Contractual Obligations

Payments due by period for our contractual obligations at December 31, 2012 were as follows:

	Obligations Expiring by Period						
Dollars in Millions	Total	2013	2014	2015	2016	2017	Later Years
Short-term borrowings	$ 162	$ 162	$ -	$ -	$ -	$ -	$ -
Long-term debt	6,631	648	27	-	659	750	4,547
Interest on long-term debt[(a)]	4,814	217	237	237	240	215	3,668
Operating leases	756	167	152	130	123	76	108
Purchase obligations	2,089	874	506	336	198	128	47
Uncertain tax positions[(b)]	83	83	-	-	-	-	-
Other long-term liabilities	475	-	101	58	41	44	231
Total[(c)]	$ 15,010	$ 2,151	$ 1,023	$ 761	$ 1,261	$ 1,213	$ 8,601

(a) Includes estimated future interest payments on our short-term and long-term debt securities. Also includes accrued interest payable recognized on our consolidated balance sheets, which consists primarily of accrued interest on short-term and long-term debt as well as accrued periodic cash settlements of derivatives.

(b) Due to the uncertainty related to the timing of the reversal of uncertain tax positions, only the short-term uncertain tax benefits have been provided in the table above. See Note 7 “Income Taxes” for further detail.

(c) The table above excludes future contributions by us to our pensions, postretirement and postemployment benefit plans. Required contributions are contingent upon numerous factors including minimum regulatory funding requirements and the funded status of each plan. Due to the uncertainty of such future obligations, they are excluded from the table. Contributions for both U.S. and international plans are expected to be $100 million in 2013. See Note 18 “Pension, Postretirement and Postemployment Liabilities” for further detail.

In addition to the above, we are committed to $6.0 billion (in the aggregate) of potential future research and development milestone payments to third parties as part of in-licensing and development programs. Early stage milestones, defined as milestones achieved through Phase III clinical trials, comprised $1.1 billion of the total committed amount. Late stage milestones, defined as milestones achieved post Phase III clinical trials, comprised $4.9 billion of the total committed amount. Payments under these agreements generally are due and payable only upon achievement of certain developmental and regulatory milestones, for which the specific timing cannot be predicted. In addition to certain royalty obligations that are calculated as a percentage of net sales, some of these agreements also provide for sales-based milestones aggregating $2.1 billion that we would be obligated to pay to alliance partners upon achievement of certain sales levels. We also have certain manufacturing, development, and commercialization obligations in connection with alliance arrangements. It is not practicable to estimate the amount of these obligations. See Note 3 “Alliances and Collaborations” for further information regarding our alliances.

For a discussion of contractual obligations, see Note 18 “Pension, Postretirement and Postemployment Liabilities,” Note 9 “Financial Instruments” and Note 20 “Leases.”

SEC Consent Order

As previously disclosed, on August 4, 2004, we entered into a final settlement with the SEC, concluding an investigation concerning certain wholesaler inventory and accounting matters. The settlement was reached through a Consent, a copy of which was attached as Exhibit 10 to our quarterly report on Form 10-Q for the period ended September 30, 2004.

Under the terms of the Consent, we agreed, subject to certain defined exceptions, to limit sales of all products sold to our direct customers (including wholesalers, distributors, hospitals, retail outlets, pharmacies and government purchasers) based on expected demand or on amounts that do not exceed approximately one month of inventory on hand, without making a timely public disclosure of any change in practice. We also agreed in the Consent to certain measures that we have implemented including: (a) establishing a formal review and certification process of our annual and quarterly reports filed with the SEC; (b) establishing a business risk and disclosure group; (c) retaining an outside consultant to comprehensively study and help re-engineer our accounting and financial reporting processes; (d) publicly disclosing any sales incentives offered to direct customers for the purpose of inducing them to purchase products in excess of expected demand; and (e) ensuring that our budget process gives appropriate weight to inputs that come from the bottom to the top, and not just from the top to the bottom, and adequately documenting that process.

We have established a company-wide policy to limit our sales to direct customers for the purpose of complying with the Consent. This policy includes the adoption of various procedures to monitor and limit sales to direct customers in accordance with the terms of the Consent. These procedures include a governance process to escalate to appropriate management levels potential questions or concerns regarding compliance with the policy and timely resolution of such questions or concerns. In addition, compliance with the policy is monitored on a regular basis.