Appendix A
2012 Financial Report

INTRODUCTION

Our Financial Review is provided to assist readers in understanding the results of operations, financial condition and cash flows of Pfizer Inc. (the Company). It should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements. The discussion in this Financial Review contains forward-looking statements that involve substantial risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, such as those discussed in Part 1, Item 1A, "Risk Factors" of our 2012 Annual Report on Form 10-K and in the "Forward-Looking Information and Factors That May Affect Future Results", "Our Operating Environment" and "Our Strategy" sections of this Financial Review.

The Financial Review is organized as follows:

- *Overview of Our Performance, Operating Environment, Strategy and Outlook*. This section, beginning on page 2, provides information about the following: our business; our 2012 performance; our operating environment; our strategy; our business development initiatives, such as acquisitions, dispositions, licensing and collaborations; and our financial guidance for 2013.
- *Significant Accounting Policies and Application of Critical Accounting Estimates*. This section, beginning on page 10, discusses those accounting policies and estimates that we consider important in understanding Pfizer's consolidated financial statements. For additional discussion of our accounting policies, see Notes to Consolidated Financial Statements—*Note 1. Basis of Presentation and Significant Accounting Policies*.
- *Analysis of the Consolidated Statements of Income.* This section begins on page 15, and consists of the following sections:
  - *Revenues.* This sub-section, beginning on page 15, provides an analysis of our revenues and products for the three years ended December 31, 2012, including an overview of research and development expenses and important biopharmaceutical product developments.
  - *Costs and Expenses*. This sub-section, beginning on page 28, provides a discussion about our costs and expenses.
  - *Provision for Taxes on Income.* This sub-section, beginning on page 33, provides a discussion of items impacting our tax provisions.
  - *Discontinued Operations.* This sub-section, on page 34, provides an analysis of the financial statement impact of our discontinued operations.
  - *Adjusted Income*. This sub-section, beginning on page 34, provides a discussion of an alternative view of performance used by management.
- *Analysis of the Consolidated Statements of Comprehensive Income.* This section, on page 38, provides a discussion of changes in certain components of other comprehensive income.
- *Analysis of the Consolidated Balance Sheets.* This section, beginning on page 38, provides a discussion of changes in certain balance sheet accounts.
- *Analysis of the Consolidated Statements of Cash Flows.* This section, beginning on page 39, provides an analysis of our consolidated cash flows for the three years ended December 31, 2012.
- *Analysis of Financial Condition, Liquidity and Capital Resources*. This section, beginning on page 40, provides an analysis of selected measures of our liquidity and of our capital resources as of December 31, 2012 and December 31, 2011, as well as a discussion of our outstanding debt and other commitments that existed as of December 31, 2012. Included in the discussion of outstanding debt is a discussion of the amount of financial capacity available to help fund Pfizer's future activities.
- *New Accounting Standards*. This section, on page 44, discusses accounting standards that we have recently adopted, as well as those that recently have been issued, but not yet adopted.
- *Forward-Looking Information and Factors That May Affect Future Results*. This section, beginning on page 44, provides a description of the risks and uncertainties that could cause actual results to differ materially from those discussed in forward-looking statements presented in this Financial Review relating to, among other things, our anticipated financial and operating performance, business plans and prospects, in-line products and product candidates, strategic reviews, capital allocation, business-development plans, and plans relating to share repurchases and dividends. 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 and Legal Proceedings and Contingencies.

OVERVIEW OF OUR PERFORMANCE, OPERATING ENVIRONMENT, STRATEGY AND OUTLOOK

Our Business

Our mission is to apply science and our global resources to improve health and well-being at every stage of life. We strive to set the standard for quality, safety and value in the discovery, development and manufacturing of medicines for people and animals. Our diversified global healthcare portfolio includes human and animal biologic and small molecule medicines and vaccines, as well as many of the world's best-known consumer products. Every day, we work across developed and emerging markets to advance wellness, prevention, treatments and cures that challenge the most feared diseases of our time. We also collaborate with healthcare providers, governments and local communities to support and expand access to reliable, affordable healthcare around the world. Our revenues are derived from the sale of our products, as well as through alliance agreements, under which we co-promote products discovered by other companies (Alliance revenues).

The majority of our revenues come from the manufacture and sale of biopharmaceutical products. The biopharmaceutical industry is highly competitive and we face a number of industry-specific challenges, which can significantly impact our results. These factors include, among others: the loss or expiration of intellectual property rights, the regulatory environment and pipeline productivity, pricing and access pressures, and increasing competition among branded products. (For more information about these challenges, see the "Our Operating Environment" section of this Financial Review.)

The financial information included in our consolidated financial statements for our subsidiaries operating outside the United States (U.S.) is as of and for the year ended November 30 for each year presented.

References to developed markets include the U.S., Western Europe, Japan, Canada, Australia, Scandinavia, South Korea, Finland and New Zealand; and references to Emerging Markets include the rest of the world, including, among other countries, China, Brazil, Mexico, Turkey, Russia and India.

On February 6, 2013, an initial public offering (IPO) of our subsidiary, Zoetis Inc. (Zoetis), was completed, pursuant to which we sold 99.015 million shares of Zoetis in exchange for the retirement of approximately $2.5 billion of Pfizer commercial paper issued on January 10, 2013. The IPO represented approximately 19.8% of the total outstanding Zoetis shares. On February 1, 2013, Zoetis shares began trading on the New York Stock Exchange under the symbol "ZTS." Prior to and in connection with the IPO, Zoetis completed a $3.65 billion senior notes offering and we transferred to Zoetis substantially all of the assets and liabilities of our Animal Health business. (For additional information, see Notes to Consolidated Financial Statements—*Note 19A. Subsequent Events: Zoetis Debt Offering and Initial Public Offering*.)

On November 30, 2012, we completed the sale of our Nutrition business to Nestlé for $11.85 billion in cash and recognized a gain of approximately $4.8 billion, net of tax, in *Gain/(loss) on sale of discontinued operations—net of tax*. The operating results of this business are reported as *Income/(loss) from discontinued operations—net of tax* in our consolidated statements of income for all periods presented. In addition, in our consolidated balance sheet as of December 31, 2011, the assets and liabilities associated with this discontinued operation are classified as *Assets of discontinued operations and other assets held for sale* and *Liabilities of discontinued operations*, as appropriate. (For additional information, see Notes to Consolidated Financial Statements—*Note 2B. Acquisitions, Divestitures, Collaborative Arrangements and Equity-Method Investments: Divestitures* and see the "Our Business Development Initiatives" and "Discontinued Operations" sections of this Financial Review.)

On August 1, 2011, we completed the sale of our Capsugel business for approximately $2.4 billion in cash and recognized a gain of approximately $1.3 billion, net of tax, in G*ain/(loss) on sale of discontinued operations—net of tax*. The operating results of this business are reported as *Income/(loss) from discontinued operations—net of tax* in our consolidated statements of income for the years ended December 31, 2011 and December 31, 2010. (For additional information, see Notes to Consolidated Financial Statements—*Note 2B. Acquisitions, Divestitures, Collaborative Arrangements and Equity-Method Investments: Divestitures* and see the "Our Business Development Initiatives" and "Discontinued Operations" sections of this Financial Review.)

The assets, liabilities, operating results and cash flows of acquired businesses, such as King Pharmaceuticals, Inc. (King) (acquired on January 31, 2011), are included in our results on a prospective basis only commencing from the acquisition date. As such, our consolidated financial statements for the year ended December 31, 2011 reflect approximately 11 months of King's U.S. operations and approximately 10 months of King's international operations. (For additional information about these acquisitions, see Notes to Consolidated Financial Statements—*Note 2A. Acquisitions, Divestitures, Collaborative Arrangements and Equity-Method Investments: Acquisitions* and see the "Our Business Development Initiatives" section of this Financial Review.)

Our 2012 Performance

Revenues decreased 10% in 2012 to $59.0 billion, compared to $65.3 billion in 2011, which reflects an operational decline of $4.8 billion or 8%, primarily the result of the loss of exclusivity of Lipitor in most major markets, including the U.S. on November 30, 2011 and most of developed Europe in March and May 2012, and the unfavorable impact of foreign exchange of $1.5 billion, or 2%. Lipitor and other product losses of exclusivity, as well as the final-year terms of our collaboration agreements in certain markets for Spiriva, negatively impacted revenues by approximately $7.7 billion, or 12%, in 2012 compared to 2011.

The following table provides the significant impacts on revenues for 2012 as compared to 2011:

(MILLIONS OF DOLLARS)	2012 v. 2011 Increase/ (Decrease)	2012 v. 2011 % Change
Lipitor[a]	$ (5,629)	(59)
Geodon/Zeldox[a]	(669)	(65)
Xalatan/Xalacom[a]	(444)	(36)
Caduet[a]	(280)	(52)
Effexor	(253)	(37)
Zosyn/Tazocin	(152)	(24)
Aromasin[a]	(151)	(42)
Aricept[b]	(124)	(28)
Detrol/Detrol LA[a]	(122)	(14)
Celebrex	196	8
Lyrica	465	13
Alliance revenues[a]	(138)	(4)
All other biopharmaceutical products[c]	525	7
Animal Health products	115	3
Consumer Healthcare products	184	6

[a] Lipitor and Caduet lost exclusivity in the U.S. in November 2011 and various other major markets in 2011 and 2012. Xalatan lost exclusivity in the U.S. in March 2011 and in the majority of European markets in January 2012. Aromasin lost exclusivity in the U.S. in April 2011, in the majority of European markets in July 2011 and in Japan in November 2011. Geodon lost exclusivity in the U.S. in March 2012. Detrol immediate release (Detrol IR) lost exclusivity in the U.S. in June 2012. Detrol lost exclusivity in most European markets in September 2012. We lost exclusivity for Aricept 5mg and 10mg tablets, which are included in Alliance revenues, in the U.S. in November 2010 and in the majority of European markets in February 2012 and April 2012. Lower revenues for Spiriva in certain European countries, Canada and Australia reflect final-year terms of our collaboration agreements in those markets.

[b] Represents direct sales under license agreement with Eisai Co., Ltd.

[c] Includes the “All other” category included in the *Revenues—Major Biopharmaceutical Products* table presented in this Financial Review, which includes sales of generic atorvastatin.

Income from continuing operations was $9.5 billion in 2012 compared to $8.4 billion in 2011, primarily reflecting, among other items:

- a settlement with the U.S. Internal Revenue Service and the resolution of certain foreign tax audits in 2012, all of which related to multiple tax years, which resulted in a tax benefit of approximately $1.1 billion and $310 million, respectively, representing tax and interest (see further discussion in Notes to Consolidated Financial Statements—*Note 5A. Tax Matters: Taxes on Income from Continuing Operations*);
- purchase accounting charges that were approximately $1.8 billion (pre-tax) lower in 2012 than 2011;
- acquisition-related costs that were approximately $1.0 billion (pre-tax) lower in 2012 than 2011; and
- charges related to our non-acquisition related cost-reduction and productivity initiatives that were approximately $645 million (pre-tax) lower in 2012 than 2011,

partially offset by:

- the loss of exclusivity of Lipitor, as well as certain other products, resulting in lower revenues and associated expenses (see also "The Loss or Expiration of Intellectual Property Rights" section of this Financial Review);
- charges for certain legal matters that were approximately $1.4 billion (pre-tax) higher in 2012 than 2011 (see further discussion in the “Costs and Expenses—Other Deductions—Net” section of this Financial Review and Notes to Consolidated Financial Statements—*Note 4. Other Deductions—Net*); and
- charges in 2012 associated with the separation of Zoetis of $325 million (pre-tax) (see further discussion in the “Costs and Expenses—Selling, Informational and Administrative (SI&A) Expenses" and "Other Deductions—Net” sections of this Financial Review and Notes to Consolidated Financial Statements—*Note 4. Other Deductions—Net*).

Also, see the “Discontinued Operations” section of this Financial Review.

Our Operating Environment

U.S. Healthcare Legislation

Principal Provisions Affecting Us

In March 2010, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (together, the U.S. Healthcare Legislation, and also known as the Affordable Care Act), was enacted in the U.S. In June 2012, the U.S. Supreme Court upheld the constitutionality of the requirement in the U.S. Healthcare Legislation for Americans to have insurance (called the individual mandate) (for additional information, see the "Government Regulation and Price Constraints" section of our 2012 Annual Report on Form 10-K). This legislation has resulted in both current and longer-term impacts on us, as discussed below.

Certain provisions of the U.S. Healthcare Legislation became effective in 2010 or in 2011, while other provisions will become effective on various dates. The principal provisions affecting us provide for the following:

- an increase, from 15.1% to 23.1%, in the minimum rebate on branded prescription drugs sold to Medicaid beneficiaries (effective January 1, 2010);
- extension of Medicaid prescription drug rebates to drugs dispensed to enrollees in certain Medicaid managed care organizations (effective March 23, 2010);
- expansion of the types of institutions eligible for the "Section 340B discounts" for outpatient drugs provided to hospitals serving a disproportionate share of low-income individuals and meeting the qualification criteria under Section 340B of the Public Health Service Act of 1944 (effective January 1, 2010);
- discounts on branded prescription drug sales to Medicare Part D participants who are in the Medicare "coverage gap," also known as the "doughnut hole" (effective January 1, 2011); and
- a fee payable to the federal government (which is not deductible for U.S. income tax purposes) based on our prior-calendar-year share relative to other companies of branded prescription drug sales to specified government programs (effective January 1, 2011, with the total fee to be paid each year by the pharmaceutical industry increasing annually through 2018).

Impacts to our 2012 Results

We recorded the following amounts in 2012 as a result of the U.S. Healthcare Legislation:

- $593 million recorded as a reduction to *Revenues,* related to the higher, extended and expanded rebate provisions and the Medicare "coverage gap" discount provision; and
- $336 million recorded in *Selling, informational and administrative expenses*, related to the fee payable to the federal government referred to above.

Impacts to our 2011 Results

We recorded the following amounts in 2011 as a result of the U.S. Healthcare Legislation:

- $648 million recorded as a reduction to *Revenues,* related to the higher, extended and expanded rebate provisions and the Medicare "coverage gap" discount provision; and
- $248 million recorded in *Selling, informational and administrative expenses*, related to the fee payable to the federal government referred to above.

Other Impacts

- *Individual Mandate*—The financial impact of U.S. healthcare reform may be affected by certain additional developments over the next few years, including pending implementation guidance relating to the U.S. Healthcare Legislation and certain healthcare reform proposals. In addition, the U.S. Healthcare Legislation requires that, except in certain circumstances, individuals obtain health insurance beginning in 2014, and it also provides for an expansion of Medicaid coverage in 2014. It is expected that, as a result of these provisions, there will be a substantial increase in the number of Americans with health insurance beginning in 2014, a significant portion of whom will be eligible for Medicaid. We anticipate that this will increase demand for pharmaceutical products overall. However, because of the substantial mandatory rebates we pay under the Medicaid program and because a significant percentage of the Americans who will be included in the coverage expansion are expected to be young, we do not anticipate that implementation of the coverage expansion will generate significant additional revenues for Pfizer. In June 2012, the U.S. Supreme Court upheld the constitutionality of all provisions of the U.S. Healthcare Legislation, with the exception of the provisions concerning Medicaid expansion; as a result of the Court's ruling regarding Medicaid, states can choose not to expand their Medicaid populations without losing federal funding for their existing Medicaid populations. The Congressional Budget Office estimates that the new state flexibility is likely to result in six million fewer new Medicaid enrollees than were initially expected to enroll as a result of the eligibility expansion and that half of these people are expected to gain coverage through Health Insurance Exchanges, and the remaining three million are likely to remain uninsured.
- *Biotechnology Products*—The U.S. Healthcare Legislation also created a framework for the approval of biosimilars (also known as follow-on biologics) following the expiration of 12 years of exclusivity for the innovator biologic, with a potential six-month pediatric extension. Under the U.S. Healthcare Legislation, biosimilars applications may not be submitted until four years after the approval of the reference,

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