Pfizer Inc.

2005 Financial Report

Introduction

Our Financial Review is provided in addition to the accompanying consolidated financial statements and footnotes to assist readers in understanding Pfizer's results of operations, financial condition and cash flows. The Financial Review is organized as follows:

- *Overview of Consolidated Operating Results*. This section provides a general description of Pfizer's business; an overview of our 2005 performance; a summary of our new productivity initiative; information about our operating environment; and a discussion of our expectations for 2006.
- *Accounting Policies*. This section, beginning on page 5, discusses those accounting policies that are considered important in understanding Pfizer's financial statements. For additional accounting policies, including those considered to be critical accounting policies, see Notes to Consolidated Financial Statements—Note 1, *Significant Accounting Policies*.
- *Acquisitions and Dispositions.* This section, beginning on page 9, discusses significant acquisitions and dispositions made by Pfizer during 2005, 2004 and 2003.
- *Analysis of the Consolidated Statement of Income*. This section, beginning on page 11, provides an analysis of our products and revenues for the three years ended December 31, 2005; an overview of important product developments; a discussion about our costs and expenses; an analysis of the financial statement impact of our discontinued operations and dispositions during the period; and a discussion of Adjusted income, an alternative view of performance used by management.
- *Financial Condition, Liquidity and Capital Resources*. This section, beginning on page 27, provides an analysis of our balance sheet as of December 31, 2005 and 2004, and cash flows for the three years ended December 31, 2005, as well as a discussion of our outstanding debt and commitments that existed as of December 31, 2005. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to fund Pfizer's future commitments.
- *Recently Issued Accounting Standards*. This section, beginning on page 30, discusses accounting standards that we have not yet adopted and the expected impact to Pfizer upon adoption.
- *Forward-Looking Information and Factors That May Affect Future Results*. This section, beginning on page 31, provides a description of the risks and uncertainties that could cause actual results to differ materially from those discussed in forward-looking statements set forth in this report relating to the financial results, operations and business prospects of the Company. Such forward-looking statements are based on management's current expectations about future events, which are inherently susceptible to uncertainty and changes in circumstances. Also included in this section are discussions of Financial Risk Management, Foreign Exchange Risk, Interest Rate Risk and Legal Proceedings and Contingencies.

Overview of Consolidated Operating Results

Our Business

We are a research-based, global pharmaceutical company that discovers, develops, manufactures and markets leading prescription medicines for humans and animals, as well as many of the world's best known consumer healthcare products. Our longstanding value proposition has been to prove that our medicines cure or treat disease, including symptoms and suffering, and this remains our core mission. We have expanded our value proposition to also show that not only can our medicines cure or treat disease, but that they can also markedly improve health systems by reducing overall healthcare costs, improving societies' economic well-being and increasing effective prevention and treatment of disease. We generate revenue through the sale of our products, as well as through alliance agreements by co-promoting products discovered by other companies.

Our Human Health segment represented 86% of our total revenues in 2005 and, therefore, developments relating to the pharmaceutical industry can have a significant impact on our operations.

Our 2005 Performance

Our performance in 2005 was impacted by the loss of exclusivity in the U.S. of certain key medicines (Diflucan, Neurontin, Accupril/Accuretic and Zithromax), uncertainty related to Celebrex and the suspension of Bextra sales, which collectively reduced our worldwide revenues by $5.7 billion compared with 2004. Partially offsetting these impacts was the solid aggregate performance of the balance of our portfolio of patent-protected medicines.

Specifically, in 2005,

- Our total revenues decreased 2% to $51.3 billion from 2004. Revenues of major products with lost exclusivity in the U.S. (Diflucan, Neurontin and Accupril/Accuretic during 2004 and Zithromax in November 2005) declined by 44% from 2004. These four products represented 8% of our Human Health revenues and 7% of our total revenues for the year ended December 31, 2005 compared to 13% of our Human Health revenues and 12% of our total revenues for the year ended December 31, 2004. Uncertainty related to Celebrex and the suspension of Bextra sales have resulted in a significant decline in prescription volume in the arthritis and pain market, resulting in a 63% decline in revenues in those products from 2004. These declines were partially offset by an aggregate revenue increase of 11% in the balance of our portfolio of our patent-protected products. Our portfolio of medicines includes four of the world's 25 best-selling medicines, with six medicines that lead their therapeutic areas (see further discussion in the "Human Health-Selected Product Descriptions" section of this Financial Review).
- Our net income was $8.1 billion compared with $11.4 billion in 2004. Our 2005 results reflect in-process research and development (IPR&D) charges of $1.7 billion, primarily related to our acquisitions of Vicuron Pharmaceuticals, Inc. (Vicuron) and Idun Pharmaceuticals, Inc. (Idun); asset impairment and other charges of $1.2 billion associated with the suspension of

of $943 million associated with our integration of Pharmacia Corporation (Pharmacia), an acquisition in 2003; restructuring and implementation costs of $780 million associated with our new productivity initiative; increased pressure on our cost of sales; and an effective tax rate of 29.7%, reflecting our repatriation of foreign earnings; partially offset by $800 million in cost savings from our new productivity initiative. Our 2004 results reflect IPR&D charges of $1.1 billion, primarily related to our acquisition of Esperion Therapeutics, Inc. (Esperion); an asset impairment charge of $691 million related to the Depo-Provera brand; restructuring charges and merger-related costs of $1.2 billion associated with the integration of Pharmacia; $369 million in connection with certain litigation-related charges; and an effective tax rate of 19%. Both years benefited from the cost savings associated with the Pharmacia acquisition.

- We launched a company-wide productivity initiative, called Adapting to Scale (AtS), which involves a comprehensive review of our processes, organizations, systems and decision-making. We achieved annual cost savings under the AtS productivity initiative of approximately $800 million in 2005 and expect this program to yield annual cost savings of about $4 billion by 2008. We also achieved approximately $4.2 billion in annual cost savings as a result of our integration of Pharmacia. See further discussion in the "Our Adapting to Scale Productivity Initiative and Merger-Related Synergies" section of this Financial Review.
- We acquired Vicuron, a biopharmaceutical company focused on the development of novel anti-infectives, for approximately $1.9 billion in cash and Idun, a biopharmaceutical company focused on the discovery and development of therapies to control apoptosis (cell death), for approximately $298 million in cash. We expect that these strategic acquisitions will strengthen and broaden our existing pharmaceutical capabilities.

Our Adapting to Scale Productivity Initiative and Merger-Related Synergies

Our multi-year productivity initiative, called Adapting to Scale (AtS), to increase efficiency and streamline decision-making across the Company, was launched in the first quarter of 2005. It follows the integration of Warner-Lambert and Pharmacia, which resulted in the tripling of Pfizer's revenues over the past six years. The integration of those two companies resulted in a combined expense reduction of approximately $6 billion, inclusive of $4.2 billion in Pharmacia-related synergies that were achieved through 2005. The new AtS productivity initiative is expected to yield $4 billion in cost savings on an annual basis by 2008, based on a top-to-bottom business review completed during the first half of 2005.

During 2005, cost savings from our AtS productivity initiative were approximately $800 million, mainly attributable to the Human Health business. We expect annual cost savings to accelerate over the next three years, with about $2 billion in savings targeted for 2006, about $3.5 billion in 2007 and about $4 billion upon completion in 2008. These savings are expected to be realized in procurement, operating expenses and facilities, among other sources. We plan to use the cost savings we generate, in part, to fund key investments, including new product launches and the development of the many promising new medicines in

Projects in various stages of implementation include:

- Reorganizing Pfizer Global Research & Development (PGRD) to increase efficiency and effectiveness in bringing new therapies to patients-in-need while reducing the cost of research and development. PGRD is being reorganized into eleven therapeutic areas—cardiovascular, metabolic, and endocrine; central nervous system; inflammation; allergy and respiratory; infectious diseases; pain; gastrointestinal and hepatitis; oncology; urology and sexual health; ophthalmology; and dermatology. Each therapeutic area will have three co-leaders: a Research leader whose expertise is in preclinical compounds; a Development leader whose expertise is in clinical studies; and a Commercial leader whose expertise is in marketing. Discovery Research will retain its existing structure of six drug-candidate-discovery sites. Development will move toward single sites for most therapeutic areas.
- The continuation of our optimization of Pfizer Global Manufacturing's plant network, which began with the acquisition of Pharmacia, to ensure that the Company's manufacturing facilities are aligned with current and future product needs. During 2005, 14 sites were identified for rationalization (Angers and Val de Reuil, France; Arecibo and Cruce Davila, Puerto Rico; Augusta, Georgia; Corby and Morpeth, U.K.; Holland, Michigan; Jakarta, Indonesia; Orangeville, Canada; Parsippany, New Jersey; Tsukuba, Japan; Stockholm and Uppsala-Fyrislund, Sweden). In addition, there have been extensive reductions in site operations in Sandwich, U.K. (the planned closure of drug product, distribution and fermentation operations); Lincoln and Omaha, Nebraska sites; and Puerto Rico sites (staff reductions), with smaller staff reductions in Groton, Connecticut and Lititz, Pennsylvania.
- Realigning our European marketing teams and implementing initiatives designed to improve the effectiveness of our field force in Japan. During the third quarter of 2005, we completed a major reorganization of the U.S. field force, reshaping the management structure to be more responsive to commercial trends as the Medicare Modernization Act takes effect and driving greater sales-force accountability in preparation for the upcoming launch of new medicines.
- Pursuing savings in information technology resulting from significant reductions in application software (already reduced from over 8,000 at the time of the Pharmacia acquisition in 2003 to fewer than 3,000) and data centers (to be reduced from 17 to 4), as well as rationalization of service providers, while enhancing our ability to invest in innovative technology opportunities to further propel our growth.
- Reducing costs in purchased goods and services. Purchasing initiatives will focus on rationalizing suppliers, leveraging the approximately $16 billion of goods and services that Pfizer purchases annually, improving demand management to optimize levels of outside services needed and strategic sourcing from lower-cost sources. For example, savings from demand management will be derived in part from reductions in travel, entertainment, consulting and other external service expenses. Facilities savings are being found in site rationalization, energy

Our Business Environment

There are a number of industry-wide factors that may affect our business and should be considered along with the information presented in the section "Forward-Looking Information and Factors That May Affect Future Results." Such industry-wide factors include continuing pricing pressures both in the U.S. and internationally, pressures on selective COX-2 inhibitor products, the increasing regulatory scrutiny of drug safety, the adoption of new direct-to-consumer (DTC) advertising guidelines, lower prescription growth rates and increased branded and generic competition in certain therapeutic areas. It is important to recognize that our near-term future products reflect investments we made approximately ten years ago through our in-house research and development operations or reflect more recent investments in development and acquisitions or collaborations. Looking beyond our portfolio of leading medicines, we are positioning Pfizer to fulfill our vision to serve the public's health needs more fully, not just through the treatment of diseases, but also through the promotion of health.

We believe that there are future opportunities for revenue generation for our products, including:

- Current demographics of developed countries that indicate that people are living longer and, therefore, will have a greater need for the most effective medicines;
- The large number of untreated patients within our various therapeutic categories. For example, of the tens of millions of Americans who need medical therapy for high cholesterol, we estimate only about one-fourth are actually receiving treatment;
- Refocusing the debate on health policy to address the cost of disease that remains untreated and the benefits of investing in prevention and wellness to not only improve health, but save money;
- The promise of technology to improve upon existing therapies and to introduce treatments where none currently exist;
- Developments and growth in Pfizer's presence in emerging markets worldwide; and
- Worldwide emphasis on the need to find solutions to difficult problems in healthcare systems.

We have known that we would face loss of exclusivity in the U.S. of several key products in a very short period of time. As a result, we have been remaking our Company to meet changing times and we are addressing our challenges through the following actions:

- Enhancing a product portfolio intended to transcend the volatility of individual products or markets;
- Pursuing a large number of new product launches, indications and completed clinical trials;
- Increasing our research and development (R&D) productivity;
- Emphasizing the clinical benefits of our medicines;
- Launching new global positionings of our products, where necessary;
- Marketing generic versions of certain of our products after our compounds face generic competition;
- Guarding the integrity of our products in an increasingly predatory atmosphere evidenced by the growing problem of counterfeit drugs;
- Addressing the wide array of patient populations through our innovative access and affordability programs;
- Aligning our research, development and marketing functions in search of new medical opportunities as part of a fully integrated portfolio-planning process; and
- Streamlining many of our basic functions to capitalize on our unmatched size and reach.

Continuing Pricing Pressures

A rise in Consumer Directed Health Plans has increased consumer sensitization to the cost of healthcare. Consumers are aware of global price differences resulting from price controls imposed by foreign governments and have become more willing to seek less expensive alternatives, such as switching to generics and sourcing medicines across national borders. Both U.S. and international governmental regulations mandating prices or price controls can impact our revenues, and we continue to work within the current legal and pricing structures to minimize the impact on our revenues. For example, we have taken steps to assure that medicines intended for Canadian consumption are in fact used for that purpose. Managed care organizations, as well as government agencies, with their significant purchasing power, continue to seek discounts on our products which has served to slow our revenue growth.

The enactment of the Medicare Prescription Drug Improvement and Modernization Act of 2003 (which went into effect in 2006) regarding prescription drug benefits for Medicare beneficiaries expands access to medicines that patients need. While expanded access may potentially result in increased sales of our products, such increases may be offset by increased pricing pressures due to the enhanced purchasing power of the private sector providers that will negotiate on behalf of Medicare beneficiaries in the future. We believe that our medicines provide significant value for both providers and patients not only from the improved treatment of diseases, but also from a reduction in other healthcare costs such as hospitalization or emergency room costs, increased patient productivity and a better quality of life.

Defending Our Intellectual Property Rights

The loss of patent protection with respect to any of our major products can have a material adverse effect on future revenues and our results of operations. Our performance in 2005 was impacted by loss of U.S. exclusivity of four major products—Diflucan, Neurontin, and Accupril/Accuretic during 2004 and Zithromax in November 2005. In addition, we face the loss of U.S. exclusivity for Zoloft during 2006 and Norvasc and Zyrtec during 2007. These seven products represented 33% of our Human Health revenues and 29% of our total revenues for the year ended December 31, 2004. Zithromax, Zoloft, Norvasc and Zyrtec represented 26% of our Human Health revenues and 22% of our total company revenues for the year ended December 31, 2005

composition-of-matter or compound patent and may also have additional patents. Additional patents can include additional composition-of-matter patents, processes for making the compound or additional indications or uses. As such, each of our products has varying patents expiring at varying dates, thereby strengthening our patent protection. However, once the patent protection period has expired, generic pharmaceutical manufacturers generally produce similar products and sell those products for a lower price. This price competition can substantially decrease our revenues.

Patents covering our products are subject to challenges from time to time. Increasingly, generic pharmaceutical manufacturers are launching their products "at-risk"—before the final resolution of legal proceedings challenging their generic products. Wherever appropriate, we aggressively defend our patent rights against such challenges (details of these matters are described in Notes to the Consolidated Financial Statements—Note 18, *Legal Proceedings and Contingencies*).

Product Competition

We face the loss of U.S. exclusivity for Zoloft during 2006 and Norvasc and Zyrtec during 2007. In addition, some of our products face competition in the form of new branded products or generic drugs, which treat similar diseases or indications. We have been able to limit the impact on revenues by highlighting the proven track record of safety and efficacy of our products. For example, the success of Lipitor is the result of an unprecedented array of clinical data supporting both efficacy and safety.

Expansion and Productivity of Development Pipeline

Discovery and development of new products, as well as the development of additional uses for existing products, are imperative for the continued strong operation of our businesses. The numerous filings, approvals and launches of new Pfizer products and product enhancements during 2005 and in early 2006 evidenced a productive period of R&D. The opportunities for improving human health remain abundant. As the world's largest privately funded biomedical operation, and through our global scale, we are developing and delivering innovative medicines that will benefit patients around the world. We will continue to make the investments necessary to serve patients' needs and to generate long-term growth. A good example of this is our torcetrapib/atorvastatin (Lipitor) development program whose objective is to provide clear evidence that substantially raising HDL-cholesterol and further lowering LDL-cholesterol can reduce cardiovascular risk beyond what can be currently achieved with existing treatments.

During 2005, we continued to successfully introduce new products, including Macugen, Revatio, Zmax and Lyrica in the U.S. In December 2004 and during 2005, we or our development partners submitted six New Drug Applications (NDAs) to the U.S. Food and Drug Administration (FDA) for important new drug candidates: Exubera, indiplon, Sutent (Sunitinib Malate), Zeven (dalbavancin), Eraxis (anidulafungin) and Champix (varenicline). We continue to make progress toward our goal of filing 20 major new medicines in the U.S. in the five-year period ending in 2006. However, we now believe we will achieve 19 of those filings by the end of 2006. Even so, we believe that our track record of 19 NDA filings in five of candidemia and invasive candidiasis, and for treatment of esophageal candidiasis. In January 2006, the FDA and the European Commission approved Exubera (inhaled human insulin) for treatment of type 1 and type 2 diabetes in adults, and the FDA approved Sutent for advanced kidney cancer and gastrointestinal stromal tumors.

Our financial strength enables us to conduct research on a scale that can help redefine medical practice. We have combined that ability with a fully integrated portfolio-planning approach that aligns our research, development, and marketing functions in the search for new medical opportunities. We have over 200 novel concepts in development across multiple therapeutic areas, and we are leveraging our status as the industry's partner of choice to expand our licensing operations. This is enabling us to strengthen our core cardiovascular and neuroscience portfolios, as well as to expand other therapeutic areas, including oncology and ophthalmology. Our R&D pipeline included, as of February 10, 2006, 235 projects in development: 152 new molecular entities and 83 product-line extensions. In addition, we have more than 400 projects in discovery research. During 2005, 47 new compounds were advanced from discovery research into preclinical development, 30 preclinical development candidates progressed into Phase 1 human testing and 12 Phase 1 clinical development candidates advanced into Phase 2 proof-of-concept trials.

Reducing attrition has been a key focus on our R&D productivity improvement effort. For several years, we have been revising the quality hurdles for candidates entering development and throughout the development process. As the quality of candidates has improved, the development attrition rate has begun to fall. At our current internal discovery output of chemical entities and at the attrition rates we are seeing for these high quality candidates, we believe we will improve our overall success rates to 1 in 11 versus the historical industry rate of 1 in 20 to 25. This would allow us to double our productivity without doubling our R&D investment. Given the multi-year nature of pharmaceutical R&D, it will take some time before the full impact of these changes is realized.

While a significant portion of R&D is done internally, we do enter into agreements with other companies to co-develop promising compounds. These co-development and alliance agreements allow us to capitalize on these compounds to expand our pipeline of potential future products. We have more than 1,000 alliances across the entire spectrum of the discovery, development and commercialization process. Our R&D covers a wide spectrum of therapeutic areas as discussed in the "Product Developments" section of this Financial Review. Due to our strength in marketing and our global reach, we are able to attract other organizations that may have promising compounds and can benefit from our strength and skills. Over the past two years, we have invested $4.4 billion in acquisitions for these purposes. For example, in 2005, the acquisition of Vicuron builds on Pfizer's extensive experience in anti-infectives and demonstrates our commitment to strengthen and broaden our pharmaceutical business through strategic product acquisitions. By acquiring Vicuron, Pfizer looks forward to bringing to patients around the world two important new medicines that at the date of the acquisition were under review by the FDA. In February 2006, Eraxis was approved by the FDA.

Our Expectations for 2006

While our revenue and income will likely continue to be tempered

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