	—
Tax (expense) related to unrealized gain on an interest rate hedge	(544)	—
Other comprehensive income (loss), net of tax	16,501	(9,760)
Net (Loss) Earnings	(223,613)	692,957
Comprehensive (Loss) Income	\$ (207,112)	\$ 683,197

Supplemental Comprehensive Income Information:

Cumulative foreign currency translation loss adjustments, net of tax	\$ 585,462	\$ 463,422
Cumulative unrealized loss (gains) on marketable equity securities, net of tax	2,065	(48,361)
Cumulative unrealized gains on interest rate hedge, net of tax	(816)	—

Note 8—Segment 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. The following segment information has been prepared in accordance with the

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internal accounting policies of Abbott, as described above, and may not be presented in accordance with generally accepted accounting principles applied to the consolidated financial statements.

	Three Months Ended March 31			
	Net Sales to External Customers		Operating (Loss) Earnings	
	2001	2000	2001	2000
Pharmaceutical	\$ 715	\$ 607	\$ 225	\$ 234
Diagnostics	704	704	85	69
Hospital	635	570	167	141
Ross	590	554	255	221
International	843	852	215	229
Total Reportable Segments	3,487	3,287	947	894
Other	73	66		
Net Sales	\$ 3,560	\$ 3,353		
Corporate functions			48	41
Benefit plans costs			20	22
Non-reportable segments			2	1
Gain on sale of business			—	(46)
Net interest expense			27	12
Acquired in-process research and development			1,015	—
Loss (income) from TAP Pharmaceutical Products Inc.			194	(119)
Net foreign exchange loss			9	1
Other expense (income), net			21	33
Consolidated (Loss) Earnings Before Taxes			\$ (389)	\$ 949

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Note 9—Acquisition of Knoll

On March 2, 2001, Abbott acquired, for cash, the pharmaceutical business of BASF, which includes the global operations of Knoll for approximately \$6.9 billion (subject to adjustments for the change in net assets of the business as of the closing date compared to net assets as of September 30, 2000). This acquisition was financed primarily with short-term borrowings. In addition, Abbott expects to incur additional acquisition-related costs and adjustment of net assets acquired totaling approximately \$293 million. At March 31, 2001, total cash paid to BASF was approximately \$6.4 billion. The acquisition is accounted for under the purchase method of accounting. The estimated allocation of the acquisition cost is as follows (in billions of dollars):

Estimated Allocation of Acquisition Cost—

Estimated acquired intangible assets, primarily product rights for currently marketed products	\$ 3.717
Estimated goodwill	1.833

Estimated acquired in-process research and development	1.015
Estimated acquired net tangible assets	.628
Total estimated allocation of acquisition cost	\$ 7.193

The estimated acquisition cost has been tentatively allocated to intangible assets, goodwill, acquired in-process research and development and net tangible assets based on estimated fair values at the date of acquisition. Product rights for currently marketed products will be amortized on a straight-line basis over 4 to 18 years (average approximately 13 years) and goodwill will be amortized on a straight-line basis over 20 years. Estimated acquired in-process research and development of \$1.015 billion was charged to income in the first quarter 2001. The estimated net tangible assets acquired consist primarily of property and equipment of approximately \$571 million, trade accounts receivable of approximately \$424 million and inventories of approximately \$343 million, net of assumed liabilities, primarily trade accounts payable and other liabilities.

Prior to the date of acquisition, Abbott began to plan for the integration and restructuring of the business. Abbott is continuing to assess and formulate restructuring plans for specific business activities. Abbott expects that those restructuring plans will be finalized and formally approved throughout the 12 months following the date of acquisition. The costs of implementing the plans have not been reflected in the estimated allocation of the acquisition cost and would increase the amount of reported goodwill above. In addition, integration of the acquired operations will result in charges which will be recorded against earnings in the periods in which the integration plans are finalized.

Pro Forma Financial Information

The following unaudited pro forma financial information reflects the consolidated results of operations of Abbott as if the acquisition of the pharmaceutical business of BASF had taken place on January 1, 2000. The pro forma information includes primarily adjustments for acquired in-process research and development, amortization of product rights for currently marketed products, interest expense for estimated acquisition debt and amortization of goodwill. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the assumed date.

In millions, except per share amounts	Three months ended March 31	
	2001	2000
Sales	\$ 4,017.0	\$ 3,843.8
Net income	346.6	570.3
Diluted earnings per share	0.22	0.37

Note 10—Sale of Agricultural Products Business

In January 2000, Abbott sold its agricultural products business to Sumitomo Chemical Co., Ltd., resulting in a first quarter 2000 gain of \$46 million. Under the transaction, Sumitomo acquired research and development, sales, marketing, and support operations for Abbott's entire line of naturally occurring

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biopesticides, plant growth regulators and other products for agriculture, public health and forestry. Bulk active ingredient manufacturing rights were retained by Abbott.

Note 11—Financial Instruments and Derivatives

On January 1, 2001, Abbott adopted the provisions of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities." On January 1, 2001, all derivative instruments were recognized as either assets or liabilities at fair value, resulting in a transition credit to income of approximately \$2 million which is included in net foreign exchange loss (gain) in the Condensed Consolidated Statement of Earnings.

In the first quarter 2001, Abbott entered into a \$250 million interest rate hedge contract to manage its exposure to changes in interest rates for long-term fixed-rate debt expected to be issued in a future period. This contract was designated as a cash flow hedge of the variability of the cash flows due to changes in the long-term benchmark interest rates. At March 31, 2001, Abbott recorded the contract at fair value, resulting in a \$1.4 million credit to accumulated other comprehensive loss. No hedge ineffectiveness was recorded in income during the first quarter 2001. Subsequent to March 31, 2001, the hedge designation was removed from this contract. Therefore, the \$1.4 million credit to accumulated other comprehensive loss in the first quarter 2001 will be reclassified into income in the second quarter 2001.

Abbott has designated a Japanese yen denominated liability as a hedge of the foreign currency exposure on Abbott's net investment in certain Japanese operations whose functional currency is the Japanese yen. Accordingly, changes in this liability due to fluctuations in foreign exchange rates are charged or credited to accumulated other comprehensive loss. In the first quarter 2001, \$6.9 million was credited to accumulated other comprehensive loss.

Abbott enters into foreign currency forward exchange contracts to manage currency exposures for intercompany loans and trade accounts payable where the receivable or payable is denominated in a currency other than the functional currency of the entity. Such contracts are also used for 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 currency exposures are primarily the U.S. dollar, European currencies and Japanese yen. These contracts are recorded at fair value with the resulting gains or losses reflected in income.

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Results of Operations—First Quarter 2001 Compared with First Quarter 2000

The following table details sales by segment for the first quarter 2001:
(dollars in millions)

	Net Sales to External Customers		
	Three Months Ended March 31		
	2001	2000	Percentage Change (a)
Pharmaceutical	\$ 715	\$ 607	17.9
Diagnostics	704	704	0.1
Hospital	635	570	11.5
Ross	590	554	6.5
International	843	852	(1.1)
Total Reportable Segments	3,487	3,287	6.1
Other	73	66	
Net Sales	3,560	3,353	6.2
Total U.S.	2,293	2,061	11.2
Total International	1,267	1,292	(1.9)

(a) Percentage changes are based on unrounded numbers.

Worldwide sales for the first quarter reflect primarily unit growth. Excluding the negative effect of the relatively stronger U.S. dollar, sales increased 9.0 percent over the first quarter 2000. Pharmaceutical segment sales were favorably impacted by the acquisition of the pharmaceutical business of BASF on March 2, 2001. International segment sales decreased primarily due to the negative effect of the relatively stronger U.S. dollar. Excluding exchange, International segment sales increased 6.0 percent. Diluted loss per common share for the quarter was 14 cents, compared to diluted earnings per share of 44 cents a year ago.

As a result of the consent decree entered into with the U.S. government in 1999, as discussed in Note 6, 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 full year 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.

Gross profit margin (sales less cost of products sold, including freight and distribution expenses) was 53.8 percent for the 2001 first quarter, compared to 55.4 percent for the 2000 first quarter. This decrease was primarily due to unfavorable product sales mix.

Research and development expenses for the first quarter 2001, excluding acquired in-process research and development of \$1.015 billion, decreased 1.0 percent from the comparable 2000 period. The majority of research and development expenditures continues to be concentrated on pharmaceutical and diagnostic products.

Selling, general and administrative expenses for the first quarter 2001 increased 2.3 percent over the comparable 2000 period, due primarily to increased selling and marketing support for new and existing products.

Acquisition of Knoll

On March 2, 2001, Abbott acquired, for cash, the pharmaceutical business of BASF, which includes the global operations of Knoll for approximately \$6.9 billion (subject to adjustments for the change in net assets of the business as of the closing date compared to net assets as of September 30, 2000). This acquisition was financed primarily with short-term borrowings. In addition, Abbott expects to incur additional acquisition-related costs and adjustment of net assets acquired totaling approximately \$293 million. At March 31, 2001, total cash paid to BASF was approximately \$6.4 billion. The acquisition is accounted for under the purchase method of accounting. The estimated allocation of the acquisition cost is as follows (in billions of dollars):

Estimated Allocation of Acquisition Cost—

Estimated acquired intangible assets, primarily product rights for currently marketed products	\$ 3.717
Estimated goodwill	1.833
Estimated acquired in-process research and development	1.015
Estimated acquired net tangible assets	.628
Total estimated allocation of acquisition cost	\$ 7.193

The estimated acquisition cost has been tentatively allocated to intangible assets, goodwill, acquired in-process research and development and net tangible assets based on estimated fair values at the date of acquisition. Product rights for currently marketed products will be amortized on a straight-line basis over 4 to 18 years (average approximately 13 years) and goodwill will be amortized on a straight-line basis over 20 years. Estimated acquired in-process research and development of \$1.015 billion was charged to income in the first quarter 2001. The estimated net tangible assets acquired consist primarily of property and equipment of approximately \$571 million, trade accounts receivable of approximately \$424 million and inventories of approximately \$343 million, net of assumed liabilities, primarily trade accounts payable and other liabilities.

Prior to the date of acquisition, Abbott began to plan for the integration and restructuring of the business. Abbott is continuing to assess and formulate restructuring plans for specific business activities. Abbott expects that those restructuring plans will be finalized and formally approved throughout the 12 months following the date of acquisition. The costs of implementing the plans have not been reflected in the estimated allocation of the acquisition cost and would increase the amount of reported goodwill above. In addition, integration of the acquired operations will result in charges which will be recorded against earnings in the periods in which the integration plans are finalized. The charges and costs discussed above have been included in previous guidance regarding the acquisition and do not represent a change to prior guidance.

Pro Forma Financial Information

The following unaudited pro forma financial information reflects the consolidated results of operations of Abbott as if the acquisition of the pharmaceutical business of BASF had taken place on January 1, 2000. The pro forma information includes primarily adjustments for acquired in-process research and development, amortization of product rights for currently marketed products, interest expense for estimated acquisition debt and amortization of goodwill. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on the assumed date.

In millions, except per share amounts	Three months ended March 31	
	2001	2000
Sales	\$ 4,017.0	\$ 3,843.8
Net income	346.6	570.3
Diluted earnings per share	0.22	0.37

Sale of Agricultural Products Business

In January 2000, Abbott sold its agricultural products business to Sumitomo Chemical Co., Ltd., resulting in a first quarter 2000 gain of \$46 million. 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.

Interest (Income) Expense, Net

Net interest expense increased in 2001 due primarily to a higher level of borrowings as a result of the acquisition of the pharmaceutical business of BASF.

Loss (Income) from TAP Pharmaceutical Products Inc. Joint Venture

Abbott's income from TAP Pharmaceutical Products Inc. (TAP) joint venture 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 relating to LUPRON as discussed in Note 5 to the condensed consolidated financial statements.

Taxes on Earnings

The effective tax rate on earnings in 2001, excluding the charge for acquired in-process research and development, was approximately 35 percent. The estimated annual effective tax rate on pretax income excluding the charge for acquired in-process research and development was approximately 25 percent. This estimated annual effective tax rate was adjusted in the first quarter 2001 for the low tax benefit recorded for the loss from the TAP Pharmaceutical Products, Inc. joint venture. In addition, the tax rate used to benefit the charge for acquired in-process research and development was 38 percent, which is comprised of the U.S. federal income tax rate plus state income taxes, net of the federal tax effect. The combination of these items resulted in an effective tax rate of 42.5 percent. The effective income tax rate was 27 percent in 2000.

Liquidity and Capital Resources at March 31, 2001 Compared with December 31, 2000

Net cash used in operating activities for the first quarter 2001 totaled \$96 million. Excluding the after-tax charge of acquired in-process research and development, net cash from operating activities would have been approximately \$919 million. Excluding the effect of the acquired in-process research and development, Abbott expects annual cash flow from operating activities to continue to approximate or exceed Abbott's capital expenditures and cash dividends.

At March 31, 2001, Abbott had negative working capital of approximately \$2.7 billion compared to positive working capital of approximately \$3.1 billion at March 31, 2000. The decrease in working capital in 2001 was primarily due to increased short-term commercial paper borrowings and estimated amounts payable for the acquisition of the pharmaceutical business of BASF.

At March 31, 2001, Abbott's bond ratings were AA by Standard & Poor's Corporation and Aa3 by Moody's Investors Service. Abbott has readily available financial resources, including unused domestic lines of credit of \$4.5 billion, which support domestic commercial paper borrowing arrangements. As a result of the acquisition of the pharmaceutical business of BASF, Abbott's credit ratings were adjusted to reflect the increased borrowings that financed the acquisition.

Under a registration statement filed with the Securities and Exchange Commission 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.

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 the state levels 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. 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, in the Annual Report on Form 10-K, which is available upon request.

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Recently Issued Accounting Standard

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, resulted in a transition credit to income of approximately \$2 million in 2001.

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

Under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, Abbott cautions investors that any forward-looking statements or projections made by Abbott, including those made in this document, are subject to risks and uncertainties that may cause actual results to differ materially from those projected. Economic, competitive, governmental, technological and other factors that may affect Abbott's operations are discussed in Exhibit 99.1 to the Annual Report on Form 10-K.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Abbott is involved in various claims and legal proceedings, including those described below.

In its 2000 Annual Report on Securities and Exchange Commission Form 10-K (the "2000 Form 10-K"), Abbott reported that three lawsuits were pending involving Abbott's patents for divalproex sodium (a drug Abbott sells under the trademark Depakote®). On March 28, 2001, the United States District Court for the Northern District of Illinois granted summary judgment for Abbott in the lawsuit against TorPharm. The court found that Abbott's patents for divalproex sodium were valid and that TorPharm's product infringed Abbott's patents. TorPharm has moved for reconsideration of the court's ruling.

In its 2000 Form 10-K, Abbott reported that 18 antitrust cases were pending in federal court and 3 were pending in state court in connection with the settlement of patent litigation by Abbott involving terazosin hydrochloride (a drug Abbott sells under the trademark Hytrin®). In February 2001, another case was filed by the Alabama Medicaid Agency against Abbott Laboratories, Geneva Pharmaceuticals, Inc. and Zenith Laboratories, Inc. in the U.S. District Court for the Southern District of Alabama in connection with the same settlement. In March 2001, this case was conditionally transferred to the United States District court for the Southern District of Florida where the other 18 federal cases were pending under the Multidistrict Litigation Rules as *In Re: Terazosin Hydrochloride, MDL No. 1317*.

In its 2000 Form 10-K, Abbott reported that five derivative lawsuits were pending related to Abbott's alleged noncompliance with the Food and Drug Administration's Quality System Regulation at Abbott's Diagnostics Division facilities in Lake County, Illinois. As reported, the United States District Court for the Northern District of Illinois consolidated the four derivative lawsuits filed by Leonard Bronstein, the Carpenters Pension Fund of Arkansas and David Kaufman, Leo Farrell, and F. David Seinfeld into *In Re: Abbott Laboratories Derivative Shareholder Litigation*. On March 28, 2001, the Court in *In Re: Abbott Laboratories Derivative Shareholder Litigation* dismissed with prejudice the plaintiffs' second consolidated complaint. On April 17, 2001, the plaintiffs appealed this decision to the United States Court of Appeals for the Seventh Circuit. The fifth shareholder derivative lawsuit filed by Craig Heneghan and Marjory Motiyatis is pending in Lake County Circuit Court. Abbott denies all of the substantive allegations in that lawsuit and will vigorously defend against it.

In its 2000 Form 10-K, Abbott reported that the fourteen other cases related to Abbott's alleged noncompliance with the Food and Drug Administration's Quality System Regulation at Abbott's Diagnostic Division facilities in Lake County, Illinois were dismissed with prejudice on January 26, 2001. On February 23, 2001, the plaintiffs appealed these decisions to the United States Court of Appeals for the Seventh Circuit.

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

In addition to the claims and legal proceedings involving Abbott described above, as reported in the 2000 Form 10-K, the United States Department of Justice is investigating the marketing and pricing practices of TAP Pharmaceutical Products Inc. during the 1990s for leuprolide acetate depot suspension (a drug TAP markets as Lupron Depot®). Abbott owns 50 percent of TAP. On April 20, 2001, Abbott announced an adjustment in litigation reserves to reflect recent developments related to this investigation with an impact on Abbott's first quarter 2001 results. While it is not feasible to predict the outcome of this matter with certainty, management is of the opinion that its ultimate disposition should not have a material adverse effect on Abbott's financial position, results of operations or cash flows.

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Item 4. Submission of Matters to a Vote of Security Holders

The Company held its Annual Meeting of Shareholders on April 27, 2001. The following is a summary of the matters voted on at that meeting.

(a) The shareholders elected the Company's entire Board of Directors. The persons elected to the Company's Board of Directors and the number of shares cast for and the number of shares withheld, with respect to each of these persons, were as follows:

Name	Votes For	Votes Withheld
Roxanne S. Austin	1,327,962,463	6,709,639
H. Laurance Fuller	1,328,606,028	6,066,074
Jack M. Greenberg	1,328,248,151	6,423,951
David A. Jones	1,325,103,977	9,568,125
Jeffrey M. Leiden, M.D., Ph.D.	1,329,239,755	5,432,347
The Lord Owen CH	1,328,774,748	5,897,354
Boone Powell Jr.	1,328,639,250	6,032,852
Addison Barry Rand	1,328,773,318	5,898,784
W. Ann Reynolds, Ph.D.	1,325,769,636	8,902,466
Roy S. Roberts	1,328,603,668	6,068,434
William D. Smithburg	1,327,031,297	7,640,805
John R. Walter	1,327,516,037	7,156,065
Miles D. White	1,327,397,645	7,274,457

(b) The shareholders ratified the appointment of Arthur Andersen LLP as Abbott's auditors. The number of shares cast in favor of the ratification of Arthur Andersen LLP, the number against, and the number abstaining were as follows:

For	Against	Abstain
1,323,549,890	5,575,072	5,547,140

(c) The shareholders rejected a shareholder proposal on prescription drug pricing. The number of shares cast in favor of the shareholder proposal, the number against, the number abstaining, and the number of broker non-votes were as follows:

For	Against	Abstain	Broker Non-Vote
51,248,394	1,031,900,831	43,001,602	208,521,275

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Item 6. Exhibits and Reports on Form 8-K

a)

Exhibits

10.1

Abbott Laboratories Non-Employee Directors' Fee Plan—attached hereto.

12.

Statement re: computation of ratio of earnings to fixed charges—attached hereto.

b)

Reports on Form 8-K

On May 14, 2001, Abbott Laboratories filed the financial statements and pro forma financial information required in connection with Abbott's acquisition of BASF's pharmaceutical business.

On April 20, 2001, Abbott Laboratories announced an adjustment in litigation reserves to reflect recent developments related to the U.S. Department of Justice investigation into the marketing and sales practices of TAP Pharmaceutical Products Inc. for Lupron®. This one time adjustment in the litigation reserves caused an adjustment to the first quarter results which were previously announced on April 12, 2001.

On March 2, 2001, Abbott Laboratories announced that it had completed the acquisition of BASF's pharmaceutical business.

On January 16, 2001, Abbott Laboratories announced its sales and earnings for the fourth-quarter and year 2000.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ABBOTT LABORATORIES

Date: 5/15/01

/s/ THOMAS C. FREYMAN

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

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EXHIBIT INDEX

Exhibit No.	Exhibit
10.1	Abbott Laboratories Non-Employee Directors' Fee Plan—attached hereto.
12.	Statement re: computation of ratio of earnings to fixed charges—attached hereto.

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Amended effective April 27, 2001

ABBOTT LABORATORIES NON-EMPLOYEE DIRECTORS' FEE PLAN

SECTION 1
PURPOSE

ABBOTT LABORATORIES NON-EMPLOYEE DIRECTORS' FEE PLAN - referred to below as the "Plan" - has been established by ABBOTT LABORATORIES - referred to below as the "Company" - to attract and retain as members of its Board of Directors persons who are not full-time employees of the Company or any of its subsidiaries but whose business experience and judgment are a valuable asset to the Company and its subsidiaries.

SECTION 2
DIRECTORS COVERED

As used in the Plan, the term "Director" means any person who is elected to the Board of Directors of the Company in April, 1962 or at any time thereafter, and is not a full-time employee of the Company or any of its subsidiaries.

SECTION 3
FEES PAYABLE TO DIRECTORS

3.1 Each Director shall be entitled to a deferred monthly fee of Six Thousand Six Hundred Sixty-Seven Dollars (6,667.00) for each calendar month or portion thereof (excluding the month in which he is first elected a Director) that he holds such office with the Company.

3.2 A Director who serves as Chairman of the Executive Committee of the Board of Directors shall be entitled to a deferred monthly fee of One Thousand Six Hundred Dollars (\$1,600.00) for each calendar month or portion thereof (excluding the month in which he is first elected to such position) that he holds such position.

3.3 A Director who serves as Chairman of the Audit Committee of the Board of Directors shall be entitled to a deferred monthly fee of Six Hundred Sixty-Seven Dollars (\$667.00) for each calendar month or portion thereof (excluding the month in which he is first elected to such position) that he holds such position.

3.4 A Director who serves as Chairman of the Compensation Committee of the Board of Directors shall be entitled to a deferred monthly fee of Six Hundred Sixty-Seven Dollars (\$667.00) for each calendar month or portion thereof (excluding the month in which he is first elected to such position) that he holds such position.

3.5 A Director who serves as Chairman of the Nominations Committee of the Board of Directors shall be entitled to a deferred monthly fee of Six Hundred Sixty-Seven Dollars (\$667.00) for each calendar month or portion thereof (excluding the month in which he is first elected to such position) that he holds such position.

3.6 A Director who serves as Chairman of any other Committee created by this Board of Directors shall be entitled to a deferred monthly fee of Six Hundred Sixty-Seven Dollars (\$667.00) for each calendar month or portion thereof (excluding the month in which he is first elected to such position) that he holds such position.

3.7 A Director's Deferred Fee Account shall be credited with interest annually. During the calendar years 1968 and prior, the rate of interest credited to deferred fees shall be four (4) percent per annum. During the calendar years 1969 through 1992, the rate of interest credited to deferred fees shall be the average of the prime rates being charged by two largest commercial banks in the City of Chicago as of the end of the month coincident with or last preceding the date upon which said interest is so credited. During the calendar years 1993 and subsequent, the rate of interest credited to deferred fees shall be equal to: (a) the average of the prime rates being charged by the two largest commercial banks in the City of Chicago as of the end of the month coincident with or last preceding the date upon which said interest is so credited; plus (b) two hundred twenty-five (225) basis points. For purposes of the provisions of the Plan, the term "deferred fees" shall include "deferred monthly fees," and "deferred meeting fees," and shall also include any such interest credited thereon.

SECTION 4 PAYMENT OF DIRECTORS' FEES

4.1 A Director's deferred fees earned pursuant to the Plan shall commence to be paid on the first day of the calendar month next following the earlier of his death or his attainment of age sixty-five (65) if he is not then serving as a Director, or the termination of his service as a Director if he serves as a Director after the attainment of age sixty-five (65); provided that any Director may, by written notice filed with the Secretary of the Company, elect to receive current payment of all or any portion of the monthly and meeting fees earned by him in calendar years subsequent to the calendar year in which he files such notice (or all or any portion of such fees earned by him in the calendar year he first becomes a Director, if such notice is filed within 30 days of becoming a Director), in which case such fees or the portion thereof so designated earned in such calendar years shall not be deferred but shall be paid quarterly as earned and no interest shall be credited thereon. Such election may be revoked or modified by any Director by written notice to the Secretary of the Company as to fees to be earned by him in calendar years subsequent to the calendar year in which he files such notice.

4.2 After a Director's deferred fees shall have commenced to be payable pursuant to Paragraph 4.1 they shall be payable in annual installments in the order in which they shall have been deferred (i.e. the deferred fees for the earliest year of service as a Director will be paid on the date provided for in Section 4.1, the deferred fees for the next earliest year of service as a Director will be paid on the anniversary of the payment of the first installment, etc.).

4.3 A Director's deferred fees shall continue to be paid until all deferred fees which he is entitled to receive under the Plan shall have been paid to him (or, in case of his death, to his beneficiary).

4.4 Notwithstanding any other provisions of the Plan, if a Director's service as a Director should terminate for any reason within five (5) years after the date of a Change in Control, the aggregate unpaid balance of such Director's deferred fees plus all unpaid interest credited thereon, shall be paid to such Director in a lump sum within thirty (30) days following the date of such termination.

4.5 A "Change in Control" shall be deemed to have occurred on the earliest of the following dates:

- (i) 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 thirty percent (30%) or more of the outstanding common shares of the Company;
- (ii) The date the shareholders of the Company approve a definitive agreement (A) to merge or consolidate the Company with or into another corporation, in which the Company is not the continuing or surviving corporation or pursuant to which any common shares of the company would be converted into cash, securities or other property of another corporation, other than a merger 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 immediately after the merger as immediately before, or (B) to sell or otherwise dispose of substantially all the assets of the Company; or
- (iii) 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.

4.6 The provisions of Paragraphs 4.4 and 4.5 and this Paragraph 4.6 may not be amended or deleted, nor superseded by any other provision of the Plan, during the period beginning on the date of a Change in Control and ending on the date five (5) years following such Change in Control.

SECTION 5
DIRECTORS' RETIREMENT BENEFIT

5.1 Effective April 30, 1998, each of the persons serving as a Director on December 12, 1997 shall be credited with a retirement benefit of \$4,167 a month for 120 months of continuous service and no additional retirement benefits shall accrue under the Plan. Each of the persons serving as a Director on December 12, 1997 may elect: (a) to have his or her retirement benefit under the Plan treated as provided in Section 5.2 of the Plan; or (b) to have the present value of that retirement benefit credited to an unfunded phantom stock account and converted into phantom stock units based on the closing price of the Company's common stock on April 30, 1998, with those phantom stock units then being credited with the same cash and stock dividends,

stock splits and other distributions and adjustments as are paid on the Company's common stock. The phantom stock units shall be payable to the Director in annual payments commencing on the first day of the calendar month next following the earlier of the Director's death or termination of service as a Director, in an amount determined by the closing price of the Company's common stock on the first business day preceding the payment date. Unless the retirement benefit is terminated, the annual benefit shall continue to be paid on the anniversary of the day on which the first such retirement benefit payment was made, until the benefit has been paid for ten years, or until the death of the Director or surviving spouse, if earlier. If a Director should die with such benefit still in effect, prior to receipt of all payments due hereunder, the annual benefit shall continue to be paid to the surviving spouse of such Director until all payments due hereunder have been made or until the death of the surviving spouse, if earlier.

5.2 Any person serving as a Director on December 12, 1997 who elects to have his or her retirement benefit paid pursuant to this Section 5.2 shall receive a monthly benefit equal to \$4,167. Payment of the monthly benefit shall commence on the first day of the calendar month next following the earlier of the Director's death or termination of service as a Director. Unless the retirement benefit is terminated, the monthly benefit shall continue to be paid on the first day of each calendar month thereafter, until the benefit has been paid for one hundred and twenty (120) months, or until the death of the Director or surviving spouse, if earlier. If a Director should die with such benefit still in effect, prior to receipt of all payments due hereunder, the monthly benefit shall continue to the surviving spouse of such Director until all payments due hereunder have been made or until the death of the surviving spouse, if earlier.

5.3 Directors who retired on or before December 12, 1997 will receive the form and amount of retirement benefit payable under the terms of the Plan in effect at the time of their retirement.

5.4 Each Director who is granted a retirement benefit hereunder shall make him or herself available for such consultation with the Board of Directors or any committee or member thereof, as may be reasonably requested from time to time by the Chairman of the Board of Directors, following such Director's termination of service as a Director. The Company shall reimburse each such Director for all reasonable travel, lodging and subsistence expenses incurred by the Director at the request of the Company in rendering such consultation. The Company may terminate the retirement benefit if the Director should fail to render such consultation, unless prevented by disability or other reason beyond the Director's control.

5.5 It is recognized that during a Director's period of service as a Director and as a consultant hereunder, a Director will acquire knowledge of the affairs of the Company and its subsidiaries, the disclosure of which would be contrary to the best interests of the Company. Accordingly, the Company may terminate the retirement benefit if, without the express consent of the Company, the Director accepts election to the Board of Directors of, acquires a partnership or proprietary interest in, or renders services as an employee or consultant to, any business entity which is engaged in substantial competition with the Company or any of its subsidiaries.

5.6 An individual will be considered a Director's "surviving spouse" for purposes of this Section 5 only if the Director and such individual were married in a religious or civil ceremony recognized under the laws of the state where the marriage was contracted and the marriage remained legally effective at the date of the Director's death.

SECTION 6
CONVERSION TO COMMON STOCK UNITS

6.1 Any Director who is then serving as a director may, by written notice filed with the Secretary of the Company, elect to have all or any portion of deferred fees previously earned but not yet paid, transferred from the Director's Deferred Fee Account to a Stock Account maintained on his or her behalf pursuant to paragraph 9.3. Any election as to a portion of such fees shall be expressed as a percentage and the same percentage shall be applied to all such fees regardless of the calendar year in which earned or to all deferred fees earned in designated calendar years, as specified by the Director. A Director may make no more than one election under this paragraph 6.1 in any calendar year. All such elections may apply only to deferred fees for which an election has not previously been made and shall be irrevocable.

6.2 Any Director may, by written notice filed with the Secretary of the Company, elect to have all or any portion of deferred fees earned subsequent to the date such notice is filed credited to a Stock Account established under this Section 6. Fees covered by such election shall be credited to such account at the end of each calendar quarter in, or for which, such fees are earned. Such election may be revoked or modified by such Director, by written notice filed with the Secretary of the Company, as to deferred fees to be earned in calendar years subsequent to the calendar year such notice is filed, but shall be irrevocable as to deferred fees earned prior to such year.

6.3 Deferred fees credited to a Stock Account under paragraph 6.1 shall be converted to Common Stock Units by dividing the deferred fees so credited by the closing price of common shares of the Company on the date notice of election under paragraph 6.1 is received by the Company (or the next business day, if there are no sales on such date) as reported on the New York Stock Exchange Composite Reporting System. Deferred fees credited to a Stock Account under paragraph 6.2 shall be converted to Common Stock Units by dividing the deferred fees so credited by the closing price of common shares of the Company as of the last business day of the calendar quarter for which the credit is made, as reported on the New York Stock Exchange Composite Reporting System.

6.4 Each Common Stock Unit shall be credited with the same cash and stock dividends, stock splits and other distributions and adjustments as are received by one common share of the Company. All cash dividends and other cash distributions credited to Common Stock Units shall be converted to additional Common Stock Units by dividing each such dividend or distribution by the closing price of common shares of the Company on the payment date for such dividend or distribution, as reported by the New York Stock Exchange Composite Reporting System.

6.5 The value of the Common Stock Units credited each Director shall be paid the Director in cash on the dates specified in paragraph 4.2 (or, if applicable, paragraph 4.4). The amount of each payment shall be determined by multiplying the Common Stock Units payable on each date specified in paragraph 4.2 (or, if applicable, paragraph 4.4) by the closing price of common shares of the Company on the day prior to that date (or the next preceding business day if there are no sales on such date), as reported by the New York Stock Exchange Composite Reporting System.

SECTION 7
MISCELLANEOUS

7.1 Each Director or former Director entitled to payment of deferred fees hereunder, from time to time may name any person or persons (who may be named contingently or successively) to whom any deferred Director's fees earned by him and payable to him are to be paid in case of his death before he receives any or all of such deferred Director's fees. Each designation will revoke all prior designations by the same Director or former Director, shall be in form prescribed by the Company, and will be effective only when filed by the Director or former Director in writing with the Secretary of the Company during his lifetime. If a deceased Director or former Director shall have failed to name a beneficiary in the manner provided above, or if the beneficiary named by a deceased Director or former Director dies before him or before payment of all the Director's or former Director's deferred Directors' fees, the Company, in its discretion, may direct payment in a single sum of any remaining deferred Directors' fees to either:

- (a) any one or more or all of the next of kin (including the surviving spouse) of the Director or former Director, and in such proportions as the Company determines; or
- (b) the legal representative or representatives of the estate of the last to die of the Director or former Director and his last surviving beneficiary.

The person or persons to whom any deceased Director's or former Director's deferred Directors' fees are payable under this paragraph will be referred to as his "beneficiary."

7.2 Establishment of the Plan and coverage thereunder of any person shall not be construed to confer any right on the part of such person to be nominated for reelection to the Board of Directors of the Company, or to be reelected to the Board of Directors.

7.3 Payment of deferred Directors' fees will be made only to the person entitled thereto in accordance with the terms of the Plan, and deferred Directors' fees are not in any way subject to the debts or other obligations of persons entitled thereto, and may not be voluntarily or involuntarily sold, transferred or assigned. When a person entitled to a payment under the Plan is under legal disability or, in the Company's opinion, is in any way incapacitated so as to be unable to manage his financial affairs, the Company may direct that payment be made to such person's legal representative, or to a relative or friend of such person for his benefit. Any payment made in accordance with the preceding sentence shall be in complete discharge of the Company's obligation to make such payment under the Plan.

7.4 Any action required or permitted to be taken by the Company under the terms of the Plan shall be by affirmative vote of a majority of the members of the Board of Directors then in office.

SECTION 8
AMENDMENT AND DISCONTINUANCE

While the Company expects to continue the Plan, it must necessarily reserve, and does hereby reserve, the right to amend or discontinue the Plan at any time; provided, however, that any amendment or discontinuance of the Plan shall be prospective in operation only, and shall not affect the payment of any deferred Directors' fees theretofore earned by any Director, or the conditions under which any such fees are to be paid or forfeited under the Plan, unless the Director affected shall expressly consent thereto.

SECTION 9
ALTERNATE PAYMENT OF DEFERRED FEES

9.1 By written notice filed with the Secretary of the Company prior to calendar years beginning after December 31, 1988 (or, for the calendar year he first becomes a Director within 30 days of becoming a Director), a Director may elect to receive all or any portion of his deferred fees earned in such calendar years in a lump sum in accordance with the provisions of this Section 9. An election under this subsection 9.1 may be revoked or modified by the Director by written notice to the Secretary of the Company as to deferred fees earned under Section 3 in calendar years beginning after the calendar year in which he files such notice. Any amounts that were deferred for calendar years beginning before January 1, 1989 shall automatically be paid as provided in this Section 9.

9.2 If payment of a Director's deferred fees is made pursuant to paragraph 9.1, a portion of such fees shall be paid in cash for the Director directly to a "Grantor Trust" established by the Director, provided such trust is in a form which the Company determines to be substantially similar to the trust attached to this plan as Exhibit A; and the balance of the deferred fees shall be paid in cash directly to the Director, provided that the payment made directly to the Director shall approximate the aggregate federal, state and local individual income taxes attributable to the deferred fees paid pursuant to this paragraph 9.2.

9.3 The Company will establish and maintain four separate accounts in the name of each Director, "a Deferred Fee Account", a "Deferred Fee Trust Account", a "Stock Account" and a "Stock Trust Account". The Deferred Fee Account shall reflect the deferred fees and interest to be credited to a Director pursuant to Section 3. The Deferred Fee Trust Account shall reflect any deferred fees paid in cash to a Director (including amounts paid to a Director's Grantor Trust and allocated to the deferred account maintained thereunder) pursuant to paragraph 9.2 and any adjustments made pursuant to paragraph 9.4. The Stock Account shall reflect the deferred fees converted to Common Stock Units pursuant to Section 6 and any adjustments made pursuant to that Section. The Stock Trust Account shall reflect deferred fees that have been converted to Common Stock Units under Section 6 and paid in cash to a Director (including amounts paid to a Director's Grantor Trust and allocated to the stock account maintained thereunder) pursuant to paragraph 9.2 and any adjustments made pursuant to paragraph 9.5. The Accounts established pursuant to this paragraph 9.3 are for the convenience of the administration of the plan and no trust relationship with respect to such Accounts is intended or should be implied.

9.4 As of the end of each calendar year, the Company shall adjust each Director's Deferred Fee Trust Account as follows:

- (a) FIRST, charge an amount equal to the product of: (i) any payments made to the Director during that year from the deferred account maintained under his or her Grantor Trust (other than distributions of trust earnings in excess of the Net Interest Accrual authorized by the administrator of the trust to provide for the Tax Gross Up under paragraph 9.9 below); multiplied by (ii) a fraction, the numerator of which is the balance in the Director's Deferred Fee Trust Account as of the end of the prior calendar year and the denominator of which is the balance in the deferred account maintained under the Director's Grantor Trust (as determined by the administrator of the trust) as of that same date;
- (b) NEXT, credit an amount equal to the deferred fees that have not been converted to Common Stock Units that are paid that year to the Director (including the amount paid to the Director's Grantor Trust and allocated to the deferred account maintained thereunder) pursuant to paragraph 9.2; and
- (c) FINALLY, credit an amount equal to the Interest Accrual earned for that year pursuant to paragraph 9.6.

9.5 As of the end of each calendar year, the Company shall adjust each Director's Stock Trust Account as follows:

- (a) FIRST, charge an amount equal to the product of: (i) any payments made to the Director during that year from the stock account maintained under his or her Grantor Trust (other than distributions of trust earnings authorized by the administrator of the trust to provide for the Tax Gross Up under paragraph 9.9 below); multiplied by (ii) a fraction, the numerator of which is the balance in the Director's Stock Trust Account as of the end of the prior calendar year and the denominator of which is the balance in the stock account maintained under the Director's Grantor Trust (as determined by the administrator of the trust) as of that same date;
- (b) NEXT, credit an amount equal to the deferred fees that have been converted to Common Stock Units that are paid that year to the Director (including the amount paid to the Director's Grantor Trust and allocated to the stock account maintained thereunder) pursuant to paragraph 9.2; and
- (c) FINALLY, credit an amount equal to the Book Value Adjustments to be made for that year pursuant to paragraph 9.6.

9.6 As of the end of each calendar year, a Director's Deferred Fee Trust Account shall be credited with interest at the rate described in paragraph 3.7. Any amount so credited shall be referred to as a Director's "Interest Accrual". As of that same date, a Director's Stock Trust Account shall be adjusted as provided in paragraph 6.4, and shall also be adjusted to reflect the increase or decrease in the fair market value of the Company's common stock determined in accordance with paragraph 6.5. Such adjustments shall be referred to as "Book Value Adjustments."

9.7 In addition to any fees earned by a Director under Section 3 of this plan or paid under paragraphs 4.1 or 9.1 the Company shall also make a payment to a Director's Grantor Trust (a "Guaranteed Rate Payment"), to be credited to the deferred account maintained thereunder, for any year in which the net income credited to the deferred account maintained under such trust does not equal or exceed the Director's Net Interest Accrual for that year. A Director's "Net Interest Accrual" for a year is an amount equal to: (a) the Interest Accrual credited to the Director's Deferred Fee Trust Account for that year; less (b) the product of (i) the amount of such Interest Accrual, multiplied by (ii) the aggregate of the federal, state and local individual income tax rates (determined in accordance with paragraph 9.10). The Guaranteed Rate Payment shall equal the difference between the Director's Net Interest Accrual and the net income credited to the deferred account maintained under the Director's Grantor Trust for the year, and shall be paid within 90 days of the end of that year.

9.8 The Company shall also make a payment to a Director's Grantor Trust (a "Guaranteed Principal Payment"), to be credited to the stock account maintained thereunder, to the extent that the balance in the stock account as of the end of any calendar year is less than 75 percent of the balance of the Director's Stock Trust Account (net of federal, state and local income taxes) as of that same date. For the calendar year in which the last installment distribution is made from the Director's Grantor Trust, the payment made under this paragraph 9.8 shall equal the amount, if any, needed to increase the fair market value of the stock account maintained under the Director's Grantor Trust; such that if a distribution of the stock account were then made to the Director, the Director would receive the same amount he or she would have received (net of federal, state and local income taxes) if his or her Stock Trust Account were to be distributed on that same date with the deferred fees that had been allocated to that Account taxed at the federal, state and local income tax rates in effect on the date the fees were credited to the Account and the balance of the Account taxed at the federal, state and local income tax rates in effect on the date of the distribution. Payments required under this paragraph 9.8 shall be made within 90 days of the end of the calendar year, except the last payment which shall be made not later than the due date of the last installment distribution from the Director's Grantor Trust.

9.9 In addition to the fees provided under Section 3, each Director (or, if the Director is deceased, the beneficiary designated under the Director's Grantor Trust) shall be entitled to a Tax Gross Up payment for each year there is a balance in his or her Deferred Fee Trust Account or Stock Trust Account. The "Tax Gross Up" shall approximate: (a) the amount necessary to compensate the Director (or beneficiary) for the net increase in his or her federal, state and local income taxes as a result of the inclusion in the Director's (or beneficiary's) taxable income of the income of his or her Grantor Trust and any Guaranteed Rate and Guaranteed Principal Payments

for that year; less (b) any distribution to the Director (or beneficiary) of his or her Grantor Trust's net earnings for that year; plus (c) an amount necessary to compensate the Director (or beneficiary) for the net increase in the taxes described in (a) above as a result of the inclusion in his or her taxable income of any payment made pursuant to this paragraph 9.9.

9.10 For purposes of this Section, a Director's federal income tax rate shall be deemed to be the highest marginal rate of federal individual income tax in effect in the calendar year in which a calculation under this Section is to be made and state and local tax rates shall be deemed to be the highest marginal rates of individual income tax in effect in the state and locality of the Director's residence on the date such a calculation is made, net of any federal tax benefits. Notwithstanding the preceding sentence, if a Director is not a citizen or resident of the United States, his or her income tax rates shall be deemed to be the highest marginal income tax rates actually imposed on the Director's benefits under this Plan or earnings under his or her Grantor Trust.

9.11 If a Director's deferred fees have been paid to a Grantor Trust(s) pursuant to paragraph 9.2, then at any time (and from time to time) prior to the Director's retirement the Director may elect to have those deferred fees paid to him or her from the Grantor Trust(s) either:

- (i) in the order in which they were earned (i.e., the fees for the earliest year of service as a Director will be the first fees distributed from the Grantor Trust(s), the fees for the next earliest year of service as a Director will be paid on the anniversary of the payment of the first installment, etc.), or
- (ii) in reverse chronological order from the order in which they were earned (i.e., the fees for the Director's last year of service as a Director will be the first fees distributed from the Grantor Trust(s), the fees for the penultimate year of service as a Director will be paid on the anniversary of the payment of the first installment, etc.).

If a Director fails to elect a manner of payment for his or her deferred fees, then those deferred fees will be paid to the Director in the order in which they were earned. The date on which payments commence and the other terms governing distributions from the Grantor Trust(s) shall be determined in accordance with the terms of the Grantor Trust(s). A Director's deferred fees shall continue to be paid until all deferred fees to which the Director is entitled to receive under the Plan shall have been paid in accordance with the terms of the Grantor Trust(s).

IRREVOCABLE GRANTOR TRUST AGREEMENT

THIS AGREEMENT, made this ____ day of _____, 198_, by and between _____ of _____ (the "grantor"), and The Northern Trust Company, located at Chicago, Illinois, as trustee (the "trustee"),

WITNESSETH THAT:

WHEREAS, the grantor desires to establish and maintain a trust to hold certain benefits received by the grantor under the Abbott Laboratories Non-Employee Directors' Fee Plan, as it may be amended from time to time;

NOW, THEREFORE, IT IS AGREED as follows:

ARTICLE I
INTRODUCTION

I-1. NAME. This agreement and the trust hereby evidenced (the "trust") may be referred to as the "_____ 1988 Grantor Trust".

I-2. THE TRUST FUND. The "trust fund" as at any date means all property then held by the trustee under this agreement.

I-3. STATUS OF THE TRUST. The trust shall be irrevocable. The trust is intended to constitute a grantor trust under Sections 671-678 of the Internal Revenue Code, as amended, and shall be construed accordingly.

I-4. THE ADMINISTRATOR. Abbott Laboratories ("Abbott") shall act as the "administrator" of the trust, and as such shall have certain powers, rights and duties under this agreement as described below. Abbott will certify to the trustee from time to time the person or persons authorized to act on behalf of Abbott as the administrator. The trustee may rely on the latest certificate received without further inquiry or verification.

I-5. ACCEPTANCE. The trustee accepts the duties and obligations of the "trustee" hereunder, agrees to accept funds delivered to it by the grantor or the administrator, and agrees to hold such funds (and any proceeds from the investment of such funds) in trust in accordance with this agreement.

ARTICLE II
DISTRIBUTION OF THE TRUST FUND

II-1. SEPARATE ACCOUNTS. The administrator shall maintain two separate accounts under the trust, a "deferred account" and a "stock account." Funds delivered to the trustee shall be allocated between the accounts by the trustee as directed by the administrator. As of the end of each calendar year, the administrator shall charge each account with all distributions made from such

account during that year; and credit each account with its share of income and realized gains and charge each account with its share of expenses and realized losses for the year. The trustee shall be required to make separate investments of the trust fund for the accounts, and may not administer and invest all funds delivered to it under the trust as one trust fund.

II-2. DISTRIBUTIONS PRIOR TO THE GRANTOR'S DEATH. Principal and accumulated income shall not be distributed from the trust prior to the grantor's termination of service as a Director of Abbott (the grantor's "settlement date"); provided that, each year the administrator may direct the trustee to distribute to the grantor a portion of the income of the trust fund for that year, with the balance of such income to be accumulated in the trust. The administrator shall inform the trustee of the grantor's settlement date. Thereafter, the trustee shall distribute the trust fund to the grantor, if then living, in a series of annual installments, commencing on the first day of the month next following the later of the grantor's settlement date or the date the grantor attains age 65 years. The administrator shall inform the trustee of the number of installment distributions and the amount of each installment distribution under this paragraph II-2, and the trustee shall be fully protected in relying on such information received from the administrator.

II-3. DISTRIBUTIONS AFTER THE GRANTOR'S DEATH. The grantor, from time to time may name any person or persons (who may be named contingently or successively and who may be natural persons or fiduciaries) to whom the principal of the trust fund and all accrued or undistributed income thereof shall be distributed in a lump sum or, if the beneficiary is the grantor's spouse, in installments, as directed by the grantor, upon the grantor's death. If the grantor directs an installment method of distribution, any amounts remaining at the death of the spouse beneficiary shall be distributed in a lump sum. Each designation shall revoke all prior designations, shall be in writing and shall be effective only when filed by the grantor with the administrator during the grantor's lifetime. If the grantor fails to direct a method of distribution, the distribution shall be made in a lump sum. If the grantor fails to designate a beneficiary as provided above, then on the grantor's death, the trustee shall distribute the balance of the trust fund in a lump sum to the executor or administrator of the grantor's estate.

II-4. FACILITY OF PAYMENT. When a person entitled to a distribution hereunder is under legal disability, or, in the trustee's opinion, is in any way incapacitated so as to be unable to manage his or her financial affairs, the trustee may make such distribution to such person's legal representative, or to a relative or friend of such person for such person's benefit. Any distribution made in accordance with the preceding sentence shall be a full and complete discharge of any liability for such distribution hereunder.

II-5. PERPETUITIES. Notwithstanding any other provisions of this agreement, on the day next preceding the end of 21 years after the death of the last to die of the grantor and the grantor's descendants living on the date of this instrument, the trustee shall immediately distribute any remaining balance in the trust to the beneficiaries then entitled to distributions hereunder.

ARTICLE III
MANAGEMENT OF THE TRUST FUND

III-1. GENERAL POWERS. The trustee shall, with respect to the trust fund, have the following powers, rights and duties in addition to those provided elsewhere in this agreement or by law:

- (a) Subject to the limitations of subparagraph (b) next below, to sell, contract to sell, purchase, grant or exercise options to purchase and otherwise deal with all assets of the trust fund, in such way, for such considerations, and on such terms and conditions as the trustee decides.
- (b) To retain in cash such amounts as the trustee considers advisable; and to invest and reinvest the balance of the trust fund, without distinction between principal and income, in common stock of Abbott Laboratories, or in obligations of the United States Government and its agencies or which are backed by the full faith and credit of the United States Government or in any mutual fund, common trust fund or collective investment fund which invests solely in such obligations; and any such investment made or retained by the trustee in good faith shall be proper despite any resulting risk or lack of diversification or marketability.
- (c) To deposit cash in any depository (including the banking department of the bank acting as trustee) without liability for interest, and to invest cash in savings accounts or time certificates of deposit bearing a reasonable rate of interest in any such depository.
- (d) To invest, subject to the limitations of subparagraph (b) above, in any common or commingled trust fund or funds maintained or administered by the trustee solely for the investment of trust funds.
- (e) To borrow from anyone, with the administrator's approval, such sum or sums from time to time as the trustee considers desirable to carry out this trust, and to mortgage or pledge all or part of the trust fund as security.
- (f) To retain any funds or property subject to any dispute without liability for interest and to decline to make payment or delivery thereof until final adjudication by a court of competent jurisdiction or until an appropriate release is obtained.
- (g) To begin, maintain or defend any litigation necessary in connection with the administration of this trust, except that the trustee shall not be obliged or required to do so unless indemnified to the trustee's satisfaction.
- (h) To compromise, contest, settle or abandon claims or demands.
- (i) To give proxies to vote stocks and other voting securities, to join in or oppose (alone or jointly with others) voting trusts, mergers, consolidations, foreclosures, reorganizations, liquidations, or other changes in the financial structure of any corporation, and to exercise or sell stock subscription or conversion rights.

- (j) To hold securities or other property in the name of a nominee, in a depository, or in any other way, with or without disclosing the trust relationship.
- (k) To divide or distribute the trust fund in undivided interests or wholly or partly in kind.
- (l) To pay any tax imposed on or with respect to the trust; to defer making payment of any such tax if it is indemnified to its satisfaction in the premises; and to require before making any payment such release or other document from any lawful taxing authority and such indemnity from the intended payee as the trustee considers necessary for its Protection.
- (m) To deal without restriction with the legal representative of the grantor's estate or the trustee or other legal representative of any trust created by the grantor or a trust or estate in which a beneficiary has an interest, even though the trustee, individually, shall be acting in such other capacity, without liability for any loss that may result.
- (n) To appoint or remove by written instrument any bank or corporation qualified to act as successor trustee, wherever located, as special trustee as to part or all of the trust fund, including property as to which the trustee does not act, and such special trustee, except as specifically limited or provided by this or the appointing instrument, shall have all of the rights, titles, powers, duties, discretions and immunities of the trustee, without liability for any action taken or omitted to be taken under this or the appointing instrument.
- (o) To appoint or remove by written instrument any bank, wherever located, as custodian of part or all of the trust fund, and each such custodian shall have such rights, powers, duties and discretions as are delegated to it by the trustee.
- (p) To employ agents, attorneys, accountants or other persons, and to delegate to them such powers as the trustee considers desirable, and the trustee shall be protected in acting or refraining from acting on the advice of Persons so employed without court action.
- (q) To perform any and all other acts which in the trustee's judgment are appropriate for the proper management, investment and distribution of the trust fund.

III-2. PRINCIPAL AND INCOME. Any income earned on the trust fund which is not distributed as provided in Article II shall be accumulated and from time to time added to the principal of the trust. The grantor's interest in the trust shall include all assets or other property held by the trustee hereunder, including principal and accumulated income.

III-3. STATEMENTS. The trustee shall prepare and deliver monthly to the administrator and annually to the grantor, if then living, otherwise to each beneficiary then entitled to distributions under this agreement, a statement (or series of statements) setting forth (or which taken together set forth) all investments, receipts, disbursements and other transactions effected by the trustee during the reporting period; and showing the trust fund and the value thereof at the end of such period.

III-4. COMPENSATION AND EXPENSES. All reasonable costs, charges and expenses incurred in the administration of this trust, including compensation to the trustee, any compensation to agents, attorneys, accountants and other persons employed by the trustee, and expenses incurred in connection with the sale, investment and reinvestment of the trust fund shall be paid from the trust fund.

ARTICLE IV
GENERAL PROVISIONS

IV-1. INTERESTS NOT TRANSFERABLE. The interests of the grantor or other persons entitled to distributions hereunder are not subject to their debts or other obligations and may not be voluntarily or involuntarily sold, transferred, alienated, assigned or encumbered.

IV-2. DISAGREEMENT AS TO ACTS. If there is a disagreement between the trustee and anyone as to any act or transaction reported in any accounting, the trustee shall have the right to a settlement of its account by any proper court.

IV-3. TRUSTEE'S OBLIGATIONS. No power, duty or responsibility is imposed on the trustee except as set forth in this agreement. The trustee is not obliged to determine whether funds delivered to or distributions from the trust are proper under the trust, or whether any tax is due or payable as a result of any such delivery or distribution. The trustee shall be protected in making any distribution from the trust as directed pursuant to Article II without inquiring as to whether the distributee is entitled thereto; and the trustee shall not be liable for any distribution made in good faith without written notice or knowledge that the distribution is not proper under the terms of this agreement.

IV-4. GOOD FAITH ACTIONS. The trustee's exercise or non-exercise of its powers and discretions in good faith shall be conclusive on all persons. No one shall be obliged to see to the application of any money paid or property delivered to the trustee. The certificate of the trustee that it is acting according to this agreement will fully protect all persons dealing with the trustee.

IV-5. WAIVER OF NOTICE. Any notice required under this agreement may be waived by the Person entitled to such notice.

IV-6. CONTROLLING LAW. The laws of the State of Illinois shall govern the interpretation and validity of the provisions of this agreement and all questions relating to the management, administration, investment and distribution of the trust hereby created.

IV-7. SUCCESSORS. This agreement shall be binding on all persons entitled to distributions hereunder and their respective heirs and legal representatives, and on the trustee and its successors.

ARTICLE V
CHANGES IN TRUSTEE

V-1. RESIGNATION OR REMOVAL OF TRUSTEE. The trustee may resign at any time by giving thirty days' advance written notice to the administrator and the grantor. The administrator may remove a trustee by written notice to the trustee and the grantor.

V-2. APPOINTMENT OF SUCCESSOR TRUSTEE. The administrator shall fill any vacancy in the office of trustee as soon as practicable by written notice to the successor trustee; and shall give prompt written notice thereof to the grantor, if then living, otherwise to each beneficiary then entitled to payments or distributions under this agreement. A successor trustee shall be a bank (as defined in Section 581 of the Internal Revenue Code, as amended).

V-3. DUTIES OF RESIGNING OR REMOVED TRUSTEE AND OF SUCCESSOR TRUSTEE. A trustee that resigns or is removed shall furnish promptly to the administrator and the successor trustee an account of its administration of the trust from the date of its last account. Each successor trustee shall succeed to the title to the trust fund vested in its predecessor without the signing or filing of any instrument, but each predecessor trustee shall execute all documents and do all acts necessary to vest such title of record in the successor trustee. Each successor trustee shall have all the powers conferred by this agreement as if originally named trustee. No successor trustee shall be personally liable for any act or failure to act of a predecessor trustee. With the approval of the administrator, a successor trustee may accept the account furnished and the property delivered by a predecessor trustee without incurring any liability for so doing, and such acceptance will be complete discharge to the predecessor trustee.

ARTICLE VI
AMENDMENT AND TERMINATION

VI-1. AMENDMENT. With the consent of the administrator, this trust may be amended from time to time by the grantor, if then living, otherwise by a majority of the beneficiaries then entitled to payments or distributions hereunder, except as follows:

- (a) The duties and liabilities of the trustee cannot be changed substantially without its consent.
- (b) This trust may not be amended so as to make the trust revocable.

VI-2. TERMINATION. This trust shall not terminate, and all rights, titles, powers, duties, discretions and immunities imposed on or reserved to the trustee, the administrator, the grantor and the beneficiaries shall continue in effect, until all assets of the trust have been distributed by the trustee as provided in Article II.

IN WITNESS WHEREOF, the grantor and the trustee have executed this agreement as of the day and year first above written.

Grantor

The Northern Trust Company, as Trustee

By -----

Its -----

Abbott Laboratories

Computation of Ratio of Earnings to Fixed Charges
(Unaudited)
(dollars in millions except ratios)

	Three Months Ended March 31, 2001
Net Loss	\$ (224)
Add (deduct):	
Taxes on earnings	(165)
Minority interest	2
Net Loss as adjusted	\$ (387)
Fixed Charges:	
Interest on long-term and short-term debt	51
Capitalized interest cost	4
Rental expense representative of an interest factor	12
Total Fixed Charges	67
Total adjusted earnings available for payment of fixed charges	\$ (320)
Deficiency in earnings to cover fixed charges	\$ (387)

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) Abbott 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.

QuickLinks

[Abbott Laboratories Computation of Ratio of Earnings to Fixed Charges \(Unaudited\) \(dollars in millions except ratios\)](#)