2005 Annual Report

Abbott
A Promise for Life

Founded in 1888 by Dr. Wallace Calvin Abbott, a Chicago physician, Abbott is a broad-based health care company that discovers, develops, manufactures and markets products that span the continuum of care — from prevention and diagnosis to treatment and cure. Abbott's principal businesses include pharmaceuticals and medical products, including devices, diagnostic tests and instruments, and nutritionals for children and adults.

Headquartered in north suburban Chicago, Abbott serves customers in more than 130 countries, with a staff of 60,000 at more than 100 manufacturing, distribution, research and development, and other locations.

On the cover: Yew Han Yong is an active 3-year-old from Singapore who enjoys preschool. He maintains his energy, thanks in part to *Grow*, a nutritional supplement for children that delivers important nutrients to enhance their daily diet.

To our shareholders:

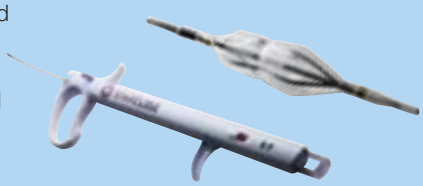
In 2005, Abbott continued to achieve strong results. Both of our business groups, Pharmaceutical Products and Medical Products, grew at a double-digit pace, leading the company to total sales growth of 13.5 percent. And we invested $1.8 billion in research and development to advance new technologies across our broad base of businesses. Consequently, we remain confident about our prospects in the years ahead.

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

Nearly 120 years after Dr. Wallace Calvin Abbott started the company, Abbott remains committed to the principles of its founder—translating science into lasting contributions to improve health.

"Our performance was built on balanced growth from both sides of our company, including important new product launches."

In 2005, Abbott received FDA approval for, and launched, the *Xact* and *Emboshield* carotid stent system and the *StarClose* vessel closure device.



Our pharmaceutical business continued its outstanding performance, delivering sales growth of 15 percent for the year. At the same time, the medical products businesses we've created or acquired in recent years have begun to mature and deliver the level of results we anticipated. For instance, Abbott Diabetes Care, our producer of advanced glucose monitoring systems, grew nearly 35 percent over 2004, surpassing $1 billion in sales. Abbott Point of Care, our maker of hand-held diagnostic devices, grew almost 25 percent over the prior year, and Abbott Vascular grew nearly 15 percent.

2005 financial results and business highlights

In 2005, we once again reported strong performance on both sides of our business, reflecting the actions we've taken, and continue to take, to shape our company for higher growth, greater balance and consistent earnings performance. We exceeded our expectations for full-year sales, with growth of 13.5 percent, and we met our expectations for ongoing diluted earnings per share. In addition, cash flow generation in 2005 was very strong, with operating cash flow of $5 billion. We increased our dividend for the 33rd consecutive year and bought back 30 million shares, or $1.3 billion, of our own stock.

Our performance was built on balanced growth from both sides of our company, including important new product launches across our range of businesses.

In our Medical Products Group:

- We introduced the *Xact Carotid Stent* with the *Emboshield Embolic Protection System,* which together provide a minimally invasive alternative to surgery for people at risk of stroke. We also received regulatory approval to launch the *StarClose* vessel closure device.
- We launched the *Abbott Prism* blood screening system in the United States, building on its established performance around the world. We also launched the *Cell-Dyn Sapphire* hematology system, following its successful launch in Europe.
- We received regulatory approval for, and launched, several new assays across our range of diagnostic technologies, including tests for bladder cancer, hepatitis C and the cardiac marker BNP.

In our Pharmaceutical Products Group:

- We introduced two newly approved uses for our anti-TNF biologic agent, *Humira*: psoriatic arthritis and early rheumatoid arthritis, which should help *Humira* further increase its market share. We also filed for approval of *Humira* to treat ankylosing spondylitis, and we continue to develop this remarkable medication for still more uses to help more patients.
- We launched *Depakote ER* for mania in bipolar disorder, a more convenient form of our versatile medication for epilepsy and migraine headache prevention.

In 2005, Abbott received FDA approval for, and launched, *Humira* for two new uses: psoriatic arthritis and early rheumatoid arthritis.

"Our ability to develop technologies that answer patients' needs is the source of our success."

- We introduced *Zemplar Capsules,* an oral form of our intravenous activated vitamin D therapy for dialysis patients in the United States. The new form allows patients who have earlier stages of kidney disease — who are not yet on dialysis — to benefit from the medicine as well.
- And we launched two important improvements to *Kaletra*, the world's number-one HIV protease inhibitor: once-daily dosing and a new tablet formulation that requires no refrigeration and fewer pills per dose. These convenience factors for HIV patients help to simplify the complicated treatment regimens that can pose a barrier to successful therapy.

Other highlights include:

- *Pipeline progress*

In addition to new product launches, we have a number of important new technologies moving through our development pipeline. In our promising drug-eluting stent program, our *ZoMaxx* clinical trials continue to progress. We initiated U.S. clinical trials for the *Wallis System*, a novel device for stabilization of the spine. And *FreeStyle Navigator*, our highly innovative system designed for continuous glucose monitoring, is awaiting U.S. Food and Drug Administration (FDA) approval.

In pharmaceuticals, we advanced development of *Humira* for Crohn's disease, ulcerative colitis, psoriasis and juvenile rheumatoid arthritis. We continue to evaluate *Xinlay* for the treatment of non-metastatic hormone refractory prostate cancer. And our controlled-release form of the pain medication *Vicodin* has begun Phase III clinical trials.

- *Agreement to acquire Guidant vascular business*

In January 2006, we announced our plans to acquire Guidant's entire vascular business, contingent upon the closing of Boston Scientific's acquisition of Guidant. The agreement complements our current vascular portfolio by providing us with Guidant's vascular intervention and endovascular solutions businesses, including commercial, research and development (R&D) and manufacturing operations. In addition, we will gain a broad portfolio of intellectual property, as well as Guidant's Xience drug-eluting stent, which is approved in Europe and continues in development in the United States.

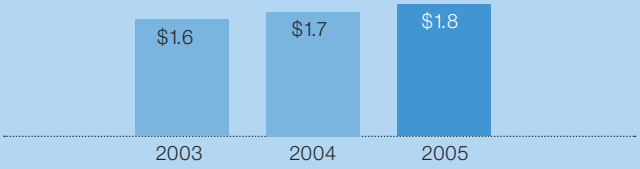
- *The launch of Abbott Nutrition International (ANI)*

ANI is Abbott's newest division. Its business was formerly managed by our Abbott International division (AI). We wanted to ensure that our pharmaceutical and nutritional products would receive the attention and resources they deserved to capture the outstanding opportunities available to them around the world, so we separated the businesses. Beginning in 2006, AI now focuses exclusively on our pharmaceutical business outside the United States, while ANI focuses on the same markets with our nutritional line.

Winning in a changing environment

As you know, the demands of our business environment are neither small nor simple. Abbott is ready for them and is as well-positioned for success as any company in our industry.

Research and development investment
(dollars in billions)



Abbott participates in the PPA, matching more than 1.6 million people with programs to help them get the medicines they need.

Partnership for Prescription Assistance

We've thought very thoroughly and deliberately about what it will take to compete and succeed in the future of health care, and we've shaped the company in recent years to meet those needs. Abbott has a clear vision for success in this business.

Health care is most importantly about the patient. This is the fundamental belief at the heart of our business, and we've worked hard to ensure that the patient is at the forefront of how Abbott people think about our work, at every level of the company.

Our ability to develop technologies that answer patients' needs is the source of our success. Abbott has intensified its commitment to R&D in recent years. Our R&D investment is at an all-time high and growing. We understand very well that the essence of our business and the greatest driver of our growth is the successful creation of new products, and this remains our top priority.

Creating new products for patients is our industry's primary charge. No less important is getting those products into the hands of the people who need them. In recent years, the public has turned to the pharmaceutical industry to help address this problem on its behalf.

The industry has responded to this call vigorously and productively, and Abbott has been among the leaders in this effort. In April 2005, America's pharmaceutical companies and many partner organizations launched the Partnership for Prescription Assistance, which, in its first 10 months, matched more than 1.6 million people with programs that may be able to help them afford their medications.

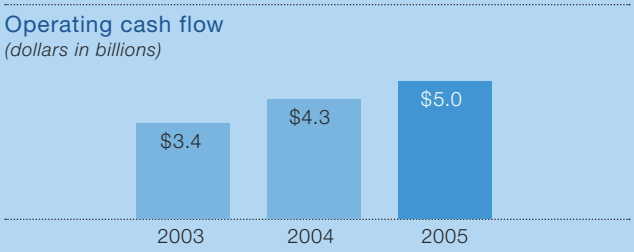
This trend in the pharmaceutical sector underscores the value of our broad-based business strategy. We do not want to be overly reliant on any single business due to changing dynamics that can dominate any market at any given time. Our range of health care businesses multiplies our opportunities and helps balance the risks we face.

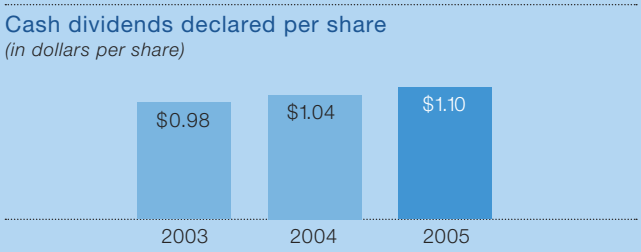
Since 2000, broad-based health care manufacturers such as Abbott have significantly outperformed pure pharmaceutical companies in terms of total return to investors. We believe the diversity of our businesses makes Abbott a better investment and a better health care company. We see more facets of health care, we're connected to health care professionals in more ways, and we gain scientific insights and efficiencies from approaching medical conditions in multiple dimensions.

In addition to patient focus and maintaining a broad business and technological base, another key to future success in health care is efficiency of operations. In 2005, we initiated a focused effort to increase gross margin by reducing costs and improving operating efficiency. We're also committed to increasing our investment in future growth — in R&D and commercial infrastructure — to continue to build our competitiveness.

Of course, all of these strategies depend upon the outstanding execution of the 60,000 Abbott people around the world. We continue to shape our management team to meet the changing needs of our business.

Joe Nemmers, a 25-year Abbott veteran, was named to the position of executive vice president, Diagnostic and Animal Health Divisions, providing additional management support to a large segment of our fast-growing Medical





Products Group. Joe was formerly senior vice president, Diagnostic Operations, a role in which he is succeeded by Jeff Binder, formerly vice president, Abbott Spine. Jim Tyree, an industry veteran who has spent nine years with Abbott, was named to the new position of senior vice president, heading our new Abbott Nutrition International division. Ed Fiorentino, a 20-year Abbott veteran, was named senior vice president, Diabetes Care Operations, reflecting the great growth and success of what has now become a major Abbott division. And Steve Fussell, who has been with Abbott for nine years, was named senior vice president, Human Resources. Steve succeeds Tom Wascoe, who retired from the company after 21 years of distinguished service.

Addison Barry Rand, a member of our board of directors since 1992, also retired. We are very pleased to welcome W. James Farrell to our board of directors. Jim has recently served as CEO of ITW, a Fortune 200 diversified manufacturing company, since 1995 and has been chairman since 1996. He is a proven leader with a wealth of global business and management experience, and we look forward to his valuable perspective. We wish continued success to these new senior leaders and thank our departing colleagues for all they have done for our company.

These contributions, and those of so many others, have built Abbott's culture of strong values and enduring success. They keep us focused on the things that matter the most. We never lose sight of the central place of the patient in all that we do, and we manage our company for the long term. Through generations of experience, Abbott has learned how to succeed in this business, despite the variety of challenges that it presents. We will continue to do so in the years ahead.

We like the strength of our business mix and the breadth of our pipeline opportunities. Our financial strength is evident, as we have paid down debt, bought back our own shares and increased our dividend. We anticipate strong cash flow again in 2006, and we continue to target double-digit earnings per share growth longer term.

For all of these reasons and more, we're confident that Abbott is ready for the future — ready to compete and ready to succeed. Our uniquely well-balanced business gives us what we think is the best outlook in our industry today. Our industry faces some challenges, of course, but I think it's still the best business there is. No other is more important to the people it serves. And, because it matters so profoundly, it will always present opportunities to those who serve it best. There will always be rewards for real innovation that advances medical technology and care. Our commitment is simple: to ensure that Abbott remains one of the companies that delivers that future. We've built our company to do just that.

Miles D. White
Chairman of the Board and Chief Executive Officer
March 1, 2006

Opportunity

In 2005, we continued to move forward in the pursuit of our broad-based growth strategy. It was a year in which we launched important new technologies and medicines across growing areas of medical need, while advancing our balanced late-stage pipeline.

Our diversified approach creates many opportunities for Abbott and those we serve. It helps mitigate the challenges inherent in our constant pursuit of innovation. It bolsters the power of our science. And most important, it maximizes the impact we can have on the lives of patients in need.

With our broad-based business strategy and sound financial performance, we are creating opportunities at Abbott to continue to deliver new medical solutions for patients all over the world.

Marketed Products

Medical Products Group

Animal Health
Diabetes Care
Diagnostics
Molecular
Nutrition
Point of Care
Spine
Vascular

Pharmaceutical Products Group

Anesthesia
Anti-Infectives
Cardiovascular
Immunology
Metabolics
Neuroscience
Oncology
Pain Care
Renal Care
Virology

Product Research

Medical Products Group

Innovation is a critical component of our strategy to achieve leadership positions where patient need is greatest. The following are highlights from some of our most promising late-stage medical technology development programs.

The *Wallis System* is being developed to treat degenerative disc disease without fusion of the vertebrae.

Abbott's drug-eluting stent, *ZoMaxx*, is in clinical development for the treatment of coronary artery disease.

Abbott is developing real-time PCR tests for infectious diseases and other conditions.

FreeStyle Navigator is in development to wirelessly transmit blood glucose information once per minute to a pager-sized receiver.

Diabetes Care

We are developing new products that reduce the pain and inconvenience of blood glucose monitoring. This includes *FreeStyle Navigator*, a continuous glucose monitoring system worn by the patient and designed to measure glucose levels every minute, to allow patients to monitor their diabetes more closely.

Vascular

We are combining the latest medical device innovations with world-class pharmaceuticals to advance the treatment of vascular disease. *ZoMaxx,* our drug-eluting stent in development, features a flexible stent designed for easier placement; a unique coating intended for steady drug elution; and zotarolimus, our drug to reduce vessel renarrowing.

Molecular

We recognize the trend toward molecular testing, which has demonstrated advantages in detection, the selection of appropriate therapies and improved monitoring of disease progression. Included in our growing pipeline are real-time PCR (polymerase chain reaction) tests for infectious diseases and cancer.

Spine

Developing less invasive, motion-preserving technologies is the goal of our spinal technology business. The *Wallis System* is a novel spinal implant for treating disc disease without fusion of the vertebrae and is less invasive than artificial discs. U.S. clinical trials began in 2005. The device is already available outside the United States.

Diagnostics

We continue to expand our presence in the clinical laboratory. The launch of the *Architect c16000* and *ci16200* will provide greater throughput for the high-volume lab, and the *i1000SR* offers an *Architect* immunoassay platform for smaller laboratories. We also plan to launch key assays on *AxSym, Architect* and *Abbott Prism*.

Point of Care

We are expanding our cardiac menu for our hand-held analyzer, *i-STAT*, providing faster results and improving productivity in the emergency room. This includes the expected launch of a BNP cardiac assay in 2006 and continued development of tests for blood-clotting conditions.

Pharmaceutical Products Group

Our pharmaceutical pipeline focuses on specialty therapeutic areas where significant unmet medical need still exists. The following are selected disease areas where our scientists are researching new treatments for patients.

Our neuroscience and pain care research focuses on novel compounds for schizophrenia, Alzheimer's disease and chronic and acute pain.

Our scientists continue to research additional uses for our cholesterol and triglyceride medication, *TriCor*.

Humira is a biologic for rheumatoid arthritis and psoriatic arthritis and is in development for multiple autoimmune diseases.

Our scientists conduct cutting-edge research in key specialty therapeutic areas, such as oncology, to develop novel treatments for patients.

Immunology

We discover and develop biologic and small molecule treatments for autoimmune diseases. *Humira* continues in development for Crohn's disease, ulcerative colitis, psoriasis and juvenile rheumatoid arthritis; we submitted for approval of ankylosing spondylitis in 2005. ABT-874 is a biologic being evaluated for multiple sclerosis and psoriasis.

Infectious Diseases

We've been a world leader in infectious disease research for more than two decades. Discovery efforts center on treatments to address the growing global epidemic of hepatitis C (HCV). An estimated 170 million people worldwide are infected with HCV, and 3 to 4 million people are newly infected each year.

Oncology

We continue to explore novel oncology therapies for millions of people worldwide with cancer. This includes an oral treatment in development for prostate cancer. Other therapies in earlier development at Abbott seek to address multiple stages of cancer progression.

Metabolics

More than 150 million people worldwide suffer from type 2 diabetes, and this number is expected to rise to 300 million by 2025. Early research at Abbott continues for novel medicines for the treatment of type 2 diabetes and related metabolic disorders, such as dyslipidemia and obesity.

Neuroscience and Pain Care

More than 75 million Americans suffer from chronic or acute pain. Abbott is evaluating a controlled-release formulation of the pain medication *Vicodin* for moderate to moderately severe pain. Abbott's early research includes innovative therapies for schizophrenia, Alzheimer's disease and pain.

Additional Therapies in Development

Several late-stage compounds fall outside our therapeutic areas of focus. These include the chronic heart failure treatment levosimendan; ongoing research with our cholesterol and triglyceride medication, *TriCor*; and compounds in development by our TAP joint venture, including novel treatments for gout and acid reflux disease.

Medical Products Group

Our Medical Products Group performed well in 2005, continuing to build a balanced array of innovation-driven, high-growth businesses in emerging areas of medical need.

Key Accomplishments in 2005

Delivered **double-digit** sales growth in the Medical Products Group.

Achieved more than **$1 billion** in worldwide annual sales in Abbott Diabetes Care.

Advanced development of our drug-eluting stent, *ZoMaxx,* by completing enrollment in ZOMAXX I, our European trial, and continuing enrollment in ZOMAXX II, our primarily North American trial.

Received **U.S. FDA approval** for, and launched, the *Xact* and *Emboshield* carotid stent system and the *StarClose* vessel closure device.

Launched *Abbott Prism,* installing the **world's first** fully automated blood screening instrument in regional blood centers across the United States.

Diabetes Care

FreeStyle Flash

FreeStyle Flash (*FreeStyle Mini* outside the United States) is the world's smallest blood glucose monitor and returns an accurate reading with a tiny 0.3 microliter sample in an average of just seven seconds.

Point of Care

i-STAT

i-STAT is a market-leading hand-held analyzer that features a broad test menu. *i-STAT* delivers test results at the patient's bedside, improving outcomes and saving lives.

Diagnostics

Architect ci8200

The *Architect ci8200* integrates chemistry and immunoassay testing with a menu that includes tests for cancer, metabolic diseases, fertility, heart disease and infectious diseases such as hepatitis.

Cell-Dyn Sapphire

Cell-Dyn Sapphire, an automated, high-volume hematology instrument, helps clinicians address their most critical and complex patient samples, improving patient care.

Molecular

Real-Time PCR

Abbott's real-time PCR (polymerase chain reaction) tests monitor hepatitis C and HIV viral loads in patients. These state-of-the-art tests provide data that enable physicians to make better therapy choices for their patients.

Vascular

TriMaxx Stent

TriMaxx is Abbott's proprietary bare metal stent, which combined with Abbott's pharmaceutical zotarolimus is in development as a drug-eluting stent called *ZoMaxx*.

StarClose

StarClose enables fast, safe and secure closure of the femoral artery following a catheterization procedure.

Emboshield

Emboshield, used with the *Xact* carotid stent, is a new, less invasive treatment option for patients at risk of stroke.

Nutrition

Pediatric Nutrition

Pediatric nutritionals include a broad line of infant formula products, such as *Similac Advance*; as well as *PediaSure* and *Grow*, which provide balanced nutrition for children; and *Pedialyte*, an oral electrolyte solution for the prevention of dehydration.

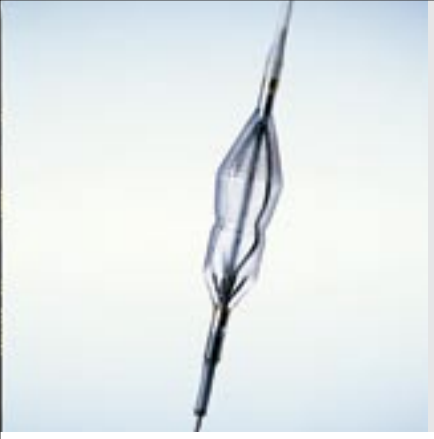
Healthy Living

Healthy Living nutritionals include *Ensure* and *ZonePerfect* brands for healthy, active adults. *Glucerna* is specifically designed for people with diabetes.

Spine

InFix

Assembled inside the patient during surgery, the *InFix* device allows surgeons to restore spine stability.



Xact and Emboshield — Jim Cesarz test-drives motorcycles for a living. Luckily, he's also in tune with his body. His physician used the *Xact* carotid stent and *Emboshield* protection device to re-establish blood flow in Jim's carotid artery, reducing his risk of stroke.

Medical products: new technologies improving patient care

Our Medical Products Group achieved double-digit sales growth in 2005, with a steady stream of new product launches focused on highly innovative technologies that improve patient care. This includes the U.S. Food and Drug Administration (FDA) approval of our carotid stent, *Xact*, a new minimally invasive treatment for people at risk of stroke, as well as *Abbott Prism,* the world's first fully automated blood screening instrument.

In recent years, we reshaped our Medical Products Group to enhance our ability to participate in high-growth, technology-driven markets. At the same time, we steadily grew our established medical products businesses through market expansion and the introduction of new products. Our eight strategic businesses in medical devices include: Vascular, Diabetes Care, Diagnostics, Molecular, Point of Care, Nutrition, Spine and Animal Health.

In 2005, we continued to execute on our plan to build billion-dollar businesses in markets where innovation drives preference, such as Abbott Diabetes Care, which surpassed the billion-dollar sales mark. We also made significant progress in advancing a strong pipeline of promising new technologies. This includes *FreeStyle Navigator* — a device that could change the way people manage their diabetes, and *ZoMaxx* — our drug-eluting stent in global development for coronary artery disease.

Vascular: transforming the treatment of vascular disease

Abbott offers a comprehensive portfolio of coronary, endovascular and vessel closure products that are recognized internationally for their safety, effectiveness and ease of use in treating vascular disease.

We reached a number of important milestones toward our goal of becoming a leader in this market: the continued clinical development of our drug-eluting stent, *ZoMaxx*, and the U.S. launches of our carotid stent system, *Xact* and *Emboshield*, and vessel closure device, *StarClose*.

Drug-eluting stents, such as *ZoMaxx*, are tiny metal scaffolds placed in diseased arteries to keep them open and re-establish blood flow. We completed enrollment of ZOMAXX I, our 400-patient drug-eluting stent clinical trial outside the United States, and initiated enrollment of ZOMAXX II, our larger, primarily North American trial. Both studies investigate the performance of the *ZoMaxx* platform, which combines three proprietary technologies: *TriMaxx*, a flexible stent designed for easier placement; zotarolimus, Abbott's immunosuppressant drug shown to reduce vessel renarrowing; and *Pharmacoat*, a unique polymer coating intended to enable steady drug elution. *TriMaxx* is approved in Europe.

ZoMaxx is poised to become an important part of Abbott Vascular's growing line of new technologies. Preliminary data from studies with *ZoMaxx* indicate that it has the potential to become a strong global competitor in the growing $5 billion drug-eluting stent market. We anticipate European approval for *ZoMaxx* in 2006. Our next-generation development program features two drugs on one stent: zotarolimus and dexamethasone, an anti-inflammatory drug. The goal is to target a tough-to-treat patient population, such as people with diabetes.

In our endovascular business, Abbott became the second company to enter the U.S. carotid stent market with the September 2005 FDA approval and launch of the *Xact Carotid*

< *Xact* and *Emboshield* Patient - Harrisburg, Pennsylvania

Precision Xtra — Marguerite Sung uses *Precision Xtra* to monitor her diabetes. It's the only home-use meter capable of measuring both blood glucose and blood ketone levels. Having peace of mind allows her more time to pursue her musical hobbies.

Stent and *Emboshield Embolic Protection System*. Carotid stenting is a new, less invasive treatment option for patients at risk of stroke from a partially blocked carotid artery, a major artery that runs through the neck and supplies blood to the brain.

Patients with severe carotid blockages have traditionally undergone surgery to remove plaque, but surgery can cause complications such as nerve damage and neck scarring. As a result, interventional physicians have begun to use less invasive procedures, such as stenting, to treat patients at high risk for developing complications from surgery.

Abbott's new stent system features *Xact*, a stent specifically designed for placement in the carotid artery, and *Emboshield*, a filter developed to treat patients at risk of stroke who are not favorable candidates for surgery, by catching plaque fragments (emboli) that may be released during carotid stenting.

We also initiated enrollment in a groundbreaking carotid stent clinical trial known as ACT I. The first trial of its kind, ACT I compares carotid stenting to surgery in patients who have not displayed symptoms of stroke, but are at risk, and who normally would be referred for surgery. An indication in this patient population could greatly expand the carotid stenting market over time.

In our U.S. vessel closure business, we received FDA approval to launch *StarClose*, an entirely new closure device designed to enable fast, safe and secure closure following a catheterization procedure — allowing patients to get out of bed sooner. Introduced successfully in Europe in 2004, *StarClose* is a novel clip-based technology that closes the femoral artery securely in a matter of seconds. As a new method of vessel closure in the United States, *StarClose* has the potential to change the current standard of vessel closure.

Diabetes Care: improving patient comfort and convenience

Abbott is a leader in developing products that reduce the discomfort and inconvenience patients experience with blood glucose monitoring. Our focus is on introducing systems that are easier to use, require smaller blood samples and provide faster results to help patients better manage their diabetes.

FreeStyle Flash (*FreeStyle Mini* outside the United States) is the world's smallest glucose monitor and returns an accurate reading with a tiny 0.3 microliter sample in an average of just seven seconds. *Precision Xtra* (*Precision Optium/Xceed* outside the United States) is the only home-use meter that measures glucose and ketone levels.

Driven by the success of the *FreeStyle* and *Precision* product lines, Abbott Diabetes Care solidified its number-three position in the $6 billion global blood glucose testing market — exceeding $1 billion in annual sales. Blood glucose testing is a rapidly growing business. The market is expected to exceed $9 billion in sales within the next five years.

Looking to the future of blood glucose monitoring, two next-generation products in our late-stage pipeline have the capability to improve diabetes management and significantly reduce the discomfort and inconvenience of blood glucose testing. *FreeStyle Navigator*, a new continuous glucose monitoring system, is awaiting FDA approval. Designed to measure patient glucose levels as frequently as once per minute, 24 hours per day, it features a sensor worn on the body that wirelessly transmits readings every minute to a pager-like device kept in a pocket or purse. Also in development is a fully integrated blood glucose monitor that combines both test strips and lancing capabilities in one device, enabling simple point-and-click testing.

Precision Xtra User - Potomac, Maryland >

Abbott Prism — Siblings Alex and Claudia Mead are battling a serious illness that requires regular blood transfusions. Thanks in part to *Abbott Prism*, an analyzer designed for high-volume blood screening, they can be confident that the blood they need is available and safe.

Diagnostics: enhancing patient care through state-of-the-art technology

With nearly 70,000 customers in more than 100 countries, Abbott has the world's largest installed base of diagnostic instruments — more than 80,000 — and one of the category's broadest menu of tests. In 2005, Abbott Diagnostics continued to build its brand and grow market share. We placed more than 1,600 new *Architect* instruments with customers around the world and launched a number of important new products.

We strengthened our position in cancer, cardiac, metabolic and infectious disease testing, introducing new assays in the United States on both the *Architect* and *AxSym* analyzers. On *Architect*, this includes tests for ovarian and breast cancer, as well as myoglobin, which completes the *Architect* acute cardiac panel. In addition, we launched the *Architect BNP* (B-type natriuretic peptide) test worldwide, one of the most important tests in cardiology. On *AxSym*, we launched two key metabolic assays and anticipate FDA approval of additional assays in 2006, which will complete the *AxSym* metabolic panel. We also launched an important test for hepatitis C on *AxSym*, and additional hepatitis tests for both *Architect* and *AxSym* are currently under FDA review.

Abbott will continue to serve its laboratory customers and grow market share with an expanded line of *Architect* analyzers. This includes the *c16000*, a clinical chemistry analyzer, and the *ci16200*, an integrated analyzer, both in development to expand Abbott's position in high-volume laboratories. Additionally, Abbott is developing the *i1000SR* — the successor to *AxSym*, which will serve the needs of smaller laboratories.

In 2005, we launched *Abbott Prism,* introducing it to blood banks across the United States. *Abbott Prism* is the world's first fully automated blood screening instrument. The advanced automation capabilities of *Abbott Prism* eliminate many manual, time-consuming steps currently necessary to screen blood donations. Its capabilities also reduce the risk of accidents, errors and sample tampering. The U.S. launch follows the FDA approval of *Abbott Prism HBcore*, an assay used to screen blood donations for hepatitis B. Additional hepatitis screening tests for *Abbott Prism* are currently under FDA review. Outside the United States, *Abbott Prism* is used in more than 30 countries — nearly half of which use the system to screen 100 percent of their blood donations.

In our hematology business, we launched *Cell-Dyn Sapphire*, a high-volume automated hematology analyzer that incorporates monoclonal antibody tests to address laboratories' most critical and complex patient samples. *Cell-Dyn Sapphire* enables better results faster by reducing the need for manual analysis. In 2006, we expect to launch *Cell-Dyn Ruby*, an automated hematology analyzer for the mid-volume segment.

Molecular: improving testing through automation

In 2005 in Europe, Abbott Molecular launched a less labor-intensive, automated instrument for molecular testing based on real-time PCR (polymerase chain reaction) technology, with infectious disease assays for HIV and hepatitis C. Infectious disease testing represents nearly 50 percent of the rapidly growing molecular diagnostics market. In Europe in 2006, we launched an additional test for chlamydia and gonorrhea, the two most common sexually transmitted diseases in the world. The HIV and chlamydia/gonorrhea assays are also expected to launch in the United States in 2006. In addition, we expect to introduce tests for hepatitis B and hepatitis C genotyping outside the United States in 2006. We are also researching tests for certain types of cancer, including cervical, esophageal and melanoma.

Our *UroVysion* test was also approved for use as an aid in the initial diagnosis of bladder cancer in patients with hematuria (blood in urine). This expanded claim makes *UroVysion* the first gene-based test available both for diagnosis and monitoring of bladder cancer recurrence.

< *Abbott Prism* Patients - Chicago, Illinois

StarClose — Following a catheter procedure to examine Larry Walker's coronary artery, his physician used Abbott's *StarClose* vessel closure device to close the femoral artery securely in a matter of seconds, allowing Larry to go home in a few hours.

Point of Care: accurate results at the patient's bedside

Our *i-STAT* point-of-care system provides physicians with the information they need to make life-saving decisions at the patient's bedside. We built on our leading position in the rapidly growing point-of-care market by expanding our menu of tests. We launched *i-STAT CK-MB* (creatine kinase MB), which aids in the diagnosis of a heart attack, and *i-STAT Chem8+*, which combines eight tests from the most commonly requested chemistry panel onto a single cartridge.

We also submitted *i-STAT BNP* (B-type natriuretic peptide) for regulatory approval and plan to launch in 2006. This test aids in the diagnosis of heart failure. Our expanding portfolio gives us a broad presence in this market and creates a unique and compelling offering to help emergency department physicians attend to patients more rapidly.

Nutrition: strengthening focus in a long-established business

In 2005, Abbott International focused on addressing emerging consumer markets in Asia and Latin America with hallmark brands, including our infant formula, *Similac Advance*, as well as nutritionals for children ages 1 to 10, such as *PediaSure*, *Gain Advance* and *Grow Advance*. In Europe, we remained the market leader in adult nutritionals with *Ensure* and continued to drive growth for specialty products such as *Glucerna*. Our products were available to consumers in more than 130 countries around the world.

Abbott's Ross Products Division, which markets our nutritional products in the United States, holds a leading position in the nutritional market with strong consumer brands: *Similac Advance, Isomil Advance* and *Alimentum Advance* in infant nutritionals; *PediaSure* and *Pedialyte* for children; *Ensure, ZonePerfect* and *EAS* for healthy, active adults; and *Glucerna* for people with diabetes.

In 2005, we introduced *Ensure Healthy Mom* shakes and snack bars — designed to help meet the unique nutritional needs of pregnant women and nursing mothers.

Spine: building leadership with minimally invasive technology

We offer a line of innovative, less invasive devices for the treatment of spinal disorders and injuries. This includes *PathFinder*, which allows a surgeon to perform spinal fusion procedures through two small incisions, reducing recovery time. Another Abbott innovation is *InFix*, an interbody spacer assembled inside the patient during surgery, enabling the surgeon to more accurately restore the patient's anatomy and provide greater stability to the lower spine.

Our pipeline is largely focused on nonfusion, motion-preserving technology. In 2005, enrollment began in our U.S. clinical trial for the *Wallis System*, a dynamic stabilization device that has been used successfully in Europe. Unlike disc replacement or fusion, the *Wallis System* stabilizes the spine with an insert that can be implanted through the back. It's designed to ease lower-back pain while preserving spinal mobility. In addition to the *Wallis System*, we have an artificial disc program in development.

Animal Health: growing our global presence

For more than a decade, we've applied our fundamental strengths in human health to advance veterinary medicine. Our broad surgical suite product line addresses veterinary needs in anesthesia, fluid therapy and medical devices and includes products such as *SevoFlo, PropoFlo* and *Nexaband*. Our growth strategy is to expand our presence in the $5 billion companion animal market by focusing on bringing value to small-animal veterinarians and pet owners. In 2006, we launched the *AlphaTRAK* blood glucose monitoring system for cats and dogs.

StarClose Patient - Clearlake, California >


CAFE

Pharmaceutical Products Group

In 2005, our Pharmaceutical Products Group delivered another year of double-digit sales growth, while advancing a number of new therapies and indications in our pipeline.

Key Accomplishments in 2005

Delivered double-digit sales growth in the Pharmaceutical Products Group.

Achieved $1.4 billion in global *Humira* sales; received FDA approval for, and launched, *Humira* for psoriatic arthritis and early RA.

Achieved nine U.S. FDA regulatory submissions or approvals of new products or new indications for marketed products.

Advanced development of *Humira* for five additional indications: ankylosing spondylitis, Crohn's disease, ulcerative colitis, psoriasis and juvenile RA.

Received FDA approval for *Kaletra* tablets, a more convenient form of our leading HIV therapy; *Depakote ER* for mania in bipolar disorder; and *Zemplar Capsules* for early-stage kidney disease.

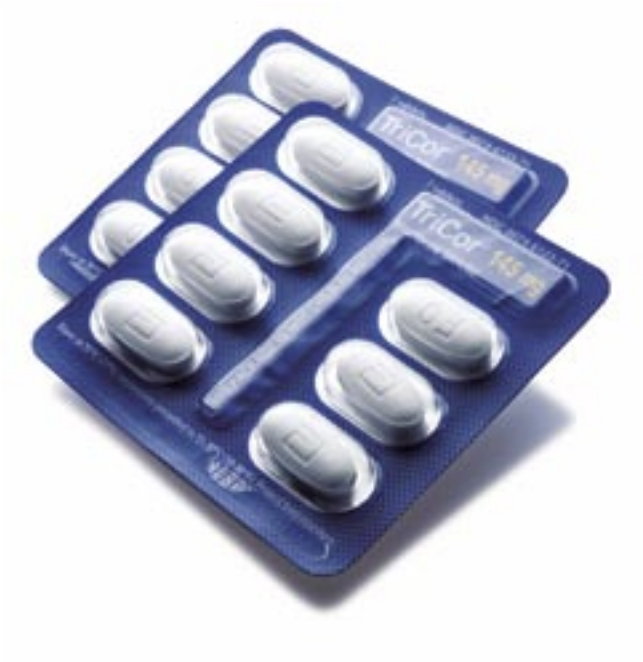
Immunology

Humira

Humira is a biologic therapy for treating rheumatoid arthritis (RA), a painful disease of the joints, and psoriatic arthritis, a disease that combines symptoms of arthritis with psoriatic skin disease.

Humira is easy to use — self-administered at home just twice a month by prefilled syringe. Abbott is pursuing five additional indications for *Humira*: ankylosing spondylitis, Crohn's disease, psoriasis, juvenile RA and ulcerative colitis.

Cardiovascular



TriCor

TriCor is the market-leading fibrate for reducing cholesterol and high triglycerides.

Virology

Kaletra

Kaletra is a leading treatment for HIV. In 2005, we received regulatory approval for *Kaletra* tablets, offering patients improved convenience.

Anti-Infectives

Omnicef

Omnicef is one of the fastest-growing antibiotics on the market today.

Biaxin XL

Biaxin XL is our antibiotic for the treatment of common upper and lower bacterial respiratory tract infections.

Metabolics Renal Care Neuroscience

Synthroid

Synthroid is the number-one-prescribed treatment for thyroid disease, used by millions of patients for half a century.

Zemplar

Zemplar is a leading treatment for secondary hyperparathyroidism, a complication of kidney disease. *Zemplar* is offered intravenously or in capsule form for patients in the earlier stages of kidney disease.

Depakote ER

Depakote ER is a once-daily treatment for epilepsy, mania in bipolar disorder and the prevention of migraine headaches.


HOPITAL
AINT-PIERRE

Humira — After years of failed treatments for psoriatic arthritis, Dr. Daniel Jacobs, an anesthesiologist, has found relief from his symptoms with *Humira.* With reduced pain and stiffness, he is able to resume his active schedule.

Pharmaceuticals: advancing innovations in patient care

In 2005, our Pharmaceutical Products Group grew double digits for the fifth consecutive year. A number of our marketed products exceeded our sales expectations for the year. We also achieved numerous U.S. Food and Drug Administration (FDA) submissions or approvals of new products or new indications that will allow our U.S. pharmaceutical business to sustain its industry-leading growth rate.

FDA approvals and launches include new early rheumatoid arthritis (RA) and psoriatic arthritis indications for *Humira*. *Depakote ER,* a trusted medication for epilepsy and migraine headache prevention, received FDA approval for the treatment of mania in bipolar disorder. *Kaletra* tablets, a new, more convenient tablet formulation of our leading HIV treatment, and *Zemplar Capsules*, a new treatment for patients with chronic kidney disease, also received FDA approval in 2005.

Beyond our marketed products, we continue to advance our late-stage pipeline. Our research and development (R&D) efforts center on specialty disease areas where significant unmet medical need still exists.

Immunology: expanding the global presence and promise of *Humira*

Humira is Abbott's biologic therapy for the treatment of RA and psoriatic arthritis — autoimmune disorders in which a human protein, tumor necrosis factor (TNF), plays a role in disease development and progression. *Humira* is a fully human monoclonal antibody that works by blocking TNF, reducing joint pain and skin disease symptoms.

Psoriatic arthritis is the first disease beyond RA for which *Humira* has received approval and is one of five additional autoimmune diseases for which *Humira* is under development.

Three years after regulatory approval for RA, and following the October 2005 launch for psoriatic arthritis, *Humira* continues to gain patient and physician preference. Global sales this year exceeded $1.4 billion.

Psoriatic arthritis is a chronic disease that combines the symptoms of arthritis with those of psoriatic skin disease, such as dry, scaly skin. *Humira* reduced skin lesions and joint symptoms in as little as two weeks. Our leading specialty products sales force is educating dermatologists about the benefits of *Humira* in psoriatic arthritis, expanding our commercial efforts into a new and rapidly growing market.

RA is a painful joint disease that afflicts more than 5 million people worldwide. Evidence suggests there is a window of opportunity to intervene before the potentially crippling effects of joint destruction and long-term disability set in. The approval of *Humira* for early moderate to severe RA offers patients an important therapy option early in the course of the disease. *Humira* is also easy to use — self-administered at home just twice a month by prefilled syringe.

Cardiovascular: *TriCor* remains a leading cholesterol treatment

Following a late 2004 FDA approval, Abbott launched new *TriCor* tablets, an improved formulation of Abbott's leading treatment for cholesterol and high triglycerides. *TriCor* tablets dissolve faster for easier absorption by the body, and, important to patient convenience and compliance, it can be taken with or without food.

TriCor is also being studied in people with diabetes. The FIELD study was conducted to determine whether early intervention with fenofibrate (*TriCor*) could have an impact on cardiovascular events in patients with type 2 diabetes. The study provides important information on the role of early intervention with fenofibrate and adds to the growing body of knowledge on strategies to manage cardiovascular risks within this patient population.

< *Humira* Patient - Brussels, Belgium

Kaletra — Kathy Bennett, a devoted HIV educator, is dedicated to community outreach and providing patient support. The new, more convenient tablet formulation of *Kaletra* allows her to simplify her *Kaletra* dosing without sacrificing the quality of her HIV treatment regimen.

Virology: HIV leadership continues with improved convenience

Kaletra remains the leading protease inhibitor treatment for HIV around the world. Fortunately, HIV can now be treated as a chronic disease. Therefore, long-term viral suppression and tolerability, as well as convenience, are vital for patient success. *Kaletra* meets these criteria.

In 2005, we received FDA approval for a once-daily *Kaletra*-based regimen, which provides increased flexibility for patients. We also received FDA approval for a new tablet formulation of *Kaletra*, developed using a proprietary technology that reduces the number of pills patients need per day. The new tablet formulation does not require refrigeration and can be taken with or without food, improving patient convenience.

Kaletra continues to be an effective treatment for HIV. New seven-year data were presented in 2005 that evaluated the ability of *Kaletra* to suppress the HIV virus and maintain efficacy over time in patients new to therapy. Results are important because resistance — what happens when the HIV virus is no longer sensitive to a drug — is the leading cause of HIV treatment failure.

Renal Care: a new treatment in kidney disease

Of the more than 20 million Americans who suffer from chronic kidney disease, many develop secondary hyperparathyroidism (SHPT), which can affect vital organs and cause bone disease. SHPT can occur when the kidneys lose their ability to activate vitamin D, which is obtained through diet and other sources. The 2005 FDA approval of *Zemplar Capsules*, an activated vitamin D therapy, provides an effective, convenient treatment for patients with SHPT in the earlier stages of kidney disease (before the need for dialysis).

Zemplar Capsules is an oral formulation of *IV Zemplar*, which is currently marketed for stage-five kidney disease patients with SHPT who require dialysis. *IV Zemplar* is the most widely used injectable therapy in the United States for dialysis patients with SHPT.

Additional therapies contributing to patient health

Depakote ER has been a trusted medicine for the treatment of certain types of epilepsy and migraine headache prevention — and in 2005, it was FDA approved for the treatment of mania in bipolar disorder. *Depakote ER* offers patients the convenience of once-daily dosing, while providing more consistent levels of medication in the body — important to managing neurological disorders.

Synthroid is Abbott's well-established thyroid medication that millions of patients have relied on for half a century. Despite the availability of generic therapies, patients and physicians continue to choose *Synthroid*. It's one of the least expensive medications — branded or generic — on the market today.

Omnicef is a cephalosporin antibiotic that has been proven effective for common bacterial infections of the ear, sinus, throat and skin. Available in great-tasting strawberry liquid that children prefer, as well as in capsule form, it continues to be one of the fastest-growing antibiotics in the United States. Parent preference for *Omnicef* oral suspension has led to market share of more than 10 percent.

Abbott science: addressing medical needs for patients

We continued to make progress in our R&D efforts in 2005, executing on several late-stage pipeline opportunities, including additional indications for *Humira* and novel treatments for heart disease, pain care, cancer and gout. We also advanced earlier-stage medicines for the treatment of neurological and autoimmune diseases, including multiple sclerosis.

Pioneering innovative medicines in therapeutic areas that lack effective treatments involves appreciable risks and substantial rewards. Although not every new therapy discovered will come to market, the majority of our late-stage R&D opportunities over the past several years have succeeded. Today, we have a number of compelling opportunities in our pipeline.

Kaletra Patient - Baltimore, Maryland >


adidas

Omnicef — An ear infection didn't keep Julian Torres on the sidelines for long. *Omnicef*, a great-tasting antibiotic, effectively treated Julian's ear infection, allowing him to return to the soccer field and help his team to victory.

Immunology: continued progress to treat autoimmune diseases

As we launched *Humira* for two new indications — psoriatic arthritis and early moderate to severe RA — we made significant progress on its development for treating other important diseases. In October 2005, we submitted U.S. and European regulatory applications for *Humira* for the treatment of ankylosing spondylitis, an inflammation of the spine. We are also researching *Humira* in four additional diseases — Crohn's disease, psoriasis, juvenile RA and ulcerative colitis.

Crohn's disease is a chronic, inflammatory disease of the intestines that is typically diagnosed before age 30. In 2005, data were presented indicating a strong potential for *Humira* in treating Crohn's disease. In 2006, we expect to submit a new drug application for this indication. We believe *Humira* could have a distinct convenience advantage, as it can be self-administered at home — important for this young and active patient population. In addition, we will be developing *Humira* for ulcerative colitis, a disease characterized by inflammation of the large intestine.

Psoriasis is a chronic skin disease characterized by very dry, cracked skin. Moderate to severe forms of psoriasis account for approximately one-third of the 4.5 million people in the United States who suffer from the disease. Phase II studies have generated data regarding *Humira's* effect in relieving skin symptoms, including *Humira* patients who were determined to be "clear" or "almost clear" of their psoriasis. Phase III pivotal trials in psoriasis are ongoing to support this important indication.

Beyond RA, early RA and psoriatic arthritis, we hope to bring to market five additional *Humira* indications over the next few years. *Humira* is currently bringing relief to more than 125,000 patients worldwide. With a number of pipeline opportunities in one well-established product, we expect *Humira* to reach several billion dollars in annual sales.

ABT-874: in development for multiple sclerosis

ABT-874 is an investigational biologic therapy designed to target and neutralize interleukin-12 (IL-12), a protein that regulates inflammatory response. ABT-874 is in Phase II studies for autoimmune diseases, including psoriasis and multiple sclerosis (MS). Very few treatment options are available for MS — a disease in which the nerves of the brain and spinal cord are damaged by one's own immune system.

TriCor: combination therapy offers potential for broader benefit

While the fenofibrate therapy, *TriCor,* remains an effective lipid-lowering agent as a stand-alone product, it also shows promise as a combination therapy. In clinical trials, we continue to research the benefits and safety of fenofibrate therapy in combination with a statin, a very common cholesterol-reducing therapy.

A study was published in *The American Journal of Cardiology* that evaluated the effects of *TriCor*, when combined with a statin, on three aspects of the lipid profile — triglycerides, good cholesterol and bad cholesterol — compared with the use of statins alone. Additional data are being generated to fully understand the potential of *TriCor* as a combination therapy.

Oncology: growing promise for treating cancer

Xinlay is Abbott's novel, once-daily, investigational treatment for prostate cancer. This year in the United States, an estimated 230,000 men will be diagnosed with prostate cancer, and 30,000 will die from the disease. In 2005, the FDA declined to approve our new drug application for advanced-stage (metastatic) hormone refractory prostate cancer; however, we believe *Xinlay* still has potential as a future treatment option for cancer patients.

< *Omnicef* Patient - Dallas, Texas

Zemplar — Themesia Speaks was diagnosed with kidney disease as a child. Her doctor prescribed *Zemplar Capsules* to treat a complication of kidney disease called secondary hyperparathyroidism, allowing her to spend quality time with her daughter, Aliyah.

We are evaluating *Xinlay* for a prostate cancer indication in which the cancer has not yet spread to the bone (non-metastatic disease). We anticipate reviewing the results of that clinical trial in 2006.

Focused on developing targeted therapies with low toxicity, our scientists are researching a number of other compounds in various stages of development. This includes ABT-510, in development for the treatment of various cancers, including kidney and nonsmall cell, as well as ABT-751, which has shown early promise in the treatment of pediatric neuroblastoma.

In addition, Abbott is researching leading-edge, early-stage oncology compounds, including one designed to enhance the effects of chemotherapy. Known as a bcl-2 inhibitor, this compound works to kill tumors such as lymphoma.

Chronic heart failure: addressing a serious medical need

Chronic heart failure is a disease in which the heart suffers from a decrease in its ability to pump blood efficiently. Of the 5 million Americans who currently suffer from this disease, more than half will die within five years of diagnosis.

Levosimendan is on the market in several countries outside the United States for acutely decompensated heart failure, and is in late-stage development in the United States. It works by increasing the pumping strength of the heart and improving blood flow to organs. We shared data in 2005 showing the impact of levosimendan on the signs and symptoms of heart failure. We plan to review this data with regulatory authorities in 2006 as we determine next steps for our levosimendan development program.

Neuroscience and pain care: improving existing therapies and finding new ones

While many advances have been made in the treatment of neurological conditions, significant unmet medical need still exists. Abbott's strategy in neuroscience research is twofold: improving existing therapies for patients and researching new ones. Controlled-release *Vicodin*, a more convenient form of a widely recognized pain brand, is in Phase III development for moderate to moderately severe pain. The goal of a controlled-release formulation of *Vicodin* is to improve dosing convenience for patients while at the same time sustaining efficacy.

In addition to our late-stage clinical program for *Vicodin* controlled release, we have cutting-edge compounds for pain and cognition in early-stage development. Abbott was among the first companies to begin researching drugs that target neuronal nicotinic receptors (NNRs). Unlike the nonselective effects of nicotine itself, these compounds are designed to have specific benefits in multiple disease processes, including cognitive impairment, attention deficit hyperactivity disorder (ADHD), and chronic and acute pain.

TAP pipeline: advancing new therapies

Febuxostat is in late-stage development at TAP, our joint venture with Takeda Pharmaceutical Company Ltd., for the treatment of high uric acid levels associated with gout. Gout is an inflammatory arthritis common to men and characterized by painful attacks on the joints. Febuxostat is the first new treatment developed for chronic gout in more than four decades. TAP received an approvable letter for febuxostat from the FDA in 2005 and expects the agency to complete its full review in 2006.

TAP also added two new compounds to its digestive disease pipeline: TAK-390MR, an investigational product for the treatment of acid-related disorders, and ilaprazole, an investigational proton pump inhibitor. TAK-390MR is in Phase III development, and ilaprazole is expected to enter Phase II development in 2006.

Zemplar Patient - St. Louis, Missouri >

Helping Communities Around the World

We've maintained a long-standing commitment to be a good neighbor in the hundreds of communities around the world where we operate. By providing leadership, expertise, product donations and financial support, we work to address unmet needs. With 2005, came many challenges to the global community, and, at Abbott, we did our part to help. Our total social investment this year from the Abbott Fund, corporate philanthropy, patient assistance programs, humanitarian relief and AIDS-related programs reached millions of people worldwide, with a total value of more than $340 million. For more information about our citizenship efforts, visit www.abbott.com/citizenship.

Responding to global disasters

We were one of the first responders to the humanitarian crisis following the destructive impact of Hurricane Katrina, which devastated the U.S. Gulf Coast. We donated and shipped more than $6.5 million in medicines, nutritionals and medical devices to people most in need through disaster relief organizations, such as the American Red Cross, America's Second Harvest, AmeriCares, Direct Relief International, MAP International and Project HOPE.

"We are most grateful to Abbott for their support of America's Second Harvest in helping us provide hurricane relief and recovery this year. Their generosity has enabled us to bring hope to hundreds of thousands of people across the Gulf Coast."

–Robert Forney, President and CEO
America's Second Harvest

Key contributions to Hurricane Katrina relief:

- Deployed three Abbott *Architour* semitrailer trucks, our mobile diagnostic laboratories, and personnel to the area to distribute products.
- Distributed *i-STAT* hand-held blood analyzers to health care professionals, who performed medical tests on hurricane victims and helped triage patients through emergency centers at a number of hospitals, as well as at the Reliant Center in Houston.
- Donated cases of Abbott's blood glucose monitoring systems, pediatric products, adult nutritionals and antibiotics to area hospitals, victims and volunteers.
- Partnered with Wal-Mart and Sam's Club pharmacies in affected states to provide a seven-day supply of Abbott medications at no charge to patients displaced from their homes or without the ability to purchase prescriptions.

We also responded with millions of dollars in product donations after hurricanes in the United States, Mexico and Central America, the earthquakes in India and Pakistan and the Indian Ocean tsunami.

i-STAT, Abbott's hand-held diagnostic system, improved patient care following Hurricane Katrina by providing physicians with rapid test results during a time when lab resources were limited.

Cedrick LaFleur, an Abbott sales specialist in Texas, used his network of contacts to help provide critical assistance and supplies, including nutritional products and diagnostic services, to Hurricane Katrina evacuees in the early days of the disaster.

Three *Architours,* Abbott's mobile diagnostics laboratories, were rerouted to the Gulf Coast, equipped with the *Architect ci8200*, *Cell-Dyn 1800* and thousands of cases of our nutritional products to assist Hurricane Katrina relief efforts.

Helping Communities Around the World

Abbott volunteer Sandy Josephson demonstrates the capabilities of Abbott's *AxSym* diagnostic system to a laboratory technician at Muhimbili National Hospital in Tanzania. The laboratory, renovated by the Abbott Fund, allows for more efficient processing of HIV and other chronic disease tests.

Abbott Chairman and CEO Miles White and former Tanzanian President Benjamin Mkapa dedicate new laboratories at Muhimbili National Hospital in Dar es Salaam, Tanzania.

The children pictured here attend the Bantu Day Care Center, which the Abbott Fund is currently rebuilding to help meet the needs of children impacted by HIV/AIDS. An estimated 1 million children in Tanzania have lost one or both parents to HIV/AIDS.

Tanzania: expanding access to HIV testing, treatment and care

Like many countries in Africa, Tanzania faces a significant HIV/AIDS epidemic. Since 2001, the Abbott Fund and the government of Tanzania have formed a unique public-private partnership to scale up HIV testing and treatment across the country. This effort is part of Abbott's and the Abbott Fund's pledge of $100 million over five years to address the disease in the developing world. To date, $35 million has been invested in Tanzania toward one of the most comprehensive efforts in Africa to strengthen a country's health care system and meet the lifelong treatment needs of people living with HIV.

The program reached a milestone with the dedication of a new outpatient center and state-of-the-art clinical laboratories at Muhimbili National Hospital, the country's leading national teaching and reference hospital.

The new outpatient center can treat up to 1,000 patients a day, many of whom are living with HIV. It also will serve as a training center for medical students and health care professionals. The new laboratories employ automated systems, such as Abbott's *Architect, AxSym* and *Cell-Dyn*, which monitor HIV and other chronic diseases. Previously, the laboratory processed about 75 chemistry and 100 blood tests a day; now it can process up to 8,000 chemistry tests and 400 blood tests daily, providing same-day test results.

Additional Abbott contributions in Tanzania:

- Trained more than 6,100 health workers in HIV treatment, voluntary counseling and testing, home-based care, information technology, laboratory science and management.
- Upgraded 82 hospitals and health centers.
- Provided access to HIV voluntary counseling and testing to more than 85,000 people.
- Provided specialized support in infrastructure development through on-site Abbott volunteers.

Improving health care for women and children

In Afghanistan, more than 20,000 women die each year from pregnancy-related causes. Many deaths result from the lack of skilled assistance during labor and delivery, as well as from preventable illnesses such as malnutrition and diarrhea.

Abbott provided $1.4 million in financial support and product donations to help improve maternal and child health in Afghanistan. The program, led by Direct Relief International and the Afghan Institute of Learning, aims to reverse the mortality rate of childbearing women and improve the health of infants and children.

The grants help train and employ midwives, nurses and health educators at clinics in rural and remote areas of Afghanistan, and provide Abbott's *Pedialyte*, *Ensure Healthy Mom* and *Biaxin* to patients in need.

Tuberculosis: fighting a global killer

In June 2005, Abbott granted the Global Alliance for TB Drug Development (TB Alliance) the rights to develop a potent class of antibiotics called quinolones, which are covered by Abbott's intellectual property. Tuberculosis (TB), a respiratory illness, kills almost 2 million people each year, primarily in Africa, Southeast Asia and Latin America. Drugs currently used to fight TB have become ineffective in many regions of the world due to drug resistance. New drugs to protect against TB have not been introduced in more than 40 years.

After synthesizing more than 450 of Abbott's quinolones, the TB Alliance and its research partner, the Korean Research Institute of Chemical Technology, identified a novel subclass that has shown to be potent against replicating and non-replicating TB bacteria. The project team aims to select a lead drug candidate by the end of 2006.

2005 Financial Report

Consolidated Statement of Earnings

(dollars and shares in thousands except per share data)

Year Ended December 31	2005	2004	2003
Net Sales	$22,337,808	$19,680,016	$17,280,333
Cost of products sold	10,641,111	8,884,157	7,774,239
Research and development	1,821,175	1,696,753	1,623,752
Acquired in-process research and development	17,131	279,006	100,240
Selling, general and administrative	5,496,123	4,921,780	4,808,090
Total Operating Cost and Expenses	17,975,540	15,781,696	14,306,321
Operating Earnings	4,362,268	3,898,320	2,974,012
Net interest expense	153,662	149,087	146,365
(Income) from TAP Pharmaceutical Products Inc. joint venture	(441,388)	(374,984)	(580,950)
Net foreign exchange (gain) loss	21,804	29,059	57,048
Other (income) expense, net	8,270	(30,442)	(35,602)
Earnings from Continuing Operations Before Taxes	4,619,920	4,125,600	3,387,151
Taxes on Earnings from Continuing Operations	1,247,855	949,764	882,426
Earnings from Continuing Operations	3,372,065	3,175,836	2,504,725
Earnings from Discontinued Operations, net of taxes	—	60,015	248,508
Net Earnings	$ 3,372,065	$ 3,235,851	$ 2,753,233
Basic Earnings Per Common Share —			
Continuing Operations	$ 2.17	$ 2.03	$ 1.60
Discontinued Operations	—	0.04	0.16
Net Earnings	$ 2.17	$ 2.07	$ 1.76
Diluted Earnings Per Common Share —			
Continuing Operations	$ 2.16	$ 2.02	$ 1.59
Discontinued Operations	—	0.04	0.16
Net Earnings	$ 2.16	$ 2.06	$ 1.75
Average Number of Common Shares Outstanding			
Used for Basic Earnings Per Common Share	1,552,457	1,560,557	1,562,815
Dilutive Common Stock Options	11,646	10,054	9,054
Average Number of Common Shares Outstanding			
Plus Dilutive Common Stock Options	1,564,103	1,570,611	1,571,869
Outstanding Common Stock Options Having No Dilutive Effect	22,469	44,005	57,706

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

Consolidated Statement of Cash Flows

(dollars in thousands)

Year Ended December 31	2005	2004	2003
Cash Flow From (Used in) Operating Activities of Continuing Operations:			
Net earnings	$ 3,372,065	$ 3,235,851	$ 2,753,233
Less: Earnings from discontinued operations, net of taxes	—	60,015	248,508
Earnings from continuing operations	3,372,065	3,175,836	2,504,725
Adjustments to reconcile earnings from continuing operations to net cash from operating activities of continuing operations —			
Depreciation	868,808	840,591	769,403
Amortization of intangibles	490,131	448,109	358,036
Acquired in-process research and development	17,131	279,006	100,240
Investing and financing (gains) losses, net	125,328	47,400	76,755
Trade receivables	(98,216)	(588,575)	(121,702)
Inventories	(88,257)	(285,328)	101,360
Prepaid expenses and other assets	(406,858)	(431,436)	(333,858)
Trade accounts payable and other liabilities	199,703	602,605	(131,809)
Income taxes	567,569	217,815	62,084
Net Cash From Operating Activities of Continuing Operations	5,047,404	4,306,023	3,385,234
Cash Flow From (Used in) Investing Activities of Continuing Operations:			
Acquisitions of businesses and technologies, net of cash acquired	(295,123)	(2,327,821)	(497,914)
Acquisitions of property and equipment	(1,207,493)	(1,291,633)	(1,050,058)
Purchases of investment securities	(15,670)	(543,292)	(289,432)
Proceeds from sales of investment securities	783,599	224,923	333,757
Other	14,600	14,433	66,465
Net Cash (Used in) Investing Activities of Continuing Operations	(720,087)	(3,923,390)	(1,437,182)
Cash Flow From (Used in) Financing Activities of Continuing Operations:			
Proceeds from (repayments of) commercial paper, net	(1,619,000)	813,000	(814,000)
Proceeds from issuance of long-term debt	1,851,013	1,500,000	688,643
Repayment of long-term debt	(150,000)	(1,650,000)	—
Other borrowing transactions, net	90,820	142,998	(342,570)
Purchases of common shares	(1,302,314)	(499,745)	(97,617)
Proceeds from stock options exercised	223,637	155,197	75,035
Dividends paid	(1,686,472)	(1,599,770)	(1,515,703)
Net Cash (Used in) Financing Activities of Continuing Operations	(2,592,316)	(1,138,320)	(2,006,212)
Effect of exchange rate changes on cash and cash equivalents	(193,954)	184,271	180,971
Discontinued Operations:			
Net cash provided by operating activities of discontinued operations	127,012	161,008	361,286
Investing activities of discontinued operations	—	(59,088)	(193,423)
Financing activities of discontinued operations	—	700,000	—
Net cash provided by discontinued operations	127,012	801,920	167,863
Net Increase in Cash and Cash Equivalents	1,668,059	230,504	290,674
Cash and Cash Equivalents, Beginning of Year	1,225,628	995,124	704,450
Cash and Cash Equivalents, End of Year	$ 2,893,687	$ 1,225,628	$ 995,124

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

Consolidated Balance Sheet

(dollars in thousands)

December 31	2005	2004	2003
Assets			
Current Assets:			
Cash and cash equivalents	$ 2,893,687	$ 1,225,628	$ 995,124
Investment securities, primarily time deposits and certificates of deposit	62,406	833,334	291,297
Trade receivables, less allowances of —			
2005: $203,683; 2004: $231,704; 2003: $259,514	3,576,794	3,696,115	3,313,377
Inventories:			
Finished products	1,203,557	1,488,939	1,467,441
Work in process	630,267	582,787	545,977
Materials	708,155	548,737	725,021
Total inventories	2,541,979	2,620,463	2,738,439
Deferred income taxes	1,248,569	1,031,746	1,165,259
Other prepaid expenses and receivables	932,691	1,080,143	1,110,885
Assets held for sale	129,902	247,056	—
Total Current Assets	11,386,028	10,734,485	9,614,381
Investment Securities, primarily equity securities	134,013	145,849	406,357
Property and Equipment, at Cost:			
Land	370,949	338,428	356,757
Buildings	2,655,356	2,519,492	2,662,023
Equipment	8,813,517	8,681,655	9,479,044
Construction in progress	920,599	962,114	792,923
	12,760,421	12,501,689	13,290,747
Less: accumulated depreciation and amortization	6,757,280	6,493,815	7,008,941
Net Property and Equipment	6,003,141	6,007,874	6,281,806
Intangible Assets, net of amortization	4,741,647	5,171,594	4,089,882
Goodwill	5,219,247	5,685,124	4,449,408
Other Long-term Assets and Investments in Joint Ventures	1,624,201	952,929	1,197,474
Assets Held for Sale	32,926	69,639	—
	$29,141,203	$28,767,494	$26,039,308

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

Consolidated Balance Sheet

(dollars in thousands)

December 31	2005	2004	2003
Liabilities and Shareholders' Investment			
Current Liabilities:			
Short-term borrowings	$ 212,447	$ 1,836,649	$ 828,092
Trade accounts payable	1,032,516	1,054,464	1,078,333
Salaries, wages and commissions	625,254	637,333	625,525
Other accrued liabilities	2,722,685	2,491,956	2,180,098
Dividends payable	423,335	405,730	383,352
Income taxes payable	488,926	156,417	158,836
Current portion of long-term debt	1,849,563	156,034	1,709,265
Liabilities of operations held for sale	60,788	87,061	—
Total Current Liabilities	7,415,514	6,825,644	6,963,501
Long-term Debt	4,571,504	4,787,934	3,452,329
Post-employment Obligations and Other Long-term Liabilities	2,154,775	2,606,410	2,551,220
Liabilities of Operations Held for Sale	1,062	1,644	—
Deferred Income Taxes	583,077	220,079	—
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: 2005: 1,553,769,958;			
2004: 1,575,147,418; 2003: 1,580,247,227	3,523,766	3,239,575	3,034,054
Common shares held in treasury, at cost —			
Shares: 2005: 14,534,979;			
2004: 15,123,800; 2003: 15,729,296	(212,255)	(220,854)	(229,696)
Unearned compensation — restricted stock awards	(46,306)	(50,110)	(56,336)
Earnings employed in the business	10,404,568	10,033,440	9,691,484
Accumulated other comprehensive income (loss)	745,498	1,323,732	632,752
Total Shareholders' Investment	14,415,271	14,325,783	13,072,258
	$29,141,203	$28,767,494	$26,039,308

Consolidated Statement of Shareholders' Investment

(dollars in thousands except per share data)

Year Ended December 31	2005	2004	2003
Common Shares:			
Beginning of Year			
Shares: 2005: 1,575,147,418; 2004: 1,580,247,227; 2003: 1,578,944,551	$ 3,239,575	$ 3,034,054	$ 2,891,266
Issued under incentive stock programs			
Shares: 2005: 8,752,085; 2004: 6,811,550; 2003: 4,186,710	299,329	208,880	118,119
Tax benefit from option shares and vesting of			
restricted stock awards (no share effect)	52,363	22,871	29,980
Retired — Shares: 2005: 30,129,545; 2004: 11,911,359; 2003: 2,884,034	(67,501)	(26,230)	(5,311)
End of Year			
Shares: 2005: 1,553,769,958; 2004: 1,575,147,418; 2003: 1,580,247,227	$ 3,523,766	$ 3,239,575	$ 3,034,054
Common Shares Held in Treasury:			
Beginning of Year			
Shares: 2005: 15,123,800; 2004: 15,729,296; 2003: 15,876,449	$ (220,854)	$ (229,696)	$ (231,845)
Issued under incentive stock programs			
Shares: 2005: 588,821; 2004: 605,496; 2003: 147,153	8,599	8,842	2,149
End of Year			
Shares: 2005: 14,534,979; 2004: 15,123,800; 2003: 15,729,296	$ (212,255)	$ (220,854)	$ (229,696)
Unearned Compensation — Restricted Stock Awards:			
Beginning of Year	$ (50,110)	$ (56,336)	$ (76,472)
Issued at market value —			
Shares: 2005: 588,600; 2004: 589,000; 2003: 130,000	(27,125)	(25,528)	(5,429)
Lapses — Shares: 2005: 50,999; 2004: 57,899	2,198	3,029	—
Amortization	28,731	28,725	25,565
End of Year	$ (46,306)	$ (50,110)	$ (56,336)
Earnings Employed in the Business:			
Beginning of Year	$10,033,440	$ 9,691,484	$ 8,601,386
Net earnings	3,372,065	3,235,851	2,753,233
Cash dividends declared on common shares			
(per share — 2005: $1.10; 2004: $1.04; 2003: $.98)	(1,704,077)	(1,622,148)	(1,531,710)
Spin-off of Hospira, Inc.	—	(761,916)	—
Cost of common shares retired in excess of stated capital amount	(1,315,397)	(527,197)	(135,390)
Cost of treasury shares issued below market value	18,537	17,366	3,965
End of Year	$10,404,568	$10,033,440	$ 9,691,484
Accumulated Other Comprehensive Income (Loss):			
Beginning of Year	$ 1,323,732	$ 632,752	$ (519,782)
Other comprehensive (loss) income and spin-off of Hospira, Inc.	(578,234)	690,980	1,152,534
End of Year	$ 745,498	$ 1,323,732	$ 632,752

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

Notes to Consolidated Financial Statements

Note 1 — Summary of Significant Accounting Policies

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

Concentration of Risk and Guarantees — Due to the nature of its operations, Abbott is not subject to significant concentration risks relating to customers, products or geographic locations, except that three U.S. wholesalers accounted for 24 percent of trade receivables as of December 31, 2005 and 20 percent of trade receivables as of December 31, 2004 and 2003. 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 small companies in which Abbott agrees to pay contingent consideration based on attaining certain thresholds. In connection with the spin-off of Hospira, Abbott has retained liabilities for taxes on income prior to the spin-off and certain potential liabilities, if any, related to alleged improper pricing practices in connection with federal, state and private reimbursement for certain drugs.

Basis of Consolidation — The consolidated financial statements include the accounts of the parent company and subsidiaries, after elimination of intercompany transactions. The accounts of foreign subsidiaries are consolidated as of November 30, due to the time needed to consolidate these subsidiaries. In December 2005, certain foreign subsidiaries borrowed approximately $1.4 billion. These borrowings and related interest expense have been reflected on the December 31, 2005 Consolidated Balance Sheet and 2005 Consolidated Statement of Earnings. No other events occurred related to these foreign subsidiaries in December 2005, 2004 and 2003 that materially affected the financial position, results of operations or cash flows.

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

Revenue Recognition — Revenue from product sales is recognized upon passage of title and risk of loss to customers (when product is delivered to common carrier for shipment to domestic customers). Provisions for discounts, rebates and sales incentives to customers, and returns and other adjustments are provided for in the period the related sales are recorded. Sales incentives to customers are not material. Historical data is readily available and reliable, and is used for estimating the amount of the reduction in gross sales. Revenue from the launch of a new product, from an improved version of an existing product, or for shipments in excess of a customer's normal requirements are recorded when the conditions noted above are met. In those situations, management records a returns reserve for such revenue, if necessary. Sales of product rights for marketable products are recorded as revenue upon disposition of the rights. Revenue from license of product rights, or for performance of research or selling activities, is recorded over the periods earned.

Income Taxes — Deferred income taxes are provided for the tax effect of differences between the tax bases of assets and liabilities and their reported amounts in the financial statements at the enacted statutory rate to be in effect when the taxes are paid. U.S. income taxes are provided on those earnings of foreign subsidiaries which are intended to be remitted to the parent company. Except for taxes on dividends that were remitted under the American Jobs Creation Act of 2004, deferred income taxes are not provided on undistributed earnings reinvested indefinitely in foreign subsidiaries as working capital and plant and equipment. Loss contingency provisions are recorded for the estimated amount of audit settlements under the provisions of Statement of Financial Accounting Standards (SFAS) No. 5, "Accounting for Contingencies."

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. With the assistance of outside actuaries, Abbott must develop long-term assumptions, the most significant of which are the health care costs trend rate, discount rate and the expected return on plan assets. Differences between the expected long-term return on plan assets and the actual annual return are amortized over a five-year period. Unrecognized actuarial losses and gains are amortized over the remaining service attribution periods of the employees under the corridor method.

Valuation of Intangible Assets — 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 inflows, risk, the cost of capital and terminal values. Intangible assets and goodwill are reviewed for impairment at least on a quarterly and annual basis, respectively.

Stock-Based Compensation — Through December 31, 2005, Abbott measured compensation cost using the intrinsic value-based method of accounting for stock options and replacement stock options granted to employees. Restricted stock awards and units have been amortized over their vesting period with a charge to compensation expense. In 2006, Abbott will adopt SFAS No. 123 (revised 2004), "Share-Based Payment," which requires that the fair value of stock options be recorded in the results of operations.

Litigation — Abbott accounts for litigation losses in accordance with SFAS No. 5. Under SFAS No. 5, loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded.

Cash, Cash Equivalents and Investment Securities — Cash equivalents consist of time deposits and certificates of deposit with original maturities of three months or less. Investments in marketable equity securities are classified as available-for-sale and are recorded at fair value with any unrealized holding gains or losses, net of tax, included

Notes to Consolidated Financial Statements

in Accumulated other comprehensive income (loss). Investments in equity securities that are not traded on public stock exchanges are recorded at cost. Abbott monitors equity investments for other than temporary declines in fair value and charges impairment losses to income when an other than temporary decline in estimated value occurs. Investments in debt securities are classified as held-to-maturity, as management has both the intent and ability to hold these securities to maturity, and are reported at cost, net of any unamortized premium or discount. Income relating to these securities is reported as a component of interest income.

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

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

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

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

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

Translation Adjustments — For foreign operations in highly inflationary economies, translation gains and losses are included in Net foreign exchange (gain) loss. For remaining foreign operations, translation adjustments are included in Accumulated other comprehensive income (loss).

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.

Reclassification — Operating cash flows and investing cash flows of discontinued operations have been reclassified separately for 2004 and 2003 in the Consolidated Statement of Cash Flows.

Note 2 — Supplemental Financial Information

(dollars in thousands)

Other Accrued Liabilities	2005	2004	2003
Accrued rebates payable to government agencies	$ 620,300	$ 519,653	$ 381,898
Accrued other rebates (a)	206,514	202,363	212,459
All other	1,895,871	1,769,940	1,585,741
Total	$2,722,685	$2,491,956	$2,180,098

(a) Accrued wholesaler chargeback rebates of $83,551, $72,634 and $81,292 at December 31, 2005, 2004 and 2003, respectively, are netted in trade receivables. Accrued wholesaler chargeback rebates 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.

Post-employment Obligations and Other Long-term Liabilities	2005	2004	2003
Accrued post-employment medical and dental costs	$ 638,823	$ 747,406	$ 797,127
Minimum pension liability adjustments	15,003	577,432	498,008
All other	1,500,949	1,281,572	1,256,085
Total	$2,154,775	$2,606,410	$2,551,220

Net Interest Expense	2005	2004	2003
Interest expense	$ 241,355	$ 200,206	$ 188,288
Interest income	(87,693)	(51,119)	(41,923)
Total	$ 153,662	$ 149,087	$ 146,365

Comprehensive Income, net of tax	2005	2004	2003
Foreign currency (loss) gain translation adjustments	$ (953,726)	$ 861,139	$1,162,004
Minimum pension liability adjustments, net of taxes of $(199,126) in 2005, $45,690 in 2004 and $57,219 in 2003	346,172	(75,947)	(99,155)
Unrealized (losses) gains on marketable equity securities	(9,219)	(43,613)	106,673
Net adjustments for derivative instruments designated as cash flow hedges	38,574	(39,951)	3,550
Reclassification adjustments for realized (gains)	(35)	(30,547)	(20,538)
Other comprehensive (loss) income	(578,234)	671,081	1,152,534
Net Earnings	3,372,065	3,235,851	2,753,233
Comprehensive Income	$2,793,831	$3,906,932	$3,905,767

Supplemental Comprehensive Income Information, net of tax	2005	2004	2003
Cumulative foreign currency translation (gain) adjustments	$ (761,175)	$(1,714,901)	$ (853,762)
Cumulative minimum pension liability adjustments	8,931	355,103	302,337
Cumulative unrealized (gains) on marketable equity securities	(8,447)	(17,701)	(95,143)
Cumulative losses on derivative instruments designated as cash flow hedges	15,193	53,767	13,816

Supplemental Cash Flow Information	2005	2004	2003
Income taxes paid	$ 746,504	$ 675,728	$ 832,380
Interest paid	213,067	197,554	207,045

Notes to Consolidated Financial Statements

Note 3 — Financial Instruments and Derivatives

Certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U.S. dollar. These contracts, totaling $222 million, $984 million and $602 million at December 31, 2005, 2004 and 2003, respectively, are designated as cash flow hedges of the variability of the cash flows due to changes in foreign exchange rates. Abbott records the contracts at fair value, resulting in credits of $38.6 million and $3.6 million to Accumulated other comprehensive income (loss) in 2005 and 2003, respectively, and a $40.0 million charge to Accumulated other comprehensive income (loss) in 2004. No hedge ineffectiveness was recorded in income in 2005, 2004 or 2003. Accumulated gains and losses as of December 31, 2005 will be included in Cost of products sold at the time the products are sold, generally through the end of 2006.

Abbott enters into foreign currency forward exchange contracts to manage currency exposures for foreign currency denominated third-party trade payables and receivables, and for intercompany loans and trade accounts payable where the receivable or payable is denominated in a currency other than the functional currency of the entity. For intercompany loans, the contracts require Abbott to sell or buy foreign currencies, primarily European currencies and Japanese yen, in exchange for primarily U.S. dollars and other European currencies. For intercompany and trade payables and receivables, the currency exposures are primarily the U.S. dollar, European currencies and Japanese yen. These contracts are recorded at fair value, with the resulting gains or losses reflected in income as Net foreign exchange (gain) loss. At December 31, 2005, 2004 and 2003, Abbott held $3.9 billion, $3.3 billion and $3.0 billion, respectively, of such foreign currency forward exchange contracts.

Abbott is a party to interest rate hedge contracts totaling $3.1 billion to manage its exposure to changes in the fair value of $3.1 billion of fixed-rate debt due July 2006 through March 2014. These contracts are designated as fair value hedges of the variability of the fair value of fixed-rate debt due to changes in the long-term benchmark interest rates. The effect of the hedge is to change a fixed-rate interest obligation to a variable rate for that portion of the debt. Abbott records the contracts at fair value and adjusts the carrying amount of the fixed-rate debt by an offsetting amount. No hedge ineffectiveness was recorded in income in 2005, 2004 and 2003.

Gross unrealized holding gains (losses) (in thousands) on current and long-term held-to-maturity investment securities totaled $300 and $(400), respectively, at December 31, 2005; $1,200 and $(900), respectively, at December 31, 2004; and $1,400 and $(2,200), respectively, at December 31, 2003. Gross unrealized holding gains (losses) on available-for-sale equity securities totaled $17,700 and $(3,500), respectively, at December 31, 2005; $30,800 and $(1,100), respectively, at December 31, 2004; and $162,700 and $(4,000), respectively, at December 31, 2003.

The carrying values and fair values of certain financial instruments as of December 31 are shown in the table below. The carrying values of all other financial instruments approximate their estimated fair values. Fair value is the quoted market price of the instrument held or the quoted market price of a similar instrument. The counter parties to financial instruments consist of select major international financial institutions. Abbott does not expect any losses from nonperformance by these counter parties.

(dollars in millions)	2005		2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment Securities:						
Current	$ 62.4	$ 62.4	$ 833.3	$ 833.3	$ 291.3	$ 291.3
Long-term:						
Available-for-Sale Equity Securities	116.4	116.4	125.5	125.5	381.1	381.1
Other	17.6	17.5	20.3	20.6	25.3	24.5
Total Long-term Debt	(6,421.1)	(6,375.1)	(4,944.0)	(5,012.6)	(5,161.6)	(5,407.2)
Foreign Currency Forward Exchange Contracts:						
(Payable) position	(33.5)	(33.5)	(117.1)	(117.1)	(33.3)	(33.3)
Receivable position	18.8	18.8	37.2	37.2	3.0	3.0
Interest Rate Hedge Contracts	(82.4)	(82.4)	(3.7)	(3.7)	128.7	128.7

Notes to Consolidated Financial Statements

Note 4 — Post-Employment Benefits

(dollars in thousands)

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

	Defined Benefit Plans			Medical and Dental Plans		
	2005	2004	2003	2005	2004	2003
Projected benefit obligations, January 1	$4,753,225	$ 4,646,321	$ 3,748,425	$ 1,112,124	$ 1,241,845	$ 1,286,831
Service cost — benefits earned during the year	205,286	187,146	192,529	43,554	34,628	43,737
Interest cost on projected benefit obligations	259,709	253,249	247,117	64,088	64,054	69,365
Losses (gains), primarily changes in discount and medical trend rates, plan design changes, law changes and differences between actual and estimated health care costs	142,453	174,669	497,468	138,442	(44,707)	(100,158)
Benefits paid	(195,964)	(191,543)	(169,560)	(65,907)	(67,232)	(57,930)
Spin-off of Hospira	—	(425,069)	—	—	(116,464)	—
Other, primarily foreign currency translation	(123,623)	108,452	130,342	—	—	—
Projected benefit obligations, December 31	$5,041,086	$ 4,753,225	$ 4,646,321	$ 1,292,301	$ 1,112,124	$ 1,241,845
Plans' assets at fair value, January 1, principally listed securities	$3,465,666	$ 3,017,732	$ 2,373,415	$ —	$ —	$ —
Actual return on plans' assets	384,912	285,794	441,307	9,080	—	—
Company contributions	755,982	565,909	309,473	205,907	67,232	57,930
Benefits paid	(195,964)	(191,543)	(169,560)	(65,907)	(67,232)	(57,930)
Spin-off of Hospira	—	(262,109)	—	—	—	—
Other, primarily foreign currency translation	(61,817)	49,883	63,097	—	—	—
Plans' assets at fair value, December 31	$4,348,779	$ 3,465,666	$ 3,017,732	$ 149,080	$ —	$ —
Projected benefit obligations greater than plans' assets, December 31	$ (692,307)	$(1,287,559)	$(1,628,589)	$(1,143,221)	$(1,112,124)	$(1,241,845)
Unrecognized actuarial losses, net	1,501,409	1,494,915	1,436,013	697,717	587,976	718,215
Unrecognized prior service cost	5,004	(5,835)	13,575	(264,499)	(285,659)	(334,662)
Net prepaid (accrued) benefit cost	$ 814,106	$ 201,521	$ (179,001)	$ (710,003)	$ (809,807)	$ (858,292)
Accrued benefit cost	$ (463,789)	$ (617,533)	$ (883,358)	$ (710,003)	$ (809,807)	$ (858,292)
Prepaid benefit cost	1,262,892	241,622	206,349	—	—	—
Intangible assets	130	17,261	22,460	—	—	—
Accumulated other comprehensive income (loss)	14,873	560,171	475,548	—	—	—
Net prepaid (accrued) benefit cost	$ 814,106	$ 201,521	$ (179,001)	$ (710,003)	$ (809,807)	$ (858,292)
Service cost — benefits earned during the year	$ 205,286	$ 187,146	$ 192,529	$ 43,554	$ 34,628	$ 43,737
Interest cost on projected benefit obligations	259,709	253,249	247,117	64,088	64,054	69,365
Expected return on plans' assets	(360,304)	(295,294)	(288,454)	(11,948)	—	—
Net amortization	65,812	30,809	6,452	10,409	5,650	6,768
Total cost	170,503	175,910	157,644	106,103	104,332	119,870
Discontinued operations	—	(9,781)	(20,404)	—	(14,349)	(33,630)
Net cost of continuing operations	$ 170,503	$ 166,129	$ 137,240	$ 106,103	$ 89,983	$ 86,240

The projected benefit obligations for non-U.S. defined benefit plans was $1,148,000, $1,132,000 and $950,000 at December 31, 2005, 2004 and 2003, respectively. The accumulated benefit obligations for all defined benefit plans was $4,158,000, $3,954,000 and $3,762,000 at December 31, 2005, 2004 and 2003, respectively. In 2005, Abbott reversed previously recorded minimum pension liability adjustments of $562,429 because the assets of certain defined benefit plans were now in excess of the accumulated benefit obligations due primarily to plan contributions in 2005. This resulted in a credit to Accumulated other comprehensive income (loss) of $346,172, net of taxes. In 2004 and 2003, Abbott recorded minimum pension liability adjustments of $120,475 and $155,134, respectively, because the accumulated benefit obligations for certain defined benefit plans exceeded the market value of the plans' assets. This resulted in charges to Accumulated

Notes to Consolidated Financial Statements

other comprehensive income (loss) of $75,947 and $99,155 in 2004 and 2003, respectively, net of taxes. For plans where the accumulated benefit obligations exceeded plan assets at December 31, 2005, 2004 and 2003, the aggregate accumulated benefit obligations were $465,000, $3,053,000 and $3,033,000, respectively; the projected benefit obligations were $508,000, $3,738,000 and $3,824,000, respectively; and the aggregate plan assets were $5,000, $2,909,000 and $2,567,000, respectively.

The weighted average assumptions used to determine benefit obligations for defined benefit plans and medical and dental plans as of December 31, the measurement date of the plans, are as follows:

	2005	2004	2003
Discount rate	5.5%	5.6%	5.8%
Expected aggregate average long-term change in compensation	4.2%	4.2%	4.2%

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

	2005	2004	2003
Discount rate	5.6%	6.0%	6.5%
Expected return on plan assets	8.4%	8.4%	8.6%
Expected aggregate average long-term change in compensation	4.2%	4.2%	4.1%

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

	2005	2004	2003
Health care cost trend rate assumed for the next year	7%	7%	8%
Rate that the cost trend rate gradually declines to	5%	5%	5%
Year that rate reaches the assumed ultimate rate	2012	2007	2007

The discount rate used to measure liabilities as of December 31, 2005 was determined based on high-quality fixed income investments that match the duration of the expected retiree benefits. Prior to December 31, 2005, the discount rate was determined by reference to a composite corporate AA bond index. The health care cost trend rate represents Abbott's expected annual rates of change in the cost of health care benefits and is a forward projection of health care costs as of the measurement date. A one-percentage point increase/(decrease) in the assumed health care cost trend rate would increase/(decrease) the accumulated post-employment benefit obligations as of December 31, 2005, by $201,320/$(161,383), and the total of the service and interest cost components of net post-employment health care cost for the year then ended by approximately $19,207/$(15,025).

In 2004, Abbott reflected the requirements of Financial Accounting Standards Board Staff Position No. 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003." As a result, the projected benefit obligations related to benefits attributed to past service were reduced by approximately $210,000 and the net cost recognized in 2004 was reduced by approximately $33,000.

The weighted average asset allocation for Abbott's U.S. defined benefit plans by asset category is shown in the table below. Abbott's international defined benefit plans have similar equity content.

Asset Category	2005	2004	2003
Equity securities	74%	73%	68%
Fixed income securities	26	27	32
Total	100%	100%	100%

The investment mix between equity securities and fixed income securities is based upon achieving a desired return, balancing higher return, more volatile equity securities, and lower return, less volatile fixed income securities. Abbott's domestic defined benefit plans are invested in diversified portfolios of public-market equity and fixed income securities. Investment allocations are made across a range of markets, industry sectors, capitalization sizes, and, in the case of fixed income securities, maturities and credit quality. The plans hold no securities of Abbott. Abbott's international defined benefit plans are invested in a corresponding manner, with some variance in portfolio structure around local practices.

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

Abbott funds its domestic pension plans according to IRS funding limitations. In 2005, 2004 and 2003, $641,000, $482,000 and $200,000, respectively, was funded to the main domestic pension plan. International pension plans are funded according to similar regulations.

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

	Defined Benefit Plans	Medical and Dental Plans
2006	$ 191,780	$ 70,060
2007	195,164	72,093
2008	202,949	76,740
2009	203,924	77,614
2010	212,239	83,805
2011 to 2015	1,253,092	490,219

The Abbott Stock Retirement Plan is the principal defined contribution plan. Abbott's contributions to this plan were $100,000 in 2005, $97,000 in 2004 and $90,000 in 2003.

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

Note 5 — Taxes on Earnings

(dollars in thousands)

Deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their financial reporting amounts. U.S. income taxes are provided on those earnings of foreign subsidiaries, which are intended to be remitted to the parent company. Except for taxes on dividends that were remitted

Notes to Consolidated Financial Statements

under the American Jobs Creation Act of 2004, Abbott does not record deferred income taxes on earnings reinvested indefinitely in foreign subsidiaries. Undistributed earnings reinvested indefinitely in foreign subsidiaries as working capital and plant and equipment aggregated $5,797,000 at December 31, 2005. It is not practicable to determine the amount of deferred income taxes not provided on these earnings. Abbott has recorded reserves for income tax loss contingencies in accordance with SFAS No. 5. The maximum possible loss in excess of the recorded reserves is not material. In the U.S., Abbott's federal income tax returns through 2000 are settled, and the income tax returns for years after 2000 are open.

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

Earnings From Continuing Operations Before Taxes	2005	2004	2003
Domestic	$2,068,232	$2,278,180	$1,657,298
Foreign	2,551,688	1,847,420	1,729,853
Total	$4,619,920	$4,125,600	$3,387,151

Taxes on Earnings From Continuing Operations	2005	2004	2003
Current:			
U.S. Federal and Possessions	$ 526,213	$ 172,322	$ 536,305
State	89,483	43,456	20,873
Foreign	616,118	461,740	403,895
Total current	1,231,814	677,518	961,073
Deferred:			
Domestic	4,709	295,030	(15,780)
Foreign	17,035	(24,272)	(62,519)
Enacted tax rate changes	(5,703)	1,488	(348)
Total deferred	16,041	272,246	(78,647)
Total	$1,247,855	$ 949,764	$ 882,426

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

	2005	2004	2003
Statutory tax rate on earnings from continuing operations	35.0%	35.0%	35.0%
Benefit of lower tax rates and tax exemptions in Puerto Rico, the Netherlands and Ireland	(6.4)	(7.8)	(9.1)
Effect of nondeductible portion of a legal settlement	—	—	4.0
Effect of taxes on remittances of foreign earnings in connection with the American Jobs Creation Act of 2004	5.3	—	—
Effect of nondeductible acquired in-process research and development	—	2.0	1.0
State taxes, net of federal benefit	1.2	1.1	0.4
Adjustments primarily related to resolution of prior years' accrual requirements	(1.8)	(3.6)	—
Domestic dividend exclusion	(2.7)	(2.6)	(4.8)
All other, net	(3.6)	(1.1)	(0.4)
Effective tax rate on earnings from continuing operations	27.0%	23.0%	26.1%

As of December 31, 2005, 2004 and 2003, total deferred tax assets were $2,040,906, $2,171,782 and $2,505,502, respectively, and total deferred tax liabilities were $1,355,181, $1,349,972 and $1,075,209, respectively. Valuation allowances for deferred tax assets were not significant. The tax effect of the differences that give rise to deferred tax assets and liabilities were as follows:

	2005	2004	2003
Compensation and employee benefits	$ 37,578	$ 247,885	$ 539,668
Trade receivable reserves	227,251	223,507	252,559
Inventory reserves	161,934	129,052	163,492
Deferred intercompany profit	319,402	379,560	380,854
State income taxes	49,153	(7,336)	68,489
Depreciation	(157,272)	(193,224)	(203,019)
Acquired in-process research and development and other accruals and reserves not currently deductible	1,132,954	1,111,611	1,005,602
Other, primarily the excess of book basis over tax basis of intangible assets	(1,095,182)	(1,079,388)	(779,402)
Total	$ 675,818	$ 811,667	$1,428,243

Among the provisions of the American Jobs Creation Act of 2004 was a provision that allows for the exclusion from income of a portion of the remittances of earnings of foreign subsidiaries to U.S. shareholders through December 31, 2005. In 2005, Abbott remitted in accordance with the provisions of the Act approximately $4,300,000 of foreign earnings previously reinvested indefinitely. The additional income tax expense recorded for the remittance was approximately $245,000.

Note 6 — Segment and Geographic Area Information

(dollars in millions)

Revenue Segments — Abbott's principal business is the discovery, development, manufacture and sale of a broad line of health care products. Abbott's products are generally sold directly to retailers, wholesalers, hospitals, health care facilities, laboratories, physicians' offices and government agencies throughout the world. On April 30, 2004, Abbott spun off its core hospital products business which included all of the Hospital Products segment, after its reorganization on January 1, 2004, and a portion of the International segment. For segment reporting purposes, four diagnostic testing divisions are aggregated and reported as the Diagnostic Products segment. Abbott's reportable segments are as follows:

Pharmaceutical Products — U.S. sales of a broad line of pharmaceuticals.

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

Ross Products — Primarily U.S. sales of a broad line of adult and pediatric nutritional products, pediatric pharmaceuticals and consumer products.

International — Non-U.S. sales of Abbott's pharmaceutical and nutritional products.

Notes to Consolidated Financial Statements

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

	Net Sales to External Customers			Operating Earnings			Depreciation and Amortization			Additions to Long-Term Assets			Total Assets		
	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003
Pharmaceutical	$ 8,138	$ 7,010	$ 6,051	$2,527	$2,459	$2,092	$ 65	$ 63	$ 73	$177	$ 66	$ 64	$ 3,423	$ 2,911	$ 2,406
Diagnostics (a)	3,756	3,378	3,040	495	378	249	231	201	202	425	399	301	3,742	3,691	3,127
Ross (b)	2,523	2,326	2,136	743	773	720	77	69	65	56	77	93	1,373	1,105	959
International (a)	6,967	6,166	5,321	2,060	1,704	1,295	127	178	198	237	312	297	4,189	4,437	4,559
Total Reportable Segments	21,384	18,880	16,548	$5,825	$5,314	$4,356	$500	$511	$538	$895	$854	$755	$12,727	$12,144	$11,051
Other	954	800	732												
Net Sales	$22,338	$19,680	$17,280												

(a) Net sales and operating earnings for all years presented were favorably affected by the relatively weaker U.S. dollar.

(b) Net sales and operating earnings for the Ross segment in 2005 include $70 from a revised agreement for the U.S. promotion of Synagis.

	2005	2004	2003
Total Reportable Segment Operating Earnings	$5,825	$5,314	$4,356
Corporate functions and benefit plans costs	289	341	278
Non-reportable segments	166	223	68
Net interest expense	154	149	146
Acquired in-process research and development	17	279	100
(Income) from TAP Pharmaceutical Products Inc. joint venture	(441)	(375)	(581)
Other, net, including amortization of intangible assets (c)	1,020	571	958
Consolidated Earnings from Continuing Operations Before Taxes	$4,620	$4,126	$3,387

(c) Other, net for 2005 includes $256 for restructuring and impairment charges as discussed in Note 16 and an increase in a bad debt reserve of $58 associated with an unfavorable court ruling. Other, net for 2004 includes acquisition-related charges, primarily related to the TheraSense acquisition. 2003 includes charges of $622 for the settlement of the Ross enteral nutritional investigation and $88 for impairments of assets.

	2005	2004	2003
Total Reportable Segment Assets	$12,727	$12,144	$11,051
Cash and investments	3,090	2,205	1,693
Investment in TAP Pharmaceutical Products Inc. joint venture	167	76	340
Current deferred income taxes	1,249	1,032	1,165
Non-reportable segments	1,321	1,663	582
Assets held for sale to Hospira and assets of Hospira	163	317	2,153
All other, net	10,424	11,330	9,055
Total Assets	$29,141	$28,767	$26,039

	Net Sales to External Customers (d)			Long-Term Assets		
	2005	2004	2003	2005	2004	2003
United States	$12,707	$11,242	$ 9,919	$ 7,717	$ 7,293	$ 7,071
Japan	1,027	987	897	935	1,044	1,004
Germany	992	811	785	5,467	6,176	5,332
The Netherlands	899	705	556	156	146	129
Italy	806	745	658	211	234	253
Canada	680	595	526	68	68	66
France	657	587	467	92	94	84
Spain	542	513	426	232	275	233
United Kingdom	504	496	397	1,281	1,415	1,250
All Other Countries	3,524	2,999	2,649	1,596	1,288	1,003
Consolidated	$22,338	$19,680	$17,280	$17,755	$18,033	$16,425

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

Notes to Consolidated Financial Statements

Note 7 — Litigation and Environmental Matters

As of December 31, 2004, there were several lawsuits pending in connection with the sales of *Hytrin*. These suits alleged that Abbott violated state or federal antitrust laws and, in some cases, unfair competition laws by signing patent settlement agreements with Geneva Pharmaceuticals, Inc. and Zenith Laboratories, Inc. in 1998. Those agreements related to pending patent infringement lawsuits between Abbott and the two companies. In 2005, the court approved settlements with the majority of the plaintiffs in the aggregate amount of $90 million, which was previously reserved. The claims of the remaining plaintiffs are not material and are reserved for by Abbott.

Abbott has been identified as a potentially responsible party for investigation and cleanup costs at a number of locations in the United States and Puerto Rico under federal and state remediation laws and is investigating potential contamination at a number of company-owned locations. Abbott has recorded an estimated cleanup cost for each site for which management believes Abbott has a probable loss exposure. No individual site cleanup exposure is expected to exceed $3 million, and the aggregate cleanup exposure is not expected to exceed $20 million.

Within the next year, legal proceedings may occur that may result in a change in the estimated reserves recorded by Abbott. For its legal proceedings and environmental exposures, including those discussed in this note and in Note 8, Abbott estimates the range of possible loss to be from approximately $15 million to $60 million. Reserves of approximately $35 million have been recorded at December 31, 2005 for these proceedings and exposures. These reserves represent management's best estimate of probable loss, as defined by Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies."

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

Note 8 — TAP Pharmaceutical Products Inc.

As of December 31, 2004, TAP Pharmaceutical Products Inc. (TAP) and Abbott were named as defendants in several lawsuits alleging violations of various state or federal laws in connection with TAP's marketing and pricing of *Lupron*. In 2005, settlements, including a court-approved class settlement, were reached with the majority of the plaintiffs in the aggregate amount of approximately $160 million, which was previously reserved. The claims of the remaining plaintiffs are not material and are reserved for by TAP. Abbott's portion of TAP's remaining reserve is included in the reserve amounts and range in Note 7 above.

Within the next year, legal proceedings may occur that may result in a change in the estimated reserves recorded by TAP. While it is not feasible to predict the outcome of such pending claims, proceedings, and investigations with certainty, management is of the opinion that their ultimate disposition should not have a material adverse effect on Abbott's financial position, cash flows, or results of operations.

Note 9 — Spin-off of Hospira

On April 12, 2004, Abbott's Board of Directors declared a special dividend distribution of all of the outstanding shares of common stock of Hospira, Inc., payable on April 30, 2004. Hospira included the operations relating to the manufacture and sale of hospital products including specialty injectable pharmaceuticals, medication delivery systems and critical care devices and injectable pharmaceutical contract manufacturing. Hospira included Abbott's Hospital Products segment, after that segment's reorganization on January 1, 2004, and portions of Abbott's International segment. The income and cash flows of Hospira and the direct transaction costs of the spin-off have been presented as discontinued operations in the Consolidated Statement of Earnings and Statement of Cash Flows. Prior years' balance sheets have not been adjusted to reflect the effect of the spin-off.

The legal transfer of certain remaining operations and assets (net of liabilities) outside the United States is expected to occur in the first half of 2006. These operations and assets are used in the conduct of Hospira's international business and Hospira is subject to the risks and entitled to the benefits generated by these operations and assets. These assets and liabilities have been presented as held for sale in the Consolidated Balance Sheets as of December 31, 2005 and 2004. The assets and liabilities held for sale consist primarily of inventories, trade accounts receivable, equipment and trade accounts payable, salaries and other accruals.

Abbott has retained liabilities for taxes on income prior to the spin-off, defined benefit, post-employment medical and dental plan obligations and assets, as of the spin-off, for most of Hospira's U.S. retired employees and U.S. retirement eligible employees and certain potential liabilities, if any, related to alleged improper pricing practices prior to the spin-off in connection with federal, state and private reimbursement for certain drugs.

Summarized financial information for discontinued operations is as follows: *(dollars in thousands)*

	2004	2003
Net sales	$793,129	$2,400,228
Earnings before taxes	90,444	347,266
Taxes on earnings	30,429	98,758
Net earnings	60,015	248,508

The financial information above includes the operations of Hospira through April 30, 2004, the date of the spin-off. As a consequence, the results for the full year 2004 include only four months of the operations of Hospira. The results of the discontinued operations also include direct transaction costs of approximately $36 million and $12 million in 2004 and 2003, respectively.

Notes to Consolidated Financial Statements

The following is a summary of the assets and liabilities transferred to Hospira on April 30, 2004: *(dollars in millions)*

Trade receivables, net	$ 235
Inventories	481
Prepaid expenses, deferred income taxes, and other receivables	269
Net property and equipment	841
Goodwill	81
Deferred income taxes and other assets	91
Total Assets	$1,998
Short-term borrowings	$ 700
Trade accounts payable, salaries and other accruals	346
Post-employment obligations and other long-term liabilities	185
Total Liabilities	$1,231
Net Assets Transferred to Hospira	$ 767

Note 10 — Incentive Stock Program

The 1996 Incentive Stock Program authorizes the granting of stock options, replacement stock options, stock appreciation rights, limited stock appreciation rights, restricted stock awards, restricted stock units, performance units and foreign qualified benefits. Stock options, replacement stock options and restricted stock awards comprise the majority of benefits that have been granted and are currently outstanding under this program and prior programs. In 2005, Abbott granted 21,499,002 stock options, 4,190,704 replacement stock options, 588,821 restricted stock awards and 42,379 restricted stock units under the program. The purchase price of shares under option must be at least equal to the fair market value of the common stock on the date of grant, and the maximum term of an option is 10 years. Options granted in 2005, 2004 and 2003 vest equally over three years except for replacement options, which vest in six months. When an employee tenders mature shares to Abbott upon exercise of a stock option, a replacement stock option is granted equal to the amount of shares tendered. Replacement options are granted at the then current market price for a term that expires on the date of the underlying option grant. Except for replacement options, options granted after December 31, 2004 do not have a replacement option feature. Upon a change in control of Abbott, all outstanding stock options become fully exercisable, and all terms and conditions of all restricted stock awards are deemed satisfied. Hospira optionees who were eligible to retire as of the spin-off date are retired from Abbott for purposes of their outstanding options. Pro forma compensation expense for 2004 reflects the cancellation of the remaining options. Abbott options were adjusted for the effects of the spin-off on the intrinsic value of the options and resulted in the issuance of an additional 8.2 million Abbott options.

At January 1, 2006, approximately 47 million shares were reserved for future grants under the 1996 Program. Subsequent to year-end, the Board of Directors granted approximately 25 million stock options and restricted stock awards and units from this reserve.

	Options Outstanding		Exercisable Options	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
January 1, 2003	99,680,756	$43.58		
Granted	27,464,985	36.56		
Exercised (total intrinsic value was $99,311,000)	(7,032,966)	29.08		
Lapsed	(2,602,110)	47.58		
December 31, 2003	117,510,665	42.71	71,944,163	$41.80
Granted	25,617,191	43.51		
Exercised (total intrinsic value was $132,602,000)	(10,173,088)	30.54		
Lapsed	(4,868,809)	45.09		
Cancelled in connection with the spin-off of Hospira	(4,826,161)	43.81		
Issued in connection with the spin-off of Hospira	8,228,700	n/a		
December 31, 2004	131,488,498	41.01	85,810,967	41.28
Granted	25,689,706	46.46		
Exercised (total intrinsic value was $188,754,000)	(13,030,288)	32.63		
Lapsed	(3,025,105)	45.24		
December 31, 2005	141,122,811	$42.69	98,328,158	$42.77

The number of restricted stock awards and units outstanding and their weighted-average grant-date fair value at January 1, 2005 and December 31, 2005 was 2,093,100 ($50.92) and 2,381,800 ($50.09), respectively. The number of restricted stock awards and units, and their weighted-average grant-date fair value, granted, vested and lapsed during 2005 were 610,200 ($46.14), 262,501 ($49.01) and 58,999 ($43.50), respectively. The fair value of restricted stock awards and units vested in 2005, 2004, and 2003 was $12,949,000, $16,469,000 and $12,712,000, respectively.

	Options Outstanding at December 31, 2005			Exercisable Options at December 31, 2005		
Range of Exercise Prices	Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Shares	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price
$20 to $39	34,617,055	4.9	$32.46	27,217,030	4.3	$32.20
40 to 46	58,166,583	6.1	42.89	44,213,471	5.4	43.45
47 to 55	48,339,173	7.6	49.76	26,897,657	6.3	52.37
$20 to $55	141,122,811	6.3	$42.69	98,328,158	5.4	$42.77

Notes to Consolidated Financial Statements

The aggregate intrinsic value of options outstanding and exercisable at December 31, 2005 was $241,000,000 and $197,000,000, respectively. The total unrecognized compensation cost related to all stock-based compensation plans at December 31, 2005 amounted to $201,000,000 and is expected to be recognized over the next three years.

Through December 31, 2005, Abbott measured compensation cost using the intrinsic value-based method of accounting for stock options and replacement options granted to employees. Had compensation cost been determined using the fair value-based accounting method, pro forma net income (in billions) and earnings per share (EPS) amounts would have been as follows:

	2005	2004	2003
Net income, as reported	$ 3.4	$ 3.2	$ 2.8
Compensation cost under fair value-based accounting method, net of taxes of $0.07 in 2005 and 2004 and $0.08 in 2003	(0.2)	(0.2)	(0.3)
Net income, pro forma	$ 3.2	$ 3.0	$ 2.5
Diluted EPS from Continuing Operations, as reported	$2.16	$2.02	$1.59
Diluted EPS from Continuing Operations, pro forma	2.02	1.90	1.47
Basic EPS, as reported	2.17	2.07	1.76
Basic EPS, pro forma	2.04	1.94	1.62
Diluted EPS, as reported	2.16	2.06	1.75
Diluted EPS, pro forma	2.02	1.94	1.62

The weighted average fair value of an option granted in 2005, 2004 and 2003 was $12.17, $11.79 and $8.73, respectively. For purposes of fair value disclosures, the fair value of an option grant was estimated using the Black-Scholes option-pricing model with the following assumptions:

	2005	2004	2003
Risk-free interest rate	3.8%	2.9%	2.7%
Average life of options (years)	5.4	5.4	5.4
Volatility	29.0%	32.0%	32.0%
Dividend yield	2.2%	2.2%	2.8%

In 2006, Abbott will adopt Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," which requires that fair value be recorded in the results of operations. Stock compensation expense under the prior rules would have reduced reported diluted earnings per share by $0.14 in 2005. Upon adoption of the revised standard, prior awards are charged to expense under the prior rules, and awards after adoption are charged to expense under the revised rules. Based upon the valuation of stock options granted in the 2006 annual grant, which comprise the majority of the grant activity for the year, Abbott estimates the impact of the 2006 change in stock compensation expense on diluted earnings per share of approximately $0.15, which includes $0.14 per diluted share for the impact of expensing the fair value of stock options. The effect of adopting the new rules on reported diluted earnings per share is dependent on the number of options granted in the future, the terms of those awards and their fair values, and therefore, the effect on diluted earnings per share could change.

Note 11 — Debt and Lines of Credit

(dollars in thousands)

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

	2005	2004	2003
6.8% debentures, due 2005	$ —	$ —	$ 150,000
5.625% debentures, due 2006	—	1,600,000	1,600,000
6.4% debentures, due 2006	—	250,000	250,000
0.77% Yen notes, due 2007	83,654	97,343	91,324
Notes, variable interest above LIBOR, due 2008	770,000	—	—
Euro notes, variable interest above LIBOR, due 2008	638,766	—	—
British Pound notes, variable interest above LIBOR, due 2008	344,000	—	—
6.0% debentures, due 2008	200,000	200,000	200,000
5.4% debentures, due 2008	200,000	200,000	200,000
1.05% Yen notes, due 2008	418,270	486,713	456,621
3.5% debentures, due 2009	500,000	500,000	—
1.51% Yen notes, due 2010	125,481	146,014	136,986
3.75% debentures, due 2011	500,000	500,000	—
1.95% Yen notes, due 2013	209,135	243,356	228,311
4.35% debentures, due 2014	500,000	500,000	—
Other, including fair market value adjustments relating to interest rate hedge contracts designated as fair value hedges	82,198	64,508	139,087
Total, net of current maturities	4,571,504	4,787,934	3,452,329
Current maturities of long-term debt	1,849,563	156,034	1,709,265
Total carrying amount	$6,421,067	$4,943,968	$5,161,594

Principal payments required on long-term debt outstanding at December 31, 2005, are $1,855,323 in 2006, $88,986 in 2007, $2,667,698 in 2008, $501,199 in 2009, $126,530 in 2010 and $1,263,710 thereafter.

At December 31, 2005, Abbott had $3,000,000 of unused lines of credit, which support commercial paper borrowing arrangements. Related compensating balances, which are subject to withdrawal by Abbott at its option, and commitment fees are not material. Abbott's weighted average interest rate on short-term borrowings, primarily Japanese borrowings at December 31, 2005, was 1.3% at December 31, 2005, 2.2% at December 31, 2004 and 1.1% at December 31, 2003.

Notes to Consolidated Financial Statements

Note 12 — Business Combinations and Technology Acquisitions

In 2005, Abbott acquired the remaining interest in a small medical products company that was previously accounted for under the equity method of accounting and a less than 50 percent equity interest in a small medical products company. The aggregate cash purchase price was approximately $25 million. Acquisition accounting resulted in the recording of non-tax deductible goodwill of approximately $69 million, intangible assets of approximately $22 million and a charge of approximately $17 million for acquired in-process research and development. In 2005, Abbott acquired additional rights related to *HUMIRA* for approximately $270 million, which will be amortized over 13 years.

In 2004, Abbott paid approximately $2.3 billion for strategic business and technology acquisitions, as follows. Abbott acquired TheraSense, Inc., a leader in the development, manufacturing and marketing of blood glucose self-monitoring systems, for approximately $1.2 billion in cash; i-STAT Corporation, a manufacturer of point-of-care diagnostic products for blood analysis, for approximately $394 million in cash; EAS, a nutritional company with a portfolio of nationally recognized brands, for approximately $320 million in cash; and Spine Next, a manufacturer of orthopedic spinal implant devices, for approximately $58 million in cash plus additional milestone payments of up to $23 million upon achievement of future targets. Abbott also acquired certain other product technologies for approximately $352 million. These acquisitions resulted in a charge of $271 million for acquired in-process research and development, intangible assets of approximately $1.3 billion, non-tax deductible goodwill of approximately $923 million and deferred income taxes of approximately $406 million. Acquired intangible assets, primarily trade names, are amortized over 5 to 20 years (average of approximately 14 years).

In 2003, Abbott paid approximately $459 million for strategic business and technology acquisitions, as follows. Abbott acquired ZonePerfect Nutrition Company, a marketer of healthy and nutritious products for active people, for approximately $160 million in cash; Integrated Vascular Systems, Inc., a developer of a novel vessel closure technology, for approximately $65 million in cash; and Spinal Concepts Inc., a marketer of spinal fixation products used in the treatment of spinal disorders, diseases and injuries, for approximately $166 million in cash plus additional milestone payments of up to $40 million if agreed upon targets are met. Abbott also acquired the assets of JOMED N.V.'s coronary and peripheral interventional business for approximately $68 million in cash. These acquisitions resulted in a charge of approximately $100 million for acquired in-process research and development, intangible assets of approximately $222 million and non-tax deductible goodwill of approximately $182 million. Acquired intangible assets, primarily product technology, are amortized over 9 to 25 years (average of approximately 16 years).

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

In early 2006, Abbott agreed to acquire Guidant's vascular intervention and endovascular solutions businesses for $4.1 billion in connection with Boston Scientific's acquisition of Guidant. Abbott would also pay $250 million each upon government approvals to market Guidant's drug-eluting stent in the U.S. and in Japan. In addition, Abbott agreed to provide Boston Scientific a $900 million 4 percent loan and to acquire $1.4 billion of Boston Scientific common stock directly from Boston Scientific contingent upon the closing of the Guidant acquisition. The acquisition is expected to be completed in the first half of 2006.

Note 13 — Goodwill and Intangible Assets

(dollars in millions)

Abbott recorded goodwill of $69, $923 and $182 in 2005, 2004 and 2003, respectively, related to acquisitions. Foreign currency translation and other adjustments (decreased) increased goodwill in 2005, 2004 and 2003 by $(535), $394 and $522, respectively. In connection with the spin-off of Hospira in 2004, Abbott transferred $81 of goodwill to Hospira. There were no other reductions of goodwill relating to impairments or disposal of all or a portion of a business.

The gross amount of amortizable intangible assets, primarily product rights and technology, was $6,776, $6,622 and $4,841 as of December 31, 2005, 2004 and 2003, respectively, and accumulated amortization was $2,053, $1,468 and $899 as of December 31, 2005, 2004 and 2003, respectively. Intangible assets with indefinite lives are not significant. The estimated annual amortization expense for intangible assets is $486 in 2006, $475 in 2007, $460 in 2008, $459 in 2009 and $461 in 2010. Intangible assets are amortized primarily on a straight-line basis over 4 to 25 years (average 13 years).

Note 14 — Equity Method Investments

(dollars in millions)

Abbott's 50 percent-owned joint venture, TAP Pharmaceutical Products Inc. (TAP), is accounted for under the equity method of accounting. The investment in TAP was $167, $76 and $340 at December 31, 2005, 2004 and 2003, respectively. Dividends received from TAP were $343, $638 and $606 in 2005, 2004 and 2003, respectively. Abbott performs certain administrative and manufacturing services for TAP at negotiated rates that approximate fair market value. Summarized financial information for TAP is as follows:

Year Ended December 31	2005	2004	2003
Net sales	$3,260.0	$3,361.6	$3,979.6
Cost of sales	883.4	990.4	1,066.8
Income before taxes	1,379.3	1,181.1	1,815.5
Net income	882.8	750.0	1,161.9

December 31	2005	2004	2003
Current assets	$1,339.1	$ 951.7	$1,451.6
Total assets	1,470.2	1,176.6	1,718.1
Current liabilities	1,082.2	976.8	965.8
Total liabilities	1,136.2	1,025.2	1,037.2

Undistributed earnings of investments accounted for under the equity method amounted to approximately $151 as of December 31, 2005.

Notes to Consolidated Financial Statements

Note 15 — Stock Purchase Rights

Common shares outstanding are subject to stock purchase rights. The rights are exercisable only if a person or group acquires ten percent or more of Abbott common shares or announces a tender or exchange offer which would result in ownership of ten percent or more of Abbott common shares. Following the acquisition of ten percent or more of Abbott's common shares, the holders of the rights, other than the acquiring person or group, may purchase Abbott common shares at half price. In the event of a merger or other acquisition of Abbott, the holders of the rights, other than the acquiring person or group, may purchase shares of the acquiring entity at half price. The rights were not exercisable at December 31, 2005.

Note 16 — Restructuring Plans

(dollars in millions)

In 2005, Abbott management approved plans to realign its global manufacturing operations and selected domestic and international commercial operations. In 2005, Abbott recorded pretax charges against earnings of approximately $256 reflecting the impairment of manufacturing facilities and other assets, employee severance and other related charges. Approximately $174 is classified as cost of products sold, $10 as research and development and $72 as selling, general and administrative. An additional $14 was subsequently recorded in 2005 relating to these restructurings, primarily for accelerated depreciation. As a result of product re-registration timelines required under manufacturing regulations in a number of countries, manufacturing related realignments are expected to continue into 2007.

The following summarizes the restructuring activity for the global pharmaceutical manufacturing operations restructuring:

	Employee-Related and Other	Asset Impairments	Total
2005 restructuring charges	$44.1	$ 52.7	$ 96.8
Payments and impairments	(0.3)	(52.7)	(53.0)
Accrued balance at December 31, 2005	$43.8	$ —	$ 43.8

The following summarizes the restructuring activity for all other restructurings, which are individually not material:

	Employee-Related and Other	Asset Impairments	Total
2005 restructuring charges	$147.6	$ 11.1	$158.7
Payments and impairments	(36.6)	(11.1)	(47.7)
Accrued balance at December 31, 2005	$111.0	$ —	$111.0

Abbott expects to incur up to an additional $150 in future periods for restructuring plans, primarily for accelerated depreciation and plant and equipment dispositions.

Note 17 — Quarterly Results (Unaudited)

(dollars in millions except per share data)

	2005	2004	2003
First Quarter			
Net Sales	$5,382.7	$4,640.9	$4,008.9
Gross Profit	2,860.1	2,567.4	2,209.0
Net Earnings	837.9	822.9	801.0
Basic Earnings Per Common Share (a)	.54	.53	.51
Diluted Earnings Per Common Share (a)	.53	.52	.51
Market Price Per Share - High	48.16	47.25	40.85
Market Price Per Share - Low	43.34	39.28	33.75
Second Quarter			
Net Sales	$5,523.8	$4,703.0	$4,126.3
Gross Profit	2,892.0	2,634.3	2,277.9
Net Earnings (b)	877.1	634.3	246.6
Basic Earnings Per Common Share (a) (b)	.56	.41	.16
Diluted Earnings Per Common Share (a) (b)	.56	.40	.16
Market Price Per Share - High	49.98	44.67	46.94
Market Price Per Share - Low	45.98	39.43	37.57
Third Quarter			
Net Sales	$5,384.0	$4,681.7	$4,247.8
Gross Profit	2,706.8	2,566.8	2,319.1
Net Earnings (c)	680.7	804.1	761.2
Basic Earnings Per Common Share (a) (c)	.44	.52	.49
Diluted Earnings Per Common Share (a) (c)	.44	.51	.48
Market Price Per Share - High	50.00	43.20	45.09
Market Price Per Share - Low	41.57	38.26	37.65
Fourth Quarter			
Net Sales	$6,047.3	$5,654.4	$4,897.3
Gross Profit	3,237.8	3,027.3	2,700.1
Net Earnings	976.4	974.6	944.4
Basic Earnings Per Common Share (a)	.63	.62	.60
Diluted Earnings Per Common Share (a)	.63	.62	.60
Market Price Per Share - High	44.36	47.63	47.15
Market Price Per Share - Low	37.50	40.25	39.95

(a) The sum of the quarters' basic and diluted earnings per share for 2004 does not add to the full year earnings per share amounts due to rounding.

(b) Second quarter 2003 included a pretax charge of $622 for the settlement of litigation.

(c) Third quarter 2005 includes pretax restructuring charges of $201.

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, 2005. In making this assessment, it used the criteria set forth in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment, we believe that, as of December 31, 2005, 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 our assessment of the company's internal control over financial reporting. This report appears on page 64.

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

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

Greg W. Linder
Vice President and Controller

February 17, 2006

Reports of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Abbott Laboratories:

We have audited the accompanying consolidated balance sheets of Abbott Laboratories and subsidiaries (the Company) as of December 31, 2005, 2004 and 2003, and the related consolidated statements of earnings, shareholders' investment, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Abbott Laboratories and subsidiaries as of December 31, 2005, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 17, 2006, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP
Chicago, Illinois
February 17, 2006

To the Board of Directors and Shareholders of Abbott Laboratories:

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting dated February 17, 2006, that Abbott Laboratories and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2005 of the Company and our report dated February 17, 2006, expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP
Chicago, Illinois
February 17, 2006

Financial Instruments and Risk Management

Interest Rate Sensitive Financial Instruments

At December 31, 2005 and 2004, Abbott had interest rate hedge contracts totaling $3.1 billion to manage its exposure to changes in the fair value of debt due July 2006 through March 2014. The effect of these hedges is to change the fixed interest rate to a variable rate. Abbott does not use derivative financial instruments, such as interest rate swaps, to manage its exposure to changes in interest rates for its investment securities. As of December 31, 2004, Abbott had $1.6 billion of domestic commercial paper outstanding with an average annual interest rate of 2.2% with an average remaining life of 38 days. The fair market value of long-term debt at December 31, 2005 and 2004 amounted to $6.4 billion and $5.0 billion, respectively (average interest rates of 4.2% and 4.3%, respectively) with maturities through 2023. As of December 31, 2005 and 2004, the fair market value of current and long-term investment securities amounted to $80 million and $854 million, respectively. A hypothetical 100-basis point change in the interest rates would not have a material effect on cash flows, income or market values. (A 100-basis point change is believed to be a reasonably possible near-term change in rates.)

Market Price Sensitive Financial Instruments

Abbott maintains a portfolio of available-for-sale equity securities from strategic technology acquisitions. The market value of these investments was approximately $99 million and $96 million, respectively, as of December 31, 2005 and 2004. Abbott monitors these investments for other than temporary declines in market value, and charges impairment losses to income when an other than temporary decline in value occurs. A hypothetical 20 percent decrease in the share prices of these investments would decrease their fair value at December 31, 2005 by approximately $20 million. (A 20 percent decrease is believed to be a reasonably possible near-term change in share prices.)

Non-Publicly Traded Equity Securities

Abbott maintains a portfolio of equity securities from strategic technology acquisitions that are not traded on public stock exchanges. The carrying value of these investments was approximately $17 million and $30 million, respectively, as of December 31, 2005 and 2004. No individual investment is in excess of $9 million. Abbott monitors these investments for other than temporary declines in market value, and charges impairment losses to income when an other than temporary decline in estimated value occurs.

Foreign Currency Sensitive Financial Instruments

Abbott enters into foreign currency forward exchange contracts to manage its exposure to foreign currency denominated intercompany loans and trade payables and third-party trade payables and receivables. The contracts are marked-to-market, and resulting gains or losses are reflected in income and are generally offset by losses or gains on the foreign currency exposure being managed. At December 31, 2005 and 2004, Abbott held $3.9 billion and $3.3 billion, respectively, of such contracts, which all mature in the following calendar year.

In addition, certain Abbott foreign subsidiaries enter into foreign currency forward exchange contracts to manage exposures to changes in foreign exchange rates for anticipated intercompany purchases by those subsidiaries whose functional currencies are not the U.S. dollar. These contracts are designated as cash flow hedges of the variability of the cash flows due to changes in foreign 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 calendar year. At December 31, 2005 and 2004, Abbott held $222 million and $984 million, respectively, of such contracts, which all mature in the following calendar year.

The following table reflects the total foreign currency forward contracts outstanding at December 31, 2005 and 2004:

	2005			2004		
(dollars in millions)	Contract Amount	Average Exchange Rate	Fair and Carrying Value Receivable/ (Payable)	Contract Amount	Average Exchange Rate	Fair and Carrying Value Receivable/ (Payable)
Receive primarily U.S. Dollars in exchange for the following currencies:						
Euro	$1,519	1.184	$ (1.4)	$1,688	1.284	$(39.1)
British Pound	1,148	1.738	7.2	1,112	1.845	(26.7)
Japanese Yen	513	113.4	(18.4)	533	107.3	9.2
Canadian Dollar	425	1.176	(2.1)	301	1.274	(20.0)
All other currencies	487	N/A	—	601	N/A	(3.3)
Total	$4,092		$(14.7)	$4,235		$(79.9)

Financial Review

Abbott's revenues are derived primarily from the sale of a broad line of health care products under short-term receivable arrangements. Patent protection and licenses, technological and performance features, and inclusion of Abbott's products under a contract or by a pharmacy benefit manager most impact which products are sold; price controls, competition and rebates most impact the net selling prices of products; and foreign currency translation impacts the measurement of net sales. Abbott's primary products are prescription pharmaceuticals, nutritional products and diagnostic testing products. Abbott also owns 50 percent of TAP Pharmaceutical Products Inc. (TAP) that Abbott accounts for on the equity method.

The worldwide launch of *HUMIRA*, the spin-off of Hospira, integration and restructuring activities and the loss of patent protection for some products have impacted Abbott's sales, costs and financial position over the last three years.

Subsequent to Abbott's 2001 acquisition of the Knoll pharmaceutical business, which significantly increased the scale of Abbott's pharmaceutical business, Abbott focused on reorganizing and growing its global pharmaceutical business. Abbott has established a global research and development organization and a global manufacturing and distribution organization to serve its domestic and international commercial pharmaceutical operations. Pharmaceutical research and development is focused on five therapeutic areas—immunology, oncology, neuroscience, diabetes/metabolism, and viral diseases. U.S. commercial pharmaceutical operations are focused mainly on primary care and specialty pharmaceuticals. In 2003, Abbott began the worldwide launch of *HUMIRA*, which increased its worldwide sales to $1.4 billion in 2005 compared to $852 million in 2004. In 2005, Abbott and Boehringer Ingelheim (BI) amended their agreement whereby Abbott distributed and promoted BI products. Effective January 1, 2006, Abbott will no longer distribute BI products but will receive residual commissions. Abbott's gross margins for BI products from the prior agreement in effect through December 31, 2005 were substantially lower than its average gross margin. 2005 sales of BI products were $2.3 billion. Increased generic competition resulted in U.S. sales of *Synthroid* declining 22 percent in 2005 while holding a 36 percent market share.

In 2004, Abbott separated its diagnostic segment into four separate divisions—immunoassay/hematology, diabetes care, molecular, and point of care—to better focus on commercial and scientific opportunities. In early 2004, Abbott acquired TheraSense for $1.2 billion, and began to integrate it with Abbott's diabetes care business. In late 2003, Abbott was informed by the FDA that it may distribute the immunoassay products in the U.S. that were impacted by regulatory restrictions imposed in 1999. Net sales and profits for this business declined over the restricted period, but stabilized in 2004 and 2005. In 2005, Abbott diagnostics launched more than 50 new products. In the Ross segment in 2003, Abbott settled its portion of an industry-wide investigation of the enteral nutritional business for $614 million.

In 2004, Abbott completed the spin-off of Hospira, Abbott's former hospital products business. Annual sales of Hospira were approximately $2.4 billion. As part of the spin-off, Hospira assumed $700 million of debt. The historical operating and cash flow results of Hospira are presented as discontinued operations. Hospira is contractually obligated to purchase the international hospital assets and operations that were not included in the spin-off. The legal transfer of certain remaining operations and assets (net of liabilities) outside the United States is expected to occur in the first half of 2006.

In early 2006, Abbott reached agreement to acquire Guidant's vascular intervention and endovascular solutions businesses, subject to Boston Scientific's acquisition of Guidant. Guidant's annual revenues from these businesses are approximately $1 billion. The purchase price would be $4.1 billion, plus contingent milestone payments of $500 million.

TAP's contribution to Abbott's earnings declined in 2004 and 2003. A part of the decline was due to increased competition for *Prevacid*, TAP's largest selling product, and due to market contraction for prescription proton pump inhibitors. In 2004, TAP recorded additional litigation reserves of $125 million for an anticipated legal settlement.

Abbott's short- and long-term debt totaled $6.6 billion at December 31, 2005, largely incurred to finance acquisitions. Operating cash flows in excess of capital expenditures and cash dividends have allowed Abbott to reduce debt and fund acquisitions over the last three years. At December 31, 2005, Abbott's long-term debt rating was AA by Standard and Poor's and A1 by Moody's Investors Service.

In 2006, Abbott will focus on several key initiatives. In the global pharmaceutical business, Abbott will launch newly approved indications for *HUMIRA*. Abbott will also focus on appropriate market support for *Synthroid*, which became subject to generic U.S. competition in mid-2004, and for sevoflurane, which became subject to generic competition in December 2005. In 2005, TAP received an approvable letter from the FDA for febuxostat. Contingent upon FDA approval, TAP plans to launch febuxostat in 2006. Pharmaceutical research and development efforts will continue to be focused in the five therapeutic areas noted above with a significant portion of the development expenditures allocated to new *HUMIRA* indications. Abbott expects to submit additional pharmaceutical regulatory filings in 2006. In the immunoassay business, attention will be focused on improving revenue growth by capitalizing on recent product launches, including the U.S. launch of the blood screening system, *PRISM*, launching additional products, and commercial execution of the existing broad product portfolio. In the hematology business, attention will be focused on the continued launch of *CELL-DYN Sapphire* and other analyzers. For diabetes care, Abbott will continue the launch of *FreeStyle Connect* and Abbott anticipates the approval of *FreeStyle Navigator* in 2006. Upon closure of the acquisition of Guidant's vascular business, planning for its integration would be a key activity in the vascular business. Focus in this business will also be on the 2005 launch of *Xact* Carotid Stent and *Emboshield Embolic Protection System* and the projected approval of *ZoMaxx*, Abbott's drug-eluting stent, in Europe. With a greater focus on consumer marketing, Ross will maximize the strength of its core brands and further develop its healthy-living market presence. In the other business segments, Abbott will focus on developing or acquiring differentiated technologies in higher growth segments of those markets.

Financial Review

Critical Accounting Policies

Sales Rebates — Approximately 40 percent of Abbott's consolidated gross revenues are subject to various forms of rebates and allowances that Abbott records as reductions of revenues at the time of sale. Most of these rebates and allowances are in two of Abbott's domestic segments—the Pharmaceutical Products segment and the Ross Products segment. Abbott provides rebates to pharmacy benefit management companies, to state agencies which administer the federal Medicaid program and the Special Supplemental Food 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 two to 24 months after sale. Abbott regularly analyzes the historical rebate trends and makes adjustments to reserves for changes in trends and terms of rebate programs. Rebates and chargebacks charged against gross sales in 2005, 2004 and 2003 amounted to approximately $2.5 billion, $2.4 billion and $1.8 billion, respectively, or 22.9 percent, 25.6 percent, and 22.7 percent, respectively, based on gross sales of approximately $10.9 billion, $9.3 billion and $8.0 billion, respectively, subject to rebate. A one-percentage point increase in the percentage of rebates to related gross sales would decrease net sales and operating earnings by approximately $109 million in 2005. Other allowances charged against gross sales were approximately $284 million, $233 million and $191 million for cash discounts in 2005, 2004 and 2003, respectively, and $162 million, $163 million and $171 million for returns in 2005, 2004 and 2003, 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 accrual balances each quarter. In the Ross nutritional business, management uses both internal and external data available to estimate the level of inventory in the distribution channel. Management internally estimates the inventory in the retail channel that is not on the retail shelf. A third party continuously measures time on the retail shelf, which is a relatively significant portion of the time inventory is in the distribution channel. Except for a transition period before or after a change in the supplier for the WIC business in a state, inventory in the distribution channel does not vary substantially. Management also estimates the states' processing lag time based on claims data. In addition, internal processing time is a factor in estimating the accrual. In the WIC business, the state where the sale is made, which is the determining factor for the applicable price, is reliably estimable. Estimates are required for the amount of WIC sales within each state where Abbott has the WIC business. External data sources utilized for that estimate are participant data from the U.S. Department of Agriculture (USDA), which administers the WIC program, participant data from some of the states, and internally administered market surveys. The USDA has been making its data available for many years. Internal data includes historical redemption rates and pricing data. At December 31, 2005, Ross had the exclusive WIC business in 11 states.

In the domestic pharmaceutical business, the most significant charges against gross sales are for Medicaid Rebates, Pharmacy Benefit Manager Rebates and Wholesaler Chargebacks. In order to evaluate the adequacy of the ending accrual balances, management uses both internal and external estimates of the level of inventory in the distribution channel and the rebate claims processing lag time. External data sources used to estimate the inventory in the distribution channel include inventory levels periodically reported by wholesalers and third party market data purchased by Abbott. Management estimates the processing lag time based on periodic sampling of claims data. To estimate the price rebate percentage, systems and calculations are used to track sales by product by customer and to estimate the contractual or statutory price. Abbott's systems and calculations have developed over time as rebates have become more significant, and Abbott believes they are reliable.

The following table is an analysis of the four largest rebate accruals, which comprise approximately 80 percent of the consolidated rebate provisions charged against revenues in 2005. Remaining rebate provisions charged against gross sales are not significant in the determination of operating earnings. *(dollars in thousands)*

		Pharmaceutical Products		
	Ross Products WIC Rebates	Medicaid Rebates	Pharmacy Benefit Manager Rebates	Wholesaler Chargebacks
Balance at January 1, 2003	$ 65,979	$ 196,200	$ 115,539	$ 24,586
Provisions	527,803	358,173	244,037	338,316
Payments	(480,420)	(325,303)	(214,381)	(325,809)
Balance at December 31, 2003	113,362	229,070	145,195	37,093
Provisions	671,817	596,330	279,681	419,486
Payments	(687,132)	(452,342)	(271,078)	(412,526)
Balance at December 31, 2004	98,047	373,058	153,798	44,053
Provisions	641,189	663,043	253,499	450,901
Payments	(644,460)	(581,098)	(273,166)	(446,867)
Balance at December 31, 2005	$ 94,776	$ 455,003	$ 134,131	$ 48,087

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

Financial Review

Income Taxes — Abbott operates in numerous countries where its income tax returns are subject to audits and adjustments. Because Abbott operates globally, the nature of the audit items are often very complex, and the objectives of the government auditors can result in a tax on the same income in more than one country. Abbott employs internal and external tax professionals to minimize audit adjustment amounts where possible. As part of Abbott's calculation of the provision for taxes on earnings, Abbott records the amount that it expects to incur as a result of audits. Each quarter, Abbott reviews its exposures in accordance with Statement of Financial Accounting Standards (SFAS) No. 5, "Accounting for Contingencies." In the U.S., Abbott's federal income tax returns through 2000 are settled, and the income tax returns for years after 2000 are open. Except for taxes on dividends that were remitted under the American Jobs Creation Act of 2004, Abbott does not record deferred income taxes on earnings reinvested indefinitely in foreign subsidiaries.

Pension and Post-Employment Benefits — Abbott offers pension benefits and post-employment health care to many of its employees. Abbott engages outside actuaries to calculate its obligations and costs under these programs. With the assistance of outside actuaries, Abbott must develop long-term assumptions, the most significant of which are the health care cost trend rate, discount rate and the expected return on plan assets. The discount rate used to measure liabilities as of December 31, 2005 was determined based on high-quality fixed income investments that match the duration of the expected retiree benefits. Prior to December 31, 2005, the discount rate was determined by reference to a composite corporate AA bond index. The health care cost trend rate represents Abbott's expected annual rates of change in the cost of health care benefits and is a forward projection of health care costs as of the measurement date. A difference between the assumed rates and the actual rates, which will not be known for decades, can be significant in relation to the obligations and the annual cost recorded for these programs. Recent low interest rates have significantly increased unrecognized actuarial losses for these plans. At December 31, 2005, the unrecognized actuarial losses for Abbott's defined benefit plans and medical and dental plans were $1.5 billion and $698 million, respectively. Unrecognized actuarial losses and gains are amortized over the remaining service periods of the employees under the corridor method, in accordance with the rules for accounting for post-employment benefits. Differences between the expected long-term return on plan assets and the actual annual return are amortized over a five-year period. Footnote 4 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. In 2005, Abbott reversed previously recorded minimum pension liability adjustments of $562 million because the assets of certain defined benefit plans were now in excess of the accumulated benefit obligations due primarily to plan contributions in 2005. This resulted in a credit to Accumulated other comprehensive income (loss) of $346 million, net of taxes. In 2004 and 2003, Abbott recorded minimum pension liability adjustments of $120 million and $155 million, respectively, because the accumulated benefit obligations for certain defined benefit plans exceeded the market value of the plans' assets. This resulted in charges to Accumulated other comprehensive income (loss) of $76 million and $99 million, net of taxes, in 2004 and 2003, respectively.

Valuation of Intangible Assets — Abbott has acquired and continues to acquire significant intangible assets that Abbott records at fair value. Those assets which do not yet have regulatory approval and for which there are no alternative uses are expensed as acquired in-process research and development, and those that have regulatory approval are capitalized. 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 using market participant assumptions. Abbott uses a discounted cash flow model to value most of its acquired intangible assets. The discounted cash flow model requires assumptions about the timing and amount of future net cash inflows, risk, the cost of capital, and terminal values. 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 significant acquisitions of intangibles. Abbott reviews intangible assets for impairment each quarter using an undiscounted net cash flows approach. If the undiscounted cash flows of an intangible asset are less than the carrying value of an intangible asset, the intangible asset is written down to its fair value, which is usually the discounted cash flow amount. Where cash flows cannot be identified for an individual asset, the review is applied at the lowest group level for which cash flows are identifiable. Goodwill is reviewed for impairment annually or when an event that could result in an impairment of goodwill occurs. At December 31, 2005 goodwill and intangibles amounted to $5.2 billion and $4.7 billion, respectively, and amortization expense for intangible assets amounted to approximately $490 million in 2005. There were no impairments of goodwill in 2005, 2004 or 2003.

Litigation — Abbott accounts for litigation losses in accordance with SFAS No. 5, "Accounting for Contingencies." Under SFAS No. 5, loss contingency provisions are recorded for probable losses at management's best estimate of a loss, or when a best estimate cannot be made, a minimum loss contingency amount is recorded. These estimates are often initially developed substantially earlier than the ultimate loss is known, and the estimates are refined each accounting period, as additional information becomes known. Accordingly, Abbott is often initially unable to develop a best estimate of loss, and therefore the minimum amount, which could be zero, is recorded. As information becomes known, either the minimum loss amount is increased, resulting in additional loss provisions, or a best estimate can be made, also

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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. For its legal proceedings and environmental exposures, Abbott estimates the range of possible loss to be from approximately $15 million to $60 million. Reserves of approximately $35 million have been recorded at December 31, 2005 for these proceedings and exposures. These reserves represent management's best estimate of probable loss, as defined by SFAS No. 5.

Stock Compensation — Through December 31, 2005, Abbott measured compensation cost using the intrinsic value-based method of accounting for stock options and replacement stock options granted to employees and disclosed the impact of the fair value method in the footnotes to the consolidated financial statements. In 2006, Abbott will adopt SFAS No. 123 (revised 2004), "Share-Based Payment," which requires that fair value be recorded in the results of operations. Since there is no market for trading employee stock options, management must use a fair value method. There is no certainty that the results of a fair value method would be the value at which employee stock options would be traded for cash. Fair value methods require management to make several assumptions, the most significant of which are the selection of a fair value model, stock price volatility and the average life of an option. Abbott began preparing for adoption of the new standard in 2004. Abbott has readily available grant-by-grant historical activity for several years in its option administration system. Using this data, Abbott compared valuation results using the binomial method to the Black-Scholes method Abbott had been using and found the results to be comparable. Abbott evaluated whether certain holders of stock options exercised their options differently than other holders and did not find any differentiating pattern among holders. Abbott studied its implied volatility and concluded that a combination of historical and implied volatility will be a better measure than historical volatility alone. Abbott also quantified the additional paid in capital amount available for use in determining tax effects of early exercise for measurement of tax expense. Abbott will use the modified prospective method of adoption. Under this method, prior years' financial results will not include the impact of recording stock options using fair value. Footnote 10 quantifies the effect of application of fair value to 2005 and prior awards. Based upon the valuation of stock options granted in the 2006 annual grant, which comprise the majority of the grant activity for the year, Abbott estimates the impact of the 2006 change in stock compensation expense on diluted earnings per share of approximately $0.15, which includes $0.14 per diluted share for the impact of expensing the fair value of stock options. The 2006 expense for stock compensation is dependent on the number of options granted in the future, the terms of those awards and their fair value, and therefore, the effect on diluted earnings per share could change.

Results of Operations

Sales

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

	Total %	Components of Change %		
Total Net Sales	Change	Price	Volume	Exchange
2005 vs. 2004	13.5	0.1	12.1	1.3
2004 vs. 2003	13.9	1.6	9.1	3.2
2003 vs. 2002	13.1	1.3	7.8	4.0
Total U.S.				
2005 vs. 2004	13.0	0.8	12.2	—
2004 vs. 2003	12.8	3.8	9.0	—
2003 vs. 2002	11.6	1.6	10.0	—
Total International				
2005 vs. 2004	14.2	(0.7)	12.0	2.9
2004 vs. 2003	15.3	(1.0)	8.9	7.4
2003 vs. 2002	15.1	0.9	5.0	9.2
Pharmaceutical Products Segment				
2005 vs. 2004	16.1	1.6	14.5	—
2004 vs. 2003	15.8	7.2	8.6	—
2003 vs. 2002	19.5	3.3	16.2	—
Diagnostic Products Segment				
2005 vs. 2004	11.2	(0.7)	9.9	2.0
2004 vs. 2003	11.1	(1.2)	6.9	5.4
2003 vs. 2002	5.0	—	(1.8)	6.8
Ross Products Segment				
2005 vs. 2004	8.5	(0.9)	9.4	—
2004 vs. 2003	8.9	(0.5)	9.4	—
2003 vs. 2002	2.3	(0.9)	3.2	—
International Segment				
2005 vs. 2004	13.0	(0.3)	10.4	2.9
2004 vs. 2003	15.9	(1.0)	9.5	7.4
2003 vs. 2002	13.5	1.4	3.4	8.7

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

(dollars in millions)	2005	Percent Change	2004	Percent Change	2003	Percent Change
Pharmaceutical Products						
Primary Care	$4,788	18	$4,041	22	$3,324	26
Specialty	2,908	18	2,460	28	1,915	23
Diagnostic Products						
Immunochemistry	2,187	2	2,141	2	2,094	3
Diabetes Care	1,067	35	791	46	542	10
Ross Products						
Pediatric Nutritionals	1,097	(4)	1,146	5	1,093	9
Adult Nutritionals	1,077	15	934	15	809	(3)
International						
Other Pharmaceuticals	3,656	15	3,184	21	2,629	15
Anti-Infectives	838	4	804	5	766	10
Hospital Pharmaceuticals	669	13	592	15	516	18
Pediatric Nutritionals	698	17	595	13	527	8
Adult Nutritionals	715	8	663	12	591	12

Sales in the Pharmaceutical Products segment of *Mobic*, *TriCor*, *Omnicef* and *Flomax* favorably impacted Primary Care Products sales, and increased sales of *HUMIRA* favorably impacted Specialty Products sales. U.S. sales of *Synthroid*, which is now subject to generic competition, were $498 million, $637 million, and $565 million in 2005, 2004 and 2003, respectively. Increased sales of *HUMIRA* and *Kaletra* also favorably impacted Other Pharmaceuticals sales in the International Segment in 2005 and 2004. Worldwide sales of *HUMIRA* totaled $1.4 billion in 2005, $852 million in 2004 and $280 million in 2003. Diagnostic Products and International segment products sales were favorably impacted in 2005, 2004 and 2003 by the effect of the relatively weaker U.S. dollar. Diabetes Care product sales for the Diagnostic Products segment were favorably impacted by the acquisition of TheraSense in the second quarter of 2004. In addition, Adult Nutritionals product sales for the Ross Products segment were favorably impacted by the acquisitions of ZonePerfect in the third quarter of 2003 and EAS in the fourth quarter of 2004. The decrease in sales for pediatric nutritionals in 2005 was primarily due to overall infant nutritionals non-WIC category decline and competitive share loss. Abbott has periodically sold product rights to non-strategic products and has recorded the related gains in net sales in accordance with Abbott's revenue recognition policies as discussed in footnote 1 to the consolidated financial statements. Related net sales were $177 million in 2005, $144 million in 2004 and $241 million in 2003. Sales of new products in 2005 are estimated to be approximately $1.6 billion, led by *HUMIRA* in the Pharmaceutical Products and International segments and incremental sales of approximately $260 million from the 2004 acquisitions of TheraSense and EAS.

The expiration of licenses, patent protection and generic competition can affect the future revenues and operating income of Abbott. Significant ongoing generic activities, and significant patent and license expirations in the next three years are as follows. The U.S. composition of matter patent for *Depakote* expires in 2008. The Pharmaceutical Products segment's sales of *Depakote* in 2005 were $1 billion. The Pharmaceutical Products segment has an agreement with Boehringer Ingelheim to co-promote and distribute three of its products. In 2005, Abbott and Boehringer Ingelheim amended the agreement. Effective January 1, 2006, Abbott no longer distributes or records sales for the Boehringer Ingelheim products, but will continue to co-promote one product, *Micardis*, through March 31, 2006, and will receive residual commissions on Boehringer Ingelheim's sales of the three products. The amount of pretax income under the amended agreement will be the same as expected under the previous agreement. Net sales of Boehringer Ingelheim products in 2005 were approximately $2.3 billion. In the second quarter 2004, the FDA granted approval for generic competition to *Synthroid* and generic competitors have entered the market. In 2004 and 2005, clarithromycin became subject to generic competition in several European markets. International segment sales of clarithromycin in 2005 were $760 million. In the U.S., the Pharmaceutical Products segment markets clarithromycin in two forms, the immediate release and the extended release forms, both of which are covered by additional non-composition of matter patents. In May 2005, the composition of matter patent on clarithromycin in the U.S. expired, and several immediate release generic products were launched by competitors. Manufacturers of the extended release forms of clarithromycin were enjoined from entering the U.S. market due to Abbott's non-composition of matter patents. U.S. sales of clarithromycin in 2005 and 2004 were $306 million and $458 million, respectively. There may be further generic competition for clarithromycin in the U.S. and other countries in 2006 depending on the results of legal proceedings related to the patents. Upon the December 2005 expiration of a court order related to licenses for sevoflurane, Baxter is now permitted to market a competitive form of sevoflurane. In addition, sevoflurane has been subject to generic competition from other competitors in isolated markets outside of the U.S. and further generic competition in international markets is possible. Worldwide sales of sevoflurane in 2005 were $874 million. The composition of matter patent for *Omnicef* expires in May 2007. Abbott holds an additional non-composition of matter patent that expires in 2011. The Pharmaceutical Products segment sales of *Omnicef* in 2005 were $495 million. In mid 2006, the Ross segment's co-promotion agreement for *Synagis* will terminate. U.S. co-promotion revenues were $231 million in 2005. Abbott will continue to market *Synagis*, and will market its follow-on product, *Numax*, in select international markets and will receive residual commissions on U.S. sales of *Synagis*.

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Operating Earnings

Gross profit margins were 52.4 percent of net sales in 2005, 54.9 percent in 2004 and 55.0 percent in 2003. The decrease in the gross profit margin in 2005 was due to unfavorable product mix, primarily as a result of increased sales of Boehringer Ingelheim products that have lower margins than other products in the Pharmaceutical Products segment. Restructuring charges, discussed below, reduced the gross profit margin in 2005 by 0.8 percentage points. The gross profit margin in 2004 was impacted by the favorable mix effect of exchange on the gross profit margin and by unfavorable product mix, primarily increased sales of lower margin Boehringer Ingelheim products, as discussed above, in the Pharmaceutical Products segment. The gross profit margin for 2003 was impacted by a charge of $88 million for an impairment of assets and other expenses as a result of a lower sales forecast for *Abbokinase*; partially offset by favorable product mix, resulting mainly from increased sales in the Pharmaceutical Products segment. Gross profit margins in all years were also affected by productivity improvements, higher project expenses for new products, higher manufacturing capacity costs for anticipated unit growth, and the effects of inflation and competitive pricing pressures.

In the U.S., states receive price rebates from manufacturers of infant formula under the federally subsidized Special Supplemental Food Program for Women, Infants, and Children. There are also rebate programs for pharmaceutical products. These rebate programs continue to have a negative effect on the gross profit margins of the Ross and Pharmaceutical Products segments. In addition, pricing pressures unfavorably impacted the gross profit margins for the Ross Products segment in 2005, 2004 and 2003.

The gross profit margins for the Pharmaceutical Products segment were unfavorably impacted in 2005 and 2004 by unfavorable product mix and favorably impacted in 2003 by favorable product mix. The unfavorable product mix in 2005 and 2004 was due primarily to increased sales of lower margin Boehringer Ingelheim products and higher other manufacturing costs. The gross profit margin in 2003 for the Diagnostic Products segment was impacted by the effects of a FDA consent decree.

Research and development expense, excluding acquired in-process research and development, was $1.8 billion in 2005, $1.7 billion in 2004 and $1.6 billion in 2003 and represented increases of 7.3 percent in 2005, 4.5 percent in 2004 and 10.1 percent in 2003. The majority of research and development expenditures are concentrated on pharmaceutical products.

Selling, general and administrative expenses increased 11.7 percent in 2005 compared to increases of 2.4 percent in 2004 and 29.1 percent in 2003. The restructuring charges discussed below and an increase in a bad debt reserve associated with an unfavorable court ruling increased the percent change from 2004 by 2.7 percentage points in 2005. In 2003, Abbott recorded in selling, general and administrative expenses, a pretax charge of $614 million related to the settlement of the Ross enteral nutritional investigation. This 2003 charge reduced the increase in selling, general and administrative expenses by 15.0 percentage points for 2004 and increased selling, general and administrative expenses by 16.5 percentage points over 2002. The increases in selling, general and administrative expenses, excluding the restructuring charges and the charge for the investigation, were due primarily to increased selling and marketing support for new and existing products, including commercial activities related to sales force expansion and product launches, including Abbott's carotid stent and new *HUMIRA* indications. These increases also reflect the effects of the acquisitions of TheraSense and EAS in 2004. Increases in all three years also reflect inflation and additional selling and marketing support primarily in the Pharmaceutical Products and International segments.

Restructurings

(dollars in millions)

In 2005, Abbott management approved plans to realign its global manufacturing operations and selected domestic and international commercial operations. In 2005, Abbott recorded pretax charges against earnings of approximately $256 reflecting the impairment of manufacturing facilities and other assets, employee severance and other related charges. Approximately $174 is classified as cost of products sold, $10 as research and development and $72 as selling, general and administrative. An additional $14 was subsequently recorded in 2005 relating to these restructurings, primarily for accelerated depreciation. As a result of product re-registration timelines required under manufacturing regulations in a number of countries, manufacturing related realignments are expected to continue into 2007.

The following summarizes the restructuring activity for the global pharmaceutical manufacturing operations restructuring:

	Employee-Related and Other	Asset Impairments	Total
2005 restructuring charges	$44.1	$ 52.7	$ 96.8
Payments and impairments	(0.3)	(52.7)	(53.0)
Accrued balance at December 31, 2005	$43.8	$ —	$ 43.8

The following summarizes the restructuring activity for all other restructurings, which are individually not material:

	Employee-Related and Other	Asset Impairments	Total
2005 restructuring charges	$147.6	$ 11.1	$158.7
Payments and impairments	(36.6)	(11.1)	(47.7)
Accrued balance at December 31, 2005	$111.0	$ —	$111.0

Abbott expects to incur up to an additional $150 in future periods for restructuring plans, primarily for accelerated depreciation and plant and equipment dispositions.

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(Income) from TAP Pharmaceutical Products Inc. Joint Venture

Abbott's income from the TAP Pharmaceutical Products Inc. joint venture was lower in 2005 and 2004 compared to 2003 due to decreased sales due to market contraction for prescription proton pump inhibitors, and in 2004 by approximately $40 million as a result of an agreement with plaintiffs to settle litigation.

Net Interest Expense

Net interest expense increased in 2005 and 2004 due to the impact of higher interest rates on debt levels, partially offset by higher interest income. Net interest expense decreased in 2003 due to a lower level of borrowings and lower interest rates.

Taxes on Earnings

The effective income tax rates on income from continuing operations were 27.0 percent in 2005, 23.0 percent in 2004 and 26.1 percent in 2003. In 2005, Abbott remitted $4.3 billion of foreign earnings in accordance with the American Jobs Creation Act of 2004 and recorded additional tax expense of $245 million, which increased the effective tax rate by approximately 5.3 percentage points. This was partially offset by adjustments of prior years' tax accounts resulting primarily from resolution of prior years' accrual requirements, which decreased the effective tax rate by 2.3 percentage points. The effective tax rate for 2004 reflects adjustments of prior years' tax requirements primarily as a result of resolutions of prior years' tax audits and the effect of non-deductible acquired in-process research and development. The effect of these items for 2004 was to decrease the effective tax rate by approximately 1.2 percentage points. The effective tax rate for 2003 includes the effect of the charge for the settlement of the Ross enteral nutritional investigation and the charges for acquired in-process research and development. The effect of these charges for 2003 was to increase the effective tax rate by approximately 2.4 percentage points. Abbott expects to apply an annual effective rate of between 23.5 percent and 24.0 percent in 2006.

Spin-off of Abbott's Core Hospital Products Business

On April 12, 2004, Abbott's Board of Directors declared a special dividend distribution of all of the outstanding shares of common stock of Hospira, Inc., payable on April 30, 2004. Hospira included the operations relating to the manufacture and sale of hospital products including specialty injectable pharmaceuticals, medication delivery systems and critical care devices and injectable pharmaceutical contract manufacturing. Hospira included Abbott's Hospital Products segment, after that segment's reorganization on January 1, 2004, and portions of Abbott's International segment. The income and cash flows of Hospira and the direct transaction costs of the spin-off have been presented as discontinued operations in the Consolidated Statement of Earnings and Statement of Cash Flows. Prior years' balance sheets have not been adjusted to reflect the effect of the spin-off.

The legal transfer of certain remaining operations and assets (net of liabilities) outside the United States is expected to occur in the first half of 2006. These operations and assets are used in the conduct of Hospira's international business and Hospira is subject to the risks and entitled to the benefits generated by these operations and assets.

These assets and liabilities have been presented as held for sale in the Consolidated Balance Sheets as of December 31, 2005 and 2004. The assets and liabilities held for sale consist primarily of inventories, trade accounts receivable, equipment and trade accounts payable, salaries and other accruals.

Abbott has retained liabilities for taxes on income prior to the spin-off, defined benefit, post-employment medical and dental plan obligations and assets, as of the spin-off, for most of Hospira's U.S. retired employees and U.S. retirement eligible employees and certain potential liabilities, if any, related to alleged improper pricing practices prior to the spin-off in connection with federal, state and private reimbursement for certain drugs.

Business Combinations and Technology Acquisitions

In 2005, Abbott acquired the remaining interest in a small medical products company that was previously accounted for under the equity method of accounting and a less than 50 percent equity interest in a small medical products company. The aggregate cash purchase price was approximately $25 million. Acquisition accounting resulted in the recording of non-tax deductible goodwill of approximately $69 million, intangible assets of approximately $22 million and a charge of approximately $17 million for acquired in-process research and development. In 2005, Abbott acquired additional rights related to *HUMIRA* for approximately $270 million, which will be amortized over 13 years.

In 2004, Abbott paid approximately $2.3 billion for strategic business and technology acquisitions, as follows. Abbott acquired TheraSense, Inc., a leader in the development, manufacturing and marketing of blood glucose self-monitoring systems, for approximately $1.2 billion in cash; i-STAT Corporation, a manufacturer of point-of-care diagnostic products for blood analysis, for approximately $394 million in cash; EAS, a nutritional company with a portfolio of nationally recognized brands, for approximately $320 million in cash; and Spine Next, a manufacturer of orthopedic spinal implant devices, for approximately $58 million in cash plus additional milestone payments of up to $23 million upon achievement of future targets. Abbott also acquired certain other product technologies for approximately $352 million. These acquisitions resulted in a charge of $271 million for acquired in-process research and development, intangible assets of approximately $1.3 billion, non-tax deductible goodwill of approximately $923 million and deferred income taxes of approximately $406 million. Acquired intangible assets, primarily trade names, are amortized over 5 to 20 years (average of approximately 14 years).

In 2003, Abbott paid approximately $459 million for strategic business and technology acquisitions, as follows. Abbott acquired ZonePerfect Nutrition Company, a marketer of healthy and nutritious products for active people, for approximately $160 million in cash; Integrated Vascular Systems, Inc., a developer of a novel vessel closure technology, for approximately $65 million in cash; and Spinal Concepts Inc., a marketer of spinal fixation products used in the treatment of spinal disorders, diseases and injuries, for approximately $166 million in cash

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plus additional milestone payments of up to $40 million if agreed upon targets are met. Abbott also acquired the assets of JOMED N.V.'s coronary and peripheral interventional business for approximately $68 million in cash. These acquisitions resulted in a charge of approximately $100 million for acquired in-process research and development, intangible assets of approximately $222 million and non-tax deductible goodwill of approximately $182 million. Acquired intangible assets, primarily product technology, are amortized over 9 to 25 years (average of approximately 16 years).

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

In early 2006, Abbott agreed to acquire Guidant's interventional vascular and endovascular solutions businesses for $4.1 billion in connection with Boston Scientific's acquisition of Guidant. Abbott would also pay $250 million each upon government approvals to market Guidant's drug-eluting stent in the U.S. and in Japan. In addition, Abbott agreed to provide Boston Scientific a $900 million 4 percent loan and to acquire $1.4 billion of Boston Scientific common stock directly from Boston Scientific contingent upon the closing of the Guidant acquisition. The acquisition is expected to be completed in the first half of 2006.

Financial Condition

Cash Flow

Net cash from operating activities of continuing operations amounted to $5.0 billion, $4.3 billion and $3.4 billion in 2005, 2004 and 2003, respectively. In 2005, 2004 and 2003, $641 million, $482 million and $200 million, respectively, was contributed to the main domestic defined benefit plan. In addition, Abbott transferred approximately $45 million to Hospira in 2004 in accordance with the employee benefit agreement governing the assumption by Hospira of certain defined benefit plan assets and liabilities. Abbott expects pension funding for its main domestic pension plan in 2006 to 2011 to be between $200 million and $400 million annually. The increased contribution in 2005 was due, in part, to the investment of cash remitted under the American Jobs Creation Act of 2004.

Debt and Capital

At December 31, 2005, Abbott's long-term debt rating was AA by Standard and Poor's and A1 by Moody's Investors Service. Abbott has readily available financial resources, including unused lines of credit of $3.0 billion, which support domestic commercial paper borrowing arrangements. Subsequent to the announced potential acquisition of Guidant's vascular intervention and endovascular solutions businesses, Standard and Poor's affirmed their current debt ratings for Abbott and maintained their current "stable " outlook. Moody's Investors Service indicated they would likely affirm their current debt ratings for Abbott and would likely change their current outlook from "stable" to "negative."

In October 2004, the Board of Directors authorized the purchase of 50 million shares of Abbott's common stock from time to time and no shares were purchased under this authorization in 2004. In 2005, Abbott purchased approximately 30 million of its common shares under this authorization at a cost of approximately $1.3 billion. In 2004 and 2003, Abbott purchased approximately 11.7 million and 2.7 million, respectively, of its common shares at a cost of approximately $500 million and $98 million, respectively, under a prior authorization.

In 2005, Abbott borrowed $1.9 billion of long-term debt that matures in May 2008 with variable interest rates above LIBOR. Proceeds from this debt were invested in short-term investments. Abbott issued $1.5 billion of long-term debt in 2004 that matures in 2009 through 2014 with interest rates ranging from 3.5 percent to 4.35 percent. Proceeds from this debt were used to fund the acquisition of TheraSense and to pay down domestic commercial paper borrowings.

Abbott retained $700 million of proceeds from borrowings that Hospira assumed as a result of the spin-off and used these proceeds to reduce domestic commercial paper borrowings. In addition, Abbott retired long-term debt of $1.65 billion in 2004 with proceeds from domestic commercial paper borrowings.

Working Capital

Working capital was $4.0 billion at December 31, 2005, $3.9 billion at December 31, 2004 and $2.7 billion at December 31, 2003.

Capital Expenditures

Capital expenditures of $1.2 billion in 2005, $1.3 billion in 2004 and $1.1 billion in 2003 were principally for upgrading and expanding manufacturing, research and development, investments in information technology and administrative support facilities in all segments, and for laboratory instruments placed with customers.

Contractual Obligations

The following table summarizes Abbott's estimated contractual obligations as of December 31, 2005.

(dollars in millions)	Payment Due By Period				
	Total	2006	2007-2008	2009-2010	2011 and Thereafter
Long-term debt, including current maturities and future interest payments	$ 7,237	$2,080	$3,036	$ 730	$1,391
Operating lease obligations	348	86	119	57	86
Capitalized auto lease obligations	106	35	71	—	—
Purchase commitments (a)	1,454	1,311	99	32	12
Other long-term liabilities reflected on the consolidated balance sheet—					
Benefit plan obligations	1,275	—	208	217	850
Other	1,305	—	393	208	704
Total	$11,725	$3,512	$3,926	$1,244	$3,043

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

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Contingent Obligations

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

As previously noted, in connection with the potential acquisition of certain Guidant businesses, Abbott has agreed to acquire up to $6.9 billion of assets, comprised of $4.1 billion for the businesses, up to $500 million in milestone payments, a $900 million loan to Boston Scientific, and $1.4 billion of Boston Scientific common stock.

In connection with the spin-off of Hospira, Abbott has retained liabilities for taxes on income prior to the spin-off and certain potential liabilities, if any, related to alleged improper pricing practices in connection with federal, state and private reimbursement for certain drugs.

Recently Issued Accounting Standards

In 2006, Abbott must adopt Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment," which requires that the fair value of stock options granted to employees be recorded in the results of operations. Abbott will use the modified prospective method of adoption. Under this method, prior years' financial results will not include the impact of recording stock options using fair value. Footnote 10 quantifies the effect of application of fair value to 2005 and prior awards. Based upon the valuation of stock options granted in the 2006 annual grant, which comprise the majority of the grant activity for the year, Abbott estimates the impact of the 2006 change in stock compensation expense on diluted earnings per share of approximately $0.15, which includes $0.14 per diluted share for the impact of expensing the fair value of stock options. The 2006 expense for stock compensation is dependent on the number of options granted in the future, the terms of those awards and their fair value, and therefore, the effect on diluted earnings per share could change.

In May 2005, the Financial Accounting Standards Board (FASB) issued SFAS No. 154, "Accounting Changes and Error Corrections." This statement generally requires retrospective application to prior periods' financial statements of voluntary changes in accounting principles. Under the prior rules, changes in accounting principles were generally recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This statement does not change the previous requirements for reporting the correction of an error in previously issued financial statements, change in accounting estimate or justification of a change in accounting principle on the basis of preferability. This statement is effective for accounting changes made in fiscal years beginning after December 15, 2005. Adoption of the provisions of the statement is not expected to have a material effect on the results of operations or financial position of Abbott.

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs." This statement clarifies the accounting for the abnormal amount of idle facilities expense, freight, handling costs and wasted material. This statement requires that those items be recognized as current-period expense. In addition the statement requires that allocation of fixed overhead to the cost of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred after December 31, 2005. Adoption of this statement will not have a material effect on the financial statements of Abbott.

Legislative Issues

Abbott's primary markets are highly competitive and subject to substantial government regulation. Abbott expects debate to continue in the U.S. at both the federal and the state levels over the availability, method of delivery, and payment for health care products and services. Abbott believes that if further legislation is enacted, it could have the effect of reducing access to health care products and services, or reducing prices or the rate of price increases for health care products and services. International operations are also subject to a significant degree of government regulation. It is not possible to predict the extent to which Abbott or the health care industry in general might be adversely affected by these factors in the future. A more complete discussion of these factors is contained in Item 1, Business, and Item 1A, Risk Factors on Form 10-K.

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

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

Summary of Selected Financial Data

(dollars in millions, except per share data)

Year ended December 31		2005	2004	2003	2002	2001	2000
Summary of Operations:							
Net Sales	$	22,337.8	19,680.0	17,280.3	15,279.5	13,918.5	11,520.6
Cost of products sold	$	10,641.1	8,884.2	7,774.2	6,820.5	6,107.1	4,762.1
Research and development (a)	$	1,821.2	1,696.8	1,623.8	1,474.5	1,491.8	1,245.6
Selling, general and administrative	$	5,496.1	4,921.8	4,808.1	3,724.9	3,491.0	2,669.6
Operating earnings	$	4,362.3	3,898.3	2,974.0	3,151.9	1,498.2	2,981.9
Interest expense	$	241.4	200.2	188.3	238.9	307.3	113.9
Interest income	$	(87.7)	(51.1)	(41.9)	(33.5)	(71.4)	(90.1)
Other (income), net	$	(411.3)	(376.4)	(559.5)	(374.4)	(231.3)	(436.9)
Earnings from continuing operations before taxes	$	4,619.9	4,125.6	3,387.2	3,321.0	1,493.6	3,395.0
Taxes on earnings from continuing operations	$	1,247.9	949.8	882.4	774.0	215.9	906.1
Earnings from continuing operations	$	3,372.1	3,175.8	2,504.7	2,547.0	1,277.7	2,488.9
Basic earnings per share from continuing operations	$	2.17	2.03	1.60	1.63	0.82	1.61
Diluted earnings per share from continuing operations	$	2.16	2.02	1.59	1.62	0.82	1.59
Financial Position:							
Working capital	$	3,970.5	3,908.8	2,650.9	2,119.6	492.4	3,078.7
Long-term investments	$	134.0	145.8	406.4	250.8	647.2	638.0
Net property and equipment	$	6,003.1	6,007.9	6,281.8	5,828.1	5,551.5	4,816.9
Total assets	$	29,141.2	28,767.5	26,039.3	23,592.7	22,755.5	14,796.7
Long-term debt	$	4,571.5	4,787.9	3,452.3	4,274.0	4,335.5	1,076.4
Shareholders' investment	$	14,415.3	14,325.8	13,072.3	10,664.6	9,059.4	8,570.9
Return on shareholders' investment from continuing operations	%	23.5	23.8	22.6	28.0	15.9	34.4
Book value per share	$	9.37	9.18	8.36	6.82	5.83	5.54
Other Statistics:							
Gross profit margin	%	52.4	54.9	55.0	55.4	56.1	58.7
Research and development to net sales	%	8.2	8.6	9.4	9.7	10.7	10.8
Net cash from operating activities of continuing operations	$	5,047.4	4,306.0	3,385.2	3,653.5	3,083.7	2,780.0
Capital expenditures	$	1,207.5	1,291.6	1,050.1	1,105.4	963.6	836.8
Cash dividends declared per common share	$	1.10	1.04	0.98	0.94	0.84	0.76
Common shares outstanding (in thousands)		1,539,235	1,560,024	1,564,518	1,563,068	1,554,530	1,545,934
Number of common shareholders		82,237	88,582	91,212	94,687	97,760	101,272
Number of employees		59,735	60,617	58,181	57,819	56,426	45,571
Sales per employee (in dollars)	$	373,948	324,662	297,010	264,265	246,668	252,806
Market price per share – high	$	50.00	47.63	47.15	58.00	57.17	56.25
Market price per share – low	$	37.50	38.26	33.75	29.80	42.00	29.375
Market price per share – close	$	39.43	46.65	46.60	40.00	55.75	48.438

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

Directors and Corporate Officers

Directors

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Managing Director, Reliant Equity Investors Chicago, Ill.

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

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Retired President and Chief Operating Officer, AT&T Corp. Basking Ridge, N.J.; Former Chairman and Chief Executive Officer, R.R. Donnelley & Sons Co. Chicago, Ill.

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

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Chairman of the Board and Chief Executive Officer

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Joseph M. Nemmers, Jr.*
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Holger Liepmann*
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Laura J. Schumacher*
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James L. Tyree*
Senior Vice President, Nutrition International Operations

Corporate Vice Presidents

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Vice President, Global Pharmaceutical Development and President, Abbott Bioresearch Center

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

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Vice President, European Operations

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Vice President, Molecular Global Commercial Operations

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Vice President and President, Molecular Diagnostics

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D. Stafford O'Kelly
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AJ J. Shoultz
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Preston T. Simons
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Mary T. Szela
Vice President, Commercial Pharmaceutical Operations

John B. Thomas
Vice President, Investor Relations

Susan M. Widner
Vice President, Corporate Marketing

*Denotes executive officers

Shareholder and Corporate Information

Stock Listing

The ticker symbol for Abbott's common stock is ABT. It is listed on the New York, Chicago, Pacific, London and Swiss exchanges. It is traded on the Boston, Cincinnati and Philadelphia exchanges.

Quarterly Dividend Dates

Dividends are expected to be declared and paid on the following schedule in 2006, pending approval by the board of directors:

Quarter	Declared	Record	Paid
First	2/17	4/13	5/15
Second	6/16	7/14	8/15
Third	9/8	10/13	11/15
Fourth	12/8	1/15/07	2/15/07

Tax Information for Shareholders

Tax information regarding the Hospira spinoff is available online at www.abbottinvestor.com.

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

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

Dividend Reinvestment Plan

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

Dividend Direct Deposit

Shareholders may have quarterly dividends deposited directly into a checking or savings account at any financial institution that participates in the Automated Clearing House system. For more information, please contact the transfer agent, call the Investor Newsline or write Abbott Shareholder Services.

Annual Meeting

The annual meeting of shareholders will be held at Abbott's corporate headquarters on Friday, April 28, 2006, at 9 a.m. Questions regarding the annual meeting may be directed to the Corporate Secretary.

A copy of Abbott's 2005 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 2005, Abbott's chief executive officer (CEO) provided to the New York Stock Exchange the annual CEO certification regarding Abbott's compliance with the New York Stock Exchange's corporate governance listing standards. In addition, Abbott's CEO and chief financial officer filed with the U.S. Securities and Exchange Commission all required certifications regarding the quality of Abbott's public disclosures in its fiscal 2005 reports.

Investor Newsline

(847) 937-7300

Investor Relations

Dept. 362, AP6D2

Shareholder Services

Dept. 312, AP6D2

Corporate Secretary

Dept. 364, AP6D2

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(847) 937-6100

Web Site

www.abbott.com

Global Citizenship Report

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

Transfer Agent and Registrar

Computershare
P.O. Box 43010
Providence, RI 02940-3010
(888) 332-2268
www.computershare.com/equiserve

Shareholder Information

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

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

Some statements in this annual report may be forward-looking statements for purposes of the Private Securities Litigation Reform Act of 1995. Abbott cautions that these forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those indicated in the forward-looking statements. Economic, competitive, governmental, technological and other factors that may affect Abbott's operations are discussed in Exhibit 99.1 to our Securities and Exchange Commission 2005 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.

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