Appendix A
2011 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 2011 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 2011 performance; our operating environment; our strategy; our business development initiatives, such as acquisitions, dispositions, licensing and collaborations; and our financial guidance for 2012.
- *Significant Accounting Policies and Application of Critical Accounting Estimates*. This section, beginning on page 11, 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. Significant Accounting Policies*.
- *Analysis of the Consolidated Statements of Income.* This section begins on page 16, and consists of the following sections:
  - *Revenues.* This section, beginning on page 16, provides an analysis of our revenues and products for the three years ended December 31, 2011, including an overview of important product developments.
  - *Costs and Expenses*. This section, beginning on page 30, provides a discussion about our costs and expenses.
  - *Provision for Taxes on Income.* This section, beginning on page 35, provides a discussion of items impacting our tax provisions.
  - *Discontinued Operations.* This section, beginning on page 36, provides an analysis of the financial statement impact of our discontinued operations.
  - *Adjusted Income*. This section, beginning on page 36, provides a discussion of an alternative view of performance used by management.
- *Analysis of the Consolidated Balance Sheets.* This section begins on page 40 and provides a discussion of changes in certain balance sheet accounts.
- *Analysis of the Consolidated Statements of Cash Flows.* This section begins on page 41 and provides an analysis of our consolidated cash flows for the three years ended December 31, 2011.
- *Analysis of Financial Condition, Liquidity and Capital Resources*. This section, beginning on page 42, provides an analysis of our financial assets and liabilities as of December 31, 2011 and December 31, 2010, as well as a discussion of our outstanding debt and other commitments that existed as of December 31, 2011. 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 45, discusses accounting standards that we recently have adopted, as well as those that recently have been issued, but not yet adopted by us.
- *Forward-Looking Information and Factors That May Affect Future Results*. This section, beginning on page 45, 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 our financial and operating performance, business plans and prospects, in-line products and product candidates, strategic review, capital allocation, and share-repurchase and dividend-rate plans. 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 nutritional products and 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 other biopharmaceutical companies, 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.

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.

The assets, liabilities, operating results and cash flows of acquired businesses, such as King Pharmaceuticals, Inc. (King) (acquired on January 31, 2011) and Wyeth (acquired on October 15, 2009) 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, and our consolidated financial statements for the year ended December 31, 2009 reflect approximately two-and-a-half months of Wyeth's U.S. operations and approximately one-and-a-half months of Wyeth's international operations. (For more information about these acquisitions, see the "Our Business Development Initiatives" section of this Financial Review.)

On August 1, 2011, we completed the sale of our Capsugel business. In connection with our decision to sell, the operating results associated with the Capsugel business are classified as *Discontinued operations—net of tax* in our consolidated statements of income for all periods presented, and the assets and liabilities associated with this business are classified as *Assets of discontinued operations and other assets held for sale* and *Liabilities of discontinued operations*, as appropriate, in our consolidated balance sheets as of December 31, 2010. (See "Our Business Development Initiatives" and "Discontinued Operations" sections of this Financial Review for more information.)

On July 7, 2011, we announced our decision to explore strategic alternatives for our Animal Health and Nutrition businesses, which may include, among other things, a full or partial separation of each of these businesses from Pfizer through a spin-off, sale or other transaction. We expect to announce our strategic decision for each business in 2012. (For further information, see the "Our Business Development Initiatives" section of this Financial Review.)

Our 2011 Performance

Revenues increased 1% in 2011 to $67.4 billion, compared to $67.1 billion in 2010, due to the favorable impact of foreign exchange, which increased revenues by approximately $1.9 billion, or 3%, and the inclusion of revenues of $1.3 billion or 2% from our acquisition of King, partially offset by a net operational decline of $2.9 billion, or 4%, primarily due to the loss of exclusivity of certain products.

The significant impacts on revenues for 2011, compared to 2010, are as follows:

(MILLIONS OF DOLLARS)	2011 vs. 2010 INCREASE/ (DECREASE)	2011 vs. 2010 % CHANGE
Prevnar 13/Prevenar13	$ 1,241	51
Lyrica	630	21
Enbrel (Outside the U.S. and Canada)	392	12
Skelaxin[a]	203	*
Celebrex	149	6
Sutent	121	11
Pristiq	111	24
Zyvox	107	9
ReFacto AF/Xyntha	102	25
Medrol	55	12
Norvasc	(61)	(4)
Vfend[b]	(78)	(9)
Aromasin[b]	(122)	(25)
Detrol/Detrol LA	(130)	(13)
Zosyn/Tazocin[b]	(316)	(33)
Protonix[b]	(482)	(70)
Xalatan/Xalacom[b]	(499)	(29)
Prevnar/Prevenar (7-valent)	(765)	(61)
Effexor[b]	(1,040)	(61)
Lipitor[b]	(1,156)	(11)
Alliance revenues[b]	(454)	(11)
All other biopharmaceutical products[a], [c]	1,056	19
Animal Health products[a]	609	17
Consumer Healthcare products	285	10
Nutrition products	271	15

[a] 2011 reflects the inclusion of revenues from legacy King products.
[b] Lipitor lost exclusivity in the U.S. in November 2011, Canada in May 2010, Spain in July 2010, Brazil in August 2010 and Mexico in December 2010. Aromasin lost exclusivity in the U.S. in April 2011. Xalatan lost exclusivity in the U.S. in March 2011. Vfend tablets lost exclusivity in the U.S. in February 2011. Effexor XR lost exclusivity in the U.S. in July 2010. The basic U.S. patent (including the six-month exclusivity period) for Protonix expired in January 2011. Zosyn lost exclusivity in the U.S. in September 2009. We lost exclusivity for Aricept 5mg and 10mg tablets, which are included in Alliance revenues, in November 2010.
[c] Includes the "All other" category included in the *Revenues—Major Biopharmaceutical Products* table presented in this Financial Review.
* Calculation not meaningful.

Income from continuing operations was $8.7 billion in 2011 compared to $8.2 billion in 2010, primarily reflecting:

- higher impairment charges of $1.3 billion (pre-tax) in 2010 compared to 2011, (see further discussion in the "Costs and Expenses—Other (Income)/Deductions—Net" section of this Financial Review and Notes to Consolidated Financial Statements—*Note 4. Other Deductions—net*);
- lower purchase accounting impacts of $1.5 billion (pre-tax) in 2011 compared to 2010, primarily related to inventory sold that had been recorded at fair value;
- lower merger restructuring and transaction costs of $2.0 billion (pre-tax) in 2011 compared to 2010; and
- the non-recurrence of a charge of $1.3 billion (pre-tax) in 2010 for asbestos litigation related to our wholly owned subsidiary Quigley Company, Inc. (see Notes to Consolidated Financial Statements—*Note 17. Commitments and Contingencies*),

partially offset by:

- higher charges of $2.5 billion (pre-tax) in 2011 compared to 2010 related to our non-acquisition related cost-reduction and productivity initiatives; and
- the non-recurrence of a favorable settlement with the U.S. Internal Revenue Service in 2010.

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), was enacted in the U.S. 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 on January 1, 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 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).

In addition, the U.S. Healthcare Legislation includes provisions that affect the cost of certain of our postretirement benefit plans. Companies currently permitted to take a deduction for federal income tax purposes in an amount equal to the subsidy received from the federal government related to their provision of prescription drug coverage to Medicare-eligible retirees will no longer be eligible to do so effective for tax years beginning after December 31, 2012. While the loss of this deduction will not take effect until 2013, under U.S. generally accepted accounting principles, we were required to account for the impact in the first quarter of 2010, the period when the provision was enacted into law, through a write-off of the deferred tax asset associated with those previously expected future income tax deductions. Other provisions of the U.S. Healthcare Legislation relating to our postretirement benefit plans will affect the measurement of our obligations under those plans, but those impacts are not expected to be significant.

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.

Impacts to our 2010 Results

We recorded the following amounts in 2010 as a result of the U.S. Healthcare Legislation:

- $289 million recorded as a reduction to *Revenues,* related to the higher, extended and expanded rebate provisions; and
- approximately $270 million recorded in *Provision for taxes on income*, related to the write-off of the deferred tax asset associated with the loss of the deduction, for tax years beginning after December 31, 2012, of an amount equal to the subsidy from the federal government related to our prescription drug coverage offered to Medicare-eligible retirees. For additional information on the impact of this write-off on our effective tax rate for 2010, see the "Provision for Taxes on Income" section of this Financial Review.

Anticipated Future Financial Impacts

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

- approximately $500 million recorded as a reduction to *Revenues,* related to the higher, extended and expanded rebate provisions and the Medicare "coverage gap" discount provision; and
- approximately $300 million recorded in *Selling, informational and administrative expenses*, related to the fee payable to the federal government referred to above.

These estimated impacts on our 2012 results are reflected in our 2012 financial guidance (see the "Our Financial Guidance for 2012" section of this Financial Review for additional information).

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