
2018 ANNUAL REPORT
Abbott
life. to the fullest.™

Abbott helps people around the world live their best lives through good health, with a diverse portfolio of products aligned with the most important demographic and technological trends in healthcare. Our life-changing technologies keep hearts healthy, nourish bodies at every stage of life, help people feel and move better, and deliver information, medicines and breakthroughs to manage peoples' health. With leadership positions in important treatment areas, and a strong presence in the world's most rapidly growing regions, Abbott is well positioned to achieve continued above-market growth, strong cash flow, and consistently strong shareholder returns.

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FRONT COVER STORY:

SADIE RUTENBERG
Seattle, Washington

As a participant in a clinical trial, Sadie was the first child in the United States to receive Abbott's *Masters HP* 15mm, the world's smallest rotatable mechanical heart valve. Approved by the U.S Food and Drug Administration in 2018, this dime-sized device can be a life-saving option for critically ill children. Today, Sadie is a happy, active toddler, who loves to tell new friends about the "sparkle" in her heart.

MILES WHITE Chairman of the Board and Chief Executive Officer *(right)*
ROBERT FORD President, Chief Operating Officer *(left)*

Dear Fellow Shareholder:

Our performance in 2018 demonstrated the Abbott model in full. We built on strategic vision, organic innovation, and managerial discipline to deliver superior results. In the face of global volatility, Abbott again provided the reliability, stability, productivity, and growth that you expect from us.

LETTER TO OUR SHAREHOLDERS

>100%

5-YEAR TOTAL SHAREHOLDER RETURN

Leading in Connected Care

Abbott is helping to build the future of healthcare with devices that let doctors remotely monitor chronic conditions, helping reduce costs and improving patients' quality of life.

- **Diabetes:** *FreeStyle Libre*
- **Cardiac Rhythm Management:** *Confirm Rx*
- **Heart Failure:** *CardioMEMS HF System*

THE COMPANY

Our excellent 2018 was a microcosm of Abbott's long history of sustained success and of the focused strategic shaping we've done in recent years to take it forward. And that's exactly our intent – we manage Abbott in a very deliberate way in order to accomplish very clear goals.

Our foundational goal – the company's purpose since its beginning – is to create life-changing technologies that help people live fuller lives through better health. We think that's the best mission a company can have. We're mindful of the privilege and responsibility we have in producing solutions that mean so much to so many.

Because of this keen awareness of the importance of our work, and of the legacy we carry, we view our business through the lens of long-term, sustainable success. While we work to deliver high-quality results quarter by quarter, we think in generational terms and build Abbott to succeed for the long haul. To do so, we manage the company with unwavering concentration on four pillars that uphold our leadership:

RELEVANCE

The first and most important decision we make as a company is what businesses to be in. We have shaped Abbott with great intentionality, choosing to compete in fields that offer the highest potential for breakthrough in healthcare and return on investment. This is how we keep Abbott current with its evolving environment and deliver the greatest impact – for the people who use our products and for our shareholders. Through purposeful management of our portfolio, we are now more innovative and better aligned with the future of health technology than ever before, as you'll see through this report's discussion of our leadership in connected care – today's most advanced and most personal medical technology. As a result, more than 50 percent of our sales today are from products and businesses that are new to the company in just the last six years.

BALANCE

Abbott has been a diversified company for generations. We've always sought to have a broad range of opportunities – both because this provides more ways to win, and because it insulates the company from volatility in any particular market. Over time, each of our major businesses has been affected for better or for worse by factors in their environments. But the balance amongst them has produced successful overall performance by Abbott, year after year.

PRESENCE

We intend for Abbott to be a strong and recognized presence worldwide – known by all our stakeholders for the contributions we make to individuals and to society. We do this through our broad geographic reach, with business today in more than 160 countries. Our decades of experience in key international markets have given us deep local roots, with the majority of our more than 100,000 colleagues located outside the U.S.

And we're further building presence by advancing our corporate identity to new audiences in new ways. Through high-visibility sponsorships, such as the Abbott World Marathon Majors, and through innovative multimedia advertising, we've reached more than three billion people around the world and have achieved the number-

WE'VE BUILT A SUSTAINABLE GROWTH PLATFORM THAT WILL CONTINUE TO DRIVE SUCCESS FOR MANY YEARS TO COME

Aligned with Important Trends

- As healthcare needs grow and change around the world, Abbott works to stay ahead of those trends and respond with relevant, localized solutions.
- By understanding the challenges, tastes, customs, and environments that impact the health of people in each market, we can target uniquely local problems.
- Today, Abbott is well positioned in markets where healthcare needs are great and growing fast.

one reputation rank with our target audiences in China and India. As a result, Abbott is better known and respected than at any time in our history.

EXECUTION

Achievement is deep in Abbott's culture; but it's not just an intangible – it's built in through systems that guarantee sharp focus on the factors that keep the company successful. Our operating systems – financial, quality, regulatory, compensation, and others – are designed to keep our standards high and the bar rising.

For instance, thanks to our highly successful cash-flow-improvement initiative – which helped us generate more than $6 billion in operating cash flow last year – we've been able to pay down debt from our recent acquisitions much faster than originally planned. The resulting balance sheet gives us renewed strategic flexibility.

LEADERSHIP

The result of this structured approach is leadership across multiple dimensions of our business. Our goal is to have the number-one or number-two position in our markets. Thanks to the breakthrough success of *FreeStyle Libre*, our glucose-monitoring system that has become our latest billion-dollar product, we are now the world's leading company in glucose testing for diabetes. This is in addition to our global leadership positions in coronary stents, transcatheter mitral-valve repair, left ventricular assist devices, spinal cord stimulation, branded-generic medicines, adult nutrition, blood transfusion and screening, and point-of-care diagnostic testing.

Leading positions allow us to drive the markets in which we compete. But our reputation rests on our excellence across the critical dimensions of our operations. In 2018, Abbott was recognized as a premier employer, as a top innovator, and as a leading global citizen, being named to the Dow Jones Sustainability Index for the 14th consecutive year, the last six as the leader in our industry. As a result of this success across our business, Abbott has now been named *Fortune's* Most Admired Company in our industry for the past six years.

THE YEAR

2018 provided a textbook example of how Abbott works. With our recent strategic additions now fully integrated, our focus was on running the company we've built. The result was an excellent year by every key measure.

All four of our major businesses performed well, leading Abbott to deliver strong organic sales growth of more than seven percent, (11.6% on a GAAP basis), which exceeded the expectations we established at the beginning of the year. This drove earnings-per-share at the top end of the range we forecast, despite headwinds from international currency.

We returned $2 billion to shareholders last year and, in December, announced a dividend increase of more than 14 percent. Abbott has now paid dividends for 95 consecutive years and has raised them for the last 47 years in a row. Combined with share-price growth of more than 25 percent, this produced a total shareholder return of nearly 30 percent, which was at the top of our peer group of companies.

LETTER TO OUR SHAREHOLDERS

Growth of this magnitude is rare for companies of our size, particularly as it follows an increase of more than 50 percent in 2017.

THE FUTURE

For the past 20 years we have consistently pursued a vision of the company we want Abbott to be and the impact we intend to have on the world. The result is a sustainable growth platform that will continue to drive success for many years to come.

Shaping Our Future with Life-Changing Technologies

Next-generation products and services are helping Abbott increase share and generate above-market growth in important treatment areas

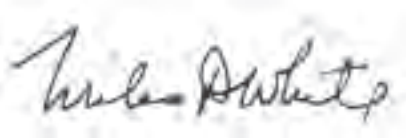
Sustainability is the guiding principle in our management approach. Our commitment is that Abbott will be here, delivering the many benefits it provides to the people we serve. This commitment takes many forms. It means that we invest in capabilities for the future, not only in our pipeline of market-leading innovations, but also in ways such as the additional manufacturing capacity we're building to support the dynamic growth of *FreeStyle Libre* and our *Alinity* family of diagnostic systems. It means that we continually refine our operations to reduce our environmental footprint. It means that we invest in our people to attract and develop the talent we need to maintain Abbott's high standards, and that we continually strengthen our organization for optimal performance.

In 2018, we enhanced our leadership structure with the appointment of Robert Ford as President and Chief Operating Officer. We've had COOs from time to time, when the business has called for that role in our structure; with the increasing scale and complexity of our business, we deemed this to be such a time. Robert is a long-time Abbott veteran, with broad experience across our global businesses, who most recently led our largest business, Medical Devices, and oversaw our integration of St. Jude Medical, our largest-ever acquisition. Having our businesses report to him gives us more managerial flexibility and strengthens us operationally.

>50%

of 2018 sales came from products and businesses new to Abbott in the last six years.

As this report and our strong 2018 performance make clear, Abbott has learned from its successful past, stands at a new peak in the present, and is poised for a future that goes farther and higher still. The future of healthcare is extraordinary – and Abbott is leading the way.



MILES D. WHITE
Chairman of the Board and Chief Executive Officer
March 4, 2019

2018 FINANCIAL HIGHLIGHTS

WORLDWIDE SALES
$30.6B

ORGANIC SALES GROWTH[1]
7.3%

ADJUSTED EARNINGS PER SHARE[2]
$2.88

ADJUSTED EARNINGS PER SHARE GROWTH[3]
15.2%

1-YEAR TOTAL SHAREHOLDER RETURN
~30%

[1] On a GAAP basis, Abbott sales increased 11.6%
[2] Full-year 2018 GAAP diluted EPS from continuing operations $1.31
[3] GAAP EPS growth 555%

For full financial data and reconciliation of non-GAAP measures, please see Abbott's 2018 earnings press release at www.abbottinvestor.com

THIS IS ABBOTT: DIFFERENCE MAKING.

LIFE CHANGING.

GROWTH DRIVING.

RELEVANCE

We've aligned our business with important scientific, medical, demographic, and social trends.

BALANCE

We've created a complementary mix of businesses, serving a variety of customer types.

BUILT TO LEAD.

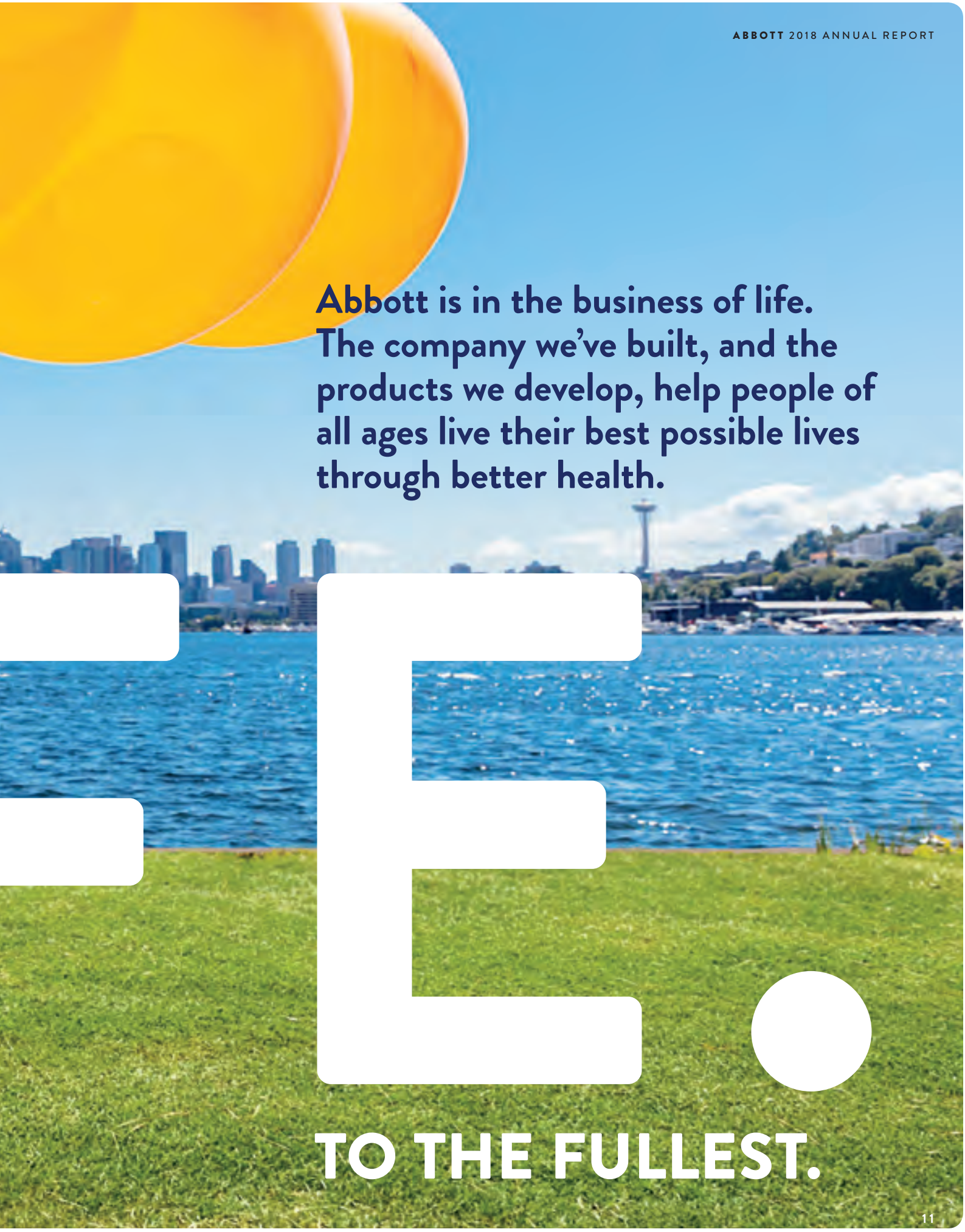
PRESENCE

We have a long-established, highly visible presence in the world's largest and fastest-growing markets.

EXECUTION

We've built a culture – and systems – that guarantee sharp focus and drive high performance.

Over the past five years, Abbott has executed a focused strategy to position the company for sustained, accelerated growth.



Abbott is in the business of life. The company we've built, and the products we develop, help people of all ages live their best possible lives through better health.

TO THE FULLEST.

LIFE-CHANGING INNOVATION FOR PEOPLE WITH DIABETES

FREESTYLE LIBRE: BREAKTHROUGH GLUCOSE-MONITORING TECHNOLOGY

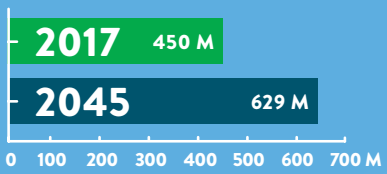
Abbott is the global leader in continuous glucose monitoring. Our *FreeStyle Libre* 14-day system is changing the way people have tested their glucose levels for decades. The system uses a small sensor – the size of just two stacked quarters – applied to the back of the upper arm. This device can provide real-time glucose readings, day and night, for up to 14 days – all without the pain of fingersticks. The *FreeStyle Libre* system provides three critical pieces of data with each scan – a real-time glucose result, an eight-hour historical trend, and a directional trend arrow showing where glucose levels are headed – to help users better manage their diabetes. Studies show that users who scan more frequently experience improved average glucose levels.* *FreeStyle Libre* is available in every major market in the world and has more than one million users.

References: Ajjan, R. Insights from real world use of flash continuous glucose monitoring. Symposium conducted at: 78th Scientific Sessions of the American Diabetes Association; June 22 – 26, 2018; Orlando, FL.

A GROWING NEED

Diabetes prevalence has been increasing in both developed and developing markets.

Global diabetes prevalence is expected to rise significantly.



>50%
OF PEOPLE WITH DIABETES ARE CURRENTLY UNDIAGNOSED

Source: IDF Diabetes Atlas 8th edition 2017

LEADING IN CONNECTED CARE

The *FreeStyle LibreLink* and *LibreLinkUp*** smartphone apps let people monitor their glucose without the use of a separate device, then share their data with caregivers remotely.

**LibreLinkUp *is not yet available in the United States*

MELISSA POLOVIN

DEERFIELD, ILLINOIS, USA

Since being diagnosed with diabetes in her early 20s, Melissa had endured the pain and inconvenience of multiple daily finger-sticks as she worked to monitor and control her glucose levels. She describes her *FreeStyle Libre* system as "life-changing." Because it's so easy to use, Melissa feels that the device helps her better control her diabetes and live her life.

For people challenged by chronic pain or movement disorders, Abbott offers a portfolio of technologies designed to help them get back to living their lives. Our *Proclaim* devices deliver spinal-cord stimulation (SCS) for the management of chronic pain, and dorsal-root-ganglion stimulation for patients seeking relief from complex regional pain syndrome or nerve pain following surgery or injury. The *Proclaim* SCS System is also the first upgradeable and recharge-free spinal-cord stimulation system capable of delivering both the standard tonic stimulation waveform and Abbott's proprietary *BurstDR* stimulation waveform, which is designed to mimic how pain signals travel to the brain. Our *Infinity* Deep Brain Stimulation (DBS) system addresses symptoms of Parkinson's disease and essential tremor using mild pulses of electricity to the brain.

ADVANCED TECHNOLOGY TO MANAGE CHRONIC PAIN AND MOVEMENT DISORDERS

***Infinity* DBS was the first deep-brain-stimulation system available to offer directional leads to potentially reduce side effects.**

Both our *Infinity* and *Proclaim* platforms use Bluetooth® wireless technology and iOS‡ software to offer patients an intuitive therapy experience

Bluetooth is a registered trademark of Bluetooth SIG, Inc

‡ indicates a third-party trademark, which is property of its respective owner.

6 MILLION

people are affected by Parkinson's disease

MELISSA AND EDWARD HAHN
WADING RIVER, NEW YORK, USA

Melissa Hahn and her father, Edward, both experienced debilitating tremors from Parkinson's disease. Then Melissa's doctor recommended treatment with Abbott's *Infinity* DBS system. After having the device implanted, Melissa found that her tremors were significantly reduced. "It gave me my life back," she says. Edward, upon seeing the positive impact the device had for his daughter, had it implanted as well and has also seen improvement.

SETTING THE PACE IN CARDIAC RHYTHM MANAGEMENT

MARIA ROSARIO RODRIGUEZ
MADRID, SPAIN

For most of her life, Maria Rosario has experienced heart arrhythmias. Last year, her doctors were sufficiently concerned that they suggested the use of Abbott's *Confirm Rx* ICM to help them better understand her condition. Using the device's Bluetooth® connectivity and an app on her smartphone, they were able to remotely monitor her heart rhythms, letting them more confidently determine treatment options.

Abbott is working to transform the treatment of cardiac arrhythmias (irregular heartbeats) with innovative technologies like the *Confirm Rx* Insertable Cardiac Monitor (ICM), the world's first smartphone-compatible ICM. The *Confirm Rx* system provides real-time access to patient data, letting physicians remotely identify even the most difficult-to-detect cardiac arrhythmias.

We also offer the *EnSite Precision* cardiac mapping system, designed to aid in the rapid diagnosis of cardiac arrhythmias; a full portfolio of cardiac ablation catheters; the *Advisor HD Grid* mapping catheter, which uses a first-of-its-kind electrode configuration, capturing and analyzing data in new ways to create more highly detailed maps of the heart, which may result in more safe and effective treatments; and the *Assurity MRI* pacemaker, which combines small size with outstanding longevity, to help patients experience fewer complications and less discomfort.

>33 MILLION

people in the world experience atrial fibrillation.

Source: Centers for Disease Control and Prevention, Worldwide Epidemiology of Atrial Fibrillation, a Global Burden of Disease 2010

LEADING IN CONNECTED CARE

Our *Confirm Rx* Insertable Cardiac Monitor is the world's first smartphone-compatible ICM

CONFIRM RX
Insertable
Cardiac Monitor

CARDIOMEMS
HF System

LEADING IN CONNECTED CARE

Our *CardioMEMS* sensor, which is roughly the size of a paperclip, is implanted in the pulmonary artery. It connects with a remote monitoring system that communicates important information to the doctor without the need for an office visit.

A COMPREHENSIVE APPROACH TO HEART-FAILURE MANAGEMENT

Abbott is the market leader in left ventricular assist devices (LVADs), mini heart pumps for patients in advanced-stage heart failure whose hearts need continuous support. Our *HeartMate 3* LVAD is the first implantable device of its kind to use *Full MagLev* flow technology, a proprietary pumping system designed to reduce trauma to the blood passing through the pump while optimizing blood flow. Improved blood flow can help minimize complications that can be associated with LVAD therapy, ultimately improving the patient's quality of life.

In 2018, *HeartMate 3* LVAD was approved for long-term use in patients who are not viable candidates for a heart transplant. In addition to these life-saving devices, we offer a comprehensive portfolio of heart-failure-management products that span the continuum of care, from monitoring for symptoms to advanced-stage therapy. Our innovations in this area include the revolutionary *CardioMEMS* pulmonary-artery pressure monitor and remote monitoring system, as well as specialized pacemakers designed for treating heart failure.

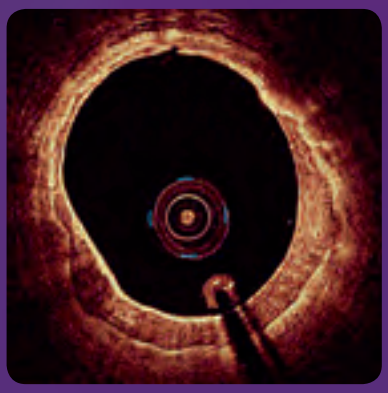
26 million
people worldwide suffer from heart failure

A COMPREHENSIVE HEART-FAILURE-MANAGEMENT PORTFOLIO

- ***CardioMEMS HF System*** – Pulmonary Artery Pressure Monitor
- ***Quadra Allure MP/Quadra Assura MP*** – Cardiac Resynchronization Therapies
- ***Merlin.net Patient Care Network*** and ***Merlin@home*** Transmitter
- ***HeartMate 3 LVAD*** – Left Ventricular Assist Device

LOREN VINAL
CORNING,
NEW YORK, USA

When Loren began having breathing problems, he was surprised to learn that his heart was failing. He's a strong candidate for a heart transplant sometime in the future. In the meanwhile, Abbott's *HeartMate 3 LVAD* has helped him get back to doing many of the things he loves, including photography, playing guitar, and spending time with his partner, Sandy.



OPTIS Integrated Imaging System

XIENCE SIERRA Stent System

MARKET-LEADING TECHNOLOGIES TO RESTORE BLOOD FLOW OR REPAIR HEART DEFECTS

KEY VASCULAR PRODUCTS

- ***XIENCE*** **family of drug-eluting stents**
- ***Optis*** **integrated imaging system**
- ***PressureWire*** **family of pressure-sensing guidewires**
- ***Hi-Torque*** **family of guide wires**
- ***Supera*** **peripheral-stent system**
- ***Command*** **guide wires**
- ***Perclose ProGlide*** **vascular-closure system**

Abbott's Vascular business provides minimally invasive products for the treatment of coronary and peripheral artery disease. Our extensive portfolio includes market-leading drug-eluting stents, bare-metal stents, coronary guide wires, balloon dilatation catheters, and imaging technology that can provide highly-detailed, 3D color views of blood vessels, which can improve success when opening a blocked artery.

MITRACLIP
Valve-Repair Device

MASAE OGIWARA
KAMI, JAPAN

Masae was definitely not ready to slow down. He enjoyed working on his farm, walking his dog, Pal, and spending time with his daughter, Jun. But a leaky mitral valve had made it difficult to do even simple things like climbing a flight of stairs. Once he received Abbott's *MitraClip* as a participant in a clinical trial in early 2018, he felt his energy return, letting him get back to the active life he loves.

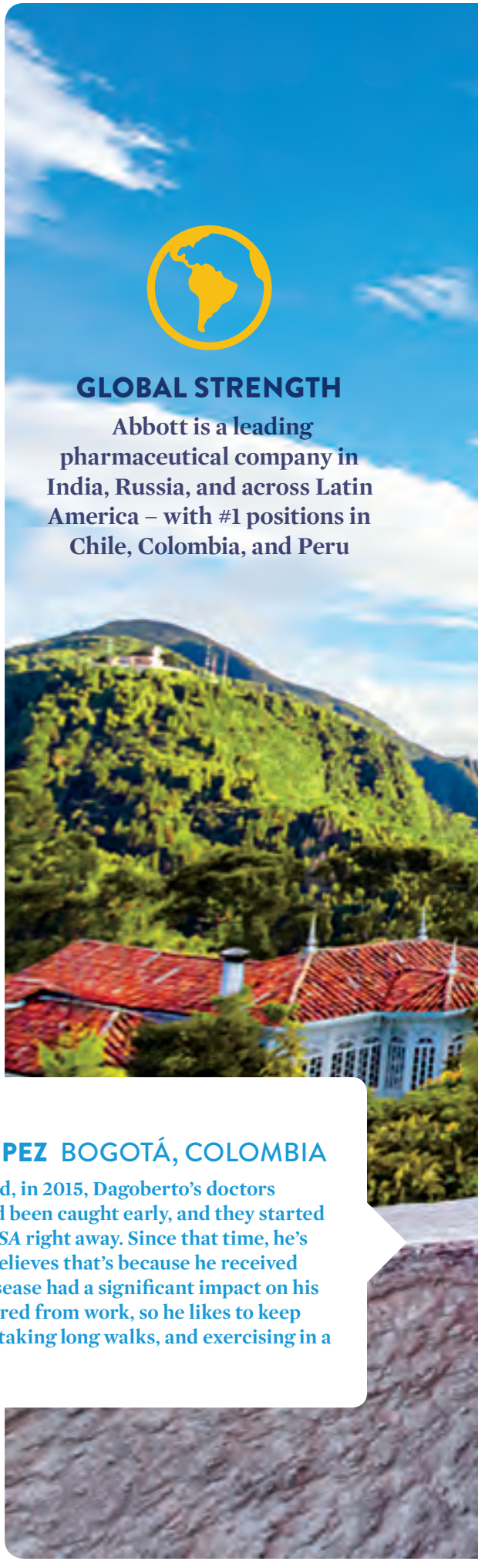
In our Structural Heart business, technologies include *MitraClip*, our leading transcatheter mitral-valve-repair device, mechanical and tissue valves, transcatheter aortic-valve-replacement and structural-heart occluder therapies. In 2018, Abbott announced the results of a large-scale clinical trial demonstrating that our *MitraClip* device significantly reduced death among people whose advanced heart failure had resulted in leaky mitral valves. The new data also showed that *MitraClip* lowered this group's heart-failure hospitalization rates and improved their quality of life. Our *Amplatzer* PFO Occluder has been proven to reduce the risk of recurrent ischemic stroke in patients who had a small opening between the upper chambers of the heart. And our *Amplatzer Amulet*, which is available in Europe, closes a small pouch in the heart to reduce the risk of stroke in people with atrial fibrillation who cannot rely on blood thinners.

TRUSTED BRANDS MEDICINES FOR THE WORLD'S FASTEST-GROWING MARKETS

In our branded-generic medicines business, high quality standards, reliable supply chain, clinical science, broad product range, value-added services, and patient-centered innovation allow us to differentiate ourselves from pure generic competitors and provide value for patients. Every day, more than 14 million people around the world use our medicines to help them live healthier lives.

We offer market-specific product portfolios that reflect the health needs of each region, and cover a wide range of conditions and medical needs, including cardiovascular (*Lipanthyl, Tarka, Synthroid*), gastrointestinal (*Creon, Duphalac, Dicetel*), and women's health (*Duphaston, Femoston*). And we continually employ local market insights to drive innovations in formulation, packaging, and new indications that help us better address regional health needs.

ETERSA (Dasatinib) is a treatment for chronic myeloid leukemia.



GLOBAL STRENGTH

Abbott is a leading pharmaceutical company in India, Russia, and across Latin America – with #1 positions in Chile, Colombia, and Peru

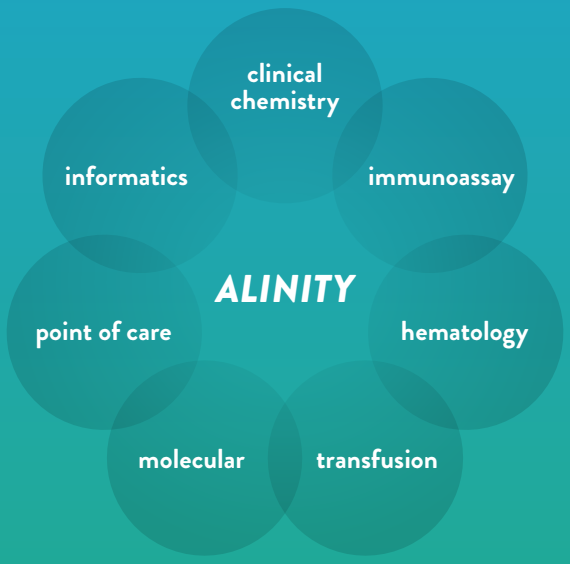
DAGOBERTO LOPEZ BOGOTÁ, COLOMBIA

When he was diagnosed, in 2015, Dagoberto's doctors told him his cancer had been caught early, and they started him on Abbott's *ETERSA* right away. Since that time, he's been feeling well. He believes that's because he received the drug before the disease had a significant impact on his health. Today, he's retired from work, so he likes to keep active, riding his bike, taking long walks, and exercising in a park near his home.

>1,500 products

Abbott's continually expanding portfolio covers a range of therapeutic areas, including gastroenterology, women's health, cardiology, and metabolic disorders, as well as specialty and primary care

GAME-CHANGING SOLUTIONS FOR DIAGNOSTICS



A UNIFIED FAMILY OF INTEGRATED SYSTEMS DESIGNED TO STREAMLINE LABORATORY OPERATIONS AND HELP LABS ACHIEVE MEASURABLY BETTER PERFORMANCE

BUILDING ON OUR LEADERSHIP IN LABORATORY TESTING

In 2018, Abbott strengthened its position in diagnostics with the continued roll-out of *Alinity*, our groundbreaking range of instrument platforms, tests and services. As global testing volumes rise, health systems are facing increasing pressures to perform testing as efficiently as possible with limited staff and space. The *Alinity* family addresses these challenges with speed, accuracy, and a smaller footprint. Abbott is also working with hospitals to transform the lab by collaborating to find solutions that help deliver better care to patients.

SAGHAR MISSAGHIAN-CULLY
LABORATORY ADMINISTRATOR,
LONDON, ENGLAND

BUILDING THE LAB OF THE FUTURE

*Alinity hq, Alinity hs, Alinity m, *and* i-STAT Alinity *are not yet commercially available in the United States for diagnostic use.* Alinity m *instrument is CE marked, assays are in development.* Alinity s *is not yet cleared for use in the United States and not authorized for sale in Canada.*

In her role as Managing Director, for North West London Pathology, hosted by the Imperial College Healthcare NHS Trust in London, Saghar is charged with ensuring that the laboratories under her direction operate as efficiently as possible so they can deliver the critical information needed to help make optimal healthcare decisions. She relies on Abbott's systems to provide high-throughput analysis to deliver fast, accurate, and cost-efficient results.

#1

- BLOOD SCREENING
- POINT-OF-CARE PORTFOLIO
- HIV TESTING
- INFECTIOUS-DISEASE TESTING

~70%

OF CRITICAL CLINICAL DECISIONS ARE INFLUENCED BY DIAGNOSTIC TEST RESULTS

60%

OF THE WORLD'S DONATED BLOOD AND PLASMA IS SCREENED BY ABBOTT SYSTEMS AND TESTS

RAPID DIAGNOSTICS
EXPANDING ACCESS TO CARE AROUND THE WORLD

HIV STRIP TESTS

Our complete portfolio of rapid HIV tests can help healthcare workers across the world diagnose individual infection, prevent mother-to-child transmission, and monitor HIV prevalence.

Abbott is the world's leading provider of rapid point-of-care tests, with a focus on cardiometabolic disease, infectious disease, and toxicology. Our portable strip tests, along with our benchtop systems and analyzers, can provide immediate, actionable information, contributing to better clinical, operational, and economic outcomes.

Key products in our Rapid Diagnostics portfolio include the *ID NOW* platform, which offers molecular-based tests for the influenza A&B viruses, as well as Strep A and Respiratory Syncytial Virus (RSV); the *Afinion 2* platform, which provides a common series of cardiometabolic tests; and our *eScreen* business, which provides next-generation employment-screening applications to help companies ensure their employees are healthy and drug-free.

THE KIKA TROUPE
KAMPALA, UGANDA

Founded by Kaddu Yusuf, an HIV orphan himself, the Kika Troupe is helping to change the narrative around HIV/AIDS in Uganda. Every member of the troupe has been impacted in some way by the country's HIV epidemic. Many of them are regularly tested using Abbott's rapid strip tests to help them stay as healthy as possible.

BALANCED AND TARGETED NUTRITION FOR ACTIVE LIVES

Proper nutrition is the foundation of health. That's why we develop science-based nutritional products to meet a variety of needs at every stage of life. Our *Ensure* line of products provides complete, balanced, and targeted nutrition to help people stay active and healthy, as well as support recovery from illness, injury, or surgery. *Glucerna* shakes and bars are formulated for people with diabetes.

Juven supports wound healing, including in those recovering from injury or surgery. *Nepro* is formulated for people with kidney disease. We also offer products for tube feeding, including *Jevity* for complete, balanced nutrition; *Vital,* for patients experiencing malabsorption, maldigestion, or impaired gastro-intestinal function; and *Pivot*, for metabolically stressed patients who could benefit from an immune-modulating enteral formula.

MAKEBA GILES
ST. LOUIS, MISSOURI, USA

Makeba is a lifestyle blogger and the busy mom of four kids. With a schedule as full as hers, she doesn't always have time to eat right. She often relies on *Ensure Max Protein* to provide the balanced nutrition she needs.

#1
WORLD LEADER IN ADULT NUTRITION

>8 million people

rely on Abbott's Adult and Medical Nutrition products every day

ENSURE MAX PROTEIN

ENSURE MAX PROTEIN HELPS ADULTS STAY HEALTHY AND STRONG

More than 1 in 3 adults over the age of 50 don't get the protein they need.* In 2018, Abbott introduced *Ensure Max Protein*, a 150-calorie nutrition drink with 30 grams of high-quality protein and 1 gram of sugar to help adults reach their health goals.

*Krok-Schoen, J et al: Low Dietary Protein Intakes and Associated Eating Behaviors in an Aging Population: a NHANES Analysis. ASPEN 2018 Nutrition Science and Practice Conference.

SIMILAC PRO-ADVANCE, PRO-SENSITIVE AND PRO-TOTAL COMFORT

The first infant formula with 2'-FL Human Milk Oligosaccharide (HMO), an immune-nourishing prebiotic

25

KEY PRODUCT LAUNCHES IN 2018

#1

We are the market leader in Pediatric Nutrition in the U.S. and many international markets

A STRONG START FOR CHILDREN AROUND THE WORLD

Every day, 11.5 million babies and children – and their parents – rely on Abbott nutrition products. Our broad offering includes our line of *Similac* infant and toddler formulas, which support healthy growth and development; *Pedialyte*, our advanced rehydration solution specially formulated to help kids and adults replenish vital fluids and electrolytes; *PediaSure*, our complete, balanced nutritional drink designed with the optimal balance of protein, carbohydrates, vitamins and minerals; and *Eleva*, the leading organic infant formula in China.

DR. OLIVIA ORTIZ RAMIREZ WITH HER TWINS, DAMIÁN AND ANITA
MEXICO CITY, MEXICO

Dr. Ortiz, a busy pediatric specialist, has three very active children. She has relied on *Similac* to help each of them grow and thrive. Today, she supplements her twins' diet with *Similac 3* to make sure they're getting all the nutrition they need.

2018 FINANCIAL REPORT

CONSOLIDATED STATEMENT OF EARNINGS

(in millions except per share data)

Year Ended December 31	2018	2017	2016
Net Sales	$30,578	$27,390	$20,853
Cost of products sold, excluding amortization of intangible assets	12,706	12,409	9,094
Amortization of intangible assets	2,178	1,975	550
Research and development	2,300	2,260	1,447
Selling, general and administrative	9,744	9,182	6,736
Total Operating Cost and Expenses	26,928	25,826	17,827
Operating Earnings	3,650	1,564	3,026
Interest expense	826	904	431
Interest income	(105)	(124)	(99)
Net foreign exchange (gain) loss	28	(34)	495
Debt extinguishment costs	167	–	–
Other (income) expense, net	(139)	(1,413)	786
Earnings from Continuing Operations Before Taxes	2,873	2,231	1,413
Taxes on Earnings from Continuing Operations	539	1,878	350
Earnings from Continuing Operations	2,334	353	1,063
Earnings from Discontinued Operations, net of taxes	34	124	321
Gain on sale of Discontinued Operations, net of taxes	–	–	16
Net Earnings from Discontinued Operations, net of taxes	34	124	337
Net Earnings	$ 2,368	$ 477	$ 1,400
Basic Earnings Per Common Share –			
Continuing Operations	$ 1.32	$ 0.20	$ 0.71
Discontinued Operations	0.02	0.07	0.23
Net Earnings	$ 1.34	$ 0.27	$ 0.94
Diluted Earnings Per Common Share –			
Continuing Operations	$ 1.31	$ 0.20	$ 0.71
Discontinued Operations	0.02	0.07	0.23
Net Earnings	$ 1.33	$ 0.27	$ 0.94
Average Number of Common Shares Outstanding Used for Basic Earnings Per Common Share	1,758	1,740	1,477
Dilutive Common Stock Options	12	9	6
Average Number of Common Shares Outstanding Plus Dilutive Common Stock Options	1,770	1,749	1,483
Outstanding Common Stock Options Having No Dilutive Effect	–	–	5

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in millions)

Year Ended December 31	2018	2017	2016
Net Earnings	$ 2,368	$ 477	$ 1,400
Foreign currency translation gain (loss) adjustments	(1,460)	1,365	(130)
Net actuarial gains (losses) and prior service cost and credits and amortization of net actuarial losses and prior service cost and credits, net of taxes of $47 in 2018, $(61) in 2017 and $(125) in 2016	132	(243)	(326)
Unrealized gains (losses) on marketable equity securities, net of taxes of $(76) in 2017 and $(28) in 2016	–	64	(134)
Net gains (losses) on derivative instruments designated as cash flow hedges, net of taxes of $50 in 2018, $(43) in 2017 and $(4) in 2016	136	(134)	(15)
Other Comprehensive Income (Loss)	(1,192)	1,052	(605)
Comprehensive Income	$ 1,176	$ 1,529	$ 795

Supplemental Accumulated Other Comprehensive Income (Loss) Information, net of tax as of December 31:			
Cumulative foreign currency translation (loss) adjustments	$(4,912)	$(3,452)	$(4,959)
Net actuarial (losses) and prior service (cost) and credits	(2,726)	(2,521)	(2,284)
Cumulative unrealized gains (losses) on marketable equity securities	–	(5)	(69)
Cumulative gains (losses) on derivative instruments designated as cash flow hedges	52	(84)	49
Accumulated other comprehensive income (loss)	$(7,586)	$(6,062)	$(7,263)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

(in millions)

Year Ended December 31	2018	2017	2016
Cash Flow From (Used in) Operating Activities:			
Net earnings	$ 2,368	$ 477	$ 1,400
Adjustments to reconcile earnings to net cash from operating activities —			
Depreciation	1,100	1,046	803
Amortization of intangible assets	2,178	1,975	550
Share-based compensation	477	406	310
Impact of currency devaluation	—	—	480
Amortization of inventory step-up	32	907	—
Investing and financing losses, net	126	47	86
Loss on extinguishment of debt	167	—	—
Amortization of bridge financing fees	—	5	165
Gains on sale of businesses	—	(1,163)	(25)
Mylan N.V. equity investment adjustment	—	—	947
Gain on sale of Mylan N.V. shares	—	(45)	—
Trade receivables	(190)	(207)	(177)
Inventories	(514)	249	(98)
Prepaid expenses and other assets	23	109	113
Trade accounts payable and other liabilities	747	615	(652)
Income taxes	(214)	1,149	(699)
Net Cash From Operating Activities	6,300	5,570	3,203
Cash Flow From (Used in) Investing Activities:			
Acquisitions of property and equipment	(1,394)	(1,135)	(1,121)
Acquisitions of businesses and technologies, net of cash acquired	—	(17,183)	(80)
Proceeds from business dispositions	48	6,042	25
Proceeds from the sale of Mylan N.V. shares	—	2,704	—
Purchases of investment securities	(131)	(210)	(2,823)
Proceeds from sales of investment securities	73	129	3,709
Other	48	35	42
Net Cash From (Used in) Investing Activities	(1,356)	(9,618)	(248)
Cash Flow From (Used in) Financing Activities:			
Proceeds from issuance of (repayments of) short-term debt and other	(26)	(1,034)	(1,767)
Proceeds from issuance of long-term debt and debt with maturities over 3 months	4,009	6,742	14,934
Repayments of long-term debt and debt with maturities over 3 months	(12,433)	(8,650)	(12)
Payment of bridge financing fees	—	—	(170)
Purchase of Alere preferred stock	—	(710)	—
Acquisition and contingent consideration payments related to business acquisitions	—	(13)	(25)
Purchases of common shares	(238)	(117)	(522)
Proceeds from stock options exercised	271	350	248
Dividends paid	(1,974)	(1,849)	(1,539)
Net Cash From (Used in) Financing Activities	(10,391)	(5,281)	11,147
Effect of exchange rate changes on cash and cash equivalents	(116)	116	(483)
Net Increase (Decrease) in Cash and Cash Equivalents	(5,563)	(9,213)	13,619
Cash and Cash Equivalents, Beginning of Year	9,407	18,620	5,001
Cash and Cash Equivalents, End of Year	$ 3,844	$ 9,407	$18,620
Supplemental Cash Flow Information:			
Income taxes paid	$ 740	$ 570	$ 620
Interest paid	845	917	181

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

CONSOLIDATED BALANCE SHEET

(dollars in millions)

December 31	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	$ 3,844	$ 9,407
Investments, primarily bank time deposits and U.S. treasury bills	242	203
Trade receivables, less allowances of — 2018: $314; 2017: $294	5,182	5,249
Inventories:		
Finished products	2,407	2,339
Work in process	499	472
Materials	890	790
Total inventories	3,796	3,601
Other prepaid expenses and receivables	1,559	1,667
Current assets held for disposition	9	20
Total Current Assets	14,632	20,147
Investments	897	883
Property and Equipment, at Cost:		
Land	501	526
Buildings	3,555	3,613
Equipment	10,756	10,394
Construction in progress	894	732
	15,706	15,265
Less: accumulated depreciation and amortization	8,143	7,658
Net Property and Equipment	7,563	7,607
Intangible Assets, net of amortization	18,942	21,473
Goodwill	23,254	24,020
Deferred Income Taxes and Other Assets	1,868	1,944
Non-current Assets Held for Disposition	17	176
	$67,173	$76,250

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

CONSOLIDATED BALANCE SHEET

(dollars in millions)

December 31	2018	2017
Liabilities and Shareholders' Investment		
Current Liabilities:		
Short-term borrowings	$ 200	$ 206
Trade accounts payable	2,975	2,402
Salaries, wages and commissions	1,182	1,187
Other accrued liabilities	3,780	3,811
Dividends payable	563	489
Income taxes payable	305	309
Current portion of long-term debt	7	508
Total Current Liabilities	9,012	8,912
Long-term Debt	19,359	27,210
Post-employment obligations and other long-term liabilities	8,080	9,030
Commitments and Contingencies		
Shareholders' Investment:		
Preferred shares, one dollar par value		
Authorized — 1,000,000 shares, none issued	—	—
Common shares, without par value		
Authorized — 2,400,000,000 shares		
Issued at stated capital amount —		
Shares: 2018: 1,971,189,465; 2017: 1,965,908,188	23,512	23,206
Common shares held in treasury, at cost —		
Shares: 2018: 215,570,043; 2017: 222,305,719	(9,962)	(10,225)
Earnings employed in the business	24,560	23,978
Accumulated other comprehensive income (loss)	(7,586)	(6,062)
Total Abbott Shareholders' Investment	30,524	30,897
Noncontrolling Interests in Subsidiaries	198	201
Total Shareholders' Investment	30,722	31,098
	$67,173	$76,250

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' INVESTMENT

(in millions except shares and per share data)

Year Ended December 31	2018	2017	2016
Common Shares:			
Beginning of Year			
Shares: 2018: 1,965,908,188; 2017: 1,707,475,455; 2016: 1,702,017,390	$ 23,206	$ 13,027	$ 12,734
Issued under incentive stock programs			
Shares: 2018: 5,281,277; 2017: 8,834,924; 2016: 5,458,065	163	242	222
Issued for St. Jude Medical acquisition			
Shares: 2017: 249,597,809	—	9,835	—
Share-based compensation	479	406	311
Issuance of restricted stock awards	(336)	(304)	(240)
End of Year			
Shares: 2018: 1,971,189,465; 2017: 1,965,908,188; 2016: 1,707,475,455	$ 23,512	$ 23,206	$ 13,027
Common Shares Held in Treasury:			
Beginning of Year			
Shares: 2018: 222,305,719; 2017: 234,606,250; 2016: 229,352,338	$(10,225)	$(10,791)	$(10,622)
Issued under incentive stock programs			
Shares: 2018: 8,870,735; 2017: 8,696,320; 2016: 5,398,469	408	400	250
Issued for St. Jude Medical acquisition			
Shares: 2017: 3,906,848	—	180	—
Purchased			
Shares: 2018: 2,135,059; 2017: 302,637; 2016: 10,652,381	(145)	(14)	(419)
End of Year			
Shares: 2018: 215,570,043; 2017: 222,305,719; 2016: 234,606,250	$ (9,962)	$(10,225)	$(10,791)
Earnings Employed in the Business:			
Beginning of Year	$ 23,978	$ 25,565	$ 25,757
Net earnings	2,368	477	1,400
Cash dividends declared on common shares (per share — 2018: $1.16; 2017: $1.075; 2016: $1.045)	(2,047)	(1,947)	(1,547)
Effect of common and treasury share transactions	(90)	(117)	(45)
Impact of adoption of new accounting standards	351	—	—
End of Year	$ 24,560	$ 23,978	$ 25,565
Accumulated Other Comprehensive Income (Loss):			
Beginning of Year	$ (6,062)	$ (7,263)	$ (6,658)
Business dispositions / separation	—	149	—
Other comprehensive income (loss)	(1,192)	1,052	(605)
Impact of adoption of new accounting standards	(332)	—	—
End of Year	$ (7,586)	$ (6,062)	$ (7,263)
Noncontrolling Interests in Subsidiaries:			
Beginning of Year	$ 201	$ 179	$ 115
Noncontrolling Interests' share of income, business combinations, net of distributions and share repurchases	(3)	22	64
End of Year	$ 198	$ 201	$ 179

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Revenue Recognition—Revenue from product sales is recognized upon the transfer of control, which is generally upon shipment or delivery, depending on the delivery terms set forth in the customer contract. Provisions for discounts, rebates and sales incentives to customers, and returns and other adjustments are provided for in the period the related sales are recorded. Sales incentives to customers are not material. Historical data is readily available and reliable, and is used for estimating the amount of the reduction in gross sales. Revenue from the launch of a new product, from an improved version of an existing product, or for shipments in excess of a customer's normal requirements are recorded when the conditions noted above are met. In those situations, management records a returns reserve for such revenue, if necessary. In certain of Abbott's businesses, primarily within diagnostics, Abbott participates in selling arrangements that include multiple performance obligations (e.g., instruments, reagents, procedures, and service agreements). The total transaction price of the contract is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. Sales of product rights for marketable products are recorded as revenue upon disposition of the rights.

Income Taxes—Deferred income taxes are provided for the tax effect of differences between the tax bases of assets and liabilities and their reported amounts in the financial statements at the enacted statutory rate to be in effect when the taxes are paid. No additional income taxes have been provided for any remaining undistributed foreign earnings not subject to the transition tax related to the U.S. Tax Cuts and Jobs Act, or any additional outside basis differences that exist, as these amounts continue to be indefinitely reinvested in foreign operations. Interest and penalties on income tax obligations are included in taxes on earnings.

Earnings Per Share—Unvested restricted stock units and awards that contain non-forfeitable rights to dividends are treated as participating securities and are included in the computation of earnings per share under the two-class method. Under the two-class method, net earnings are allocated between common shares and participating securities. Earnings from Continuing Operations allocated to common shares in 2018, 2017 and 2016 were $2.320 billion, $346 million and $1.057 billion, respectively. Net earnings allocated to common shares in 2018, 2017 and 2016 were $2.353 billion, $468 million and $1.393 billion, respectively.

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

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

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

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-09, *Improvements to Employee Share-Based Payment Accounting*. ASU 2016-09 modifies several aspects of the accounting for share-based payment transactions, including the accounting for income taxes and classification on the statement of cash flows. Abbott adopted the standard in the first quarter of 2017 and the following changes were made to the presentation of Abbott's financial statements:

- All excess tax benefits or tax deficiencies are now recognized as income tax benefit or expense as applicable. Previously, Abbott recorded the benefits to Shareholders' Investment. The tax benefit recorded in Abbott's Consolidated Statement of Earnings for 2018 and 2017 was $90 million and $120 million, respectively. The standard did not permit retrospective presentation of this benefit in prior years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- The tax benefit or deficiency is required to be classified as an operating activity in the statement of cash flows. Previously, it was required to be classified within financing activities. Abbott has adopted this standard on a prospective basis and has not revised the classification of the excess tax benefit in the 2016 Consolidated Statement of Cash Flows.

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

Cash, Cash Equivalents and Investments—Cash equivalents consist of bank time deposits, U.S. government securities money market funds and U.S. treasury bills with original maturities of three months or less. Abbott holds certain investments with a carrying value of approximately $325 million that are accounted for under the equity method of accounting. Investments held in a rabbi trust and investments in publicly traded equity securities are recorded at fair value and changes in fair value are recorded in earnings. Investments in equity securities that are not traded on public stock exchanges are recorded at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. Investments in debt securities are classified as held-to-maturity, as management has both the intent and ability to hold these securities to maturity, and are reported at cost, net of any unamortized premium or discount. Income relating to these securities is reported as interest income.

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

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

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

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

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

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

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

Concentration of Risk and Guarantees—Due to the nature of its operations, Abbott is not subject to significant concentration risks relating to customers, products or geographic locations. Product warranties are not significant.

Abbott has no material exposures to off-balance sheet arrangements; no special purpose entities; nor activities that include non-exchange-traded contracts accounted for at fair value. Abbott has periodically entered into agreements in the ordinary course of business, such as assignment of product rights, with other companies, which has resulted in Abbott becoming secondarily liable for obligations that Abbott was previously primarily liable. Since Abbott no longer maintains a business relationship with the other parties, Abbott is unable to develop an estimate of the maximum potential amount of future payments, if any, under these obligations. Based upon past experience, the likelihood of payments under these agreements is remote. Abbott periodically acquires a business or product rights in which Abbott agrees to pay contingent consideration based on attaining certain thresholds or based on the occurrence of certain events.

NOTE 2—NEW ACCOUNTING STANDARDS

RECENTLY ADOPTED ACCOUNTING STANDARDS

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,* which allows companies to reclassify stranded tax effects resulting from the 2017 Tax Cuts and Jobs Act, from accumulated other comprehensive income (loss) to retained earnings (Earnings employed in the business). Abbott adopted the new standard at the beginning of the fourth quarter of 2018. As a result of the adoption of the new standard, approximately $337 million of stranded tax effects were reclassified from Accumulated other comprehensive income (loss) to Earnings employed in the business.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities,* which makes changes to the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The standard would have become effective for Abbott beginning in the first quarter of 2019, with early adoption permitted. Abbott elected to early adopt ASU 2017-12 in the fourth quarter of 2018. The impact

of adopting the standard is not significant to Abbott's Consolidated Balance Sheet and Consolidated Statement of Earnings.

In March 2017, the FASB issued ASU 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* which changes the financial statement presentation requirements for pension and other postretirement benefit expense. While service cost continues to be reported in the same financial statement line items as other current employee compensation costs, the ASU requires all other components of pension and other postretirement benefit expense to be presented separately from service cost, and outside any subtotal of income from operations. The standard was adopted by Abbott beginning in the first quarter of 2018. The change in the presentation of the components of pension cost per year was applied retrospectively. As a result, approximately $160 million of net pension-related income per year was moved from the operating lines of the Consolidated Statement of Earnings to non-operating income for 2017 and 2016.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash,* which requires that restricted cash be included with cash and cash equivalents when reconciling the beginning and end-of-period total amounts shown on the statement of cash flows. Abbott adopted this standard beginning in the first quarter of 2018, and applied the guidance retrospectively to all periods presented. Abbott did not have any restricted cash balances in the periods presented except for $75 million of restricted cash acquired as part of the Alere Inc. (Alere) acquisition in October 2017. The restrictions on this cash were eliminated prior to the end of 2017.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory,* which requires the recognition of the income tax effects of intercompany sales and transfers of assets, other than inventory, in the period in which the transfer occurs. Abbott adopted the standard on January 1, 2018, using a modified retrospective approach and recorded a cumulative catch-up adjustment to Earnings employed in the business in the Consolidated Balance Sheet that was not significant.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments,* which clarifies how companies should present and classify certain cash receipts and cash payments in the statement of cash flows. The ASU became effective for Abbott in the first quarter of 2018 and did not have a material impact to the Company's Consolidated Statement of Cash Flows.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities,* which provides new guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. Abbott adopted the standard on January 1, 2018. Under the new standard, changes in the fair value of equity investments with readily determinable fair values are recorded in Other (income) expense, net within the Consolidated Statement of Earnings. Previously, such fair value changes were recorded in other comprehensive income. Abbott has elected the measurement alternative allowed by ASU 2016-01 for its equity investments without readily determinable fair values. These investments are measured at cost, less any impairment, plus or minus any changes resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Changes in the measurement of these investments are being recorded in Other (income) expense, net within the Consolidated Statement of Earnings. As part of the adoption, the cumulative-effect adjustment to Earnings employed in the business in the Consolidated Balance Sheet for net unrealized losses on equity investments that were recorded in Accumulated other comprehensive income (loss) as of December 31, 2017 was not significant.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers,* which provides a single comprehensive model for accounting for revenue from contracts with customers and supersedes nearly all previously existing revenue recognition guidance. The core principle of the ASU is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Abbott adopted the new standard as of January 1, 2018, using the modified retrospective approach method. Under this method, entities recognize the cumulative effect of applying the new standard at the date of initial application with no restatement of comparative periods presented. The cumulative effect of applying the new standard resulted in an increase to Earnings employed in the business in the Consolidated Balance Sheet of $23 million which was recorded on January 1, 2018. The new standard has been applied only to those contracts that were not completed as of January 1, 2018. The impact of adopting ASU 2014-09 was not significant to individual financial statement line items in the Consolidated Balance Sheet and Consolidated Statement of Earnings.

RECENT ACCOUNTING STANDARDS NOT YET ADOPTED

In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires lessees to recognize assets and liabilities for most leases on the balance sheet. The standard becomes effective for Abbott beginning in the first quarter of 2019. Abbott completed a detailed review of its leases. Abbott will use the modified retrospective approach with the package of practical expedients which allows Abbott to carry forward the historical lease classification for leases existing at, or entered into after the beginning of the period of adoption and to account for lease and non-lease components as a single lease component for its lessee arrangements. Abbott does not expect the new lease accounting standard to have a material impact on the amounts reported in the Consolidated Statement of Earnings. As a result of adopting ASU 2016-02, Abbott expects to record approximately $800 million to $900 million of right of use assets and lease liabilities for operating leases on the Consolidated Balance Sheet.

NOTE 3—REVENUE

Abbott's revenues are derived primarily from the sale of a broad line of health care products under short-term receivable arrangements. Patent protection and licenses, technological and performance features, and inclusion of Abbott's products under a contract most impact which products are sold; price controls, competition and rebates most impact the net selling prices of products; and foreign currency translation impacts the measurement of net sales and costs. Abbott's products are generally sold directly to retailers, wholesalers, distributors, hospitals, health care facilities, laboratories, physicians' offices and government agencies throughout the world. Abbott has four reportable segments: Established Pharmaceutical Products, Diagnostic Products, Nutritional Products, and Cardiovascular and Neuromodulation Products. Diabetes Care is a non-reportable segment and is included in Other in the following table.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables provide detail by sales category:

	2018			2017		
(in millions)	U.S.	Int'l	Total	U.S.	Int'l	Total
Established Pharmaceutical Products —						
Key Emerging Markets	$ —	$ 3,363	$ 3,363	$ —	$ 3,307	$ 3,307
Other	—	1,059	1,059	—	980	980
Total	—	4,422	4,422	—	4,287	4,287
Nutritionals —						
Pediatric Nutritionals	1,843	2,254	4,097	1,777	2,112	3,889
Adult Nutritionals	1,232	1,900	3,132	1,254	1,782	3,036
Total	3,075	4,154	7,229	3,031	3,894	6,925
Diagnostics —						
Core Laboratory	985	3,401	4,386	921	3,142	4,063
Molecular	152	332	484	160	303	463
Point of Care	432	121	553	440	110	550
Rapid Diagnostics	1,148	924	2,072	296	244	540
Total	2,717	4,778	7,495	1,817	3,799	5,616
Cardiovascular and Neuromodulation —						
Rhythm Management	1,019	1,072	2,091	1,030	1,073	2,103
Electrophysiology	764	904	1,668	609	773	1,382
Heart Failure	467	179	646	491	152	643
Vascular	1,126	1,803	2,929	1,180	1,712	2,892
Structural Heart	488	751	1,239	432	651	1,083
Neuromodulation	690	174	864	636	172	808
Total	4,554	4,883	9,437	4,378	4,533	8,911
Other	493	1,502	1,995	447	1,204	1,651
Total	$10,839	$19,739	$30,578	$9,673	$17,717	$27,390

Abbott recognizes revenue from product sales upon the transfer of control, which is generally upon shipment or delivery, depending on the delivery terms set forth in the customer contract. For maintenance agreements that provide service beyond Abbott's standard warranty and other service agreements, revenue is recognized ratably over the contract term. A time-based measure of progress appropriately reflects the transfer of services to the customer. Payment terms between Abbott and its customers vary by the type of customer, country of sale, and the products or services offered. The term between invoicing and the payment due date is not significant.

Management exercises judgment in estimating variable consideration. Provisions for discounts, rebates and sales incentives to customers, and returns and other adjustments are provided for in the period the related sales are recorded. Sales incentives to customers are not material. Historical data is readily available and reliable, and is used for estimating the amount of the reduction in gross sales. Abbott provides rebates to government agencies, wholesalers, group purchasing organizations and other private entities.

Rebate amounts are usually based upon the volume of purchases using contractual or statutory prices for a product. Factors used in the rebate calculations include the identification of which products have been sold subject to a rebate, which customer or government agency price terms apply, and the estimated lag time between sale and payment of a rebate. Using historical trends, adjusted for current changes, Abbott estimates the amount of the rebate that will be paid, and records the liability as a reduction of gross sales when Abbott records its sale of the product. Settlement of the rebate generally occurs from one to six months after sale. Abbott regularly analyzes the historical rebate trends and makes adjustments to reserves for changes in trends and terms of rebate programs. Historically, adjustments to prior years' rebate accruals have not been material to net income.

Other allowances charged against gross sales include cash discounts and returns, which are not significant. Cash discounts are known within 15 to 30 days of sale, and therefore can be reliably estimated. Returns can be reliably estimated because Abbott's historical returns are low, and because sales return terms and other sales terms have remained relatively unchanged for several periods. Product warranties are also not significant.

Abbott also applies judgment in determining the timing of revenue recognition related to contracts that include multiple performance obligations. The total transaction price of the contract is allocated to each performance obligation in an amount based on the estimated relative standalone selling prices of the promised goods or services underlying each performance obligation. For goods or services for which observable standalone selling prices are not available, Abbott uses an expected cost plus a margin approach to estimate the standalone selling price of each performance obligation.

REMAINING PERFORMANCE OBLIGATIONS

As of December 31, 2018, the estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) was approximately

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$2.9 billion in the Diagnostic Products segment and approximately $410 million in the Cardiovascular and Neuromodulation Products segment. Abbott expects to recognize revenue on approximately 60 percent of these remaining performance obligations over the next 24 months, approximately 16 percent over the subsequent 12 months and the remainder thereafter.

These performance obligations primarily reflect the future sale of reagents/consumables in contracts with minimum purchase obligations, extended warranty or service obligations related to previously sold equipment, and remote monitoring services related to previously implanted devices. Abbott has applied the practical expedient described in Accounting Standards Codification (ASC) 606-10-50-14 and has not included remaining performance obligations related to contracts with original expected durations of one year or less in the amounts above.

ASSETS RECOGNIZED FOR COSTS TO OBTAIN A CONTRACT WITH A CUSTOMER

Abbott has applied the practical expedient in ASC 340-40-25-4 and records as an expense the incremental costs of obtaining contracts with customers in the period of occurrence when the amortization period of the asset that Abbott otherwise would have recognized is one year or less. Upfront commission fees paid to sales personnel as a result of obtaining or renewing contracts with customers are incremental to obtaining the contract. Abbott capitalizes these amounts as contract costs. Capitalized commission fees are amortized based on the contract duration to which the assets relate which ranges from two to ten years. The amounts as of December 31, 2018, were not significant.

Additionally, the cost of transmitters provided to customers that use Abbott's remote monitoring service with respect to certain medical devices are capitalized as contract costs. Capitalized transmitter costs are amortized based on the timing of the transfer of services to which the assets relate, which typically ranges from eight to ten years. The amounts as of December 31, 2018, were not significant.

OTHER CONTRACT ASSETS AND LIABILITIES

Abbott discloses Trade receivables separately in the Consolidated Balance Sheet at their net realizable value. Contract assets primarily relate to Abbott's conditional right to consideration for work completed but not billed at the reporting date. Contract assets at the beginning and end of the period, as well as the changes in the balance, were not significant.

Contract liabilities primarily relate to payments received from customers in advance of performance under the contract. Abbott's contract liabilities arise primarily in the Cardiovascular and Neuromodulation reportable segment when payment is received upfront for various multi-period extended service arrangements. Changes in the contract liabilities during the period are as follows:

(in millions)	
Contract Liabilities	
Balance at January 1, 2018	$ 198
Unearned revenue from cash received during the period	304
Revenue recognized that was included in contract liability balance at beginning of period	(243)
Balance at December 31, 2018	$ 259

NOTE 4—DISCONTINUED OPERATIONS AND ASSETS HELD FOR DISPOSITION

On February 27, 2015, Abbott completed the sale of its developed markets branded generics pharmaceuticals business to Mylan Inc. (Mylan) for 110 million ordinary shares (or approximately 22 percent) of a newly formed entity (Mylan N.V.) that combined Mylan's existing business and Abbott's developed markets branded generics pharmaceuticals business.

In April 2015, Abbott sold 40.25 million of the 110 million ordinary shares of Mylan N.V. received in the sale of the developed markets branded generics pharmaceuticals business to Mylan. In 2015, Abbott recorded a pretax gain of $207 million on $2.29 billion in net proceeds from the sale of these shares. In 2017, Abbott sold 69.75 million ordinary shares of Mylan N.V. and received $2.704 billion in proceeds. Abbott recorded a $45 million gain from the sale of these ordinary shares in 2017, which was recognized in the Other (income) expense, net line of the Consolidated Statement of Earnings. Abbott no longer has an ownership interest in Mylan N.V.

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

As a result of the disposition of the above businesses, the operating results of these businesses up to the date of sale are reported as part of discontinued operations on the Earnings from Discontinued Operations, net of taxes line in the Consolidated Statement of Earnings.

On January 1, 2013, Abbott completed the separation of AbbVie Inc. (AbbVie), which was formed to hold Abbott's research-based proprietary pharmaceuticals business. Abbott has retained all liabilities for all U.S. federal and foreign income taxes on income prior to the separation, as well as certain non-income taxes attributable to AbbVie's business. AbbVie generally will be liable for all other taxes attributable to its business.

The net earnings of discontinued operations include income tax benefits of $39 million in 2018, $109 million in 2017 and $325 million in 2016. These tax benefits primarily relate to the resolution of various tax positions related to AbbVie's operations for years prior to the separation.

In September 2016, Abbott announced that it entered into a definitive agreement to sell Abbott Medical Optics (AMO), its vision care business, to Johnson & Johnson for $4.325 billion in cash, subject to customary purchase price adjustments for cash, debt and working capital. The decision to sell AMO reflected Abbott's proactive shaping of its portfolio in line with its strategic priorities. In February 2017, Abbott completed the sale of AMO to Johnson & Johnson and recognized a pre-tax gain of $1.163 billion including working capital adjustments, which was reported in the Other (income) expense, net line of the Consolidated Statement of Earnings in 2017. Abbott recorded an after-tax gain of $728 million in 2017 related to the sale of AMO. The operating results of AMO up to the date of sale continued to be included in Earnings from

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continuing operations as the business did not qualify for reporting as discontinued operations. For 2017 and 2016, the AMO earnings (losses) before taxes included in Abbott's consolidated earnings were $(18) million and $30 million, respectively.

As discussed in Note 7—Business Acquisitions, in conjunction with the acquisition of Alere, Abbott sold the Triage MeterPro cardiovascular and toxicology business and the assets and liabilities related to its B-type Natriuretic Peptide assay business run on Beckman Coulter analyzers to Quidel Corporation (Quidel). The legal transfer of certain assets related to these businesses did not occur at the close of the sale to Quidel due to, among other factors, the time required to transfer marketing authorizations and other regulatory requirements in various countries. Under the terms of the sale agreement with Abbott, Quidel is subject to the risks and entitled to the benefits generated by these operations and assets. The assets presented as held for disposition in the Consolidated Balance Sheet as of December 31, 2018 and 2017, primarily relate to the businesses sold to Quidel.

The following is a summary of the assets held for disposition as of December 31, 2018 and 2017:

(in millions) December 31	2018	2017
Trade receivables, net	$ 6	$ 12
Total inventories	3	8
Current assets held for disposition	9	20
Net property and equipment	—	56
Intangible assets, net of amortization	—	18
Goodwill	17	102
Non-current assets held for disposition	17	176
Total assets held for disposition	$26	$196

NOTE 5—SUPPLEMENTAL FINANCIAL INFORMATION

Other (income) expense, net, for 2018, 2017 and 2016 includes approximately $160 million of income related to the non-service cost components of the net periodic benefit costs associated with the pension and post-retirement medical plans. These amounts are being reported in other (income) expense as a result of the adoption of the new accounting standard for recognizing pension cost. Other (income) expense, net, for 2017 includes a pre-tax gain of $1.163 billion related to the sale of AMO to Johnson & Johnson. See Note 4 — Discontinued Operations and Assets Held for Disposition for further discussion of this sale. In 2017, Abbott sold 69.75 million ordinary shares of Mylan N.V. and received $2.704 billion in proceeds and recorded a $45 million pre-tax gain related to the sale of these ordinary shares. Other (income) expense, net, for 2016 includes expense of $947 million to adjust Abbott's holding of Mylan N.V. ordinary shares due to a decline in the fair value of the securities which was considered by Abbott to be other than temporary.

The detail of various balance sheet components is as follows:

(in millions) December 31	2018	2017
Long-term Investments:		
Equity securities	$856	$797
Other	41	86
Total	$897	$883

Abbott's equity securities as of December 31, 2018 and December 31, 2017, include $307 million and $363 million, respectively, of investments in mutual funds that are held in a rabbi trust acquired as part of the St. Jude Medical, Inc. (St. Jude Medical) business acquisition. These investments, which are specifically designated as available for the purpose of paying benefits under a deferred compensation plan, are not available for general corporate purposes and are subject to creditor claims in the event of insolvency.

Abbott also holds certain investments as of December 31, 2018 with a carrying value of approximately $325 million that are accounted for under the equity method of accounting and other equity investments with a carrying value of $211 million that do not have a readily determinable fair value. The $211 million carrying value includes an unrealized gain of approximately $50 million on an investment. The gain was recorded in the second quarter of 2018 and relates to an observable price change for a similar investment of the same issuer.

(in millions) December 31	2018	2017
Other Accrued Liabilities:		
Accrued rebates payable to government agencies	$ 166	$ 124
Accrued other rebates (a)	608	498
All other	3,006	3,189
Total	$3,780	$3,811

(a) Accrued wholesaler chargeback rebates of $197 million and $178 million at December 31, 2018 and 2017, respectively, are netted in trade receivables because Abbott's customers are invoiced at a higher catalog price but only remit to Abbott their contract price for the products.

(in millions) December 31	2018	2017
Post-employment Obligations and Other Long-term Liabilities:		
Defined benefit pension plans and post-employment medical and dental plans for significant plans	$2,040	$2,169
Deferred income taxes	2,056	2,006
All other (b)	3,984	4,855
Total	$8,080	$9,030

(b) 2018 includes approximately $465 million of net unrecognized tax benefits, as well as approximately $65 million of acquisition consideration payable. 2017 includes approximately $835 million of net unrecognized tax benefits, as well as approximately $100 million of acquisition consideration payable.

Since January 2010, Venezuela has been designated as a highly inflationary economy under U.S. GAAP. On February 17, 2016, the Venezuelan government announced that its three-tier exchange rate system would be reduced to two rates renamed the DIPRO and DICOM rates. The DIPRO was the official rate for food and medicine imports and was adjusted from 6.3 to 10 bolivars per U.S. dollar. The DICOM rate was a floating market rate published daily by the Venezuelan central bank, which at the end of the first quarter of 2016 was approximately 263 bolivars per U.S. dollar. As a result of decreasing government approvals to convert bolivars to U.S. dollars to pay for intercompany accounts, as well as the accelerating deterioration of economic conditions in the country, Abbott concluded that it was appropriate to move to the DICOM rate at the end of the first quarter of 2016. As a result, Abbott recorded a foreign currency exchange loss of $480 million in 2016 to revalue its net monetary assets in Venezuela. After the revaluation, Abbott's investment in its Venezuelan operations was not significant.

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NOTE 6—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

(in millions)	Cumulative Foreign Currency Translation Adjustments	Net Actuarial Losses and Prior Service Costs and Credits	Cumulative Unrealized Gains (Losses) on Marketable Equity Securities	Cumulative Gains (Losses) on Derivative Instruments Designated as Cash Flow Hedges	Total
Balance at December 31, 2016	$(4,959)	$(2,284)	$ (69)	$ 49	$(7,263)
Impact of business dispositions	142	6	–	1	149
Other comprehensive income (loss) before reclassifications	1,365	(333)	182	(170)	1,044
(Income) loss amounts reclassified from accumulated other comprehensive income (a)	–	90	(118)	36	8
Net current period other comprehensive income (loss)	1,365	(243)	64	(134)	1,052
Balance at December 31, 2017	(3,452)	(2,521)	(5)	(84)	(6,062)
Impact of adoption of new accounting standards	–	(337)	5	–	(332)
Other comprehensive income (loss) before reclassifications	(1,488)	(18)	–	58	(1,448)
(Income) loss amounts reclassified from accumulated other comprehensive income (a)	28	150	–	78	256
Net current period other comprehensive income (loss)	(1,460)	132	–	136	(1,192)
Balance at December 31, 2018	$(4,912)	$(2,726)	$ –	$ 52	$(7,586)

(a) Reclassified amounts for foreign currency translation adjustments are recorded in the Consolidated Statement of Earnings as Net Foreign exchange (gain) loss; gains (losses) on marketable equity securities are recorded as Other (income) expense and gains/losses related to cash flow hedges are recorded as Cost of products sold. Net actuarial losses and prior service cost is included as a component of net periodic benefit cost – see Note 14 for additional information.

NOTE 7—BUSINESS ACQUISITIONS

On January 4, 2017, Abbott completed the acquisition of St. Jude Medical, a global medical device manufacturer, for approximately $23.6 billion, including approximately $13.6 billion in cash and approximately $10 billion in Abbott common shares, which represented approximately 254 million shares of Abbott common stock, based on Abbott's closing stock price on the acquisition date. As part of the acquisition, approximately $5.9 billion of St. Jude Medical's debt was assumed, repaid or refinanced by Abbott. The acquisition provides expanded opportunities for future growth and is an important part of the company's ongoing effort to develop a strong, diverse portfolio of devices, diagnostics, nutritionals and branded generic pharmaceuticals. The combined business competes in nearly every area of the cardiovascular device market, as well as in the neuromodulation market.

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

The final allocation of the fair value of the St. Jude Medical acquisition is shown in the table below.

(in billions)	
Acquired intangible assets, non-deductible	$15.5
Goodwill, non-deductible	13.1
Acquired net tangible assets	3.0
Deferred income taxes recorded at acquisition	(2.7)
Net debt	(5.3)
Total final allocation of fair value	$23.6

The goodwill is primarily attributable to expected synergies from combining operations, as well as intangible assets that do not qualify for separate recognition. The goodwill is identifiable to the Cardiovascular and Neuromodulation Products reportable segment. The acquired tangible assets consist primarily of trade accounts receivable of approximately $1.1 billion, inventory of approximately $1.7 billion, other current assets of $176 million, property and equipment of approximately $1.5 billion, and other long-term assets of approximately $455 million. The acquired tangible liabilities consist of trade accounts payable and other current liabilities of approximately $1.1 billion and other non-current liabilities of approximately $870 million.

In 2016, Abbott and St. Jude Medical agreed to sell certain businesses to Terumo Corporation (Terumo) for approximately $1.12 billion. The sale included the St. Jude Medical Angio-Seal™ and Femoseal™ vascular closure and Abbott's Vado® Steerable Sheath businesses. The sale closed on January 20, 2017 and no gain or loss was recorded in the Consolidated Statement of Earnings.

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On October 3, 2017, Abbott acquired Alere, a diagnostic device and service provider, for $51.00 per common share in cash, which equated to a purchase price of approximately $4.5 billion. As part of the acquisition, Abbott tendered for Alere's preferred shares for a total value of approximately $0.7 billion. In addition, approximately $3.0 billion of Alere's debt was assumed and subsequently repaid. The acquisition establishes Abbott as a leader in point of care testing, expands Abbott's global diagnostics presence and provides access to new products, channels and geographies. Abbott utilized a combination of cash on hand and debt to fund the acquisition. See Note 11 — Debt and Lines of Credit for further details regarding the debt utilized for the acquisition.

The final allocation of the fair value of the Alere acquisition is shown in the table below.

(in billions)	
Acquired intangible assets, non-deductible	$ 3.5
Goodwill, non-deductible	3.7
Acquired net tangible assets	1.0
Deferred income taxes recorded at acquisition	(0.4)
Net debt	(2.6)
Preferred stock	(0.7)
Total final allocation of fair value	$ 4.5

The goodwill is primarily attributable to expected synergies from combining operations, as well as intangible assets that do not qualify for separate recognition. The goodwill is identifiable to the Diagnostic Products reportable segment. The approximate value of the acquired tangible assets is $430 million of trade accounts receivable, $425 million of inventory, $225 million of other current assets, $540 million of property and equipment, and $210 million of other long-term assets. The approximate value of the acquired tangible liabilities is $675 million of trade accounts payable and other current liabilities and $145 million of other non-current liabilities.

In the third quarter of 2017, Alere entered into agreements to sell its Triage MeterPro cardiovascular and toxicology business and the assets and liabilities related to its B-type Natriuretic Peptide assay business run on Beckman Coulter analyzers to Quidel. The transactions with Quidel reflect a total purchase price of $400 million payable at the close of the transaction, $240 million payable in six annual installments beginning approximately six months after the close of the transaction, and contingent consideration with a maximum value of $40 million. In the third quarter of 2017, Alere entered into an agreement with Siemens Diagnostics Holding II B.V. (Siemens) to sell its subsidiary, Epocal Inc., for approximately $200 million payable at the close of the transaction. Alere agreed to divest these businesses in connection with the review by the Federal Trade Commission and the European Commission of Abbott's agreement to acquire Alere. The sale to Quidel closed on October 6, 2017, and the sale to Siemens closed on October 31, 2017. No gain or loss on these sales was recorded in the Consolidated Statement of Earnings.

In 2017, consolidated Abbott results include $6.5 billion of sales and a pre-tax loss of approximately $1.3 billion related to the St. Jude Medical and Alere acquisitions, including approximately $1.5 billion of intangible amortization and $907 million of inventory step-up amortization. The pre-tax loss excludes acquisition, integration and restructuring-related costs.

If the acquisitions of St. Jude Medical and Alere had occurred at the beginning of 2016, unaudited pro forma consolidated net sales would have been approximately $28.9 billion and the unaudited pro forma consolidated net loss from continuing operations would have been approximately $485 million in 2016. This includes amortization of approximately $940 million of inventory step-up and $1.7 billion of intangibles related to St. Jude Medical and Alere. For 2017, unaudited pro forma consolidated net sales would have been approximately $28.9 billion and unaudited pro forma consolidated net earnings from continuing operations would have been approximately $750 million, which includes $225 million of intangible amortization related to Alere. The unaudited pro forma consolidated net earnings from continuing operations for 2017 exclude inventory step-up amortization related to St. Jude Medical and Alere of approximately $907 million which was recorded in 2017 but included in the 2016 unaudited pro forma results as noted above. The unaudited pro forma information is not necessarily indicative of the consolidated results of operations that would have been realized had the St. Jude Medical and Alere acquisitions been completed as of the beginning of 2016, nor is it meant to be indicative of future results of operations that the combined entity will experience.

On July 17, 2017, Abbott commenced a tender offer to purchase for cash the 1.77 million outstanding shares of Alere's Series B Convertible Perpetual Preferred Stock at a price of $402 per share, plus accrued but unpaid dividends to, but not including, the settlement date of the tender offer. This tender offer was subject to the satisfaction of certain conditions, including Abbott's acquisition of Alere and upon there being validly tendered (and not properly withdrawn) at the expiration date of the tender offer that number of shares of Preferred Stock that equaled at least a majority of the Preferred Stock issued and outstanding at the expiration of the tender offer. The tender offer expired on October 3, 2017. All conditions to the offer were satisfied and Abbott accepted for payment the 1.748 million shares of Preferred Stock that were validly tendered (and not properly withdrawn). The remaining shares were cashed out for an amount equal to the $400.00 per share liquidation preference of such shares, plus accrued but unpaid dividends, without interest. Payment for all of the shares of Preferred Stock was made in the fourth quarter of 2017.

NOTE 8—GOODWILL AND INTANGIBLE ASSETS

The total amount of goodwill reported was $23.3 billion at December 31, 2018 and $24.0 billion at December 31, 2017. The amounts reported at December 31, 2018 and 2017 exclude goodwill reported in non-current assets held for disposition. In 2018, foreign currency translation adjustments decreased goodwill by approximately $440 million. Purchase price accounting adjustments associated with the Alere acquisition decreased goodwill by $326 million in 2018. Goodwill increased by $17.2 billion in 2017 due to the completion of the St. Jude Medical and Alere acquisitions, partially offset by a decrease of $1.5 billion due to the sale of certain businesses to Terumo, Quidel and Siemens. Foreign currency translation increased goodwill by $653 million in 2017. The amount of goodwill related to reportable segments at December 31, 2018 was $3.0 billion for the Established Pharmaceutical Products segment, $286 million for the Nutritional Products segment, $3.7 billion for the Diagnostic Products segment, and $15.3 billion for the Cardiovascular and Neuromodulation Products segment. In 2018 and 2017, there were no significant reductions of goodwill relating to impairments.

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The gross amount of amortizable intangible assets, primarily product rights and technology was $25.7 billion and $25.6 billion as of December 31, 2018 and 2017, respectively, and accumulated amortization was $10.4 billion and $8.1 billion as of December 31, 2018 and 2017, respectively. In 2018, purchase price allocation adjustments increased intangible assets by $280 million and foreign currency translation adjustments decreased intangible assets by $281 million. In 2017, the gross amount of amortizable intangible assets increased by approximately $14.5 billion due to the completion of the St. Jude Medical and Alere acquisitions, partially offset by a decrease of $210 million due to the sale of certain businesses to Quidel and Siemens.

Indefinite-lived intangible assets, which relate to in-process research and development acquired in a business combination, were approximately $3.6 billion and $3.9 billion at December 31, 2018 and 2017, respectively. The decrease in indefinite-lived intangible assets in 2018 primarily relates to purchase price allocation adjustments associated with the Alere acquisition. In 2017, in-process research and development increased by $4.5 billion due to the completion of the St. Jude Medical and Alere acquisitions, a portion of which became amortizable during the year. In 2017, Abbott also recorded a $53 million impairment of an in-process research and development project related to the Cardiovascular and Neuromodulation Products segment.

The estimated annual amortization expense for intangible assets recorded at December 31, 2018 is approximately $2.0 billion in 2019, $2.2 billion in 2020, $2.1 billion in 2021, $2.0 billion in 2022 and $2.0 billion in 2023. Amortizable intangible assets are amortized over 2 to 20 years (weighted average 12 years).

NOTE 9—RESTRUCTURING PLANS

In 2017 and 2018, Abbott management approved restructuring plans as part of the integration of the acquisitions of St. Jude Medical into the Cardiovascular and Neuromodulation Products segment, and Alere into the Diagnostic Products segment, in order to leverage economies of scale and reduce costs. Abbott recorded employee related severance and other charges of approximately $52 million in 2018 and $187 million in 2017. Approximately $5 million in 2018 and 2017 is recorded in Cost of products sold, approximately $10 million in 2018 is recorded in Research and development, and approximately $37 million in 2018 and $182 million in 2017 are recorded in Selling, general and administrative expense. Abbott also assumed restructuring liabilities of approximately $23 million as part of the St Jude Medical and Alere acquisitions. The following summarizes the activity related to these actions and the status of the related accruals:

(in millions)	
Liabilities assumed as part of business acquisitions	$ 23
Restructuring charges	187
Payments and other adjustments	(142)
Accrued balance at December 31, 2017	68
Restructuring charges	52
Payments and other adjustments	(79)
Accrued balance at December 31, 2018	$ 41

From 2016 to 2018, Abbott management approved plans to streamline operations in order to reduce costs and improve efficiencies in various Abbott businesses including the nutritional, established pharmaceuticals and vascular businesses. Abbott recorded employee related severance and other charges of approximately $28 million in 2018, $120 million in 2017 and $32 million in 2016. Approximately $10 million in 2018, $7 million in 2017, and $9 million in 2016 are recorded in Cost of products sold, approximately $2 million in 2018, $77 million in 2017 and $5 million in 2016 are recorded in Research and development and approximately $16 million in 2018, $36 million in 2017 and $18 million in 2016 are recorded in Selling, general and administrative expense. Additional charges of approximately $2 million in 2017 and 2016 were recorded primarily for accelerated depreciation.

The following summarizes the activity for these restructurings:

(in millions)	
Restructuring charges	$ 32
Payments and other adjustments	(15)
Accrued balance at December 31, 2016	17
Restructuring charges	120
Payments and other adjustments	(18)
Accrued balance at December 31, 2017	119
Restructuring charges	28
Payments and other adjustments	(77)
Accrued balance at December 31, 2018	$ 70

NOTE 10 — INCENTIVE STOCK PROGRAM

The 2017 Incentive Stock Program authorizes the granting of nonqualified stock options, restricted stock awards, restricted stock units, performance awards, foreign benefits and other share-based awards. Stock options and restricted stock awards and units comprise the majority of benefits that have been granted and are currently outstanding under this program and a prior program. In 2018, Abbott granted 5,760,221 stock options, 871,331 restricted stock awards and 8,093,546 restricted stock units under this program.

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

In April 2017, Abbott's shareholders authorized the 2017 Incentive Stock Program under which a maximum of 170 million shares were available for issuance. At December 31, 2018, approximately 144 million shares remained available for future issuance.

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In connection with the completion of the St. Jude Medical acquisition in the first quarter of 2017, unvested St. Jude Medical stock options and restricted stock units were assumed by Abbott and converted into Abbott options and restricted stock units (as applicable) of substantially equivalent value, in accordance with the merger agreement. The number of shares underlying the converted options was 7,364,571 at a weighted average exercise price of $30.50. The number of restricted stock units converted was 2,324,500 at a weighted average grant date fair value of $37.69.

The number of restricted stock awards and units outstanding and the weighted-average grant-date fair value at December 31, 2018 and December 31, 2017 was 15,952,602 and $52.11 and 15,518,719 and $42.82, respectively. The number of restricted stock awards and units, and the weighted-average grant-date fair value, that were granted, vested and lapsed during 2018 were 8,964,877 and $60.10, 7,522,375 and $42.85 and 1,008,619 and $49.27, respectively. The fair market value of restricted stock awards and units vested in 2018, 2017 and 2016 was $458 million, $348 million and $225 million, respectively.

	Options Outstanding			Exercisable Options		
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)	Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (Years)
December 31, 2017	35,813,800	$36.85	5.8	22,216,890	$34.54	4.7
Granted	5,760,221	60.02				
Exercised	(7,690,569)	30.34				
Lapsed	(808,839)	44.77				
December 31, 2018	33,074,613	$42.21	6.3	21,660,783	$38.05	5.3

The aggregate intrinsic value of options outstanding and exercisable at December 31, 2018 were $996 million and $743 million, respectively. The total intrinsic value of options exercised in 2018, 2017 and 2016 was $249 million, $233 million and $98 million, respectively. The total unrecognized compensation cost related to all share-based compensation plans at December 31, 2018 amounted to approximately $364 million, which is expected to be recognized over the next three years.

Total non-cash stock compensation expense charged against income from continuing operations in 2018, 2017 and 2016 for share-based plans totaled approximately $477 million, $406 million and $310 million, respectively, and the tax benefit recognized was approximately $185 million, $242 million and $100 million, respectively. The decrease in the tax benefit in 2018 primarily relates to the Tax Cuts and Jobs Act (TCJA), which reduces the U.S. federal corporate tax rate from 35% to 21%. The increase in the 2017 tax benefit primarily relates to the $120 million of tax benefit recorded in income after the adoption of ASU 2016-09. Stock compensation cost capitalized as part of inventory is not significant.

The fair value of an option granted in 2018, 2017 and 2016 was $10.93, $6.54, and $4.38, respectively. The fair value of an option grant was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2018	2017	2016
Risk-free interest rate	2.7%	2.1%	1.4%
Average life of options (years)	6.0	6.0	6.0
Volatility	19.0%	18.0%	17.0%
Dividend yield	1.9%	2.4%	2.7%

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

NOTE 11—DEBT AND LINES OF CREDIT

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

(in millions)	2018	2017
5.125% Notes, due 2019	$ —	$ 947
2.35% Notes, due 2019	—	2,850
2.50% Line of credit borrowing due 2019	—	1,150
0.00% Notes, due 2020	1,300	—
2.80% Notes, due 2020	500	500
4.125% Notes, due 2020	—	597
2.00% Notes, due 2020	—	750
2.90% Notes, due 2021	2,850	2,850
2.55% Notes, due 2022	750	750
2.62% Term loan due 2022	—	2,800
0.875% Notes, due 2023	1,303	—
3.25% Notes, due 2023	—	900
3.40% Notes, due 2023	1,050	1,500
3.875% Notes, due 2025	500	500
2.95% Notes, due 2025	1,000	1,000
1.50% Notes, due 2026	1,300	—
3.75% Notes, due 2026	1,700	3,000
4.75% Notes, due 2036	1,650	1,650
6.15% Notes, due 2037	547	547
6.00% Notes, due 2039	515	515
5.30% Notes, due 2040	694	694
4.75% Notes, due 2043	700	700
4.90% Notes, due 2046	3,250	3,250
Unamortized debt issuance costs	(102)	(119)
Other, including fair value adjustments relating to interest rate hedge contracts designated as fair value hedges	(148)	(121)
Total, net of current maturities	19,359	27,210
Current maturities of long-term debt	7	508
Total carrying amount	$19,366	$27,718

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On February 16, 2018, the board of directors authorized the early redemption of up to $5 billion of outstanding long-term notes. Redemptions under this authorization include the following:

- $0.947 billion principal amount of its 5.125% Notes due 2019—redeemed on March 22, 2018
- $1.055 billion of the $2.850 billion principal amount of its 2.35% Notes due 2019—redeemed on March 22, 2018
- $1.300 billion of the $1.795 billion outstanding principal amount of its 2.35% Notes due 2019—redeemed on June 22, 2018
- $0.495 billion outstanding principal amount of its 2.35% Notes due 2019—redeemed on September 28, 2018

On January 25, 2019, Abbott gave notice to the holders of its 2.80% Notes due 2020, that it will redeem the $500 million outstanding principal amount of these notes on February 24, 2019. After the redemption of the 2.80% Notes, approximately $700 million of the $5 billion debt redemption authorization noted above will remain available.

Abbott incurred a net charge of $14 million related to the March 22, 2018 early repayment of debt.

On September 17, 2018, Abbott repaid upon maturity the $500 million aggregate principal amount outstanding of the 2.00% Senior Notes due 2018.

On September 27, 2018, Abbott's wholly owned subsidiary, Abbott Ireland Financing DAC, completed a euro debt offering of €3.420 billion of long-term debt consisting of €1.140 billion of non-interest bearing Senior Notes due 2020 at 99.727% of par value; €1.140 billion of 0.875% Senior Notes due 2023 at 99.912% of par value; and €1.140 billion of 1.50% Senior Notes due 2026 at 99.723% of par value. The proceeds equated to approximately $4 billion. The notes are guaranteed by Abbott.

On October 28, 2018, Abbott redeemed approximately $4 billion of debt, which included $750 million principal amount of its 2.00% Notes due 2020; $597 million principal amount of its 4.125% Notes due 2020; $900 million principal amount of its 3.25% Notes due 2023; $450 million principal amount of its 3.4% Notes due 2023; and $1.300 billion principal amount of its 3.75% Notes due 2026. These amounts are in addition to the $5 billion authorization discussed above. In conjunction with the redemption, Abbott unwound approximately $1.1 billion in interest rate swaps relating to the 3.40% Note due in 2023 and the 3.75% Note due in 2026. Abbott incurred a net charge of $153 million related to the early repayment of this debt and the unwinding of related interest rate swaps.

On November 30, 2018, Abbott entered into a Five Year Credit Agreement (Revolving Credit Agreement) and terminated the 2014 revolving credit agreement. There were no outstanding borrowings under the 2014 revolving credit agreement at the time of its termination. The Revolving Credit Agreement provides Abbott with the ability to borrow up to $5 billion on an unsecured basis. Any borrowings under the Revolving Credit Agreement will mature and be payable on November 30, 2023. Any borrowings under the Revolving Credit Agreement will bear interest, at Abbott's option, based on either a base rate or Eurodollar rate, plus an applicable margin based on Abbott's credit ratings.

In the first quarter of 2017, as part of the acquisition of St. Jude Medical, Abbott's long-term debt increased due to the assumption of outstanding debt previously issued by St. Jude Medical. Abbott exchanged certain St. Jude Medical debt obligations with an aggregate principal amount of approximately $2.9 billion for debt issued by Abbott which consists of:

	Principal Amount
2.00% Senior Notes due 2018	$473.8 million
2.80% Senior Notes due 2020	$483.7 million
3.25% Senior Notes due 2023	$818.4 million
3.875% Senior Notes due 2025	$490.7 million
4.75% Senior Notes due 2043	$639.1 million

Following this exchange, approximately $194.2 million of existing St. Jude Medical notes remained outstanding across the five series of existing notes which have the same coupons and maturities as those listed above. There were no significant costs associated with the exchange of debt. In addition, during the first quarter of 2017, Abbott assumed and subsequently repaid approximately $2.8 billion of various St. Jude Medical debt obligations.

On January 4, 2017, as part of funding the cash portion of the St. Jude Medical acquisition, Abbott borrowed $2.0 billion under a 120-day senior unsecured bridge term loan facility. This facility was repaid during the first quarter of 2017.

In 2017, Abbott issued 364-day yen-denominated debt, of which $199 million and $195 million was outstanding at December 31, 2018 and 2017, respectively. In 2017, Abbott also paid off a $479 million yen-denominated short-term borrowing during the year.

On July 31, 2017, Abbott entered into a 5-year term loan agreement that allowed Abbott to borrow up to $2.8 billion on an unsecured basis for the acquisition of Alere. On October 3, 2017, Abbott borrowed $2.8 billion under this term loan agreement to finance the acquisition of Alere, to repay certain indebtedness of Abbott and Alere, and to pay fees and expenses in connection with the acquisition. Borrowings under the term loan bore interest based on a Eurodollar rate, plus an applicable margin based on Abbott's credit ratings. Abbott paid off this term loan on January 5, 2018.

On October 3, 2017 Abbott borrowed $1.7 billion under its lines of credit. Proceeds from such borrowing were used to finance the acquisition of Alere, to repay certain indebtedness of Abbott and Alere, and to pay fees and expenses in connection with the acquisition. These lines of credit were part of a 2014 revolving credit agreement that provided Abbott with the ability to borrow up to $5 billion on an unsecured basis. Advances under the revolving credit agreement, including the $1.7 billion borrowing in October 2017, were scheduled to mature and be payable on July 10, 2019. The $1.7 billion borrowing bore interest based on a Eurodollar rate, plus an applicable margin based on Abbott's credit ratings. Prior to October 3, 2017, no amounts were previously drawn under the revolving credit agreement. In the fourth quarter of 2017, Abbott paid off $550 million on the revolving loan. Abbott paid off the remaining balance on this revolving loan on January 5, 2018.

In the fourth quarter of 2017, in conjunction with the acquisition of Alere, Abbott assumed and subsequently repaid $3.0 billion of Alere's debt.

In November 2016, Abbott issued $15.1 billion of medium and long-term debt to primarily fund the cash portion of the acquisition of St. Jude Medical. Abbott issued $2.85 billion of 2.35% Senior Notes due November 22, 2019; $2.85 billion of 2.90% Senior Notes due November 30, 2021; $1.50 billion of 3.40% Senior Notes due November 30, 2023; $3.00 billion of 3.75% Senior Notes due

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 2026; $1.65 billion of 4.75% Senior Notes due November 30, 2036; and $3.25 billion of 4.90% Senior Notes due November 30, 2046. In November 2016, Abbott also entered into interest rate swap contracts totaling $3.0 billion related to the new debt, which have the effect of changing Abbott's obligation from a fixed interest rate to a variable interest rate obligation on the related debt instruments.

In February 2016, Abbott obtained a commitment for a 364-day senior unsecured bridge term loan facility for an amount not to exceed $9 billion in conjunction with its pending acquisition of Alere. This commitment, which was automatically extended for up to 90 days on January 29, 2017, expired on April 30, 2017 and was not renewed since Abbott did not need this bridge facility to finance the Alere acquisition. The fees associated with the bridge facilities were recognized in interest expense.

Principal payments required on long-term debt outstanding at December 31, 2018 are $7 million in 2019, $1.8 billion in 2020, $2.9 billion in 2021, $750 million in 2022, $2.3 billion in 2023 and $11.8 billion in 2024 and thereafter.

At December 31, 2018, Abbott's long-term debt rating was BBB by Standard & Poor's Corporation and Baa1 by Moody's. Abbott has readily available financial resources, including lines of credit of $5.0 billion which expire in 2023 and support commercial paper borrowing arrangements. Abbott's weighted-average interest rate on short-term borrowings was 0.4% at December 31, 2018, 0.3% at December 31, 2017 and 0.6% at December 31, 2016.

NOTE 12—FINANCIAL INSTRUMENTS, DERIVATIVES AND FAIR VALUE MEASURES

Certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U.S. dollar. These contracts, with gross notional amounts totaling $5.1 billion at December 31, 2018, and $3.3 billion at December 31, 2017, are designated as cash flow hedges of the variability of the cash flows due to changes in foreign exchange rates and are recorded at fair value. Accumulated gains and losses as of December 31, 2018 will be included in Cost of products sold at the time the products are sold, generally through the next twelve to eighteen months.

Abbott enters into foreign currency forward exchange contracts to manage currency exposures for foreign currency denominated third-party trade payables and receivables, and for intercompany loans and trade accounts payable where the receivable or payable is denominated in a currency other than the functional currency of the entity. For intercompany loans, the contracts require Abbott to sell or buy foreign currencies, primarily European currencies, in exchange for primarily U.S. dollars and European currencies. For intercompany and trade payables and receivables, the currency exposures are primarily the U.S. dollar and European currencies. At December 31, 2018, 2017 and 2016, Abbott held gross notional amounts of $13.6 billion, $20.1 billion and $14.9 billion, respectively, of such foreign currency forward exchange contracts.

In March 2017, Abbott repaid its $479 million foreign denominated short-term debt which was designated as a hedge of the net investment in a foreign subsidiary. At December 31, 2016, the value of this short-term debt was $454 million and changes in the fair value of the debt up through the date of repayment due to changes in exchange rates were recorded in Accumulated other comprehensive income (loss), net of tax.

Abbott is a party to interest rate hedge contracts totaling approximately $2.9 billion at December 31, 2018, $4.0 billion at December 31, 2017 and $5.5 billion at December 31, 2016, to manage its exposure to changes in the fair value of fixed-rate debt. These contracts are designated as fair value hedges of the variability of the fair value of fixed-rate debt due to changes in the long-term benchmark interest rates. The effect of the hedge is to change a fixed-rate interest obligation to a variable rate for that portion of the debt. Abbott records the contracts at fair value and adjusts the carrying amount of the fixed-rate debt by an offsetting amount.

In October 2018, Abbott unwound approximately $1.1 billion in interest rate swaps relating to the 3.40% Note due in 2023 and the 3.75% Note due in 2026. As a part of the unwinding, Abbott paid approximately $90 million in cash, which was included in the Financing Activities section of the Consolidated Statement of Cash Flows in 2018.

In the second quarter of 2017, Abbott unwound approximately $1.5 billion in interest rate swaps relating to the 2.00% Note due in 2020 and the 2.55% Note due in 2022. The proceeds received were not significant.

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

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

	Fair Value—Assets			Fair Value—Liabilities		
(in millions)	2018	2017	Balance Sheet Caption	2018	2017	Balance Sheet Caption
Interest rate swaps designated as fair value hedges	$ —	$ —	Deferred income taxes and other assets	$100	$ 93	Post-employment obligations and other long-term liabilities
Foreign currency forward exchange contracts —						
Hedging instruments	81	21	Other prepaid expenses and receivables	44	106	Other accrued liabilities
Others not designated as hedges	33	117	Other prepaid expenses and receivables	51	99	Other accrued liabilities
	$114	$138		$195	$298	

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The following table summarizes the activity for foreign currency forward exchange contracts designated as cash flow hedges, debt designated as a hedge of net investment in a foreign subsidiary and certain other derivative financial instruments, as well as the amounts and location of income (expense) and gain (loss) reclassified into income.

	Gain (loss) Recognized in Other Comprehensive Income (loss)			Income (expense) and Gain (loss) Reclassified into Income			
(in millions)	2018	2017	2016	2018	2017	2016	Income Statement Caption
Foreign currency forward exchange contracts designated as cash flow hedges	$73	$(226)	$ 49	$(114)	$(48)	$ 48	Cost of products sold
Debt designated as a hedge of net investment in a foreign subsidiary	–	(25)	(15)	n/a	n/a	n/a	n/a
Interest rate swaps designated as fair value hedges	n/a	n/a	n/a	(97)	(24)	(127)	Interest expense

Losses of $100 million and $64 million, and gains of $8 million were recognized in 2018, 2017 and 2016, respectively, related to foreign currency forward exchange contracts not designated as hedges. These amounts are reported in the Consolidated Statement of Earnings on the Net foreign exchange (gain) loss line.

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

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

	2018		2017	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term Investment Securities:				
Equity securities	$ 856	$ 856	$ 797	$ 797
Other	41	41	86	86
Total Long-term Debt	(19,366)	(19,871)	(27,718)	(29,018)
Foreign Currency Forward Exchange Contracts:				
Receivable position	114	114	138	138
(Payable) position	(95)	(95)	(205)	(205)
Interest Rate Hedge Contracts:				
(Payable) position	(100)	(100)	(93)	(93)

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

		Basis of Fair Value Measurement		
(in millions)	Outstanding Balances	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs
December 31, 2018:				
Equity securities	$ 320	$320	$ –	$ –
Foreign currency forward exchange contracts	114	–	114	–
Total Assets	$ 434	$320	$ 114	$ –
Fair value of hedged long-term debt	$2,743	$ –	$2,743	$ –
Interest rate swap financial instruments	100	–	100	–
Foreign currency forward exchange contracts	95	–	95	–
Contingent consideration related to business combinations	71	–	–	71
Total Liabilities	$3,009	$ –	$2,938	$ 71
December 31, 2017:				
Equity securities	$ 374	$374	$ –	$ –
Foreign currency forward exchange contracts	138	–	138	–
Total Assets	$ 512	$374	$ 138	$ –
Fair value of hedged long-term debt	$3,898	$ –	$3,898	$ –
Interest rate swap financial instruments	93	–	93	–
Foreign currency forward exchange contracts	205	–	205	–
Contingent consideration related to business combinations	120	–	–	120
Total Liabilities	$4,316	$ –	$4,196	$120

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The fair value of foreign currency forward exchange contracts is determined using a market approach, which utilizes values for comparable derivative instruments. The fair value of the debt was determined based on the face value of the debt adjusted for the fair value of the interest rate swaps, which is based on a discounted cash flow analysis using significant other observable inputs.

Contingent consideration relates to businesses acquired by Abbott. The fair value of the contingent consideration was determined based on independent appraisals, at the time of the business acquisition, adjusted for the time value of money and other changes in fair value. The maximum amount for certain contingent consideration is not determinable as it is based on a percent of certain sales. Excluding such contingent consideration, the maximum amount estimated to be due is approximately $480 million, which is dependent upon attaining certain sales thresholds or based on the occurrence of certain events, such as regulatory approvals.

NOTE 13—LITIGATION AND ENVIRONMENTAL MATTERS

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

Abbott is involved in various claims and legal proceedings, and Abbott estimates the range of possible loss for its legal proceedings and environmental exposures to be from approximately $125 million to $165 million. The recorded accrual balance at December 31, 2018 for these proceedings and exposures was approximately $145 million. This accrual represents management's best estimate of probable loss, as defined by FASB ASC No. 450, "Contingencies." Within the next year, legal proceedings may occur that may result in a change in the estimated loss accrued by Abbott. While it is not feasible to predict the outcome of all such proceedings and exposures with certainty, management believes that their ultimate disposition should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations.

NOTE 14—POST-EMPLOYMENT BENEFITS

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

	Defined Benefit Plans		Medical and Dental Plans	
(in millions)	2018	2017	2018	2017
Projected benefit obligations, January 1	$ 9,953	$ 8,517	$1,393	$1,274
Service cost — benefits earned during the year	293	283	26	25
Interest cost on projected benefit obligations	308	287	48	45
(Gains) losses, primarily changes in discount rates, plan design changes, law changes and differences between actual and estimated health care costs	(1,044)	752	(106)	149
Benefits paid	(295)	(276)	(68)	(80)
Other, including foreign currency translation	(122)	390	(1)	(20)
Projected benefit obligations, December 31	$ 9,093	$ 9,953	$1,292	$1,393
Plan assets at fair value, January 1	$ 9,298	$ 7,542	$ 419	$ 416
Actual return (loss) on plans' assets	(450)	1,107	(20)	65
Company contributions	114	645	12	12
Benefits paid	(295)	(276)	(60)	(74)
Other, including foreign currency translation	(114)	280	—	—
Plan assets at fair value, December 31	$ 8,553	$ 9,298	$ 351	$ 419
Projected benefit obligations greater than plan assets, December 31	$ (540)	$ (655)	$ (941)	$ (974)
Long-term assets	$ 583	$ 563	$ —	$ —
Short-term liabilities	(23)	(21)	(1)	(2)
Long-term liabilities	(1,100)	(1,197)	(940)	(972)
Net liability	$ (540)	$ (655)	$ (941)	$ (974)
Amounts Recognized in Accumulated Other Comprehensive Income (loss):				
Actuarial losses, net	$ 3,326	$ 3,466	$ 361	$ 456
Prior service cost (credits)	(2)	(9)	(163)	(208)
Total	$ 3,324	$ 3,457	$ 198	$ 248

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The projected benefit obligations for non-U.S. defined benefit plans was $2.7 billion and $3.0 billion at December 31, 2018 and 2017, respectively. The accumulated benefit obligations for all defined benefit plans were $8.3 billion and $8.9 billion at December 31, 2018 and 2017, respectively.

For plans where the accumulated benefit obligations exceeded plan assets at December 31, 2018 and 2017, the aggregate accumulated benefit obligations, the projected benefit obligations and the aggregate plan assets were as follows:

(in millions)	2018	2017
Accumulated benefit obligation	$1,265	$1,664
Projected benefit obligation	1,362	1,892
Fair value of plan assets	375	696

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

	Defined Benefit Plans			Medical and Dental Plans		
(in millions)	2018	2017	2016	2018	2017	2016
Service cost — benefits earned during the year	$ 293	$ 283	$ 263	$ 26	$ 25	$ 26
Interest cost on projected benefit obligations	308	287	288	48	45	43
Expected return on plans' assets	(680)	(613)	(565)	(33)	(33)	(35)
Amortization of actuarial losses	205	163	129	33	23	16
Amortization of prior service cost (credits)	1	1	—	(45)	(45)	(45)
Total cost	$ 127	$ 121	$ 115	$ 29	$ 15	$ 5

In 2017, Abbott recognized a $10 million curtailment gain related to the sale of AMO.

Other comprehensive income (loss) for each respective year includes the amortization of actuarial losses and prior service costs (credits) as noted in the previous table. Other comprehensive income (loss) for each respective year also includes: net actuarial losses of $86 million for defined benefit plans and a gain of $53 million for medical and dental plans in 2018; net actuarial losses of $247 million for defined benefit plans and $97 million for medical and dental plans in 2017; net actuarial losses of $571 million for defined benefit plans and $20 million for medical and dental plans in 2016.

The pretax amount of actuarial losses and prior service cost (credits) included in Accumulated other comprehensive income (loss) at December 31, 2018 that is expected to be recognized in the net periodic benefit cost in 2019 is $130 million and $1 million of expense, respectively, for defined benefit pension plans and $24 million of expense and $32 million of income, respectively, for medical and dental plans.

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

	2018	2017	2016
Discount rate	4.0%	3.4%	3.9%
Expected aggregate average long-term change in compensation	4.3%	4.4%	4.3%

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

	2018	2017	2016
Discount rate	3.4%	3.9%	4.3%
Expected return on plan assets	7.7%	7.6%	7.6%
Expected aggregate average long-term change in compensation	4.4%	4.3%	4.3%

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

	2018	2017	2016
Health care cost trend rate assumed for the next year	9%	9%	8%
Rate that the cost trend rate gradually declines to	5%	5%	5%
Year that rate reaches the assumed ultimate rate	2025	2027	2027

The discount rates used to measure liabilities were determined based on high-quality fixed income securities that match the duration of the expected retiree benefits. The health care cost trend rates represent Abbott's expected annual rates of change in the cost of health care benefits and are forward projections of health care costs as of the measurement date. A one-percentage point increase/(decrease) in the assumed health care cost trend rate would increase/(decrease) the accumulated post-employment benefit obligations as of December 31, 2018, by $157 million /$(131) million, and the total of the service and interest cost components of net post-employment health care cost for the year then ended by approximately $12 million/$(10) million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

		Basis of Fair Value Measurement			
(in millions)	Outstanding Balances	Quoted Prices in Active Markets	Significant Other Observable Inputs	Significant Unobservable Inputs	Measured at NAV (k)
December 31, 2018:					
Equities:					
U.S. large cap (a)	$2,168	$1,319	$ 5	$ –	$ 844
U.S. mid and small cap (b)	515	226	–	–	289
International (c)	1,671	370	–	–	1,301
Fixed income securities:					
U.S. government securities (d)	476	51	269	–	156
Corporate debt instruments (e)	1,150	269	701	–	180
Non-U.S. government securities (f)	405	5	–	–	400
Other (g)	199	15	55	–	129
Absolute return funds (h)	1,684	448	–	–	1,236
Commodities (i)	59	–	–	4	55
Cash and Cash Equivalents	192	123	–	–	69
Other (j)	385	11	–	–	374
	$8,904	$2,837	$1,030	$ 4	$5,033
December 31, 2017:					
Equities:					
U.S. large cap (a)	$2,506	$1,600	$ –	$ –	$ 906
U.S. mid and small cap (b)	670	243	–	–	427
International (c)	1,937	448	–	–	1,489
Fixed income securities:					
U.S. government securities (d)	510	11	286	–	213
Corporate debt instruments (e)	930	107	411	–	412
Non-U.S. government securities (f)	625	222	–	–	403
Other (g)	216	93	27	–	96
Absolute return funds (h)	1,814	135	–	–	1,679
Commodities (i)	60	–	–	4	56
Cash and Cash Equivalents	178	12	–	–	166
Other (j)	271	7	–	–	264
	$9,717	$2,878	$ 724	$ 4	$6,111

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

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

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

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

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

(f) Primarily United Kingdom, Japan and Irish government-issued bonds. In 2017, included Netherlands bonds.

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Equities that are valued using quoted prices are valued at the published market prices. Equities in a common collective trust or a registered investment company that are valued using significant other observable inputs are valued at the net asset value (NAV) provided by the fund administrator. The NAV is based on the value of the underlying assets owned by the fund minus its liabilities. For approximately half of these funds, investments may be redeemed once per month, with a required 7 to 30 day notice period. For the remaining funds, daily redemption of an investment is allowed. Fixed income securities that are valued using significant other observable inputs are valued at prices obtained from independent financial service industry recognized vendors. Abbott did not have any unfunded commitments related to fixed income funds at December 31, 2018 and 2017. For the majority of these funds, investments may be redeemed either weekly or monthly, with a required 2 to 14 day notice period. For the remaining funds, investments may be generally redeemed daily.

Absolute return funds and commodities are valued at the NAV provided by the fund administrator. All private funds are valued at the NAV provided by the fund on a one-quarter lag adjusted for known cash flows and significant events through the reporting date. Abbott did not have any unfunded commitments related to absolute return funds at December 31, 2018 and 2017. Investments in these funds may be generally redeemed monthly or quarterly with required notice periods ranging from 5 to 45 days. For approximately $100 million of the absolute return funds, redemptions are subject to a 25 percent gate. For commodities, investments in the private energy funds cannot be redeemed but the funds will make distributions through liquidation. The estimate of the liquidation period for each fund ranges from 2019 to 2022. Abbott's unfunded commitments in these funds as of December 31, 2018 and 2017 were not significant. Investments in the private funds (excluding private energy funds) cannot be redeemed but the funds will make distributions through liquidation. The estimate of the liquidation period for each fund ranges from 2019 to 2028. Abbott's unfunded commitment in these funds was $518 million and $489 million as of December 31, 2018 and 2017, respectively.

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

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

Abbott funds its domestic pension plans according to IRS funding limitations. International pension plans are funded according to similar regulations. Abbott funded $114 million in 2018 and $645 million in 2017 to defined pension plans. Abbott expects to contribute approximately $380 million to its pension plans in 2019.

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

(in millions)	Defined Benefit Plans	Medical and Dental Plans
2019	$ 306	$ 74
2020	317	77
2021	333	78
2022	351	79
2023	369	80
2024 to 2028	2,160	418

The Abbott Stock Retirement Plan is the principal defined contribution plan. Abbott's contributions to this plan were $146 million in 2018, $79 million in 2017 and $83 million in 2016. The 2018 contributions include amounts related to participants of the St. Jude Medical Retirement Plan which was terminated in January 2018.

NOTE 15—TAXES ON EARNINGS FROM CONTINUING OPERATIONS

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

The Tax Cuts and Jobs Act (TCJA) was enacted in the U.S. on December 22, 2017. The TCJA reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. As of December 31, 2018, Abbott has completed its accounting for all of the enactment date income tax effects of the TCJA. If additional regulations issued by the U.S. Department of the Treasury after December 31, 2018 result in a change in judgment, the effect of such regulations will be accounted for in the period in which the regulations are finalized.

Effective for fiscal years beginning after December 31, 2017, the TCJA subjects taxpayers to tax on global intangible low-taxed income (GILTI) earned by certain foreign subsidiaries. In January 2018, the FASB staff provided guidance that an entity may make an accounting policy election to either recognize deferred taxes related to items that will give rise to GILTI in future years or provide for the tax expense related to GILTI in the year that the tax is incurred. Abbott has elected to treat the GILTI tax as a period expense and provide for the tax in the year that the tax is incurred.

In the fourth quarter of 2017, Abbott recorded an estimate of net tax expense of $1.46 billion for the impact of the TCJA, which was included in Taxes on Earnings from Continuing Operations in the Consolidated Statement of Earnings. The estimate was provisional

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and included a charge of approximately $2.89 billion for the transition tax, partially offset by a net benefit of approximately $1.42 billion for the remeasurement of deferred tax assets and liabilities, and a net benefit of approximately $10 million related to certain other impacts of the TCJA. In 2018, Abbott recorded $130 million of additional tax expense which increased the final tax expense related to the TCJA to $1.59 billion. The $130 million of additional tax expense reflects a $120 million increase in the transition tax from $2.89 billion to $3.01 billion and a $10 million reduction in the net benefit related to the remeasurement of deferred tax assets and liabilities.

The one-time transition tax is based on Abbott's total post-1986 earnings and profits (E&P) that were previously deferred from U.S. income taxes. The tax computation also requires the determination of the amount of post-1986 E&P considered held in cash and other specified assets. As of December 31, 2018, the remaining balance of Abbott's transition tax obligation is approximately $1.58 billion, which will be paid over the next eight years as allowed by the TCJA.

In 2018, taxes on earnings from continuing operations includes $98 million of net tax expense related to the settlement of Abbott's 2014-2016 federal income tax audit in the U.S., partial settlement of the former St. Jude Medical consolidated group's 2014 and 2015 federal income tax returns in the U.S. and audit settlements in various countries. In 2017, taxes on earnings from continuing operations included $435 million of tax expense related to the gain on the sale of the AMO business. In 2016, taxes on earnings from continuing operations included the impact of a net tax benefit of approximately $225 million, primarily as a result of the resolution of various tax positions from prior years, partially offset by the unfavorable impact of non-deductible foreign exchange losses related to Venezuela and the adjustment of the Mylan N.V. equity investment, as well as the recognition of deferred taxes associated with the then pending sale of AMO.

Undistributed foreign earnings remain indefinitely reinvested in foreign operations. Determining the amount of unrecognized deferred tax liability related to any remaining undistributed foreign earnings not subject to the transition tax and additional outside basis difference in its foreign entities is not practicable. In the U.S., Abbott's federal income tax returns through 2016 are settled except for the federal income tax returns of the former Alere consolidated group which are settled through 2014 and the former St. Jude Medical consolidated group which are settled through 2013. There are numerous other income tax jurisdictions for which tax returns are not yet settled, none of which are individually significant. Reserves for interest and penalties are not significant.

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

(in millions)	2018	2017	2016
Earnings From Continuing Operations Before Taxes:			
Domestic	$ (430)	$ 308	$ 306
Foreign	3,303	1,923	1,107
Total	$2,873	$2,231	$1,413
Taxes on Earnings From Continuing Operations:			
Current:			
Domestic	$ (812)	$2,260	$ 71
Foreign	606	508	406
Total current	(206)	2,768	477
Deferred:			
Domestic	832	(679)	(147)
Foreign	(87)	(211)	20
Total deferred	745	(890)	(127)
Total	$ 539	$1,878	$ 350

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

	2018	2017	2016
Statutory tax rate on earnings from continuing operations	21.0%	35.0%	35.0%
Impact of foreign operations	(5.4)	(16.3)	(17.8)
Impact of TCJA and other related items	6.3	65.5	–
Foreign-derived intangible income benefit	(1.9)	–	–
Domestic impairment loss	(2.1)	–	–
Excess tax benefits related to stock compensation	(3.1)	(5.4)	–
Research tax credit	(1.8)	(1.9)	(1.8)
Resolution of certain tax positions pertaining to prior years	3.4	–	(16.1)
Mylan share adjustment	–	–	25.5
State taxes, net of federal benefit	0.4	0.5	(1.3)
Federal tax cost on sale of Mylan N.V. shares	–	3.4	–
All other, net	2.0	3.4	1.3
Effective tax rate on earnings from continuing operations	18.8%	84.2%	24.8%

Impact of foreign operations is primarily derived from operations in Puerto Rico, Switzerland, Ireland, the Netherlands, Costa Rica, and Singapore.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(in millions)	2018	2017
Deferred tax assets:		
Compensation and employee benefits	$ 829	$ 881
Other, primarily reserves not currently deductible, and NOL's and credit carryforwards	2,546	2,857
Trade receivable reserves	196	185
Inventory reserves	97	152
Deferred intercompany profit	203	249
Total deferred tax assets before valuation allowance	3,871	4,324
Valuation allowance	(1,363)	(1,355)
Total deferred tax assets	2,508	2,969
Deferred tax liabilities:		
Depreciation	(226)	(200)
Other, primarily the excess of book basis over tax basis of intangible assets	(3,557)	(3,385)
Total deferred tax liabilities	(3,783)	(3,585)
Total net deferred tax assets (liabilities)	$(1,275)	$ (616)

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

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

(in millions)	2018	2017
January 1	$1,440	$ 972
Decrease in tax positions due to acquisitions	(13)	–
Increase in tax positions due to acquisitions	–	479
Increase due to current year tax positions	164	187
Increase due to prior year tax positions	235	76
Decrease due to prior year tax positions	(611)	(176)
Settlements	(91)	(57)
Lapse of statute	(4)	(41)
December 31	$1,120	$1,440

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is approximately $1.02 billion. Abbott believes that it is reasonably possible that the recorded amount of gross unrecognized tax benefits may decrease within a range of $125 million to $350 million, including cash adjustments, within the next twelve months as a result of concluding various domestic and international tax matters.

NOTE 16—SEGMENT AND GEOGRAPHIC AREA INFORMATION

Abbott's principal business is the discovery, development, manufacture and sale of a broad line of health care products. Abbott's products are generally sold directly to retailers, wholesalers, hospitals, health care facilities, laboratories, physicians' offices and government agencies throughout the world. On January 4, 2017, Abbott completed the acquisition of St. Jude Medical. Beginning with the first quarter of 2017, Abbott's cardiovascular and neuromodulation business includes the results of its historical Vascular Products segment and the results of the businesses acquired from St. Jude Medical from the date of acquisition. On October 3, 2017, Abbott completed the acquisition of Alere. Beginning with the fourth quarter of 2017, Abbott's Diagnostic Products reportable segment includes the results of Alere from the date of acquisition.

Abbott's reportable segments are as follows:

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

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

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

Cardiovascular and Neuromodulation Products—Worldwide sales of rhythm management, electrophysiology, heart failure, vascular, structural heart and neuromodulation products. For segment reporting purposes, the Cardiac Arrhythmias & Heart Failure, Vascular, Neuromodulation and Structural Heart divisions are aggregated and reported as the Cardiovascular and Neuromodulation segment.

Non-reportable segments include AMO through the date of sale and Diabetes Care.

Abbott's underlying accounting records are maintained on a legal entity basis for government and public reporting requirements. Segment disclosures are on a performance basis consistent with internal management reporting. The cost of some corporate functions and the cost of certain employee benefits are charged to segments at predetermined rates that approximate cost. Remaining costs, if any, are not allocated to segments. In addition, intangible asset amortization is not allocated to operating segments, and intangible assets and goodwill are not included in the measure of each segment's assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following segment information has been prepared in accordance with the internal accounting policies of Abbott, as described above, and are not presented in accordance with generally accepted accounting principles applied to the consolidated financial statements.

	Net Sales to External Customers (a)			Operating Earnings (a)		
(in millions)	2018	2017	2016	2018	2017	2016
Established Pharmaceuticals	$ 4,422	$ 4,287	$ 3,859	$ 894	$ 848	$ 723
Nutritionals	7,229	6,925	6,899	1,652	1,589	1,660
Diagnostics	7,495	5,616	4,813	1,868	1,468	1,194
Cardiovascular and Neuromodulation	9,437	8,911	2,896	2,990	2,720	1,037
Total Reportable Segments	28,583	25,739	18,467	$7,404	$6,625	$4,614
Other	1,995	1,651	2,386			
Total	$30,578	$27,390	$20,853			

(a) Net sales were unfavorably affected by the relatively stronger U.S. dollar in 2018 and 2016. Operating earnings were unfavorably affected by the impact of foreign exchange in 2018, 2017 and 2016.

(in millions)	2018	2017	2016
Total Reportable Segment Operating Earnings	$ 7,404	$ 6,625	$ 4,614
Corporate functions and benefit plans costs	(618)	(506)	(411)
Non-reportable segments	510	306	304
Net interest expense	(721)	(780)	(332)
Loss on extinguishment of debt	(167)	-	-
Share-based compensation	(477)	(406)	(310)
Amortization of intangible assets	(2,178)	(1,975)	(550)
Other, net (b)	(880)	(1,033)	(1,902)
Earnings from Continuing Operations before Taxes	$ 2,873	$ 2,231	$ 1,413

(b) Other, net includes inventory step-up amortization, integration costs associated with the acquisition of St. Jude Medical and Alere, and restructuring charges in 2018. In 2017, Other, net includes inventory step-up amortization, integration costs associated with the acquisition of St. Jude Medical and Alere, and restructuring charges, partially offset by the gain on the sale of the AMO business. In 2016, Other, net includes the $947 million adjustment of the Mylan equity investment and $480 million of foreign currency exchange loss related to operations in Venezuela. Charges for restructuring actions and other cost reduction initiatives were approximately $153 million in 2018, $384 million in 2017 and $167 million in 2016.

	Depreciation			Additions to Property, Plant and Equipment (c)			Total Assets		
(in millions)	2018	2017	2016	2018	2017	2016	2018	2017	2016
Established Pharmaceuticals	$ 92	$ 90	$ 71	$ 131	$ 181	$ 150	$ 2,664	$ 2,728	$ 2,486
Nutritionals	150	164	160	86	147	199	3,071	3,160	3,189
Diagnostics	397	300	267	609	374	379	4,464	4,226	2,945
Cardiovascular and Neuromodulation	248	298	69	183	206	23	4,910	5,074	1,425
Total Reportable Segments	887	852	567	1,009	908	751	$15,109	$15,188	$10,045
Other	213	194	236	385	227	370			
Total	$1,100	$1,046	$803	$1,394	$1,135	$1,121			

(c) Amounts exclude property, plant and equipment acquired through business acquisitions.

(in millions)	2018	2017	2016
Total Reportable Segment Assets	$15,109	$15,188	$10,045
Cash and investments	4,983	10,493	21,722
Non-reportable segments	991	740	1,280
Goodwill and intangible assets (d)	42,196	45,493	12,222
All other (d)	3,894	4,336	7,397
Total Assets	$67,173	$76,250	$52,666

(d) Goodwill and intangible assets related to AMO are included in the All other line in 2016.

Long-lived assets on a geographic basis primarily include property, plant and equipment. It excludes goodwill, intangible assets, deferred tax assets, and financial instruments. At December 31, 2018 and 2017, long-lived assets totaled $8.7 billion and $8.9 billion, respectively, and in the United States such assets totaled $4.3 billion and $4.5 billion, respectively. Long-lived asset balances associated with other countries were not material on an individual country basis in either of the two years.

	Net Sales to External Customers (e)		
(in millions)	2018	2017	2016
United States	$10,839	$ 9,673	$ 6,486
China	2,311	2,146	1,728
Germany	1,619	1,366	1,044
India	1,333	1,237	1,114
Japan	1,326	1,255	924
Switzerland	1,005	841	766
The Netherlands	930	929	830
All Other Countries	11,215	9,943	7,961
Consolidated	$30,578	$27,390	$20,853

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 — QUARTERLY RESULTS (UNAUDITED)

(in millions except per share data)	2018	2017
First Quarter		
Continuing Operations:		
Net Sales	$7,390	$6,335
Gross Profit	3,739	2,751
Earnings from Continuing Operations	409	386
Basic Earnings per Common Share	0.23	0.22
Diluted Earnings per Common Share	0.23	0.22
Net Earnings	418	419
Basic Earnings Per Common Share (a)	0.24	0.24
Diluted Earnings Per Common Share (a)	0.23	0.24
Market Price Per Share-High	64.60	45.84
Market Price Per Share-Low	55.58	38.34
Second Quarter		
Continuing Operations:		
Net Sales	$7,767	$6,637
Gross Profit	3,923	3,056
Earnings from Continuing Operations	718	270
Basic Earnings per Common Share	0.41	0.15
Diluted Earnings per Common Share	0.40	0.15
Net Earnings	733	283
Basic Earnings Per Common Share (a)	0.42	0.16
Diluted Earnings Per Common Share (a)	0.41	0.16
Market Price Per Share-High	63.85	49.59
Market Price Per Share-Low	56.81	42.31
Third Quarter		
Continuing Operations:		
Net Sales	$7,656	$6,829
Gross Profit	3,946	3,452
Earnings from Continuing Operations	552	561
Basic Earnings per Common Share	0.31	0.32
Diluted Earnings per Common Share	0.31	0.32
Net Earnings	563	603
Basic Earnings Per Common Share (a)	0.32	0.34
Diluted Earnings Per Common Share (a)	0.32	0.34
Market Price Per Share-High	73.58	54.80
Market Price Per Share-Low	60.32	47.83
Fourth Quarter		
Continuing Operations:		
Net Sales	$7,765	$7,589
Gross Profit	4,086	3,747
Earnings (Loss) from Continuing Operations	655	(864)
Basic Earnings (Loss) per Common Share	0.37	(0.50)
Diluted Earnings (Loss) per Common Share	0.37	(0.50)
Net Earnings (Loss)	654	(828)
Basic Earnings (Loss) Per Common Share (a)	0.37	(0.48)
Diluted Earnings (Loss) Per Common Share (a)	0.37	(0.48)
Market Price Per Share-High	74.92	57.77
Market Price Per Share-Low	65.44	53.20

(a) The sum of the four quarters of earnings per share for 2018 and 2017 may not add to the full year earnings per share amount due to rounding and/or the use of quarter-to-date weighted average shares to calculate the earnings per share amount in each respective quarter.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Abbott's management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2018. In making this assessment, it used the criteria set forth in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2018, the company's internal control over financial reporting was effective based on those criteria.

Abbott's independent registered public accounting firm has issued an audit report on their assessment of the effectiveness of the company's internal control over financial reporting. This report appears on page 61.

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

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

Robert E. Funck
Senior Vice President, Finance and Controller

February 22, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Abbott Laboratories

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of Abbott Laboratories and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of earnings, comprehensive income, shareholders' investment and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 22, 2019 expressed an unqualified opinion thereon.

BASIS FOR OPINION

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2013.

Chicago, Illinois
February 22, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Abbott Laboratories

OPINION ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited Abbott Laboratories and subsidiaries' internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Abbott Laboratories and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of earnings, comprehensive income, shareholders' investment and cash flows for each of the three years in the period ended December 31, 2018, and the related notes of the Company and our report dated February 22, 2019 expressed an unqualified opinion thereon.

BASIS FOR OPINION

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

DEFINITION AND LIMITATIONS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

/s/ Ernst & Young LLP

Chicago, Illinois
February 22, 2019

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

MARKET PRICE SENSITIVE INVESTMENTS

The fair value of equity securities held by Abbott with a readily determinable fair value was approximately $13 million and $11 million as of December 31, 2018 and 2017, respectively. These equity securities are subject to potential changes in fair value. A hypothetical 20 percent decrease in the share prices of these investments would decrease their fair value at December 31, 2018 by approximately $3 million. Changes in the fair value of these securities are recorded in earnings. The fair value of investments in mutual funds that are held in a rabbi trust for the purpose of paying benefits under a deferred compensation plan was approximately $307 million and $363 million as of December 31, 2018 and 2017, respectively. Changes in the fair value of these investments are recorded in earnings.

NON-PUBLICLY TRADED EQUITY SECURITIES

Abbott holds equity securities that are not traded on public stock exchanges. The carrying value of these investments was $211 million and $228 million as of December 31, 2018 and 2017, respectively. No individual investment is recorded at a value in excess of $61 million. Abbott measures these investments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.

INTEREST RATE SENSITIVE FINANCIAL INSTRUMENTS

At December 31, 2018 and 2017, Abbott had interest rate hedge contracts totaling $2.9 billion and $4.0 billion, respectively, to manage its exposure to changes in the fair value of debt. The effect of these hedges is to change the fixed interest rate to a variable rate for the portion of the debt that is hedged. Abbott does not use derivative financial instruments, such as interest rate swaps, to manage its exposure to changes in interest rates for its investment securities. The fair value of long-term debt at December 31, 2018 and 2017 amounted to $19.9 billion and $29.0 billion, respectively (average interest rates of 3.5% and 3.6% as of December 31, 2018 and 2017, respectively) with maturities through 2046. At December 31, 2018 and 2017, the fair value of current and long-term investment securities amounted to approximately $1.1 billion. A hypothetical 100-basis point change in the interest rates would not have a material effect on cash flows, income or fair values. (A 100-basis point change is believed to be a reasonably possible near-term change in rates.)

FOREIGN CURRENCY SENSITIVE FINANCIAL INSTRUMENTS

Certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U.S. dollar. These contracts are designated as cash flow hedges of the variability of the cash flows due to changes in foreign currency exchange rates and are marked-to-market with the resulting gains or losses reflected in Accumulated other comprehensive income (loss). Gains or losses will be included in Cost of products sold at the time the products are sold, generally within the next twelve to eighteen months. At December 31, 2018 and 2017, Abbott held $5.1 billion and $3.3 billion, respectively, of such contracts. Contracts held at December 31, 2018 will mature in 2019 or 2020 depending upon the contract. Contracts held at December 31, 2017 matured in 2018 or will mature in 2019 depending upon the contract.

Abbott enters into foreign currency forward exchange contracts to manage its exposure to foreign currency denominated intercompany loans and trade payables and third-party trade payables and receivables. The contracts are marked-to-market, and resulting gains or losses are reflected in income and are generally offset by losses or gains on the foreign currency exposure being managed. At December 31, 2018 and 2017, Abbott held $13.6 billion and $20.1 billion, respectively, of such contracts, which mature in the next 24 months.

In March 2017, Abbott repaid its $479 million foreign denominated short-term debt which was designated as a hedge of the net investment in a foreign subsidiary. At December 31, 2016, the value of this short-term debt was $454 million, and changes in the fair value of the debt up through the date of repayment due to changes in exchange rates were recorded in Accumulated other comprehensive income (loss), net of tax.

The following table reflects the total foreign currency forward contracts outstanding at December 31, 2018 and 2017:

	2018			2017		
(dollars in millions)	Contract Amount	Weighted Average Exchange Rate	Fair and Carrying Value Receivable/ (Payable)	Contract Amount	Weighted Average Exchange Rate	Fair and Carrying Value Receivable/ (Payable)
Primarily U.S. Dollars to be exchanged for the following currencies:						
Euro	$11,630	1.1938	$ 13	$16,877	1.1861	$(24)
Chinese Yuan	1,592	6.9055	(10)	1,221	6.8128	(33)
Japanese Yen	1,079	108.2188	6	1,109	110.5370	15
All other currencies	4,388	n/a	10	4,230	n/a	(25)
Total	$18,689		$ 19	$23,437		$(67)

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Abbott's revenues are derived primarily from the sale of a broad line of health care products under short-term receivable arrangements. Patent protection and licenses, technological and performance features, and inclusion of Abbott's products under a contract most impact which products are sold; price controls, competition and rebates most impact the net selling prices of products; and foreign currency translation impacts the measurement of net sales and costs. Abbott's primary products are cardiovascular and neuromodulation products, diagnostic testing products, nutritional products and branded generic pharmaceuticals. Sales in international markets comprise approximately 65 percent of consolidated net sales.

Over the last several years, Abbott proactively shaped the company with the strategic intent to deliver sustainable growth in all of its businesses. Significant steps over the last three years included:

- In January 2017, Abbott acquired St. Jude Medical, Inc. (St. Jude Medical), a global medical device manufacturer, for approximately $23.6 billion, including approximately $13.6 billion in cash and approximately $10 billion in Abbott common shares, based on Abbott's closing stock price on the acquisition date. As part of the acquisition, Abbott assumed, repaid or refinanced approximately $5.9 billion of St. Jude Medical's debt. The acquisition provided expanded opportunities for future growth and is an important part of the company's effort to develop a strong, diverse portfolio. The combined business competes in nearly every area of the $30 billion global cardiovascular device market, as well as in neuromodulation which treats chronic pain and movement disorders.
- In October 2017, Abbott acquired Alere Inc. (Alere), a diagnostic device and service provider, for $51.00 per common share in cash, which equated to a purchase price of approximately $4.5 billion. As part of the acquisition, Abbott also tendered for Alere's preferred shares for a total value of approximately $0.7 billion and assumed and subsequently repaid approximately $3.0 billion of Alere's debt. The acquisition established Abbott as a leader in point of care testing, expanded Abbott's global diagnostics presence and provided access to new products, channels and geographies.
- In February 2017, Abbott completed the sale of Abbott Medical Optics (AMO), its vision care business, to Johnson & Johnson for $4.325 billion in cash and recognized an after-tax gain of $728 million. The operating results of AMO were included in Earnings from Continuing Operations up to the date of sale as the business did not qualify for reporting as discontinued operations.

The sales increase over the last three years reflects both the 2017 acquisitions of St. Jude Medical and Alere and volume growth across Abbott's businesses, most notably in the Established Pharmaceuticals, Diabetes Care and Diagnostics businesses. Volume growth reflects the introduction of new products as well as higher sales of existing products. In 2017, the acquisitions of St. Jude Medical and Alere, partially offset by the sale of AMO, contributed 26.5 percentage points of Abbott's total sales growth versus 2016. Sales in emerging markets, which represent approximately 40 percent of total company sales, increased 12.3 percent in 2018 and 13.9 percent in 2017, excluding the impact of foreign exchange. (Emerging markets include all countries except the United States, Western Europe, Japan, Canada, Australia and New Zealand.)

Over the last three years, Abbott's operating margin was positively impacted by margin improvements across various businesses, including Established Pharmaceuticals, Core Laboratory, and Diabetes Care, partially offset by higher amortization and other costs associated with the acquisitions. In 2018, Abbott's operating margin increased by approximately 6 percentage points primarily due to operating margin improvement in various businesses and lower inventory step-up amortization and integration costs associated with the acquisitions, partially offset by higher intangible amortization. In 2017, Abbott's operating margin decreased by approximately 9 percentage points primarily due to costs associated with the acquisitions, including higher intangible amortization expense, inventory step-up amortization and integration costs, partially offset by operating margin improvement in various businesses.

Since the beginning of the first quarter of 2017, the results of Abbott's Cardiovascular and Neuromodulation Products segment include Abbott's historical Vascular Products segment and St. Jude Medical from the date of acquisition. Excluding the impact of foreign exchange, sales in the Cardiovascular and Neuromodulation Products segment increased 4.9 percent in 2018 and 207.4 percent in 2017. The sales increase in 2018 was driven primarily by higher Structural Heart, Electrophysiology, and Neuromodulation sales. The sales increase in 2017 was driven by the acquisition of St. Jude Medical. Excluding the impact of the acquisition, as well as the impact of foreign exchange, sales in the Cardiovascular and Neuromodulation Products segment were essentially unchanged in 2017 versus the prior year. In 2017, higher structural heart and endovascular sales were offset by lower coronary stent sales and the comparison impact from the favorable 2016 resolution of a third-party royalty agreement in Abbott's vascular business.

In 2018, operating earnings for this segment increased 9.9 percent. The operating margin profile declined from 35.8 percent of sales in 2016 to 31.7 percent in 2018 primarily due to the mix of business resulting from the acquisition of St. Jude Medical and ongoing pricing pressures in the coronary business. Cost improvement initiatives contributed to an improvement in the operating margin profile from 30.5 percent in 2017 to 31.7 percent in 2018.

In 2018, the Cardiovascular and Neuromodulation Products segment received approval or clearance from the U.S. Food and Drug Administration (FDA) for the following products:

- the Advisor® HD Grid Mapping Catheter, Sensor Enabled™, which creates highly detailed maps of the heart and expands Abbott's electrophysiology product portfolio,
- the next-generation version of Abbott's leading MitraClip® heart valve repair device,
- the HeartMate 3® Left Ventricular Assist Device (LVAD) as a destination (long-term use) therapy, and
- the XIENCE Sierra® Drug Eluting Stent System, which is the next generation of its drug-eluting coronary stent system. The XIENCE Sierra Drug Eluting Stent System also received national reimbursement in Japan to treat people with coronary artery disease.

FINANCIAL REVIEW

In Abbott's worldwide diagnostics business, sales growth over the last three years reflected the acquisition of Alere in October 2017, as well as continued market penetration by the core laboratory business in the U.S. and internationally. Alere's results are included in Abbott's Diagnostic Products reportable segment from the date of acquisition. Worldwide diagnostic sales increased 33.6 percent in 2018 and 16.7 percent in 2017, excluding the impact of foreign exchange. Excluding the impact of the Alere acquisition, as well as the impact of foreign exchange, sales in the Diagnostic Products segment increased 6.5 percent in 2018 and 5.5 percent in 2017. This growth includes the continued roll-out of Alinity®, which is Abbott's integrated family of next-generation diagnostic systems and solutions that are designed to increase efficiency by running more tests in less space, generating test results faster and minimizing human errors while continuing to provide quality results. Abbott has regulatory approvals in the U.S., Europe, China, and other markets for the "Alinity c" and "Alinity i" instruments for clinical chemistry and immunoassay diagnostics, respectively. In 2018, Abbott accelerated the launch of Alinity in Europe and other international markets after a broad range of assays obtained regulatory approval and were added to the test menu. Abbott also continued the roll-out of "Alinity s" for blood and plasma screening.

Margin improvement continued to be a key focus for the Diagnostics business in 2018 and 2017. While operating margins of 24.9 percent of sales in 2018 have remained relatively unchanged from the 24.8 percent of sales reported in 2016, this reflects dilution to the operating margin profit from the acquisition of Alere and the negative impact of foreign exchange, offset by the continued execution of efficiency initiatives in the manufacturing and supply chain functions.

In Abbott's worldwide nutritional products business, sales over the last three years were positively impacted by demographics such as an aging population and an increasing rate of chronic disease in developed markets and the rise of a middle class in many emerging markets, as well as by numerous new product introductions that leveraged Abbott's strong brands. In 2018, excluding the impact of foreign exchange, the nutritional business experienced above-market growth in the worldwide pediatric business driven by market leading brands Similac® and Pedialyte® in the U.S. as well as growth across several markets in Asia. Worldwide, adult nutrition sales increased in 2018 led by the growth of Ensure®, Abbott's market-leading complete and balanced nutrition brand, and Glucerna®, Abbott's market-leading diabetes-specific nutrition brand.

In 2017, the nutritionals business experienced growth in the U.S. driven by above-market performance in Abbott's infant and toddler brands. Internationally, 2017 sales growth in China and India was partially offset by challenging market conditions in the infant formula market in various emerging markets. With respect to the profitability of the nutritional products business, manufacturing and distribution process changes, as well as other cost reductions, drove margin improvements across the business over the last three years although such improvements were offset by inflation on commodity costs. The decrease in operating margins for this business from 24.1 percent of sales in 2016 to 22.9 percent in 2018 was primarily due to negative impact of foreign exchange.

The Established Pharmaceutical Products segment focuses on the sale of its products in emerging markets. Excluding the impact of foreign exchange, Established Pharmaceutical sales increased 7.0 percent in 2018 and 9.5 percent in 2017. The sales increase in 2018 was driven by double-digit growth in India and China. The sales increase in 2017 was primarily driven by double-digit growth in China and various countries in Latin America. Operating margins increased from 18.7 percent of sales in 2016 to 20.2 percent in 2018 primarily due to the continued focus on cost reduction initiatives.

In its diabetes business, Abbott received U.S. FDA approval for its FreeStyle Libre® 14 day sensor, making it the longest lasting wearable glucose sensor available. The FreeStyle Libre system is the only continuous glucose monitoring system that does not require any user calibration.

In conjunction with the funding of the St. Jude Medical and Alere acquisitions and the assumption of St. Jude Medical's and Alere's existing debt, Abbott's total short-term and long-term debt increased from approximately $9.0 billion at December 31, 2015 to $27.9 billion at December 31, 2017. At the beginning of 2018, Abbott committed to reducing its debt levels and in 2018 Abbott repaid approximately $8.3 billion of debt, net of borrowings, bringing its total debt to $19.6 billion.

Abbott declared dividends of $1.16 per share in 2018 compared to $1.075 per share in 2017, an increase of approximately 8 percent. Dividends paid totaled $1.974 billion in 2018 compared to $1.849 billion in 2017. The year-over-year change in the amount of dividends paid reflects the increase in the dividend rate. In December 2018, Abbott increased the company's quarterly dividend by approximately 14 percent to $0.32 per share from $0.28 per share, effective with the dividend paid in February 2019.

In 2019, Abbott will focus on continuing to invest in product development areas that provide the opportunity for strong sustainable growth over the next several years. In its diagnostics business, Abbott will continue to focus on driving market adoption and geographic expansion of its Alinity suite of diagnostics instruments. In the cardiovascular and neuromodulation business, Abbott will continue to focus on expanding its market position in various areas including electrophysiology, heart failure, and structural heart. In its nutritionals business, Abbott will continue to focus on driving growth globally and further enhancing its portfolio with the introduction of several new science-based products. In the established pharmaceuticals business, Abbott will continue to focus on growing its business with the depth and breadth of its portfolio in emerging markets. In its diabetes care business, Abbott will focus on driving continued market adoption of its FreeStyle Libre continuous glucose monitoring system.

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CRITICAL ACCOUNTING POLICIES

Sales Rebates—In 2018, approximately 45 percent of Abbott's consolidated gross revenues were subject to various forms of rebates and allowances that Abbott recorded as reductions of revenues at the time of sale. Most of these rebates and allowances in 2018 are in the Nutritional Products and Diabetes Care segments. Abbott provides rebates to state agencies that administer the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), wholesalers, group purchasing organizations, and other government agencies and private entities. Rebate amounts are usually based upon the volume of purchases using contractual or statutory prices for a product. Factors used in the rebate calculations include the identification of which products have been sold subject to a rebate, which customer or government agency price terms apply, and the estimated lag time between sale and payment of a rebate. Using historical trends, adjusted for current changes, Abbott estimates the amount of the rebate that will be paid, and records the liability as a reduction of gross sales when Abbott records its sale of the product. Settlement of the rebate generally occurs from one to six months after sale. Abbott regularly analyzes the historical rebate trends and makes adjustments to reserves for changes in trends and terms of rebate programs. Rebates and chargebacks charged against gross sales in 2018, 2017 and 2016 amounted to approximately $3.0 billion, $2.8 billion and $2.5 billion, respectively, or 19.0 percent, 20.5 percent and 22.9 percent of gross sales, respectively, based on gross sales of approximately $16.0 billion, $13.9 billion and $10.7 billion, respectively, subject to rebate. A one-percentage point increase in the percentage of rebates to related gross sales would decrease net sales by approximately $160 million in 2018. Abbott considers a one-percentage point increase to be a reasonably likely increase in the percentage of rebates to related gross sales. Other allowances charged against gross sales were approximately $175 million, $166 million and $160 million for cash discounts in 2018, 2017 and 2016, respectively, and $191 million, $204 million and $242 million for returns in 2018, 2017 and 2016, respectively. Cash discounts are known within 15 to 30 days of sale, and therefore can be reliably estimated. Returns can be reliably estimated because Abbott's historical returns are low, and because sales returns terms and other sales terms have remained relatively unchanged for several periods.

Management analyzes the adequacy of ending rebate accrual balances each quarter. In the domestic nutritional business, management uses both internal and external data available to estimate the accruals. In the WIC business, estimates are required for the amount of WIC sales within each state where Abbott holds the WIC contract. The state where the sale is made, which is the determining factor for the applicable rebated price, is reliably determinable. Rebated prices are based on contractually obligated agreements generally lasting a period of two to four years. Except for a change in contract price or a transition period before or after a change in the supplier for the WIC business in a state, accruals are based on historical redemption rates and data from the U.S. Department of Agriculture (USDA) and the states submitting rebate claims. The USDA, which administers the WIC program, has been making its data available for many years. Management also estimates the states' processing lag time based on sales and claims data. Inventory in the retail distribution channel does not vary substantially. Management has access to several large customers' inventory management data, which allows management to make reliable estimates of inventory in the retail distribution channel. At December 31, 2018, Abbott had WIC business in 27 states.

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

Income Taxes—Abbott operates in numerous countries where its income tax returns are subject to audits and adjustments. Because Abbott operates globally, the nature of the audit items is often very complex, and the objectives of the government auditors can result in a tax on the same income in more than one country. Abbott employs internal and external tax professionals to minimize audit adjustment amounts where possible. In accordance with the accounting rules relating to the measurement of tax contingencies, in order to recognize an uncertain tax benefit, the taxpayer must be more likely than not of sustaining the position, and the measurement of the benefit is calculated as the largest amount that is more than 50 percent likely to be realized upon resolution of the benefit. Application of these rules requires a significant amount of judgment. In the U.S., Abbott's federal income tax returns through 2016 are settled except for the federal income tax returns of the former Alere consolidated group which are settled through 2014 and the former St. Jude Medical consolidated group which are settled through 2013. Undistributed foreign earnings remain indefinitely reinvested in foreign operations. Determining the amount of unrecognized deferred tax liability related to any remaining undistributed foreign earnings not subject to the transition tax and additional outside basis difference in its foreign entities is not practicable.

Pension and Post-Employment Benefits—Abbott offers pension benefits and post-employment health care to many of its employees. Abbott engages outside actuaries to assist in the determination of the obligations and costs under these programs. Abbott must develop long-term assumptions, the most significant of which are the health care cost trend rates, discount rates and the expected return on plan assets. The discount rates used to measure liabilities were determined based on high-quality fixed income securities that match the duration of the expected retiree benefits. The health care cost trend rates represent Abbott's expected annual rates of change in the cost of health care benefits and are a forward projection of health care costs as of the measurement date. A difference between the assumed rates and the actual rates,

which will not be known for years, can be significant in relation to the obligations and the annual cost recorded for these programs. Low interest rates have significantly increased actuarial losses for these plans. At December 31, 2018, pretax net actuarial losses and prior service costs and (credits) recognized in Accumulated other comprehensive income (loss) for Abbott's defined benefit plans and medical and dental plans were losses of $3.3 billion and $198 million, respectively. Actuarial losses and gains are amortized over the remaining service attribution periods of the employees under the corridor method, in accordance with the rules for accounting for post-employment benefits. Differences between the expected long-term return on plan assets and the actual annual return are amortized over a five-year period. Note 14 to the consolidated financial statements describes the impact of a one-percentage point change in the health care cost trend rate; however, there can be no certainty that a change would be limited to only one percentage point.

Valuation of Intangible Assets—Abbott has acquired and continues to acquire significant intangible assets that Abbott records at fair value at the acquisition date. Transactions involving the purchase or sale of intangible assets occur with some frequency between companies in the health care field and valuations are usually based on a discounted cash flow analysis. The discounted cash flow model requires assumptions about the timing and amount of future net cash flows, risk, cost of capital, terminal values and market participants. Each of these factors can significantly affect the value of the intangible asset. Abbott engages independent valuation experts who review Abbott's critical assumptions and calculations for acquisitions of significant intangibles. Abbott reviews definite-lived intangible assets for impairment each quarter using an undiscounted net cash flows approach. If the undiscounted cash flows of an intangible asset are less than the carrying value of an intangible asset, the intangible asset is written down to its fair value, which is usually the discounted cash flow amount. Where cash flows cannot be identified for an individual asset, the review is applied at the lowest group level for which cash flows are identifiable. Goodwill and indefinite-lived intangible assets, which relate to in-process research and development acquired in a business combination, are reviewed for impairment annually or when an event that could result in impairment occurs. At December 31, 2018, goodwill amounted to $23.3 billion and net intangibles amounted to $18.9 billion. Amortization expense in continuing operations for intangible assets amounted to $2.2 billion in 2018, $2.0 billion in 2017 and $550 million in 2016. There was no significant reduction of goodwill relating to impairments in 2018, 2017 and 2016.

Litigation—Abbott accounts for litigation losses in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) No. 450, "Contingencies." Under ASC No. 450, loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded. These estimates are often initially developed substantially earlier than the ultimate loss is known, and the estimates are refined each accounting period as additional information becomes known. Accordingly, Abbott is often initially unable to develop a best estimate of loss, and therefore the minimum amount, which could be zero, is recorded. As information becomes known, either the minimum loss amount is increased, resulting in additional loss provisions, or a best estimate can be made, also resulting in additional loss provisions. Occasionally, a best estimate amount is changed to a lower amount when events result in an expectation of a more favorable outcome than previously expected. Abbott estimates the range of possible loss to be from approximately $125 million to $165 million for its legal proceedings and environmental exposures. Accruals of approximately $145 million have been recorded at December 31, 2018 for these proceedings and exposures. These accruals represent management's best estimate of probable loss, as defined by FASB ASC No. 450, "Contingencies."

RESULTS OF OPERATIONS

SALES

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

		Components of % Change			
	Total % Change	Business Acquisitions/ Divestitures	Price	Volume	Exchange
Total Net Sales					
2018 vs. 2017	11.6	4.9	(1.0)	8.1	(0.4)
2017 vs. 2016	31.3	26.5	(0.6)	5.1	0.3
Total U.S.					
2018 vs. 2017	12.1	8.0	(1.1)	5.2	–
2017 vs. 2016	49.1	46.9	(0.9)	3.1	–
Total International					
2018 vs. 2017	11.4	3.2	(1.0)	9.7	(0.5)
2017 vs. 2016	23.3	17.3	(0.4)	6.0	0.4
Established Pharmaceutical Products Segment					
2018 vs. 2017	3.2	–	2.2	4.8	(3.8)
2017 vs. 2016	11.1	–	2.3	7.2	1.6
Nutritional Products Segment					
2018 vs. 2017	4.4	–	0.2	4.7	(0.5)
2017 vs. 2016	0.4	–	0.3	0.3	(0.2)
Diagnostic Products Segment					
2018 vs. 2017	33.5	27.1	(2.0)	8.5	(0.1)
2017 vs. 2016	16.7	11.2	(1.1)	6.6	–
Cardiovascular and Neuromodulation Products Segment					
2018 vs. 2017	5.9	–	(2.8)	7.7	1.0
2017 vs. 2016	207.7	207.2	(4.3)	4.5	0.3

The increase in Total Net Sales in 2018 reflects the acquisition of Alere, as well as volume growth across all of Abbott's businesses. The increase in Total Net Sales in 2017 reflects the acquisitions of St. Jude Medical and Alere, as well as volume growth in the established pharmaceuticals and diagnostics businesses. The price declines related to the Cardiovascular and Neuromodulation Products segment in 2018 and 2017 primarily reflect pricing pressure on drug eluting stents (DES) as a result of market competition in the U.S. and other major markets.

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

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(dollars in millions)	2018	Total Change	Impact of Exchange	Total Change Excl. Exchange
Total Established Pharmaceuticals —				
Key Emerging Markets	$3,363	2%	(5)%	7%
Other	1,059	8	2	6
Nutritionals —				
International Pediatric Nutritionals	2,254	7	–	7
U.S. Pediatric Nutritionals	1,843	4	–	4
International Adult Nutritionals	1,900	7	(1)	8
U.S. Adult Nutritionals	1,232	(2)	–	(2)
Diagnostics —				
Core Laboratory	4,386	8	–	8
Molecular	484	5	1	4
Point of Care	553	–	–	–
Rapid Diagnostics	2,072	n/m	n/m	n/m
Cardiovascular and Neuromodulation —				
Rhythm Management	2,091	(1)	1	(2)
Electrophysiology	1,668	21	1	20
Heart Failure	646	–	–	–
Vascular	2,929	1	1	–
Structural Heart	1,239	14	1	13
Neuromodulation	864	7	–	7

(dollars in millions)	2017	Total Change	Impact of Exchange	Total Change Excl. Exchange
Total Established Pharmaceuticals—				
Key Emerging Markets	$3,307	14%	2%	12%
Other	980	3	1	2
Nutritionals—				
International Pediatric Nutritionals	2,112	(4)	–	(4)
U.S. Pediatric Nutritionals	1,777	6	–	6
International Adult Nutritionals	1,782	3	(1)	4
U.S. Adult Nutritionals	1,254	(3)	–	(3)
Diagnostics—				
Core Laboratory	4,063	6	–	6
Molecular	463	2	1	1
Point of Care	550	7	–	7
Rapid Diagnostics	540	n/m	n/m	n/m
Cardiovascular and Neuromodulation—				
Rhythm Management	2,103	n/m	n/m	n/m
Electrophysiology	1,382	n/m	n/m	n/m
Heart Failure	643	n/m	n/m	n/m
Vascular	2,892	14	–	14
Structural Heart	1,083	208	1	207
Neuromodulation	808	n/m	n/m	n/m

n/m = percent change is not meaningful.

Note: In order to compute results excluding the impact of exchange rates, current year U.S. dollar sales are multiplied or divided, as appropriate, by the current year average foreign exchange rates and then those amounts are multiplied or divided, as appropriate, by the prior year average foreign exchange rates.

Total Established Pharmaceutical Products sales increased 7.0 percent in 2018 and 9.5 percent in 2017, excluding the impact of foreign exchange. The Established Pharmaceutical Products segment is focused on several key emerging markets including India, Russia, China and Brazil. Excluding the impact of foreign exchange, total sales in these key emerging markets increased 7.4 percent in 2018 and 11.9 percent in 2017. Excluding the impact of foreign exchange, 2018 sales in India and China and 2017 sales in China and various countries in Latin America experienced double-digit growth. Excluding the impact of foreign exchange, sales in Established Pharmaceuticals' other emerging markets increased 5.8 percent in 2018 and 2.2 percent in 2017. The 2017 sales growth for Established Pharmaceuticals' other emerging markets includes the unfavorable impact of Venezuelan operations. Excluding Venezuela and the effect of foreign exchange, sales in other emerging markets increased 7.5 percent in 2017.

Total Nutritional Products sales increased 4.9 percent in 2018 and 0.6 percent in 2017, excluding the unfavorable impact of foreign exchange. The increases in 2018 and 2017 U.S. Pediatric Nutritional sales primarily reflect continued above-market performance in Abbott's infant and toddler brands, including Similac and Pedialyte. 2018 International Pediatric Nutritional sales increased primarily due to growth in Asia and Latin America. The 2017 decrease in International Pediatric Nutritional sales was driven by challenging market conditions in the infant formula market in various emerging markets, partially offset by growth in China and India.

The 2018 sales increase in the International Adult Nutritional business was led by growth of Ensure, Abbott's market-leading complete and balanced nutrition brand, and Glucerna, Abbott's market-leading diabetes-specific nutrition brand in Asia and Latin America. U.S. Adult Nutritional business sales decreased in 2018 primarily driven by the wind down of a non-core product line. Excluding the unfavorable impact of foreign exchange, the 2017 increase in International Adult Nutritional sales was due primarily to growth in Ensure, as well as volume growth in emerging markets and continued expansion of the adult nutrition category internationally. U.S. Adult Nutritional revenues decreased in 2017 due to competitive and market dynamics.

Total Diagnostic Products sales increased 33.6 percent in 2018 and 16.7 percent in 2017, excluding the impact of foreign exchange. The sales increases in 2018 and 2017 included the acquisition of Alere, which was completed on October 3, 2017. Excluding the impact of the acquisition, as well as the impact of foreign exchange, sales in the Diagnostic Products segment in 2018 and 2017 increased 6.5 and 5.5 percent, respectively. The 2018 increase in sales was primarily driven by above-market growth in Core Laboratory in the U.S. and internationally. In 2018, Abbott accelerated the roll out of its Alinity systems for Core Laboratory in Europe. The 2017 increase in sales was primarily driven by share gains in the Core Laboratory markets globally, as well as performance in Point of Care led by the continued adoption of Abbott's i-STAT® handheld system.

Excluding the effect of foreign exchange, total Cardiovascular and Neuromodulation Products sales grew 4.9 percent in 2018. The 2018 sales increase was driven by growth in several areas, including double-digit growth in Electrophysiology and Structural Heart.

The growth in Electrophysiology in 2018 was led by higher sales in cardiac mapping and ablation catheters, as well as the U.S. launch of Abbott's Confirm Rx® Insertable Cardiac Monitor (ICM), the

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world's first and only smartphone-compatible ICM designed to help physicians remotely identify cardiac arrhythmias. In May 2018, Abbott announced U.S. FDA clearance of the Advisor HD Grid Mapping Catheter, Sensor Enabled, which creates detailed maps of the heart and expands Abbott's electrophysiology product portfolio.

Growth in Structural Heart in 2018 was driven by several product areas including the MitraClip, Abbott's market-leading device for the minimally-invasive treatment of mitral regurgitation and the AMPLATZER® PFO occluder, a device designed to close a hole-like opening in the heart. In July 2018, Abbott announced U.S. FDA approval for a next-generation version of MitraClip. In September 2018, Abbott announced positive clinical results from its COAPT study, which demonstrated that MitraClip improved survival and clinical outcomes for select patients with functional mitral regurgitation. In the fourth quarter of 2018, the COAPT study data was submitted to the U.S. FDA to request approval of an expanded indication for MitraClip.

The growth in Neuromodulation in 2018 reflects higher revenue for various products for the treatment of chronic pain and movement disorders.

In Vascular, growth in imaging, vessel closure and other endovascular revenues in 2018 was partially offset by lower DES sales due to lower U.S. market share and price erosion in various markets. During the second quarter of 2018, Abbott received approval from the U.S. FDA for the XIENCE Sierra Drug Eluting Stent System, the newest generation of its coronary stent system. During the second quarter of 2018, the XIENCE Sierra Drug Eluting Stent System also received national reimbursement in Japan to treat people with coronary artery disease. In Rhythm Management, market share gains in the new patient segment were offset by replacement cycle dynamics. In Heart Failure, international sales growth was offset by lower U.S. sales. In October 2018, the HeartMate 3 Left Ventricular Assist Device (LVAD) received U.S. FDA approval as a destination therapy for people living with advanced heart failure.

In 2017, excluding the effect of foreign exchange, total Cardiovascular and Neuromodulation Products sales grew 207.4 percent. The increase in sales was primarily driven by the acquisition of St. Jude Medical which was completed on January 4, 2017. Excluding the impact of the acquisition, as well as the impact of foreign exchange, sales in the vascular business were essentially flat in 2017 versus the prior year as lower coronary stent sales and the comparison impact from the favorable 2016 resolution of a third-party royalty agreement were offset by higher structural heart and endovascular sales.

Abbott has periodically sold product rights to non-strategic products and has recorded the related gains in net sales in accordance with Abbott's revenue recognition policies as discussed in Note 1 to the consolidated financial statements. Related net sales were not significant in 2018, 2017 and 2016.

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

In April 2017, Abbott received a warning letter from the U.S. FDA related to its manufacturing facility in Sylmar, CA which was acquired by Abbott on January 4, 2017 as part of the acquisition of St. Jude Medical. This facility manufactures implantable cardioverter defibrillators, cardiac resynchronization therapy defibrillators, and monitors. The warning letter relates to the FDA's observations from an inspection of this facility. Abbott has prepared a comprehensive plan of corrective actions which has been provided to the FDA. Execution of the plan is progressing.

OPERATING EARNINGS

Gross profit margins were 51.3 percent of net sales in 2018, 47.5 percent in 2017 and 53.8 percent in 2016. In 2018, the increase primarily reflects lower inventory step-up amortization related to the St. Jude Medical and Alere acquisitions and margin improvements in various businesses, partially offset by higher intangible amortization expense. In 2017, the decrease primarily reflects higher intangible amortization expense and inventory step-up amortization related to the St. Jude Medical and Alere acquisitions, partially offset by margin improvements in various businesses.

Research and development expense was $2.3 billion in 2018, $2.3 billion in 2017, and $1.4 billion in 2016 and represented a 1.7 percent increase in 2018, and a 56.2 percent increase in 2017. The 2018 increase in research and development expenses was primarily due to higher spending on various projects, partially offset by lower restructuring and integration costs. The 2017 increase in research and development expenses was primarily due to the acquisition of the St. Jude Medical business. In 2018, research and development expenditures totaled $1.0 billion for the Cardiovascular and Neuromodulation Products segment, $585 million for the Diagnostic Products segment, $198 million for the Nutritional Products segment and $184 million for the Established Pharmaceutical Products segment.

Selling, general and administrative expenses increased 6.1 percent in 2018 and 36.3 percent in 2017 versus the respective prior year. The 2018 increase was primarily due to the impact of the acquisition of the Alere business in October 2017, as well as higher spending to drive continued growth and market expansion in various businesses, partially offset by lower acquisition-related expenses. The 2017 increase was primarily due to the acquisition of the St. Jude Medical business, as well as the incremental expenses to integrate St. Jude Medical with Abbott's existing vascular business, partially offset by the impact of cost improvement initiatives across various functions and businesses.

BUSINESS ACQUISITIONS

On January 4, 2017, Abbott completed the acquisition of St. Jude Medical, a global medical device manufacturer, for approximately $23.6 billion, including approximately $13.6 billion in cash and approximately $10 billion in Abbott common shares, which represented approximately 254 million shares of Abbott common stock, based on Abbott's closing stock price on the acquisition date. As part of the acquisition, approximately $5.9 billion of St. Jude Medical's debt was assumed, repaid or refinanced by Abbott. The acquisition provides expanded opportunities for future growth and is an important part of the company's ongoing effort to develop a strong, diverse portfolio of devices, diagnostics, nutritionals and branded generic pharmaceuticals. The combined business competes in nearly every area of the cardiovascular device market, as well as in the neuromodulation market.

Under the terms of the agreement, for each St. Jude Medical common share, St. Jude Medical shareholders received $46.75 in cash and 0.8708 of an Abbott common share. At an Abbott stock price of $39.36, which reflected the closing price on January 4,

FINANCIAL REVIEW

2017, this represented a value of approximately $81 per St. Jude Medical common share and total purchase consideration of $23.6 billion. The cash portion of the acquisition was funded through a combination of medium and long-term debt issued in November 2016 and a $2.0 billion 120-day senior unsecured bridge term loan facility which was subsequently repaid.

The final allocation of the fair value of the St. Jude Medical acquisition is shown in the table below.

(in billions)	
Acquired intangible assets, non-deductible	$15.5
Goodwill, non-deductible	13.1
Acquired net tangible assets	3.0
Deferred income taxes recorded at acquisition	(2.7)
Net debt	(5.3)
Total final allocation of fair value	$23.6

The goodwill is primarily attributable to expected synergies from combining operations, as well as intangible assets that do not qualify for separate recognition. The goodwill is identifiable to the Cardiovascular and Neuromodulation Products reportable segment. The acquired tangible assets consist primarily of trade accounts receivable of approximately $1.1 billion, inventory of approximately $1.7 billion, other current assets of $176 million, property and equipment of approximately $1.5 billion, and other long-term assets of approximately $455 million. The acquired tangible liabilities consist of trade accounts payable and other current liabilities of approximately $1.1 billion and other non-current liabilities of approximately $870 million.

In 2016, Abbott and St. Jude Medical agreed to sell certain businesses to Terumo Corporation for approximately $1.12 billion. The sale included the St. Jude Medical Angio-Seal™ and Femoseal™ vascular closure and Abbott's Vado® Steerable Sheath businesses. The sale closed on January 20, 2017 and no gain or loss was recorded in the Consolidated Statement of Earnings.

On October 3, 2017, Abbott acquired Alere, a diagnostic device and service provider, for $51.00 per common share in cash, which equated to a purchase price of approximately $4.5 billion. As part of the acquisition, Abbott tendered for Alere's preferred shares for a total value of approximately $0.7 billion. In addition, approximately $3.0 billion of Alere's debt was assumed and subsequently repaid. The acquisition establishes Abbott as a leader in point of care testing, expands Abbott's global diagnostics presence and provides access to new products, channels and geographies. Abbott utilized a combination of cash on hand and debt to fund the acquisition. See Note 11 — Debt and Lines of Credit for further details regarding the debt utilized for the acquisition.

The final allocation of the fair value of the Alere acquisition is shown in the table below.

(in billions)	
Acquired intangible assets, non-deductible	$ 3.5
Goodwill, non-deductible	3.7
Acquired net tangible assets	1.0
Deferred income taxes recorded at acquisition	(0.4)
Net debt	(2.6)
Preferred stock	(0.7)
Total final allocation of fair value	$ 4.5

The goodwill is primarily attributable to expected synergies from combining operations, as well as intangible assets that do not qualify for separate recognition. The goodwill is identifiable to the Diagnostic Products reportable segment. The approximate value of the acquired tangible assets consists of $430 million of trade accounts receivable, $425 million of inventory, $225 million of other current assets, $540 million of property and equipment, and $210 million of other long-term assets. The approximate value of the acquired tangible liabilities consists of $675 million of trade accounts payable and other current liabilities and $145 million of other non-current liabilities.

In the third quarter of 2017, Alere entered into agreements to sell its Triage MeterPro cardiovascular and toxicology business and the assets and liabilities related to its B-type Natriuretic Peptide assay business run on Beckman Coulter analyzers to Quidel Corporation (Quidel). The transactions with Quidel reflect a total purchase price of $400 million payable at the close of the transaction, $240 million payable in six annual installments beginning approximately six months after the close of the transaction, and contingent consideration with a maximum value of $40 million. In the third quarter of 2017, Alere entered into an agreement with Siemens Diagnostics Holding II B.V. (Siemens) to sell its subsidiary, Epocal Inc., for approximately $200 million payable at the close of the transaction. Alere agreed to divest these businesses in connection with the review by the Federal Trade Commission and the European Commission of Abbott's agreement to acquire Alere. The sale to Quidel closed on October 6, 2017, and the sale to Siemens closed on October 31, 2017. No gain or loss on these sales was recorded in the Consolidated Statement of Earnings.

On July 17, 2017, Abbott commenced a tender offer to purchase for cash the 1.77 million outstanding shares of Alere's Series B Convertible Perpetual Preferred Stock at a price of $402 per share, plus accrued but unpaid dividends to, but not including, the settlement date of the tender offer. This tender offer was subject to the satisfaction of certain conditions, including Abbott's acquisition of Alere and upon there being validly tendered (and not properly withdrawn) at the expiration date of the tender offer that number of shares of Preferred Stock that equaled at least a majority of the Preferred Stock issued and outstanding at the expiration of the tender offer. All conditions to the offer were satisfied and Abbott accepted for payment the 1.748 million shares of Preferred Stock that were validly tendered (and not properly withdrawn). The remaining shares were cashed out for an amount equal to the $400.00 per share liquidation preference of such shares, plus accrued but unpaid dividends, without interest. Payment for all of the shares of Preferred Stock was made in the fourth quarter of 2017.

RESTRUCTURINGS

In 2017 and 2018, Abbott management approved restructuring plans as part of the integration of the acquisition of St. Jude Medical into the Cardiovascular and Neuromodulation Products segment and Alere into the Diagnostic Products segment, in order to leverage economies of scale and reduce costs. Abbott recorded charges, including one-time employee termination benefits, of approximately $52 million in 2018 and $187 million in 2017. Approximately $5 million in 2018 and 2017 are recorded in Cost of products sold, approximately $10 million in 2018 is recorded in Research and development and approximately $37 million in 2018 and $182 million in 2017 in Selling, general and administrative expense.

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From 2016 to 2018, Abbott management approved plans to streamline operations in order to reduce costs and improve efficiencies in various Abbott businesses including the nutritional, established pharmaceuticals and vascular businesses. Abbott recorded employee-related severance and other charges of approximately $28 million in 2018, $120 million in 2017 and $32 million in 2016. Approximately $10 million in 2018, $7 million in 2017 and $9 million in 2016 are recorded in Cost of products sold, approximately $2 million in 2018, $77 million in 2017 and $5 million in 2016 are recorded in Research and development and approximately $16 million in 2018, $36 million in 2017 and $18 million in 2016 are recorded in Selling, general and administrative expense. Additional charges of approximately $2 million in 2017 and 2016 were recorded primarily for accelerated depreciation.

INTEREST EXPENSE AND INTEREST (INCOME)

In 2018, interest expense decreased primarily due to the net repayment of $8.3 billion of debt, partially offset by lower interest income due to lower cash balances. In 2017, interest expense increased primarily due to the $15.1 billion of debt issued in November of 2016 related to the financing of the St. Jude Medical acquisition which closed on January 4, 2017. In 2016, interest expense increased primarily due to the amortization of bridge financing fees related to the financing of the St. Jude Medical and Alere acquisitions. Interest expense in 2016 also increased due to the $15.1 billion of debt issued in November 2016.

DEBT EXTINGUISHMENT COSTS

On October 28, 2018, Abbott redeemed approximately $4 billion of debt, which included $750 million principal amount of its 2.00% Notes due 2020; $597 million principal amount of its 4.125% Notes due 2020; $900 million principal amount of its 3.25% Notes due 2023; $450 million principal amount of its 3.4% Notes due 2023; and $1.300 billion principal amount of its 3.75% Notes due 2026. Abbott incurred a net charge of $153 million related to the early repayment of this debt and the unwinding of related interest rate swaps.

On March 22, 2018, Abbott redeemed all of the $947 million principal amount of its 5.125% Notes due 2019, as well as $1.055 billion of the $2.850 billion principal amount of its 2.35% Notes due 2019. Abbott incurred a net charge of $14 million related to the early repayment of this debt.

OTHER (INCOME) EXPENSE, NET

Other (income) expense, net, for 2018, 2017 and 2016 includes approximately $160 million of income in each year related to the non-service cost components of the net periodic benefit costs associated with the pension and post-retirement medical plans. These amounts are being reported in other (income) expense as a result of the adoption of the new accounting standard for recognizing pension cost. 2017 includes a pre-tax gain of $1.163 billion on the sale of AMO to Johnson & Johnson. 2016 includes $947 million of expense to adjust Abbott's holding of Mylan N.V. ordinary shares due to a decline in the fair value of the securities which was considered by Abbott to be other than temporary.

TAXES ON EARNINGS

The income tax rates on earnings from continuing operations were 18.8 percent in 2018, 84.2 percent in 2017 and 24.8 percent in 2016.

The Tax Cuts and Jobs Act (TCJA) was enacted in the U.S. on December 22, 2017. The TCJA reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. As of December 31, 2018, Abbott has completed its accounting for all of the enactment date income tax effects of the TCJA. If additional regulations issued by the U.S. Department of the Treasury after December 31, 2018 result in a change in judgment, the effect of such regulations will be accounted for in the period in which the regulations are finalized.

Effective for fiscal years beginning after December 31, 2017, the TCJA subjects taxpayers to tax on global intangible low-taxed income (GILTI) earned by certain foreign subsidiaries. In January 2018, the Financial Accounting Standards Board staff provided guidance that an entity may make an accounting policy election to either recognize deferred taxes related to items that will give rise to GILTI in future years or provide for the tax expense related to GILTI in the year that the tax is incurred. Abbott has elected to treat the GILTI tax as a period expense and provide for the tax in the year that the tax is incurred.

In the fourth quarter of 2017, Abbott recorded an estimate of net tax expense of $1.46 billion for the impact of the TCJA, which was included in Taxes on Earnings from Continuing Operations in the Consolidated Statement of Earnings. The estimate was provisional and included a charge of approximately $2.89 billion for the transition tax, partially offset by a net benefit of approximately $1.42 billion for the remeasurement of deferred tax assets and liabilities, and a net benefit of approximately $10 million related to certain other impacts of the TCJA. In 2018, Abbott recorded $130 million of additional tax expense which increased the final tax expense related to the TCJA to $1.59 billion. The $130 million of additional tax expense reflects a $120 million increase in the transition tax from $2.89 billion to $3.01 billion and a $10 million reduction in the net benefit related to the remeasurement of deferred tax assets and liabilities.

The one-time transition tax is based on Abbott's total post-1986 earnings and profits (E&P) that were previously deferred from U.S. income taxes. The tax computation also requires the determination of the amount of post-1986 E&P considered held in cash and other specified assets. As of December 31, 2018, the remaining balance of Abbott's transition tax obligation is approximately $1.58 billion, which will be paid over the next eight years as allowed by the TCJA.

In 2018, taxes on earnings from continuing operations included $98 million of net tax expense related to the settlement of Abbott's 2014-2016 federal income tax audit in the U.S., partial settlement of the former St. Jude Medical consolidated group's 2014 and 2015 federal income tax returns in the U.S. and audit settlements in various countries. In 2017, taxes on earnings from continuing operations include $435 million of tax expense related to the gain

on the sale of the AMO business. In 2016, taxes on earnings from continuing operations include the impact of a net tax benefit of approximately $225 million, primarily as a result of the resolution of various tax positions from prior years, partially offset by the unfavorable impact of non-deductible foreign exchange losses related to Venezuela and the adjustment of the Mylan N.V. equity investment, as well as the recognition of deferred taxes associated with the then pending sale of AMO.

Exclusive of these discrete items, tax expense was favorably impacted by lower tax rates and tax exemptions on foreign income primarily derived from operations in Puerto Rico, Switzerland, Ireland, the Netherlands, Costa Rica, and Singapore. Abbott benefits from a combination of favorable statutory tax rules, tax rulings, grants, and exemptions in these tax jurisdictions. See Note 15 to the consolidated financial statements for a full reconciliation of the effective tax rate to the U.S. federal statutory rate.

DISCONTINUED OPERATIONS

Earnings from discontinued operations, net of tax of $34 million, $124 million and $321 million, in 2018, 2017 and 2016, respectively, were driven primarily by the recognition of net tax benefits as a result of the resolution of various tax positions pertaining to AbbVie's operations for years prior to the separation. On January 1, 2013, Abbott completed the separation of AbbVie Inc. (AbbVie), which was formed to hold Abbott's research-based proprietary pharmaceuticals business. Abbott has retained all liabilities for all U.S. federal and foreign income taxes on income prior to the separation, as well as certain non-income taxes attributable to AbbVie's business. AbbVie generally will be liable for all other taxes attributable to its business.

ASSETS HELD FOR DISPOSITION

In September 2016, Abbott announced that it entered into a definitive agreement to sell Abbott Medical Optics (AMO), its vision care business, to Johnson & Johnson for $4.325 billion in cash, subject to customary purchase price adjustments for cash, debt and working capital. The decision to sell AMO reflected Abbott's proactive shaping of its portfolio in line with its strategic priorities. In February 2017, Abbott completed the sale of AMO to Johnson & Johnson and recognized a pre-tax gain of $1.163 billion including working capital adjustments, which was reported in the Other (income) expense, net line of the Consolidated Statement of Earnings in 2017. Abbott recorded an after-tax gain of $728 million in 2017 related to the sale of AMO. The operating results of AMO up to the date of sale continued to be included in Earnings from continuing operations as the business did not qualify for reporting as discontinued operations. For 2017 and 2016, the AMO earnings (losses) before taxes included in Abbott's consolidated earnings were $(18) million and $30 million, respectively.

As discussed in the Business Acquisitions section, in conjunction with the acquisition of Alere, Abbott sold the Triage MeterPro cardiovascular and toxicology business and the assets and liabilities related to its B-type Natriuretic Peptide assay business run on Beckman Coulter analyzers to Quidel. The legal transfer of certain assets related to these businesses did not occur at the close of the sale to Quidel due to, among other factors, the time required to transfer marketing authorizations and other regulatory requirements in various countries. Under the terms of the sale agreement with Abbott, Quidel is subject to the risks and entitled to the benefits generated by these operations and assets. The assets presented as held for disposition in the Consolidated Balance Sheet as of December 31, 2018 and 2017, primarily relate to the businesses sold to Quidel.

The following is a summary of the assets held for disposition as of December 31, 2018 and 2017:

(in millions) December 31	2018	2017
Trade Receivables, net	$ 6	$ 12
Total inventories	3	8
Current assets held for disposition	9	20
Net property and equipment	—	56
Intangible assets, net of amortization	—	18
Goodwill	17	102
Non-current assets held for disposition	17	176
Total assets held for disposition	$26	$196

RESEARCH AND DEVELOPMENT PROGRAMS

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

RESEARCH AND DEVELOPMENT PROCESS

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

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

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

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

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

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

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

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

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

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

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

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

In the second quarter of 2017, the EU adopted the new Medical Devices Regulation (MDR) and the In Vitro Diagnostic Regulation (IVDR) which replace the existing directives in the EU for medical devices and in vitro diagnostic products. The MDR and IVDR will apply after a three-year and five-year transition period, respectively, and will impose additional premarket and postmarket regulatory requirements on manufacturers of such products.

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

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

AREAS OF FOCUS

In 2019 and beyond, Abbott's significant areas of therapeutic focus will include the following:

Established Pharmaceuticals—Abbott focuses on building country-specific portfolios made up of high-quality medicines that meet the needs of people in emerging markets. Over the next several years, Abbott plans to expand its product portfolio in key therapeutic areas with the aim of being among the first to launch new off-patent and differentiated medicines. In addition, Abbott continues to expand existing brands into new markets, implement product enhancements that provide value to patients and acquire strategic products and technology through licensing activities. Abbott is also actively working on the further development of several key brands such as Creon™, Duphaston™, Duphalac™ and Influvac™. Depending on the product, the activities focus on development of new data, markets, formulations, delivery systems, or indications.

Cardiovascular and Neuromodulation—Abbott's research and development programs focus on:

- *Cardiac Rhythm Management*—Development of next-generation rhythm management technologies, including enhanced patient engagement and expanded magnetic resonance (MR)-compatibility.

- *Heart Failure*—Continued enhancements to Abbott's left ventricular assist systems and pulmonary artery heart failure system, including enhanced connectivity, user-interfaces and remote patient monitoring.
- *Electrophysiology*—Development of next-generation technologies in the areas of ablation, diagnostic, mapping and visualization and recording and monitoring.
- *Vascular*—Development of next-generation technologies for use in coronary and peripheral vascular procedures.
- *Structural Heart*—Development of minimally-invasive devices for the repair and replacement of heart valves and other structural heart conditions.
- *Neuromodulation*—Development of next-generation technologies with enhanced patient and physician engagement and expanded MR-compatibility to treat chronic pain, movement disorders and other indications.

Diabetes Care—Develop enhancements and additional indications for the FreeStyle Libre continuous glucose monitoring system to help patients improve their ability to manage diabetes.

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

Molecular Diagnostics—Several new molecular in vitro diagnostic (IVD) tests and "Alinity m", a next generation instrument system, are in various stages of development and launch.

Rapid Diagnostics—Abbott's research and development programs focus on the development of diagnostic products for cardiometabolic disease, infectious disease and toxicology.

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

Given the diversity of Abbott's business, its intention to remain a broad-based healthcare company and the numerous sources for potential future growth, no individual project is expected to be material to cash flows or results of operations over the next five years. Factors considered included research and development expenses projected to be incurred for the project over the next year relative to Abbott's total research and development expenses, as well as qualitative factors, such as marketplace perceptions and impact of a new product on Abbott's overall market position. There were no delays in Abbott's 2018 research and development activities that are expected to have a material impact on operations.

While the aggregate cost to complete the numerous projects currently in development is expected to be material, the total cost to complete will depend upon Abbott's ability to successfully finish each project, the rate at which each project advances, and the ultimate timing for completion. Given the potential for significant delays and the risk of failure inherent in the development of medical device, diagnostic and pharmaceutical products and technologies, it is not possible to accurately estimate the total cost to complete all projects currently in development. Abbott plans to manage its portfolio of projects to achieve research and development spending that will be competitive in each of the businesses in which it participates, and such spending is expected to approximate 7.5 percent of total Abbott sales in 2019. Abbott does not regularly accumulate or make management decisions based on the total expenses incurred for a particular development phase in a given period.

GOODWILL

At December 31, 2018, goodwill recorded as a result of business combinations totaled $23.3 billion. Goodwill is reviewed for impairment annually in the third quarter or when an event that could result in an impairment occurs, using a quantitative assessment to determine whether it is more likely than not that the fair value of any reporting unit is less than its carrying amount. The income and market approaches are used to calculate the fair value of each reporting unit. The results of the last impairment test indicated that the fair value of each reporting unit was substantially in excess of its carrying value.

FINANCIAL CONDITION

CASH FLOW

Net cash from operating activities amounted to $6.3 billion, $5.6 billion and $3.2 billion in 2018, 2017 and 2016, respectively. The increase in Net cash from operating activities in 2018 was primarily due to higher segment operating earnings, continued improvements in working capital management, timing of pension contributions and lower acquisition-related expenses. The increase in Net cash from operating activities in 2017 was primarily due to the favorable impact of improved working capital management, the acquisition of the St. Jude Medical businesses, and higher segment operating earnings. The income tax component of cash from operating activities in 2018 includes the non-cash impact of the $120 million adjustment to the transition tax associated with the TCJA. The income tax component of operating cash flow in 2017 includes the non-cash impact of $1.46 billion of net tax expense related to the estimated impact of the TCJA. The income tax component of operating cash flow in 2016 includes $550 million of non-cash tax benefits primarily related to the favorable resolution of various tax positions pertaining to prior years.

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

While a significant portion of Abbott's cash and cash equivalents at December 31, 2018, are reinvested in foreign subsidiaries, Abbott does not expect such reinvestment to affect its liquidity and capital resources. Due to the enactment of the TCJA, if these funds were needed for operations in the U.S., Abbott does not expect to incur significant additional income taxes in the future to repatriate these funds.

Abbott funded $114 million in 2018, $645 million in 2017 and $582 million in 2016 to defined benefit pension plans. Abbott expects pension funding of approximately $380 million in 2019 for its pension plans. Abbott expects annual cash flow from operating activities to continue to exceed Abbott's capital expenditures and cash dividends.

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DEBT AND CAPITAL

At December 31, 2018, Abbott's long-term debt rating was BBB by Standard & Poor's Corporation and Baa1 by Moody's. Abbott expects to maintain an investment grade rating.

Abbott has readily available financial resources, including unused lines of credit that support commercial paper borrowing arrangements and provide Abbott with the ability to borrow up to $5 billion on an unsecured basis. The lines of credit are part of a 2018 revolving credit agreement that expires in 2023. Abbott entered into this new revolving credit agreement and terminated the 2014 revolving credit agreement on November 30, 2018. There were no outstanding borrowings under the 2014 revolving credit agreement at the time of its termination. Any borrowings under the new revolving credit agreement will bear interest, at Abbott's option, based on either a base rate or Eurodollar rate, plus an applicable margin based on Abbott's credit ratings.

In conjunction with the funding of the St. Jude Medical and Alere acquisitions and the assumption of St. Jude Medical's and Alere's existing debt, Abbott's total short-term and long-term debt increased from approximately $9.0 billion at December 31, 2015 to $27.9 billion at December 31, 2017. The increase in debt included the following transactions in 2016 and 2017:

- In April 2016, Abbott obtained a commitment for a 364-day senior unsecured bridge term loan facility for an amount not to exceed $17.2 billion, comprised of $15.2 billion for a 364-day bridge loan and $2.0 billion for a 120-day bridge loan to provide financing for the acquisition of St. Jude Medical. This facility has been terminated as further discussed below.
- In November 2016, Abbott issued $15.1 billion of medium and long-term debt to primarily fund the cash portion of the acquisition of St. Jude Medical. Abbott also entered into interest rate swap contracts totaling $3.0 billion related to the new debt. The swaps have the effect of changing Abbott's obligation from a fixed interest rate to a variable interest rate obligation on the related debt instruments. The $15.2 billion component of the commitment for a bridge term loan facility terminated in November 2016 when Abbott issued the $15.1 billion of long-term debt.
- In December 2016, Abbott formalized the $2.0 billion component of the bridge term loan facility and entered into a 120-day bridge term loan facility that provided Abbott the ability to borrow up to $2.0 billion on an unsecured basis to partially fund the St. Jude Medical acquisition. On January 4, 2017, as part of funding the cash portion of the St. Jude Medical acquisition, Abbott borrowed $2.0 billion under the 120-day senior unsecured bridge term loan facility. This facility was repaid during the first quarter of 2017.
- In the first quarter of 2017, as part of the acquisition of St. Jude Medical, approximately $5.9 billion of St. Jude Medical's debt was assumed, repaid, or refinanced by Abbott. This included the exchange of certain St. Jude Medical debt obligations with an aggregate principal amount of approximately $2.9 billion for approximately $2.9 billion of debt issued by Abbott. Following this exchange, approximately $194.2 million of existing St. Jude Medical notes remained outstanding. There were no significant costs associated with the exchange of this debt. In addition, during the first quarter of 2017, Abbott assumed and subsequently repaid approximately $2.8 billion of various St. Jude Medical debt obligations.
- In 2017, Abbott borrowed $2.8 billion on an unsecured basis under a 5-year term loan agreement and borrowed $1.7 billion under its lines of credit. Proceeds from such borrowings were used to finance the acquisition of Alere, to repay certain indebtedness of Abbott and Alere, and to pay fees and expenses in connection with the acquisition. The borrowings bore interest based on a Eurodollar rate, plus an applicable margin based on Abbott's credit ratings. Abbott paid off the term loan in January 2018, ahead of its 2022 due date and paid off $550 million of the line of credit in the fourth quarter of 2017 and the remaining $1.15 billion on January 5, 2018. In the fourth quarter of 2017, in conjunction with the acquisition of Alere, Abbott assumed and subsequently repaid $3.0 billion of Alere's debt.
- In 2017, Abbott also paid off a $479 million yen-denominated short-term borrowing during the year and issued 364-day yen-denominated debt, of which $199 million and $195 million was outstanding at December 31, 2018 and 2017, respectively.

In 2018 Abbott committed to reducing its debt levels and on February 16, 2018, the board of directors authorized the early redemption of up to $5 billion of outstanding long-term notes. Redemptions under this authorization during 2018 included $0.947 billion principal amount of its 5.125% Notes due 2019 and $2.850 billion principal amount of its 2.35% Notes due 2019. Abbott incurred a net charge of $14 million related to the early repayment of this debt.

On September 17, 2018, Abbott repaid upon maturity the $500 million aggregate principal amount outstanding of the 2.00% Senior Notes due 2018.

On September 27, 2018, Abbott's wholly owned subsidiary, Abbott Ireland Financing DAC, completed a euro debt offering of €3.420 billion of long-term debt. The proceeds equated to approximately $4 billion. The notes are guaranteed by Abbott.

On October 28, 2018, Abbott redeemed $4.0 billion principal amount of its outstanding long-term debt. This amount is in addition to the $5 billion authorization discussed above. In conjunction with the redemption, Abbott unwound approximately $1.1 billion in interest rate swaps relating to the 3.40% Note due in 2023 and the 3.75% Note due in 2026. Abbott incurred a net charge of $153 million related to the early repayment of this debt and the unwinding of related interest rate swaps.

The 2018 transactions described above, including the repayment of $2.8 billion under the 5-year term loan and $1.15 billion of borrowings under the lines of credit, resulted in the net repayment of approximately $8.3 billion of debt.

On January 25, 2019, Abbott notified the holders of its 2.80% Notes due 2020, that it will redeem the $500 million outstanding principal amount of these notes on February 24, 2019. After the redemption of the 2.80% Notes, approximately $700 million of the $5 billion debt redemption authorized by Abbott's board of directors in 2018 will remain available.

In September 2014, the board of directors authorized the repurchase of up to $3.0 billion of Abbott's common shares from time to time. Under the program authorized in 2014, Abbott repurchased 36.2 million shares at a cost of $1.7 billion in 2015, 10.4 million shares at a cost of $408 million in 2016 and 1.9 million shares at a cost of $130 million in 2018 for a total of approximately $2.2 billion.

FINANCIAL REVIEW

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

Abbott declared dividends of $1.16 per share in 2018 compared to $1.075 per share in 2017, an increase of approximately 8 percent. Dividends paid were $1.974 billion in 2018 compared to $1.849 billion in 2017. The year-over-year change in dividends paid reflects the impact of the increase in the dividend rate.

WORKING CAPITAL

Working capital was $5.6 billion at December 31, 2018 and $11.2 billion at December 31, 2017. The decrease in working capital in 2018 reflects the use of cash to repay long-term debt and dividends.

Abbott monitors the credit worthiness of customers and establishes an allowance against a trade receivable when it is probable that the balance will not be collected. In addition to closely monitoring economic conditions and budgetary and other fiscal developments, Abbott regularly communicates with its customers regarding the status of receivable balances, including their payment plans and obtains positive confirmation of the validity of the receivables. Abbott also monitors the potential for and periodically has utilized factoring arrangements to mitigate credit risk although the receivables included in such arrangements have historically not been a material amount of total outstanding receivables.

VENEZUELA OPERATIONS

Since January 2010, Venezuela has been designated as a highly inflationary economy under U.S. GAAP. On February 17, 2016, the Venezuelan government announced that its three-tier exchange rate system would be reduced to two rates renamed the DIPRO and DICOM rates. The DIPRO was the official rate for food and medicine imports and was adjusted from 6.3 to 10 bolivars per U.S. dollar. The DICOM rate was a floating market rate published daily by the Venezuelan central bank, which at the end of the first quarter of 2016 was approximately 263 bolivars per U.S. dollar. As a result of decreasing government approvals to convert bolivars to U.S. dollars to pay for intercompany accounts, as well as the accelerating deterioration of economic conditions in the country, Abbott concluded that it was appropriate to move to the DICOM rate at the end of the first quarter of 2016. As a result, Abbott recorded a foreign currency exchange loss of $480 million in 2016 to revalue its net monetary assets in Venezuela. After the revaluation, Abbott's investment in its Venezuelan operations was not significant.

CAPITAL EXPENDITURES

Capital expenditures of $1.4 billion in 2018, $1.1 billion in 2017 and $1.1 billion in 2016 were principally for upgrading and expanding manufacturing and research and development facilities and equipment in various segments, investments in information technology, and laboratory instruments placed with customers.

CONTRACTUAL OBLIGATIONS

The table below summarizes Abbott's estimated contractual obligations as of December 31, 2018.

		Payments Due By Period			
(in millions)	Total	2019	2020 - 2021	2022 - 2023	2024 and Thereafter
Long-term debt, including current maturities	$19,626	$ 7	$4,658	$3,105	$11,856
Interest on debt obligations	10,237	668	1,312	1,102	7,155
Operating lease obligations	984	218	302	193	271
Capitalized auto lease obligations	41	14	27	—	—
Purchase commitments (a)	2,591	2,454	103	21	13
Other long-term liabilities (b)	3,492	—	1,288	884	1,320
Total (c)	$36,971	$3,361	$7,690	$5,305	$20,615

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

(b) Other long-term liabilities include estimated payments for the transition tax under the TCJA, net of applicable credits.

(c) Net unrecognized tax benefits totaling approximately $465 million are excluded from the table above as Abbott is unable to reasonably estimate the period of cash settlement with the respective taxing authorities on such items. See Note 15 – Taxes on Earnings from Continuing Operations for further details. The company has employee benefit obligations consisting of pensions and other post-employment benefits, including medical and life, which have been excluded from the table. A discussion of the company's pension and post-retirement plans, including funding matters is included in Note 14 – Post-employment Benefits.

FINANCIAL REVIEW

CONTINGENT OBLIGATIONS

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

LEGISLATIVE ISSUES

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

RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,* which allows companies to reclassify stranded tax effects resulting from the TCJA, from accumulated other comprehensive income (loss) to retained earnings (Earnings employed in the business). The standard would have become effective for Abbott beginning in the first quarter of 2019, with early adoption permitted. Abbott elected to adopt the new standard at the beginning of the fourth quarter of 2018. As a result of the adoption of the new standard, approximately $337 million of stranded tax effects were reclassified from Accumulated other comprehensive income (loss) to Earnings employed in the business.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities,* which makes changes to the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The standard would have become effective for Abbott beginning in the first quarter of 2019, with early adoption permitted. Abbott elected to early adopt ASU 2017-12 in the fourth quarter of 2018. The impact of adopting the standard is not significant to Abbott's Consolidated Balance Sheet and Consolidated Statement of Earnings.

In March 2017, the FASB issued ASU 2017-07, *Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* which changes the financial statement presentation requirements for pension and other postretirement benefit expense. While service cost continues to be reported in the same financial statement line items as other current employee compensation costs, the ASU requires all other components of pension and other postretirement benefit expense to be presented separately from service cost, and outside any subtotal of income from operations. The standard was adopted by Abbott beginning in the first quarter of 2018. The change in the presentation of the components of pension cost per year was applied retrospectively. As a result, approximately $160 million of net pension-related income per year was moved from the operating lines of the Consolidated Statement of Earnings to non-operating income for 2017 and 2016.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows: Restricted Cash,* which requires that restricted cash be included with cash and cash equivalents when reconciling the beginning and end-of-period total amounts shown on the statement of cash flows. Abbott adopted this standard beginning in the first quarter of 2018, and applied the guidance retrospectively to all periods presented. Abbott did not have any restricted cash balances in the periods presented except for $75 million of restricted cash acquired as part of the Alere acquisition in October 2017. The restrictions on this cash were eliminated prior to the end of 2017.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory,* which requires the recognition of the income tax effects of intercompany sales and transfers of assets, other than inventory, in the period in which the transfer occurs. Abbott adopted the standard on January 1, 2018, using a modified retrospective approach and recorded a cumulative catch-up adjustment to Earnings employed in the business in the Consolidated Balance Sheet that was not significant.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments,* which clarifies how companies should present and classify certain cash receipts and cash payments in the statement of cash flows. The ASU became effective for Abbott in the first quarter of 2018 and did not have a material impact to the Company's Consolidated Statement of Cash Flows.

In February 2016, the FASB issued ASU 2016-02, *Leases,* which requires lessees to recognize assets and liabilities for most leases on the balance sheet. The standard becomes effective for Abbott beginning in the first quarter of 2019. Abbott completed a detailed review of its leases. Abbott will use the modified retrospective approach with the package of practical expedients which allows Abbott to carry forward the historical lease classification for existing or expired leases and to account for lease and non-lease components as a single lease component for its lessee arrangements. Abbott does not expect the new lease accounting standard to have a material impact on the amounts reported in the Consolidated Statement of Earnings. As a result of adopting ASU 2016-02, Abbott expects to record approximately $800 million to $900 million of right of use assets and lease liabilities for operating leases on the Consolidated Balance Sheet.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Recognition and Measurement of Financial Assets and Financial Liabilities,* which provides new guidance for the recognition, measurement, presentation, and disclosure of financial assets and liabilities. Abbott adopted the standard on January 1, 2018. Under the new standard, changes in the fair value of equity investments with readily determinable fair values are recorded in Other (income) expense, net within the Consolidated Statement of Earnings. Previously, such fair value changes were recorded in other comprehensive income. Abbott has elected the measurement alternative allowed by ASU 2016-01 for its equity investments without readily determinable fair values. These investments are measured at cost, less any impairment, plus or minus any changes

FINANCIAL REVIEW

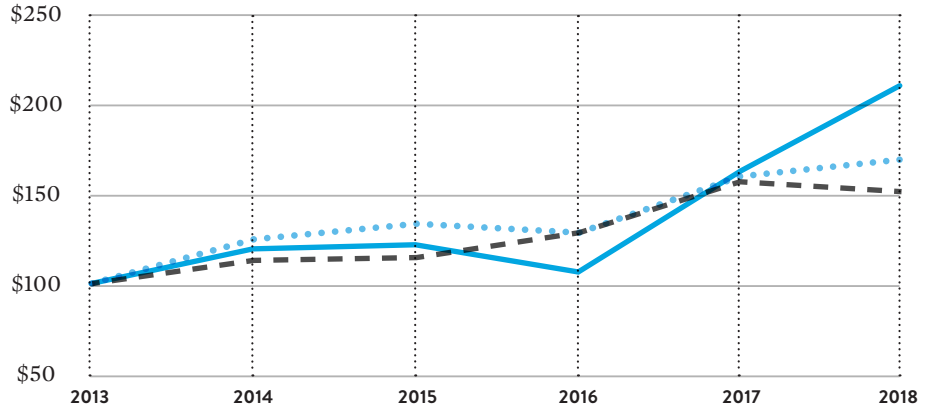
resulting from observable price changes in orderly transactions for an identical or similar investment of the same issuer. Changes in the measurement of these investments are being recorded in Other (income) expense, net within the Consolidated Statement of Earnings. As part of the adoption, the cumulative-effect adjustment to Earnings employed in the business in the Consolidated Balance Sheet for net unrealized losses on equity investments that were recorded in Accumulated other comprehensive income (loss) as of December 31, 2017 was not significant.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers,* which provides a single comprehensive model for accounting for revenue from contracts with customers and supersedes nearly all previously existing revenue recognition guidance. The core principle of the ASU is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Abbott adopted the new standard as of January 1, 2018, using the modified retrospective approach method. Under this method, entities recognize the cumulative effect of applying the new standard at the date of initial application with no restatement of comparative periods presented. The cumulative effect of applying the new standard resulted in an increase to Earnings employed in the business in the Consolidated Balance Sheet of $23 million which was recorded on January 1, 2018. The new standard has been applied only to those contracts that were not completed as of January 1, 2018. The impact of adopting ASU 2014-09 was not significant to individual financial statement line items in the Consolidated Balance Sheet and Consolidated Statement of Earnings.

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

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

PERFORMANCE GRAPH



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

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

Assuming $100 invested on December 31, 2013 with dividends reinvested.

SUMMARY OF SELECTED FINANCIAL DATA

(Dollars in millions except per share data)

Year Ended December 31		2018	2017	2016	2015(a)	2014
Summary of Operations:						
Net Sales	$	30,578	27,390	20,853	20,405	20,247
Cost of products sold	$	14,884	14,384	9,644	9,354	9,785
Research & development	$	2,300	2,260	1,447	1,408	1,349
Selling, general, and administrative	$	9,744	9,182	6,736	6,791	6,540
Operating earnings	$	3,650	1,564	3,026	2,853	2,573
Interest expense	$	826	904	431	163	150
Interest income	$	(105)	(124)	(99)	(105)	(77)
Other (income) expense, net	$	56	(1,447)	1,281	(388)	(18)
Earnings before taxes	$	2,873	2,231	1,413	3,183	2,518
Taxes on earnings from continuing operations	$	539	1,878	350	577	797
Earnings from continuing operations	$	2,334	353	1,063	2,606	1,721
Net earnings	$	2,368	477	1,400	4,423	2,284
Basic earnings per common share from continuing operations	$	1.32	0.20	0.71	1.73	1.13
Basic earnings per common share	$	1.34	0.27	0.94	2.94	1.50
Diluted earnings per common share from continuing operations	$	1.31	0.20	0.71	1.72	1.12
Diluted earnings per common share	$	1.33	0.27	0.94	2.92	1.49
Financial Positions:						
Working capital (b)	$	5,620	11,235	20,116	4,969	3,089
Long-term investment securities	$	897	883	2,947	4,041	229
Net property & equipment	$	7,563	7,607	5,705	5,730	5,935
Total assets	$	67,173	76,250	52,666	41,247	41,207
Long-term debt, including current portion	$	19,366	27,718	20,684	5,874	3,448
Shareholders' investment	$	30,722	31,098	20,717	21,326	21,639
Book value per share	$	17.50	17.84	14.07	14.48	14.35
Other Statistics:						
Gross profit margin	%	51.3	47.5	53.8	54.2	51.7
Research and development to net sales	%	7.5	8.3	6.9	6.9	6.7
Net cash from operating activities	$	6,300	5,570	3,203	2,966	3,675
Capital expenditures	$	1,394	1,135	1,121	1,110	1,077
Cash dividends declared per common share	$	1.16	1.075	1.045	0.98	0.90
Common shares outstanding (in thousands)		1,755,619	1,743,602	1,472,869	1,472,665	1,508,035
Number of common shareholders		42,827	44,581	45,545	47,278	55,171
Market price per share—high	$	74.92	57.77	45.79	51.74	46.50
Market price per share—low	$	55.58	38.34	36.00	39.00	35.65
Market price per share—close	$	72.33	57.07	38.41	44.91	45.02

(a) In February 2015, Abbott completed the disposition of the developed markets branded generics pharmaceuticals and animal health businesses. See Note 4 to the Consolidated Financial Statements for additional information.

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

DIRECTORS AND CORPORATE OFFICERS

DIRECTORS

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

Roxanne S. Austin
President and Chief Executive Officer Austin Investment Advisors, Newport Beach, Calif.

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

Michelle A. Kumbier
Senior Vice President and Chief Operating Officer, Harley-Davidson Motor Company, Milwaukee, Wisc.

Edward M. Liddy
Retired Chairman and CEO, The Allstate Corporation, Northbrook, Ill.

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

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

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

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

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

John G. Stratton
Retired Executive Vice President and President of Global Operations, Verizon Communications Inc., New York, New York

Glenn F. Tilton
Retired Chairman, President and Chief Executive Officer, UAL Corporation Chicago, Ill.

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

SENIOR MANAGEMENT

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Chairman of the Board and Chief Executive Officer

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President and Chief Operating Officer

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

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Executive Vice President, Diagnostics Products

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

Stephen R. Fussell*
Executive Vice President, Human Resources

Andrew H. Lane*
Executive Vice President, Established Pharmaceuticals

Daniel Salvadori*
Executive Vice President, Nutritional Products

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

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Senior Vice President, U.S. Nutrition

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Senior Vice President, Rapid Diagnostics

Charles R. Brynelsen*
Senior Vice President, Abbott Vascular

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

Robert E. Funck*
Senior *Vice President, Finance and Controller*

Sammy Karam*
Senior Vice President, Established Pharmaceuticals, Emerging Markets

Joseph Manning*
Senior Vice President, International Nutrition

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

Michael J. Pederson*
Senior Vice President, CRM and AF/EP

Jared L. Watkin*
Senior Vice President, Diabetes Care

Alejandro D. Wellisch*
Senior Vice President, Established Pharmaceuticals, Latin America

CORPORATE VICE PRESIDENTS

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Vice President, Diagnostics, Commercial Operations, Europe, Middle East and Africa

Keith Boettiger
Vice President, Neuromodulation

Melissa D. Brotz
Vice President, Public Affairs and Corporate Marketing

P. Claude Burcky
Vice President, Government Affairs

Christopher J. Calamari
Vice President, Pediatric Nutrition

Kathryn S. Collins
Vice President, Commercial Legal Operations

Michael D. Dale
Vice President, Structural Heart

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

John S. Frels
Vice President, Research and Development, Immunoassay/Clinical Chemistry

Renaud Gabay
Vice President, Nutrition, North Asia

John F. Ginascol
Vice President, Nutrition, Supply Chain

Jeffrey N. Haas
Vice President, Infectious Disease, Developed Markets

Damian P. Halloran
Vice President, Infectious Disease, Emerging Markets

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

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

Brian Lehman
Vice President, Commercial Operations, Cardiac Arrythmias/Heart Failure

Scott M. Leinenweber
Vice President, Investor Relations, Licensing and Acquisitions

David P. Mark
Vice President, Internal Audit

Louis H. Morrone
Vice President, Transfusion Medicine

Mark W. Murphy, II
Vice President, Business and Technology Services

Martin Nordenstahl
Vice President, Nutrition, Asia Pacific

Joseph L. Novak
Vice President, Taxes

Niamh Pellegrini
Vice President, Commercial Operations, Abbott Vascular

Karen M. Peterson
Vice President, Treasurer

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

Eric Shroff
Vice President, Abbott Point of Care

King Hon To
Vice President, Core Lab Diagnostics Commercial Operations, Asia Pacific

Kwang Ming Tu
Vice President, Abbott Diagnostics Division, China

Andrea F. Wainer
Vice President, Molecular Diagnostics

Frank Weitekamper
Vice President, Abbott Transition Organization

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

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

Jawad Zia
Vice President, Established Pharmaceuticals, India

**Denotes executive officer*

SHAREHOLDER AND CORPORATE INFORMATION

SHARES LISTING

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

QUARTERLY DIVIDEND DATES

Dividends are expected to be declared, recorded, and paid on the following schedule in 2019, pending approval by the Board of Directors:

Quarter	Declared	Recorded	Paid
First	2/22	4/15	5/15
Second	6/14	7/15	8/15
Third	9/12	10/15	11/15
Fourth	12/13	1/15/20	2/14/20

TAX INFORMATION FOR SHAREHOLDERS

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

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

DIVIDEND REINVESTMENT PLAN

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

DIVIDEND DIRECT DEPOSIT

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

DIRECT REGISTRATION SYSTEM

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

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at 9 a.m. on Friday, April 26, 2019, at Abbott's corporate headquarters. Questions regarding the annual meeting may be directed to the Corporate Secretary. A copy of Abbott's 2018 Form 10-K Annual Report, as filed with the Securities and Exchange Commission, is available on the Abbott Web site at www.abbott.com or by contacting the Investor Newsline.

CEO AND CFO CERTIFICATIONS

In 2018, Abbott's chief executive officer (CEO) provided to the New York Stock Exchange the annual CEO certification regarding Abbott's compliance with the New York Stock Exchange's corporate-governance listing standards. In addition, Abbott's CEO and chief financial officer (CFO) filed with the U.S. Securities and Exchange Commission all required certifications regarding the quality of Abbott's public disclosures in its fiscal 2018 reports.

INVESTOR NEWSLINE

(224) 667-7300

INVESTOR RELATIONS

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WEBSITE

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ABBOTT ONLINE ANNUAL REPORT

www.abbott.com/annualreport

GLOBAL CITIZENSHIP REPORT

www.abbott.com/citizenship

SHAREHOLDER INFORMATION

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

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

Some statements in this annual report may be forward-looking statements for purposes of the Private Securities Litigation Reform Act of 1995. Abbott cautions that these forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those indicated in the forward-looking statements. Economic, competitive, governmental, technological and other factors that may affect Abbott's operations are discussed in Item 1A, "Risk Factors," in our Securities and Exchange Commission 2018 Form 10-K and are incorporated by reference. We undertake no obligation to release publicly any revisions to forward-looking statements as the result of subsequent events or developments, except as required by law.

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