

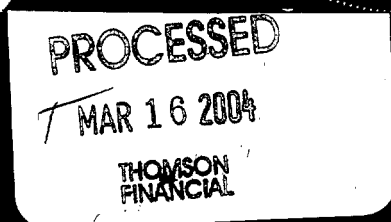
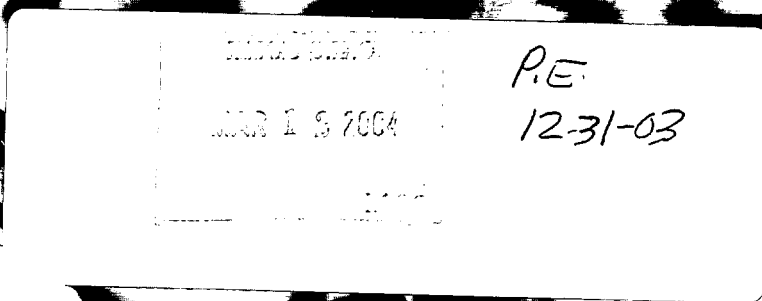
Medicines to *Change* the World

The Next Generation of Treatments from Pfizer INC

ARLS



04011648



57

Linda Dwyer was diagnosed five years ago with a deadly intestinal cancer.

An experimental Pfizer medicine has helped her stay alive.



2003 Annual Review

CONTENTS

Performance Report: Letter to Shareholders	1
Special Report: Medicines to Change the World	7
New Frontiers in the War on Cancer	8
Toward Healthy Aging	12
Protecting the Heart	14
Serving the Developing World	16
When New Threats Arise	18
People to Change the World: "Pfizer's Peace Corps"	20
Our Promising Medicines in Development	22
The Value of Medicines	24
Pfizer at a Glance	26
Board of Directors	28
The Pfizer Leadership Team	Inside back cover



Our Cover Story:

Linda Dwyer (shown with son Brendan) has cancer, but Pfizer's experimental drug SU-11,248 has enabled her to manage it as a chronic disease (page 8).

Financial Highlights: Three-Year Summary

	YEAR ENDED DECEMBER 31				
	2003	2002	2001	% CHANGE	
(MILLIONS, EXCEPT PER COMMON SHARE DATA)				03/02	02/01
Revenues	\$45,188	\$32,373	\$29,024	40	12
Income from continuing operations before provision for taxes on income, minority interests and cumulative effect of change in accounting principles	3,263	11,796	9,984	(72)	18
Provision for taxes on income	1,621	2,609	2,433	(38)	7
Discontinued operations—net of tax	2,301	355	251	548	41
Cumulative effect of change in accounting principles	(30)	(410)	—	*	—
Net income	3,910	9,126	7,788	(57)	17
Diluted earnings per common share	.54	1.46	1.22	(63)	20
Research and development expenses	7,131	5,176	4,776	38	8
Merger-related costs	1,058	630	819	68	(23)
Merger-related in-process research and development charge	5,052	—	—	—	—
Property, plant and equipment additions	2,641	1,758	2,105	50	(16)
Cash dividends paid—common stock	4,346	3,168	2,715	37	17
Cash dividends paid per common share	.60	.52	.44	15	18
Shareholders' equity per common share	8.63	3.27	2.95	164	11
Weighted average shares—diluted	7,286	6,241	6,361	17	(2)
Number of common shares outstanding	7,630	6,162	6,277	24	(2)

All financial data for 2003, 2002 and 2001 reflect our confectionery, shaving and fish-care products businesses as well as certain women's health product lines as discontinued operations.

In 2003, as a result of adopting Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*, we recorded a non-cash pre-tax charge of \$47 million (\$30 million net of tax). This charge is reported as a cumulative effect of a change in accounting principle as of the beginning of 2003.

In 2002, as a result of adopting Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, we recorded non-cash pre-tax charges of \$565 million (\$410 million net of tax). These charges are reported as a cumulative effect of a change in accounting principle as of the beginning of 2002.

Merger-related costs include integration and restructuring costs related to our acquisition of Pharmacia Corporation on April 16, 2003 and our merger with Warner-Lambert Company on June 19, 2000.

As required by Financial Accounting Standards Board Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*, the preliminary estimate of the portion of the purchase price allocated to in-process research and development of \$5,052 million was expensed in 2003.

*Calculation not meaningful.

“We define success as something broader than performance in the marketplace.”

Hank McKinnell, Chairman and CEO



Dear Shareholders,

Every morning, a small exhibit at Pfizer's headquarters in New York City reminds me that I am just the 12th person to lead our company in its 155-year history. It also reminds me of my father's words, almost 50 years ago: "The best way to say thank you for something you borrow is to return it in better condition than when you borrowed it."

At Pfizer, that's a tall order. We're an evolving company in a changing world. We've grown, during our 155 years, from a small family business to a specialty chemical company to a diversified manufacturing firm to a research-based pharmaceutical company that is now the world's largest company devoted to healthcare.

Since attaining that last distinction, we define success as something broader than performance in the marketplace. In 2001, we adopted a new mission: to become the world's most valued company to patients, customers, investors, colleagues, business partners and the communities where we work and live. (We define "communities" to include not only the places where we operate and the people who live there, but also governments, nongovernmental organizations [NGOs], patient advocacy groups, academic institutions and others.) Our new mission reflects the broader role society expects Pfizer to play in im-

proving the human condition. At our Annual Meeting last April, we discussed with our shareholders how we would translate this philosophy into action, announcing that from now on we would measure Pfizer's progress by three key standards.

The first of these is financial performance. Clearly, we must continue to attract investment and build value for shareholders, in both the short and long term. Pfizer had an outstanding year in 2003, with growth driven by an unprecedented portfolio of top-performing medicines. Now, 2004 lifts the curtain on a potential next generation of Pfizer medicines that address many of the world's most feared diseases, from cancer to schizophrenia to SARS. I urge you to read our special report, "Medicines to Change the World," beginning on page 7, to learn more about our expansive pipeline of medicines in development.

Our second standard is our ability to increase access to healthcare, because even the best treatments are of little use to people who cannot obtain or afford them. We understand that the ideal of universal access to basic healthcare is a vision that will take many decades and trillions of dollars to achieve. Pfizer can't do it all, nor should we be expected to. We are, however, working with a growing number of partners in both the

“The addition of Pharmacia...benefits all Pfizer stakeholders,
but patients most of all.”

public and private sectors to solve some of the world's most acute needs in healthcare access—from those of the uninsured in the United States to those of people living with HIV/AIDS in Africa. Meanwhile, the world community must also step up its efforts to provide more people with access to healthcare, focusing less on the short-term costs and more on the incalculable benefits of avoiding disease and suffering.

Our third measure is what some call “corporate social responsibility,” but what we prefer to call “corporate citizenship.” Pfizer is given license to operate by governments around the world, and with it comes the responsibility of being a good corporate citizen. That entails putting people and communities first; operating ethically; being sensitive to the needs of our colleagues; and preserving and protecting the environment. It also means listening to stakeholders with different viewpoints on our business and seeking common ground with even our most ardent critics. In sum, at Pfizer, corporate citizenship isn't a program; it's the way we do business.

Financial performance. Access to healthcare. Corporate citizenship. These are our three standards for world-leading performance—and the three pillars of this performance report to you.

Financial Performance: Our Best Year Ever Thanks to the hard work of our more than 122,000 colleagues worldwide, 2003 was Pfizer's best year ever.

Our sales in 2003 exceeded \$45 billion, up 40 percent over 2002. Our net income (U.S. GAAP) was \$3.9 billion and our diluted earnings per share was \$.54, while our adjusted income was \$12.7 billion and our adjusted diluted earnings per share was \$1.75.* The Board of Directors also declared a first-quarter 2004 dividend of 17 cents a share to shareholders of record on February 13, 2004—an increase of 13 percent over the prior year. This first-quarter

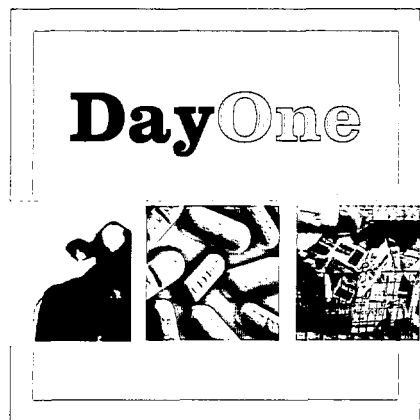
2004 dividend means that we've been paying dividends for more than 65 consecutive years, and 2004 marks the 37th consecutive year of dividend increases.

Our financial performance is rooted in the strong sales of our prescription pharmaceuticals. More than 1 billion prescriptions were written for Pfizer medications in 2003. Lipitor, the remarkable cholesterol-lowering therapy we introduced in 1997, remained the world's largest-selling medicine, with more than \$9.2 billion in worldwide sales—more than all of Pfizer's sales worldwide in the early 1990s. Early in 2004, a single-pill therapy called Caduet, which combines Lipitor with Norvasc, our leading treatment for high blood pressure, gained approval in the United

States. In all, 14 of our prescription medicines were category leaders, including Xalatan, the first ophthalmology medicine to top \$1 billion a year in sales.

Xalatan came to us through our acquisition of Pharmacia, completed in April 2003. This acquisition immediately strengthened our marketed product portfolio and opened new doors for us in our three largest markets—North America, Europe and Japan. In Europe, we gained approval for Bextra, a selective COX-2 inhibitor discovered and developed by Pharmacia, and in the United States, we received approval for Inspra, a lifesaving medicine developed by Pharmacia that significantly improves long-term survival in congestive heart failure patients following heart attack.

With the addition of Pharmacia, Pfizer became the number one pharmaceutical company in every region of the world. This benefits all Pfizer stakeholders, but patients most of all. Almost immediately following Day One of unified operations, we made our debut as a cancer treatment company, presenting several important research studies at the annual meeting of the American Society for Clinical Oncology. We introduced our



Pfizer completed its acquisition of Pharmacia in 2003, becoming the number one pharmaceutical company in every region of the world.

* Adjusted income and adjusted diluted earnings per share are defined as reported net income and reported diluted earnings per share excluding the impact of purchase accounting for the Pharmacia acquisition, certain significant items, merger-related costs and the cumulative effect of a change in accounting principle. Pfizer reported net income for full-year 2003 of \$3.9 billion (\$.54 per diluted share). This result included income from certain significant items of \$620 million, mainly relating to gains on the sale of discontinued businesses and products of \$2.285 billion, offset by \$1.358 billion of legal provisions recorded for Rezulin personal-injury claims and governmental investigations of marketing practices related to Neurontin; non-cash charges of \$8.742 billion relating to purchase accounting for the Pharmacia acquisition; merger-related costs of \$660 million; and non-cash charges of \$30 million relating to the cumulative effect of adopting a new accounting principle for obligations associated with the retirement of long-lived assets. All of the amounts in the preceding sentence are presented on an after-tax basis.

products—and our potential—at a special gathering of more than 100 of the world's foremost cancer specialists. Pfizer now provides three cornerstone therapies in treating colorectal and breast cancer, two of the world's most common and feared tumor types. Among the potential breakthroughs in our pipeline is SU-11,248, featured on the cover of this report. As our story illustrates, this medicine is not a cure—but it has given time and hope to patients who have run out of both.

Pfizer also remains a partner of choice for smaller companies that can benefit from our global presence and development skill. Witness our partnership with Boehringer Ingelheim, the discoverer of Spiriva, a breakthrough therapy for chronic obstructive pulmonary disorder. Already available in many countries around the world, Spiriva received U.S. marketing approval in January 2004.

And speaking of our global presence: In 2003, Pfizer celebrated 50 years of operations in Japan, dedicating a new headquarters in Tokyo, where I began my Pfizer career 33 years ago. Once a fledgling operation, we're now Japan's largest pharmaceutical company.

We also made or initiated a number of other strategic acquisitions in 2003. Perhaps the most interesting is Esperion Therapeutics, an Ann Arbor, Michigan, company whose intriguing compounds in development seek to exploit HDL, or "good," cholesterol to help scrub arteries of clogging plaque. Esperion's work potentially complements two new Lipitor-based combination therapies in our own pipeline, reinforcing our commitment to combating atherosclerosis. We completed the acquisition of Esperion, for \$1.3 billion in cash, early in 2004.

Pfizer also agreed to acquire CSL Animal Health, an Australian company, for \$126 million in cash. This addition, which helps us in the Australian marketplace with CSL's well-received line of vaccines for livestock and companion animals, further establishes Pfizer Animal Health as one of our core businesses and the world's leading animal health company.

Last March, we finalized the sale of the Adams confectionery business and the Schick-Wilkinson Sword business, streamlining our nonprescription consumer operations. The acquisition of Pharmacia has strengthened the global presence of Pfizer Consumer Healthcare in over-the-counter therapies and reinforced

it as a logical core business for Pfizer. Overall, Pfizer is now aligned along a continuum of healthcare, starting with products for physical well-being, moving to medicines for chronic conditions and ending with the most advanced therapies for life-threatening conditions.

We continue to invest heavily in biomedical research and development to sustain our growth and serve more patients. Pfizer manages the world's largest pharmaceutical research effort: more than 13,000 scientists worldwide, supported by \$7.1 billion in funding during 2003 and a projected \$7.9 billion investment in 2004. Our development pipeline now includes approximately 130 new molecules and 95 projects to expand the use of our current medicines—an expertise in which we have no peer. In 2003, three

major studies—ASCOT, CARDS and REVERSAL—demonstrated significant health benefits of therapy with Lipitor, vastly expanding its potential reach. In June, Pfizer reported that our leading anti-infective, Zithromax, may improve the potency of first-line therapies against drug-resistant malaria. This potential breakthrough, now being tested in the field, may offer great hope for the millions of people—most of them children—who suffer, and too often die, from this age-old disease.

In parallel with our commitment to research, Pfizer is also exploring new approaches to our business. In September 2003, we extended through 2005 a groundbreaking initiative called

Florida: A Healthy State, aimed at restoring the patient to the center of the healthcare process. A story about this pioneering program, which is improving health outcomes and delivering guaranteed investments and savings to Florida totaling nearly \$80 million, appears on page 24.

Access to Medicines and Healthcare: Focusing Our Resources, Gaining Results Our ability to create exciting new medicines underscores a huge challenge: How to provide access to these medicines—and to the healthcare resources needed to use them—for people worldwide? While we don't have anywhere near all the answers, Pfizer donated more than \$2 million every working day during 2003 to provide medicines, medical care and community service to people who need help. Meanwhile, we are forging public-private partnerships that address some of the world's most acute healthcare crises.



Pfizer Chairman and CEO Hank McKinnell was part of a major delegation to Africa of leaders in the global fight against HIV/AIDS.

One of these is trachoma, the world's leading cause of preventable blindness, which afflicts 146 million people. As a young regional manager in Southwest Asia, I saw parents and grandparents, blinded by trachoma, being guided through dusty villages by their children. Now there is real hope that this ancient scene will soon be relegated to the past. In October 2003, we vastly expanded our commitment to the International Trachoma Initiative (ITI). In partnership with NGOs, governments and other organizations, ITI seeks to wipe out blinding trachoma by 2020. Aided by Pfizer's program support and donations of Zithromax, ITI and its partners are close to eliminating the disease in Morocco and Vietnam.

Also in October, we announced an expansion of our Diflucan Partnership, a program to donate the antifungal Diflucan and the training to use it, to fight two opportunistic infections frequently associated with AIDS. We announced that all developing nations with a 1 percent or greater incidence of HIV/AIDS are eligible for this partnership, which has distributed more than 4 million doses of Diflucan and managed the training of 18,000 health professionals. Currently, 22 African nations and Haiti are participants.

The training of health professionals is often the Achilles' heel of access programs. In 2003, we launched two innovative efforts to improve the training of doctors, nurses and public health workers in areas stricken by HIV/AIDS.

In Uganda, construction began on the new Infectious Diseases Institute, which we are sponsoring through the Academic Alliance for AIDS Care and Prevention in Africa. The Institute, located at Makerere University in Kampala and already operating in temporary quarters, is training healthcare workers in advanced techniques of HIV/AIDS prevention, diagnosis and care. The goal is to train at least 200 people, mostly African doctors, every year, enabling them to train thousands of others in their home nations who will ultimately treat millions. In December, I traveled to Africa with U.S. Secretary of Health and Human Services Tommy Thompson, former United Nations Ambassador Richard Holbrooke, U.S. Global AIDS Coordinator Randall Tobias and other HIV/AIDS leaders on a visit to the Institute, as well as to the dedication of a new community center for an inspiring self-

help group in Uganda known as The AIDS Support Organization (TASO). Pfizer provided TASO with the funds to build this community center and is pledged to fund another.

We also launched the Pfizer Global Health Fellows in 2003, sending skilled Pfizer colleagues to the front lines against HIV/AIDS and other infectious diseases in developing nations. You can read some of their stories, in their own words, on page 20.

Pfizer also invested heavily during 2003 to enhance access to medicines and healthcare in the United States. Most notably, The Pfizer Foundation created the Southern HIV/AIDS Prevention Initiative, a new grant program aimed at preventing the spread of HIV in the American South. This region accounts for 40

MEDICARE REFORM AND THE PFIZER SHARE CARD

Pfizer applauds the passage of Medicare reform to bring elderly and disabled Americans greater access to healthcare—including prescription drug coverage.

We are proud that throughout the debate over Medicare reform, our award-winning Pfizer for Living Share Card program has enabled hundreds of thousands of Medicare beneficiaries to obtain 30-day prescriptions of Pfizer medicines for a flat \$15 fee. Reflecting a year's experience operating the program, during 2003 we released our "Report to America," a major study that found overwhelming patient satisfaction with the Pfizer Share Card and identified its key success factors. These include the program's simple, rapid enrollment procedure, reasonable prescription fee and provision of medicines through local pharmacies. As of year-end 2003, nearly 500,000 Medicare beneficiaries had filled some 4 million prescriptions through the Pfizer Share Card since its inception in 2002.

Pfizer remains committed to this or similar programs until Medicare beneficiaries are eligible to purchase prescription drug coverage beginning in 2006.

percent of all people in the United States living with HIV/AIDS, and 46 percent of all new U.S. HIV/AIDS cases.

Pfizer continues to vigorously oppose moves to illegally import medicines from Canada and other nations into the United States. Our position is shared by the U.S. Food and Drug Administration (FDA), its Canadian counterpart Health Canada and the American Medical Association, among others. Illegal importation endangers the U.S. medicine supply, historically the world's safest, and may cause shortages of key medicines in Canada. To preserve confidence in the delivery system and protect American patients, in December 2003 we announced new requirements for the wholesalers and distributors who handle our products. We also are introducing new technology, improving product packaging and working

“Pfizer donated more than \$2 million every working day during 2003 to provide medicines, medical care and community service to people who need help.”

closely with law enforcement agencies and the FDA in a multifaceted effort against counterfeiting.

Corporate Citizenship: Toward Sustainable Growth and Healthcare Over the past four years, Pfizer has nearly tripled in size, from about 45,000 colleagues worldwide to more than 122,000. We recognize and welcome the greater responsibilities that come with this new scope and scale. While our values remain constant, we are taking a more active role in promoting sustainable healthcare—practices that meet the needs of today without compromising the ability of future generations to meet their needs—and the welfare of people around the world.

To this end, we are striving to make our citizenship efforts every bit as innovative as our efforts in biomedical research. Good citizenship at Pfizer means that we put the health of people and communities first, incorporate the perspectives of stakeholders in our decisions, and make ethical choices that sustain our business for the long term.

Given Pfizer's new scale, in 2003 we created a global corporate citizenship coordinating team. This group is helping Pfizer unify its approach to corporate citizenship across all the countries and cultures where we live and work. One of the team's first steps was to take inventory of Pfizer's citizenship policies and activities. While the findings were generally impressive, there are areas that clearly need strengthening. We are in the process of identifying best practices in and beyond our industry with a goal of ensuring that “best practice” is always *our* practice.

In 2003, we also took greater steps to engage stakeholders whose lives we touch, including outspoken critics of Pfizer and our industry. Our goal is to find common ground to address a number of complex issues in our society, including healthcare and environmental protection. Reflecting Pfizer's leading presence in every region of the world, our focus is intentionally global. For example, Pfizer is the only pharmaceutical company to serve on the Transparency International (TI) Steering Committee on Business Principles for Countering Bribery. TI is a highly respected, politically neutral NGO that works to fight global corruption. We are also working for the first time with

SustainAbility, Ltd., which is helping us to better understand the expectations that NGOs have of Pfizer.

In 2003, Pfizer also became a member of the World Business Council on Sustainable Development, the International Business Leaders Forum, and Business for Social Responsibility, organizations that promote responsible business practices internationally. Beyond being “the right thing to do,” pursuing sustainable healthcare can make companies like Pfizer more competitive, nimbler and better able to recruit the best people.

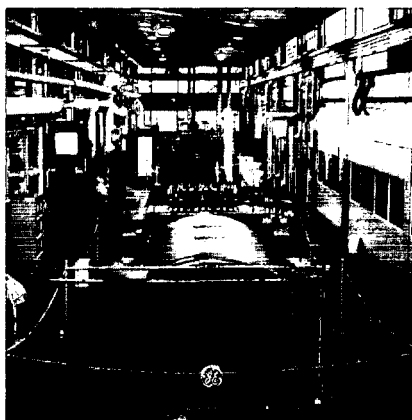
As part of our environmental commitment, Pfizer set a companywide goal for 2007 to reduce carbon dioxide emissions by 35 percent per million dollars of sales (from a baseline of 2000) and, by 2010, supply 35 percent of our global energy needs through cleaner sources. Pfizer is a member of the U.S. Environmental Protection Agency's Climate Leaders Program, a voluntary industry-government partnership. The company also has been recognized for leadership in “green chemistry” with the 2003 U.K. Crystal Faraday Award and the 2002 U.S. Presidential Green Chemistry Award.

For the fourth straight year, Pfizer was included in the Dow Jones Sustainable Asset Management Index, a global index that tracks the performance of companies not only in economic terms but also against environmental and social standards. The Index cited Pfizer as “among the best companies within the pharmaceutical industry in all three

dimensions of corporate sustainability.”

We continue to play an active role in the United Nations Global Compact, a network of U.N. agencies, companies, civil organizations and academic institutions. Companies joining the Compact agree to strive for a shared set of principles on human rights, labor and the environment. In response to advice from various groups in the Compact, we are improving our communications about Pfizer's goals, actions and performance in corporate citizenship.

All of these citizenship activities are aimed at supporting Pfizer's mission of becoming the world's most valued company to all our stakeholders. To clarify that goal, in 2003, we did research to learn firsthand from our stakeholders what “most valued” means to them. Although the answers varied by audience, the underlying constant came as no surprise. Stakeholders value trust



Pfizer has set companywide goals to reduce carbon dioxide emissions and meet its global energy needs through cleaner sources—such as this steam turbine cogeneration system at the company's Groton, Connecticut, facility.

“We continue to work hard to earn trust through actions, not words.”

above all else—trust that Pfizer medicines are safe and effective, trust that we will do the right things ethically, trust that Pfizer colleagues are fairly treated. We continue to work hard to earn trust through actions, not words.

Strengthening Our Leadership, Becoming More Responsive

As part of that effort, Pfizer continued its leadership in corporate governance during 2003. In April, Pfizer shareholders approved our proposal to eliminate Pfizer’s classified board, for which only a portion of directors had stood for election every year. As a result, all Pfizer directors are now elected to one-year terms. The change ensures that our board will be even more accountable to shareholders for its performance. And in February 2004, Governance Metrics International listed Pfizer as one of 22 companies worldwide that ranked a perfect “10” in corporate governance.

In the wake of the corporate scandals of 2002–2003, Pfizer took further steps to strengthen our long-standing commitment to financial transparency and integrity in financial reporting. These included an improved system of ethical training for colleagues, better communication between our independent accounting firm and our board of directors, and a reaffirmation of our open-door policies and compliance procedures. We are proud that Pfizer is considered one of the top companies in corporate governance, and I am personally proud to be leading the Business Roundtable this year on the strength of that reputation.

In 2003, in conjunction with my colleagues on the Pfizer Leadership Team (PLT), I reorganized the key processes for corporate decision-making at Pfizer. In addition to the PLT, which includes most of my key line and staff direct reports, I

established the Human Healthcare Leadership Team, comprising the leaders of our prescription pharmaceuticals business, which now accounts for nearly 90 percent of Pfizer revenues. I chair this team, which provides us with an end-to-end healthcare operation, from basic discovery through final distribution.

Within the PLT, Yvonne Jackson, Senior Vice President of Human Resources, who joined us late in 2002 from Compaq Computer, was named to lead all of Pfizer’s global human resources efforts. She succeeds Rob Norton, Sr., who announced his intention to retire early in 2004. During his 33 years with Pfizer, Rob helped build our company into one of the world’s most admired employers.

Dr. John LaMattina joined the PLT as President, Pfizer Global Research and Development. John, who joined Pfizer in 1977, was previously Senior Vice President, Worldwide Research.

Dr. Peter Corr, Senior Vice President of Science and Technology, was named to lead Pfizer’s product licensing, science policy, and development of scientific and medical partnerships. Peter joined us from Warner-Lambert and helped us integrate both that company and Pharmacia with Pfizer.

Of course, change has been part of Pfizer for years; this past year has simply seen it accelerate. What’s truly remarkable is how much at Pfizer has remained the same. My 11 predecessors also faced their own periods of tremendous change. Like them, we are responding by refashioning every aspect of our business—except for our commitment to financial performance, our commitment to access to medicines and healthcare, and our commitment to corporate citizenship. With those core standards to guide us, I’m confident in our path to the future.



It’s known as “Pfizer’s Peace Corps”—the Pfizer Global Health Fellows program, which sends skilled Pfizer colleagues to some of the world’s poorest countries to help fight HIV/AIDS and other infectious diseases.

Hank McKinnell

Chairman of the Board and
Chief Executive Officer

February 26, 2004

2003 marked the 50th anniversary of the breaking of the human genetic code. Medicine has made dramatic strides since then, and the years ahead promise still greater advances. But these very successes have brought new health challenges, as an ever-increasing number of people live into old age. Meanwhile, in the developing world, epidemics such as AIDS and malaria are raging virtually unchecked. Against this backdrop, innovative medicines offer society its most effective — and cost-effective — hope. In the following special report, Pfizer introduces its next generation of **Medicines to Change the World.**

New Frontiers in the War on Cancer

Pfizer has long had an active cancer research program. Now we also market several of the world's leading cancer medicines. In this section, you'll learn about an experimental medicine that has given time and hope to dying patients, a promising new treatment for breast cancer and a broad-based effort to help people quit smoking.

Third Chances

Linda Dwyer and Dean Gordanier were meeting for the first time when they posed for this photograph in December 2003, but they had much in common. Each had three children. Each was relatively young: Dwyer, a former office manager, was 44, and Gordanier, a lawyer, was 55. And each had GIST—gastrointestinal stromal tumor—a form of sarcoma that, before 2000, rapidly killed almost everyone who developed it.

Not that you'd have guessed it. You'd never have guessed that Dwyer had weathered five surgeries in five years, including the removal of a 40-pound tumor from her stomach. Or that in the fall of 2000, Gordanier was emaciated, receiving constant doses of pain medication as he endured grueling chemotherapy for tumors that had spread to his liver.

You'd never have guessed it because, after five years of battling a deadly cancer, neither Dwyer nor Gordanier looked sick at all.

Of course, both were fighters, blessed with superb doctors and staunch families. "I've got three reasons to hang around," Dwyer likes to say. "I've got to see them all graduate."

But both also owed their lives to an experimental Pfizer drug called SU-11,248—potentially one of the most exciting advances in cancer treatment in years.

"We are seeing some extraordinary recoveries with this drug," says Dr. George Demetri of Harvard's Dana-Farber Cancer Institute, who is running the trials of SU-11,248 for GIST. "It's not a cure, but it *is* part of a growing wave of new medicines that hold real potential for turning some cancers into chronic, manageable diseases."

GIST strikes the "pacemaker" cells that normally govern the nerve impulses of the intestinal tract. Four years ago, the only treatment was surgery—and only if the cancer hadn't spread. The disease was so often misdiagnosed that only about 500 Americans were thought to develop it annually—about a third of the current estimate.

Then, in 1999, a team at Dana-Farber led by Demetri—working with investigators from Finland to Oregon—proposed a strategy for interrupting abnormal signals within tumor cells. Their focus was KIT, a receptor on the surface of GIST cells that becomes locked in the "on" position, telling tumors to grow. Their work laid ground for an important use of Gleevec, a drug developed and marketed by Novartis. Because Gleevec selectively disables cancer cells, its side effects are not significant. Gleevec received U.S. approval to treat GIST in 2002, based partly on the work led by Dana-Farber.

Demetri and collaborators subsequently identified more signaling proteins involved in GIST, suggesting other drugs be tested against these potential therapeutic targets.

"Gleevec is a wonderful drug," Demetri says. "It breaks the circuit and moves the growth switch that's stuck back to 'off.' But as with all cancers and all drugs, GIST eventually becomes resistant to Gleevec. Then we need something new to break the circuit."

Discovered by a biotechnology company called Sugen in the late 1990s and later acquired by Pfizer as part of the Pharmacia deal, SU-11,248, too, targets the KIT receptor. But the drug also stops cancer in another way: by blocking signals that induce abnormal angiogenesis—the formation of blood vessels that nourish tumors.

"SU-11,248 is, in principle, like a cocktail of medicines all in one pill," says Dr. Chris Blakeley, Pfizer's leader for development of the drug. "By targeting more than one cell

Opposite page:

Cancer patients Linda Dwyer and the late Dean Gordanier in December 2003 with Dr. George Demetri of Harvard's Dana-Farber Cancer Institute. Demetri is leading a trial of Pfizer's SU-11,248, a drug that interrupts key signals within cancer cells. In February 2004, Gordanier died from an infection following surgery.



"It's not a cure, but it *is* part of a growing wave of new medicines that hold real potential for turning some cancers into chronic, manageable diseases."

Dr. George Demetri, Dana-Farber Cancer Institute



control mechanism, you should increase your chances of stopping the cancer.”

More than 100 GIST patients have taken SU-11,248. In many, tumors have stopped growing after spreading throughout the body, controlling symptoms and enabling patients to resume their lives. The global Phase III trial of SU-11,248 for Gleevec-resistant GIST, which began enrollment in December 2003, will treat another 350 patients.

Ultimately, SU-11,248 could benefit many more cancer patients. In preliminary studies of metastatic renal cell cancer, which kills 12,000 people yearly in the United States, the drug has achieved measurable tumor shrinkage in many patients.

“Metastatic renal cell cancer is more resistant to chemotherapy than any other cancer,” says the trial’s lead clinical investigator, Dr. Robert Motzer, an attending physician at New York City’s Memorial Sloan-Kettering Cancer Center and Professor of Medicine at Cornell University’s Weill Medical College. “It’s still early, but based on what we’ve seen, SU-11,248 appears to show significant activity and will be compared to the standard treatments. In addition, where those drugs boost the body’s immune response, SU-11,248 works by an entirely novel mechanism.”

SU-11,248 is also in early studies in breast cancer and colorectal cancer.

Yet, no cancer treatment can remain effective indefinitely against metastatic disease. In January 2004, one of Dean Gordanier’s tumors began to grow again during the “off” weeks when he wasn’t receiving SU-11,248. “I’m grateful for the time this drug has given me, but the cancer has seeded throughout my body—it’s not going to go away,” he said. “At best, we’ll get to a situation like with diabetes, where you’re always going to need some kind of medication.” Gordanier resumed treatment and the growth halted—but the tumor was now preventing the drainage of bile from his liver. He underwent surgery and shortly afterward developed an infection. In late February, with family and friends gathered, Gordanier died.

“We’ve known this time would come,” said his wife, Rachael Dorr, “but it’s different when it’s inches from your face.” Still, she said, “this past year on SU-11,248 was Dean’s best since he got sick. He felt well; he was working at the peak of his career and his strength. A year of health is an extraordinary thing.”

For Demetri, it’s not enough. “This is a spectacular time to be doing drug development in this field,” he says. “All the work from the War on Cancer has paid off, to the point where companies like Pfizer and teams like ours can apply it to human health.” He pauses, and his frustration is evident. “But I feel like I’m on a lifeboat, and we can’t fit everyone on board. Other companies are working on treatments like this, but they’re still in the lab. And for patients like Dean, that’s just not fast enough.”

BEYOND MEDICINE

An Ounce of Prevention The news that Ireland is banning smoking in its pubs (along with cigarette ads and tobacco company sponsorship of sporting events) tends to elicit skeptical smiles. But for the Irish government, smoking is no laughing matter. “We have high rates of heart disease and cancer in Ireland, so the single greatest issue we can deal with is smoking,” says Micheál Martin, Minister for Health and Children.

Worldwide, a projected 520 million people alive today will die from smoking-related causes over the next 30 years. Half will be current smokers. Pfizer is uniquely positioned to help change that bleak prognosis. Long-term, the company’s greatest potential contribution could be varenicline, an experimental prescription drug designed to reduce the severity of both nicotine craving and withdrawal. For would-be quitters who lapse and sneak a cigarette, varenicline can potentially diminish

satisfaction, too. In a seven-week Phase II clinical trial of varenicline, nearly half of smokers were able to quit.

Meanwhile, Pfizer is expanding the impact of its Nicorette nicotine replacement therapies (NRTs), which include gums and patches. These products, which deliver a small, slow dose of nicotine to relieve craving and withdrawal symptoms, double success rates in those trying to quit. A growing number of countries are approving NRTs to help “dissonant” smokers—those unhappy about their dependence who at least want to smoke less—as well as for those forced into temporary abstinence by public smoking bans or even hospitalization.

For Ireland, which reimburses low-income patients for the products under its medical card system, NRTs could ease the transition to smoke-free pubs. For the world, they could save millions of lives. And that’s not just blowing smoke.

Breast cancer patient Carol Bargman is a self-described perfectionist. She also lost her mother to cancer—so when it comes to treatment, Bargman won't accept the status quo. "Most women go on tamoxifen after surgery and initial treatment, but I'd heard some scary things about possible side effects," says the 58-year-old Toronto lawyer. So instead, she became the first patient in a five-year study comparing Pfizer's Aromasin to a competitor drug—both members of a new class of hormonal therapy called aromatase inhibitors.



"Most women go on tamoxifen after surgery and initial treatment, but I'd heard some scary things about possible side effects."

Carol Bargman, breast cancer patient and participant in a clinical trial of aromatase inhibitors, a newer class of hormonal therapy

SERVING PATIENTS TODAY

The Next Step in Treating Breast Cancer Estrogen is the key trigger in two-thirds of all breast cancers. That's why, following surgery, radiation and chemotherapy, estrogen-dependent breast cancer is hormonally treated with tamoxifen for five years. But tamoxifen can lead to endometrial cancer and blood clots.

Newer hormonal treatments called aromatase inhibitors are equaling or bettering tamoxifen's potency in postmenopausal women, but with fewer side effects. One drug, anastrozole, outperformed tamoxifen in early-stage disease. Another, letrozole, halved recurrent disease and new breast cancer occurrence when given for five years *after* tamoxifen, heralding a new role for hormonal therapy in early-stage breast cancer.

Yet many eyes are on the newest aromatase inhibitor, Pfizer's Aromasin. Currently approved for advanced metastatic disease, Aromasin differs from its two competitors in how it blocks an

enzyme that produces estrogen. It is also unique in acting as a weak male hormone, which may help control breast cancer and protect or even promote bone density. (Anastrozole and letrozole are linked to more clinical fractures.)

"Emerging data suggest that Aromasin possesses both a therapeutic advantage for treating breast cancer and also a general women's health advantage," says Dr. Paul Goss of Toronto's Princess Margaret Hospital, architect and leader of the letrozole trial. "That's why Aromasin is the key drug in all imminent hormonal therapy trials under way in early-stage breast cancer." Goss is leading key Aromasin trials in early breast cancer and breast cancer prevention.

Says Pamela Stephenson, Aromasin U.S. Marketing Director: "Pfizer continues to seek new opportunities to treat and prevent life-threatening diseases. Patients are the ultimate winners."



Toward Healthy Aging

By 2050, the number of people 60 and older will triple to more than 2 billion worldwide. In this section, learn how Pfizer is preventing blindness—a major threat to the independence of the elderly—and helping Europe meet the healthcare expectations of its aging population.

Opposite page:

Dr. Larry Singerman is President of Retina Associates of Cleveland, the leading site for clinical trials of Macugen, a promising treatment for age-related macular degeneration. The disease is a top cause of blindness in elderly people.

Sight for More Eyes

Dr. Larry Singerman has watched it happen to all too many older patients: a slow but steady erosion of sight from the center of the visual field outward. The condition, called age-related macular degeneration (AMD), is the leading cause of blindness among elderly people in developed countries. The single approved treatment for AMD helps only a small percentage of patients.

Now a promising experimental drug called Macugen could change the picture for patients with “wet AMD,” which causes most AMD-related blindness. Wet AMD is characterized by abnormal growth of blood vessels in the retina. These vessels leak blood, damaging light-sensitive photoreceptor cells in the macula—the retina’s center, which plays a key role in color and fine-detail vision. Macugen—which Pfizer will be copromoting with Eyetech Pharmaceuticals in the United States and has licensed for non-U.S. markets—inhibits abnormal blood vessel growth by blocking a receptor for vascular endometrial growth factor. In Phase II/III clinical trials, Macugen appeared to slow vision loss as effectively as the current standard therapy, but in a much broader range of people.

“Macugen worked in all wet AMD subtypes and against lesions so large you wouldn’t try to treat them with standard therapy,” says Singerman, a Macugen clinical trial investigator who is President of Retina Associates of Cleveland and Clinical Professor of Ophthalmology at Case Western Reserve University. “For many elderly people, Macugen could mean the difference between functioning independently and being functionally blind.”

BEYOND MEDICINE

Partnering for a Healthy Future Over the past century, most developed nations have added 30 years to their citizens’ average lifespan. For many, birthrates have declined, often below levels that maintain a stable population.

Consider Europe, soon to be home to eight of the world’s 10 oldest populations. By 2050, 35 percent of all Europeans will be over 60, compared with 20 percent today. There will be 130 million fewer working-age Europeans. That shift has far-reaching consequences for people of all ages and is a growing consideration for policy makers across Europe.

For several years, Pfizer has been working with governments, patient groups, physicians, think tanks, payer organizations and others to ensure that Europeans have access to the most modern preventive care and treatments that can make a vital contribution to longer, healthier and more productive lives. One result of these

efforts is the Alliance for Health & the Future, a nonprofit organization recently launched by the International Longevity Centre in partnership with Pfizer.

Led by world-renowned geriatricians Dr. Robert Butler of the United States, Baroness Sally Greengross of the U.K. and Dr. Françoise Forette of France, the Alliance draws upon an international network of specialists to conduct and promote research on age discrimination, long-term care and healthy aging guidelines for people of all ages.

“The activity of the Alliance is perfectly aligned with Pfizer’s commitment to supporting sustainable, long-term solutions to the healthcare concerns and aspirations of Europeans,” says Ian Read, President, Europe, Canada, Africa and the Middle East, Pfizer Global Pharmaceuticals.



“For many elderly people, Macugen could mean the difference between functioning independently and being functionally blind.”

Dr. Larry Singerman, President, Retina Associates of Cleveland, and Clinical Professor of Ophthalmology, Case Western Reserve University

SERVING PATIENTS TODAY

Easing the Pressure on Eyes at Risk When Lisa Mellea developed glaucoma in 1987 (the result of a congenital disorder), her doctor prescribed a beta-blocker, which lowers pressure in the eye but can also decrease systemic blood pressure.

The drug worked, but Mellea—then a world-ranked power lifter—felt constantly tired. Some years later, after several blackouts and a seizure, she saw Dr. Stephen Obstbaum, Chairman of Ophthalmology at New York City’s Lenox Hill Hospital. He prescribed a new drug called Xalatan.

Today, Mellea, a special-education teacher, has normal eye pressure and feels great. Xalatan—now marketed by Pfizer—has become the world’s first blockbuster ophthalmology drug.

In glaucoma, the world’s second-leading cause of blindness, fluid buildup increases pressure in the eye. The result can be optic nerve damage and blindness.

Xalatan is an analog of prostaglandin, a hormone that increases fluid outflow from the eye. Applied once daily, it reduces intraocular pressure, with few side effects and excellent tolerability.

In one study, Xalatan was as effective as two newer products in its class but better tolerated, with less eye irritation. In another, treating elevated pressure with Xalatan or other therapies before damage or loss of visual field delayed or prevented primary open-angle glaucoma.

“Patients of this type were twice as likely to develop glaucoma if untreated,” says Nick Gurreri, Xalatan Worldwide Team Leader. “Yet only 11 percent in the United States are on any therapy, and a third of glaucoma patients remain untreated.”

A Pfizer pilot program is raising U.S. awareness of glaucoma and ocular hypertension, promoting appropriate treatment. “And among treatments,” Gurreri says, “Xalatan has the track record.”

Protecting the Heart

Heart disease is the number one killer in developed countries, and its impact is growing rapidly around the world, even as advances in treating elevated cholesterol and hypertension are helping people to live longer. Now new research suggests a broader use for Lipitor, the world's most prescribed medicine, and the value of combining it with other treatments for even greater therapeutic effect.

Food for Thought: The Other Cholesterol

Current medicines control cholesterol by lowering LDL, or “bad,” cholesterol. But recently there has been a surge of interest in the “good” cholesterol: HDL. By helping the body ferry LDL out of the bloodstream, HDL stops artery-clogging plaque from taking hold. Now new evidence shows that in addition to lowering LDL, raising HDL can help control plaque buildup that often leads to strokes and heart attacks.

Pfizer is moving into late-stage development of a new single-tablet therapy that combines an experimental HDL-raising drug called torcetrapib with Lipitor, its market-leading LDL-lowering drug. Results of Phase II studies indicate that Lipitor/torcetrapib could set a new standard in preventive cardiovascular medicine by enhancing the LDL-lowering effect of Lipitor while also increasing patients' HDL. The company is building a \$90 million facility in Ireland to make torcetrapib soluble in the human body.

In February 2004, Pfizer also acquired Esperion Therapeutics, which is developing several promising HDL-raising compounds. Esperion created headlines when it announced that, in a six-week Phase II clinical trial, its experimental drug ETC-216 had significantly reduced atherosclerotic plaque in patients with acute coronary syndrome. Given just five weekly injections, these seriously ill patients experienced an average reduction in plaque of 4.2 percent—results that would normally come from either surgical intervention or years of LDL-lowering therapy.

Opposite page:

Pfizer's Jennifer Quinn at a \$90 million facility being built in Loughbeg, Ireland, that will make a component of the company's new combination cholesterol therapy.

BEYOND MEDICINE

Build It and They Will Come: A \$90 Million Facility for a Medicine Not Yet on the Market Many a promising new drug has died in development because it could not be formulated in therapeutic quantities that could be easily absorbed into patients' bodies.

In recent years, Pfizer has been experimenting with a novel technology that improves absorption severalfold. But the technique hasn't been scaled up for commercial production volume—until now.

To manufacture torcetrapib, an experimental compound that raises HDL (“good”) cholesterol, the company is deploying the technology in a novel, state-of-the-art facility in Loughbeg, Ireland, long before a combination Lipitor/torcetrapib therapy has completed Phase III clinical trials. Total investment in the facility is estimated at \$90 million.

Why take such a risk so far in advance for an as-yet-unproven drug? Because Pfizer believes in torcetrapib and is committed to bringing it to market.

“Having the facility up and running before filing will give regulators more data to work with during the review process and give us more experience with the technology,” says Kevin Nepveux, Senior Director, New Products, Pfizer Global Manufacturing. “If all goes well, we'll be able to make this important new medicine available to patients that much sooner.”

“You can really feel the excitement here—that we are part of something completely new,” says Jennifer Quinn, Engineering Manager, Loughbeg. “Through a close partnership with Pfizer Global Research and Development, we are aggressively implementing a cutting-edge technology for a treatment that could extend millions of lives.”



Pfizer

"We are aggressively implementing a cutting-edge technology for a treatment that could extend millions of lives."

Jennifer Quinn, Pfizer Engineering Manager, Loughlin, Ireland

SERVING PATIENTS TODAY

Broader Impact for the World's Leading Cholesterol Drug Cardiovascular disease (CVD) causes 17 million deaths per year. Pfizer's Lipitor is the leading therapy to lower LDL ("bad") cholesterol, a major risk factor for CVD. Now, three new studies spell out why.

In REVERSAL, released in 2003, Lipitor appeared to halt atherosclerosis—the narrowing of the arteries that can cause heart attack and stroke. "We saw something extraordinary," says principal investigator Dr. Steve Nissen, Medical Director of the Cleveland Clinic Cardiovascular Coordinating Center. Adds Pfizer scientist Gary Palmer: "Until now, we've been treating symptoms through bypass surgery. No one's ever been able to stop atherosclerosis before."

In the CARDS study, in an interim analysis, diabetic patients on Lipitor had fewer cardiovascular events than patients on

placebo. The results were so promising that the study was stopped in 2003, two years early.

In ASCOT, also released in 2003 and also stopped early, patients with high blood pressure who took Lipitor for normal or mildly elevated cholesterol had 36 percent fewer fatal coronary events and nonfatal heart attacks, 27 percent fewer fatal and nonfatal strokes, and 21 percent fewer cardiovascular events and procedures. One in five Americans has high blood pressure.

"By adding Lipitor therapy to the blood pressure-lowering regimen, we can prevent more heart attacks and strokes," says Dr. Bjorn Dahlöf, ASCOT Cochair, Sahlgrenska University, Sweden.

To that end, in early 2004, Pfizer received U.S. approval for Caduet, a single pill combining Lipitor with Norvasc, the company's treatment for hypertension.

Serving the Developing World

We live in an age of modern medicine, but in many regions of the world, suffering from disease is of biblical proportions. At Pfizer, we are committed to discovering new medicines and adapting old ones in the fight to improve the health of developing nations.

Meeting the Challenge of Malaria

To develop a new treatment for malaria—a disease that kills a million people every year—a pharmaceutical company must have a drug (or combination of drugs) that appears safe and effective against a disease resistant to many existing medicines; the resources and contacts to conduct large-scale clinical trials in some of the world's most remote places; and the commitment to get it all done, despite slim prospects for financial reward.

Pfizer qualifies on all counts. The company's antibiotic Zithromax, combined with chloroquine, an older treatment no longer very effective in many parts of the world, appears promising against drug-resistant malaria. The two drugs together appear to wield much greater effect than either alone.

To confirm those findings, Pfizer is mounting Phase III trials in more than a thousand patients in Uganda, Kenya, Suriname, India and Indonesia. In Suriname—a rugged country that borders Brazil—the malarial region is so remote that the trial includes only travelers returning from it to the capital, Paramaribo. In Uganda and Kenya, where a child dies every three minutes from malaria, skilled medical professionals are so scarce that Pfizer has engaged the African Center for Clinical Trials, a new nonprofit organization of African researchers dedicated to attracting foreign research.

"We're excited about Zithromax/chloroquine, because it is potentially the only once-daily therapy that could be given to pregnant women during the first trimester," says Dr. Stephen Vreden of Paramaribo's Diakonessen Hospital, who is leading the Pfizer trial in Suriname. "As a small country, we're typically overlooked, so we appreciate Pfizer's interest."

Opposite page:

Dr. Ebi Kimanani and the African Center for Clinical Trials are helping Pfizer test a new treatment for drug-resistant malaria.

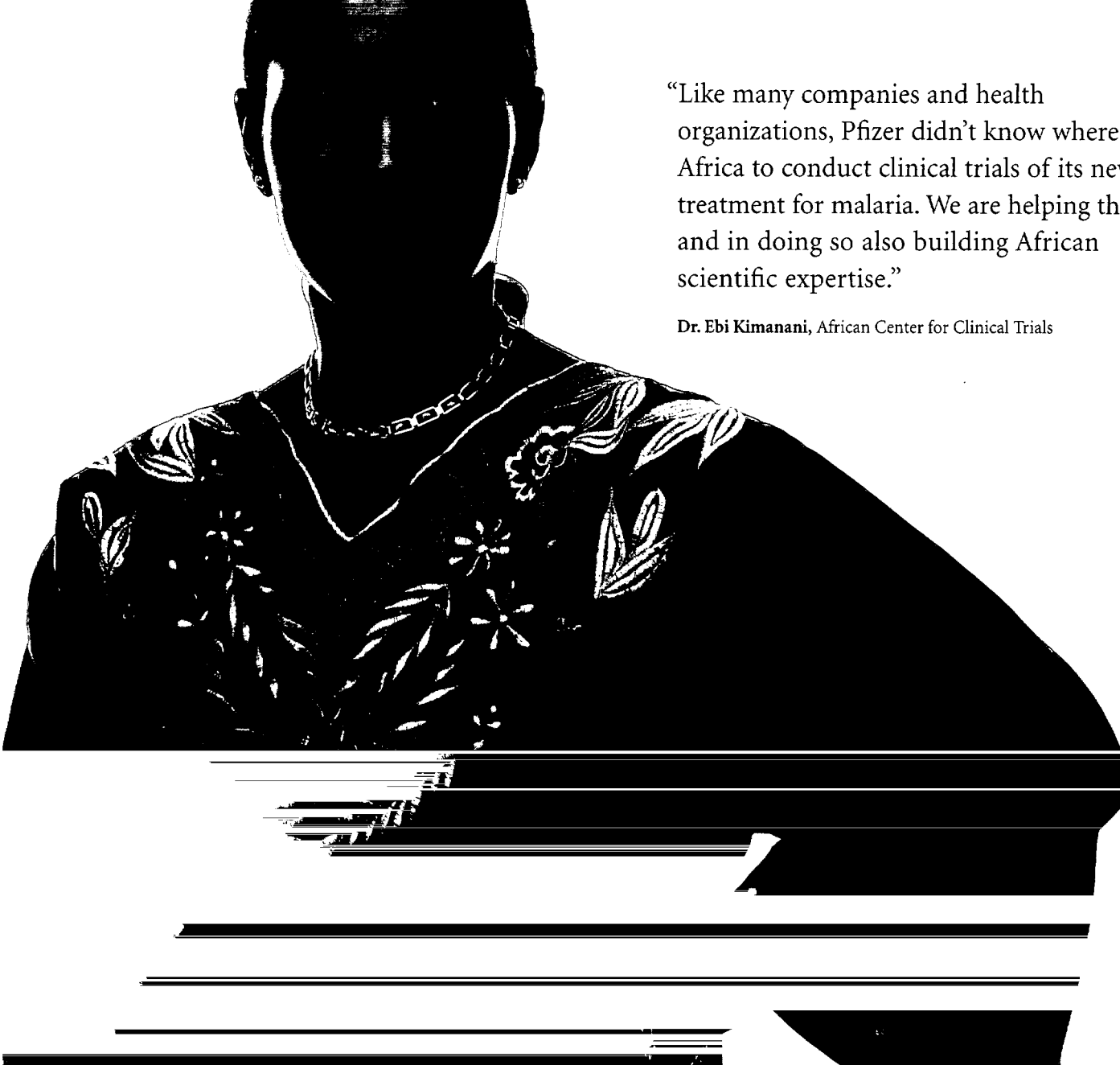
BEYOND MEDICINE

In Africa, a Center for Hope To Western eyes, the second-floor wing of Mulago Hospital in Kampala, Uganda, does not look like much. Yet this crowded, chaotic facility is the temporary home of the Infectious Diseases Institute—the centerpiece of an extraordinary effort, sponsored by Pfizer and The Pfizer Foundation, to train thousands of healthcare professionals to prevent and treat HIV/AIDS throughout the region.

The Infectious Diseases Institute is the creation of the Academic Alliance for AIDS Care and Prevention in Africa, a partnership of Ugandan and North American infectious disease doctors, and is staffed by both local clinicians and experts from abroad. Other partners are Makerere University; the Pangaea Global AIDS Foundation; the Infectious Diseases Society of America; and The AIDS Support Organization (TASO), an indigenous Ugandan nongovernmental organization.

Since the first session in May 2002, 150 African health professionals have been trained, and 1,400 patients a month are receiving treatment. In 2004, the Institute will move into a new, state-of-the-art facility built by Pfizer, where it will serve approximately 300 to 500 patients each day and deliver care to an estimated 50,000 HIV-infected people over the next three years. It will provide urgent care for the very sick; separate facilities for those patients coinfecting with tuberculosis; and counseling for patients and their families.

It all reflects Pfizer's belief that medicines alone can't solve the world's major health challenges. "One hospital, in one African nation, is not going to solve the crisis of HIV/AIDS," says Pfizer Chairman and CEO Hank McKinnell. "But if professionals at this hospital can train 200 like them in a year, then that 200 can train thousands more in the years that follow."



“Like many companies and health organizations, Pfizer didn’t know where in Africa to conduct clinical trials of its new treatment for malaria. We are helping them, and in doing so also building African scientific expertise.”

Dr. Ebi Kimanani, African Center for Clinical Trials

SERVING PATIENTS TODAY

Zithromax: It Prevents Blindness, Too It doesn’t get much press, but trachoma—a chronic, contagious eye infection that scratches and scars the cornea—afflicts an estimated 146 million people worldwide. Six million are blind.

Five years ago, Pfizer joined with the Edna McConnell Clark Foundation, national governments and nongovernmental organizations to form the International Trachoma Initiative (ITI). The company has since donated more than 8 million doses of its antibiotic Zithromax to ITI and given substantial program support. Zithromax provides a single-dose oral treatment for infection, whereas an older topical treatment had to be applied twice daily for six weeks.

Zithromax is a key component of the World Health Organization–recommended “SAFE” strategy to prevent trachoma: Surgery for late-stage disease; Antibiotics (Zithromax) for

active infection; improved Facial hygiene; and Environmental change, such as improved access to clean water and better sanitation.

Morocco—the first of nine countries to implement an ITI trachoma elimination strategy—has seen a 90 percent reduction since 1997 in the incidence of active trachoma infection in children under 10. (Children between ages two and five have the highest incidence of active infection.) Morocco is on pace to eliminate trachoma by 2005.

In November 2003, Pfizer announced plans to donate an additional 135 million treatments of Zithromax—a 15-fold expansion that will allow ITI to create programs in 10 additional countries. Said Pfizer Chairman and CEO Hank McKinnell: “It is now realistic to hope that...within the next 20 years...no one anywhere in the world is ever blinded by trachoma again.”

When New Threats Arise

Even as modern medicines have brought huge improvements in global health, many age-old scourges have morphed into new forms, while new diseases have reared their heads along with the threat of bioterrorism. The public now looks to pharmaceutical companies as never before during public health crises. Pfizer is providing answers.

Stealing the March on SARS

Dave Matthews was nearing retirement in March 2003 when he heard on his car radio that the U.S. Centers for Disease Control and Prevention had identified a new variant of coronavirus—a pathogen common in livestock—as the cause of SARS.

“A light went on in my head,” recalls Matthews, a scientist at Pfizer’s laboratory in La Jolla, California, who is an expert on rhinovirus—the cause of the common cold. “Pfizer has an entire library of compounds we developed against cold rhinoviruses during the 1990s. That program wasn’t successful, but because coronaviruses have a key protein needed for replication that’s very similar to the one we targeted in our rhinovirus program, I figured something might be useful against SARS.”

Within weeks, Pfizer had shipped a group of compounds to the U.S. Army for testing. None ultimately met all the requirements for a clinical drug candidate, but today, building on the company’s previous expertise, a team at La Jolla is moving quickly to synthesize new compounds that are stronger and more specific to SARS.

“SARS has been fairly quiet since the first outbreak, but like the common cold, it may reemerge seasonally,” says Rob Kania, who is leading Pfizer’s new discovery effort. “We’re hoping to have something ready for human testing if it does.”

To boost the chances of success, Pfizer La Jolla has devoted extra resources to the project—including Dave Matthews, who has stayed on to lend a hand.

“It’s incredible how quickly we’ve been able to respond here,” he says. “It’s the kind of work that only a company like Pfizer could do.”

Opposite page:

Pfizer’s Team SARS: From left, Rob Kania, Dave Matthews, Eric Gruff and Amy Patick. They are leading a high-speed effort to develop the world’s first treatment for SARS, before the epidemic reemerges.

BEYOND MEDICINE

Preparing for the Unthinkable It seems obvious: To protect against a smallpox attack by bioterrorists, deploy the Vaccinia vaccine that eradicated naturally occurring forms of the disease.

But Vaccinia contains the DNA of a virus that is genetically 95 percent similar to smallpox. It routinely causes pain, local swelling and rash, and can make people temporarily contagious.

“Ideally, you’d prefer a treatment to a vaccine,” says Dr. Ellis Reinherz, an immunologist at Harvard Medical School and Dana-Farber Cancer Institute. “Then you could distribute it to anyone with a suspected infection if, God forbid, it became necessary.”

Now, Reinherz and his colleagues have identified an unlikely candidate for just such a treatment: CI-1,033, a promising anticancer drug currently in development at Pfizer.

Why would a cancer-fighting drug work against smallpox? Three years ago, Reinherz and colleagues identified a growth

factor the virus uses to replicate in the human body. They subsequently showed that the growth factor binds with ErbB1, a receptor on the surface of cells called fibroblasts, which line the interior of blood vessels. By blocking these receptors in infected animals, they altered the course of the animal’s disease.

When a literature search for drugs that target ErbB1 turned up CI-1,033, Reinherz contacted Pfizer. Within 24 hours, he had a supply of the drug. Working with Pfizer and the U.S. National Institute of Allergy and Infectious Disease, he hopes to soon study it in healthy volunteers given the Vaccinia vaccine.

“Pfizer’s quick response has made all the difference in the world to our efforts,” Reinherz says.

Hopefully, the world will never need that difference. But if it does, CI-1,033 could be waiting.



It's incredible how quickly we've been able to respond here.

—Dr. Christopher Hitchcock, Senior Director of Exploratory Development for Pfizer, based in the U.K., is also pleased.

SERVING PATIENTS TODAY

Raising the Bar Against HIV The advent of triple-combination therapies has made having HIV an infinitely more hopeful prospect than it was 10 years ago. Still, the treatments have their limitations.

True, a relatively symptom-free patient who is treated early on can, by rotating through the various “miracle” cocktails, manage HIV/AIDS as a chronic condition. But while these drugs can help keep the virus at bay, side effects can range from anemia and diarrhea to lipodystrophy, a loss of subcutaneous fat that can leave patients looking gaunt, with permanently hollowed cheeks.

During 2003, Pfizer sponsored a 10-day, Phase II clinical trial of its experimental drug UK-427,857. Where current HIV therapies work by blocking the replication of the virus in host cells, UK-427,857 blocks a receptor that is one of two possible portals used by HIV for cell entry. In the Phase II

trial of 24 asymptomatic patients, conducted at London's Chelsea and Westminster Hospital, the drug caused a drop in viral load that ranged from 10- to 100-fold.

“That's a spectacular effect,” says the trial's lead investigator, Dr. Anton Pozniak, Medical Director of PK Research Limited, a nonprofit organization based at Chelsea and Westminster. “Equally important, there were no significant side effects. Only a full-scale, long-term trial will provide final confirmation, but these are very promising findings.”

Dr. Christopher Hitchcock, Senior Director of Exploratory Development for Pfizer, based in the U.K., is also pleased. “With AIDS now a disease that can be managed chronically, we're trying to develop treatments as patient-friendly as those for cholesterol and high blood pressure. UK-427,857 is potentially a big step in that direction.”

People to *Change* the World

The world's poorest patients need more than medicines alone. In a first-of-its-kind effort, Pfizer is lending its most precious resource — our highly talented, committed and trained people — to support organizations that are actively addressing the health needs of developing nations in Africa, Asia, Eastern Europe and Latin America.

“Pfizer’s Peace Corps”

In the summer of 2003, 18 Pfizer Global Health Fellows (known within the company as “Pfizer’s Peace Corps”)—with skills ranging from marketing to medicines to sales—took to the field. Here are a few of their stories.



Katherine Kim, from Pfizer's corporate headquarters in New York City, assisted with data collection to improve healthcare delivery to migrants in Thailand.

Katherine Kim, Doctors of the World, Thailand

Katherine Kim, a Senior Annual Report Associate at Pfizer headquarters in New York City, spent part of August and much of September 2003 in Thailand helping Mae Tao Clinic with data collection and management and information systems to improve healthcare delivery to migrants from Myanmar. She also spent six weeks in St. Petersburg, Russia, helping to monitor and evaluate HIV/AIDS prevention and education programs for street children.

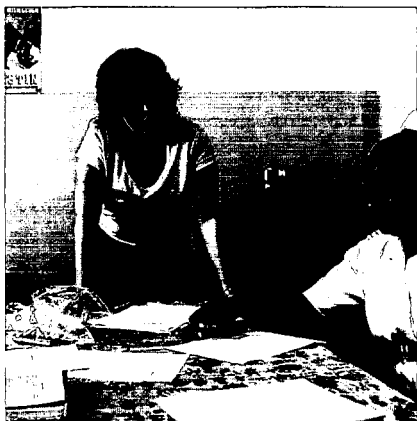
It is estimated that more than 2 million people from Myanmar live in Thailand. According to the United States Agency for International Development, Myanmar is one of Asia's HIV/AIDS epicenters. It is here that I learned that fighting disease requires a lot more than money. I also realized the importance of understanding both the context in which a disease exists and the infrastructure available to fight it.

Through this assignment I see that big challenges lie ahead for many of the programs and operations affiliated with growing clinics like this one. Broad support is needed to help develop the strategy, planning, management and information systems for a healthier community—particularly when it comes to complex diseases like malaria and HIV/AIDS. The people at the clinic and the NGOs supporting it have demonstrated remarkable strength and the commitment to take on any challenge. They have taught me a lot about the importance of group dynamics, will, total dedication and a sense of responsibility.

As I submitted my summary field report, I realized that success here is not measured in dollars or bahts, but in acts of purpose, commitment and sustainability. When I left, I was challenged by the question, “What is next?” During the summer of 2004, specialists in HIV/AIDS from around the world, including some I have met here, will be coming together in Thailand at the International AIDS Conference to discuss the same question. Hopefully they will have the concern and the will to support healthcare delivery and prevention efforts for the countries in this region of Asia.

“I really feel like I’ve made each of these students a better nurse. Each, in turn, could help reduce infant mortality. That would be an amazing accomplishment.”

Sandra Logue, Pfizer Global Health Fellow, Kampala, Uganda



Seattle-based Sandra Logue worked with nurses at Uganda's Mulago Hospital to reduce infant mortality.

Sandra Logue, Health Volunteers Overseas, Kampala, Uganda

A Pfizer field representative based in Seattle, Washington, and a trained nurse with expertise in neonatal resuscitation, Sandra Logue spent September 2003 through February 2004 training nurses at Mulago Hospital in Uganda.

My focus while I am working in Uganda has been maternal-child health. I have learned that the infant mortality rate here is 97 per 1,000 live births. Only 14 percent of women receive prenatal care in the first trimester, and only about 36 percent of births occur in a medical facility.

I recently gave my last lecture to the students studying for a bachelor's of science degree in nursing. It was quite different from my first. I had some excellent interactions with them; they are really hungry to learn.

I also held two extra sessions to teach the students about newborn resuscitation. They were excited to practice some hands-on skills and did very well. It's so important for nurses to have these skills, since they may be the only providers of medical care in village clinics. The nurses here do many things that only physicians, physician assistants or advanced nurse practitioners would do in the United States.

After graduating, the nurses spend one year rotating through assignments in the hospital to learn clinical skills. After completing the lectures, I followed three interns in the pediatric wards and the special care nursery to help them develop skills and work on the nursing process. I really feel like I've made each of these students a better nurse. Each, in turn, could help reduce infant mortality. That would be an amazing accomplishment.



Trish Hurley of Pfizer Australia with a traditional healer in Uganda.

Trish Hurley, American Jewish World Service, Kampala, Uganda

Trish Hurley, a Senior Associate from Sydney, Australia, traveled to Kampala, Uganda, in November 2003 to spend six months evaluating the cultural impact of traditional healers on HIV/AIDS care and how they complement healthcare practices in the region.

On my second day in the field we drove to Kiboga, which is more than two hours northeast of Kampala on mostly dirt roads, to visit the shrine of a local traditional healer. The shrine is the place where the healer practices medicine. In this case it was a small, round cement room with a thatched roof and a small opening with a makeshift curtain. I had to leave my shoes at the door and bend almost double in order to get inside. The healer proudly showed us his new cabinet, which contained gloves, condoms and herbs in screw-top jars to guard against the rats.

We all sat on the floor surrounding the healer as he told his story. Trained by his mother, who was also a traditional healer, he had been working in the community for more than 40 years. In addition to counseling, educating and providing herbal remedies, he told us that he is also in direct contact with the spirits, whom he conjures with drums and small pieces of bamboo.

As we sat in the shrine, a support group the healer runs for those infected or affected by HIV/AIDS began to gather outside. We were invited to join their meeting.

The few similar events that I had experienced prior to this one were all very formal. We sat apart from everyone else; there were choreographed introductions and speeches, translated by interpreters, and I learned to speak in short, simple sentences.

But as we were leaving this meeting, one of the women began to dance. A drum began to beat, the children joined in and—never one to be shy—I joined in, too. Soon we were all dancing and laughing and shouting. Their openness and my terrible dance technique broke down walls and we parted a little less strange to one another.

Thanks again for this amazing opportunity.

Our Promising Medicines in Development

Pharmaceutical R&D is risky, and promising compounds often fail. Nevertheless, Pfizer's goal is to have submitted an unprecedented 20 new medicines for regulatory approval during the five-year period ending in 2006. Here, as of December 2003, are just some of the new therapies in our pipeline that we think could truly change the world. The odds are that not all will succeed—but others will join the list, enabling us to achieve our 20-in-5 goal.

* Featured on the preceding pages

MIDDLE STAGE	
HIV/AIDS*	UK-427,857 a mechanistically unprecedented CCR-5 inhibitor
ORGAN TRANSPLANT REJECTION	CP-690,550 a Janus kinase-3 inhibitor for immunosuppression
SLEEP DISORDERS	PD-200,390 a novel alpha-2 delta compound
LATE STAGE	
ATHEROSCLEROSIS*	Lipitor/torcetrapib a combination to elevate HDL cholesterol and lower LDL
CANCER	edotecarin a next-generation topoisomerase inhibitor for cancer
CANCER*	SU-11,248 a novel angiogenesis inhibitor
COPD/ASTHMA	roflumilast a novel anti-inflammatory agent distinct from existing treatments
DIABETES	Exubera an inhaled insulin system
HIV/AIDS	capravirine a novel antiviral compound active against resistant strains of HIV
INSOMNIA	indiplon a unique non-benzodiazepine GABA modulator
MACULAR DEGENERATION*	Macugen a novel anti-VEGF therapy
NEUROPATHIC PAIN/EPILEPSY/ GENERALIZED ANXIETY DISORDER	pregabalin a neurologic agent developed by Pfizer
OSTEOPOROSIS	lasofoxifene a selective estrogen receptor modulator to maintain bone density
PARKINSON'S DISEASE	sumanirole a novel leva-dopa-enhancing compound
SCHIZOPHRENIA & BIPOLAR DISORDER	asenapine a 5HT ₂ /D ₂ antagonist
SMOKING CESSATION*	varenicline a selective nicotinic partial agonist



"With AIDS now a disease that can be managed chronically, we're trying to develop treatments as patient-friendly as those for cholesterol and high blood pressure. UK-427,857 is potentially a big step in that direction."

Dr. Christopher Hitchcock, Senior Director, Exploratory Development



"Smoking addiction is a chronic, relapsing disease. Varenicline could potentially reduce cravings, ease withdrawal symptoms and even diminish pleasure from smoking."

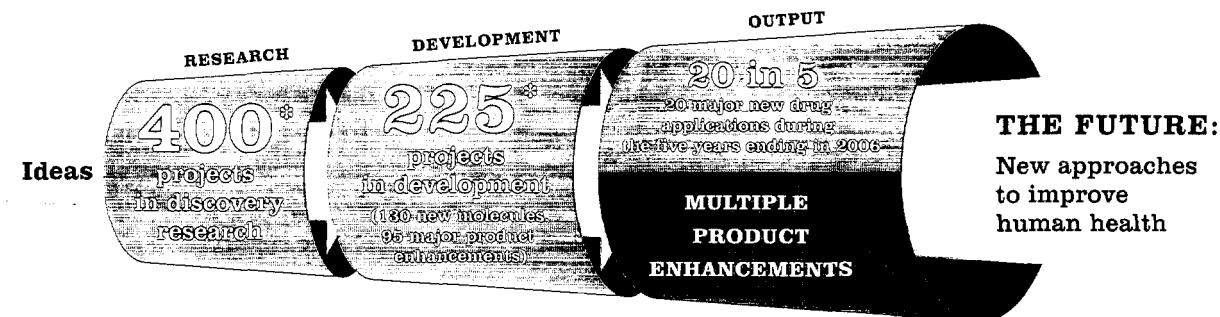
Dr. Karen Reeves, Executive Director, Clinical Development



"People with diabetes often have to inject themselves with insulin several times a day. Exubera, an inhaled form of insulin in development at Pfizer, could reduce injections and improve patient compliance."

Dr. William Landschulz, Senior Director, Clinical Development

R&D AT PFIZER: MOVING FROM IDEAS TO ALTERING HUMAN HEALTH



* as of December 31, 2003

At Pfizer, the process of improving human health begins with the ideas of our scientists. These are translated into discovery research projects in virtually every major area of human disease. These discovery research projects will, in some cases, lead to specific new compounds that enter clinical

development, or to enhancements to existing products. We expect to submit filings for 20 major new products and multiple product enhancements by the end of 2006. That's an ambitious goal—but it's just the first milestone in our ongoing journey toward a healthier world.

The Value of Medicines

The United States spent \$1.6 trillion on healthcare in 2002 (the most recent year for which figures are available). Many blame that staggering sum on medicines and the companies who make them, but the fact is that medicines still account for roughly 10 percent of overall U.S. healthcare spending—the same proportion as 40 years ago. More to the point, they increasingly appear to be the best hope for fighting disease cost-effectively. Here's a look at what innovative therapies are accomplishing for society—and how much more they could accomplish in the future.

How a Wiser America Could Stay Healthy and Wealthy

According to research by Columbia University Professor Frank Lichtenberg, every dollar spent on the use of newer medicines saves the U.S. healthcare system \$7, compared with spending for patients on older drugs. Most of the savings come from reducing and shortening hospital stays.

Yet some states discourage use of newer medicines, focusing on new drugs' higher cost rather than the spending they prevent. Ultimately, these states incur both more hospitalizations and higher overall costs.

Drugs that treat HIV/AIDS illustrate new medicines' true value. Deaths from the disease plummeted in the United States with the advent of "triple cocktail" therapy. Medication costs increased—but overall monthly costs for AIDS patients decreased.

Another example: Asheville, North Carolina, offered medicines and other supplies free to diabetics who accepted monthly counseling at pharmacies. Drug spending nearly tripled over a five-year period, but the city's overall healthcare spending for diabetics went down—and so did lost work days.

The bottom line: When people buy medicines, they buy a "unit of health"—and while spending on medicines may rise, the price of being healthy is going down.

A Vision of What Could Be Yet combined with truly patient-centered healthcare, medicines could help reap even greater savings. A study by University of Chicago economists Kevin Murphy and Robert H. Topel demonstrates that a 10 percent decrease in U.S. deaths attributable to cancer and cardiovascular disease would add nearly \$10 trillion in gains for the United States in economic value during the span of the lives saved. Similar reductions in HIV/AIDS, chronic liver disease and diabetes, as well as in accidents, suicides and homicides, would increase the total to \$17 trillion.

Obviously, achieving those reductions would depend not only on innovative medicines, but also on excellent preventive care, effective patient education and a well-coordinated healthcare system focused on those most at risk. Can it be done?

Case in Point: The Florida Experience The answer is yes. In fact, it's being done today in the state of Florida. A unique partnership between the state's Medicaid system and Pfizer has dramatically improved health outcomes for thousands of Florida's poorest and sickest patients while saving the state millions of healthcare dollars.

Begun in June 2001, the initiative, known as Florida: A Healthy State, is well on its way to generating savings for the Medicaid program—through medical cost reductions and program investment—of at least \$33 million over a two-year term. The partnership has worked so well that in September 2003, Florida and Pfizer agreed to extend it for another two years, with the goal of generating an additional \$45 million for the state.



Hialeah, Florida, teenager Nayenci Lamar is successfully managing her diabetes thanks to Pfizer's partnership with the state.

LESS PAIN, MORE GAIN: REINING IN THESE COMMON KILLERS IN THE UNITED STATES WOULD BE WORTH TRILLIONS OF DOLLARS

**\$17
TRILLION**

University of Chicago researchers Kevin Murphy and Robert H. Topel have shown that a permanent 10 percent decrease in major U.S. causes of death could add trillions of dollars in economic value in the United States during the span of the lives saved.

CAUSE OF DEATH	POTENTIAL U.S. GAIN (BILLIONS OF DOLLARS)
MAJOR CARDIOVASCULAR DISEASES	\$ 5,142
MALIGNANT NEOPLASMS	4,359
INFECTIOUS DISEASES (INCLUDING AIDS)	644
CHRONIC OBSTRUCTIVE PULMONARY DISEASES	605
PNEUMONIA AND INFLUENZA	358
DIABETES	449
CHRONIC LIVER DISEASE AND CIRRHOSIS	310
ACCIDENTS AND ADVERSE EFFECTS	1,369
HOMICIDE AND LEGAL INTERVENTION	413
SUICIDE	508
OTHER	3,006
TOTAL	\$17,163

The program, which operates through 10 large “safety-net” hospitals in patients’ own communities, employs specially trained care managers who help Medicaid patients suffering from diabetes, asthma, heart failure, hypertension and related conditions. The care managers make sure their patients receive regular outpatient care and education, eat nutritious foods, exercise regularly and take medications as prescribed.

In the first two-year term, Florida: A Healthy State reached more than 113,000 Medicaid beneficiaries. The program has decreased hospitalizations and dramatically improved patients’ overall health, blood pressure, blood glucose levels and compliance with medication. And it’s also changing the way people live.

Fifteen-year-old Nayenci Lamar, who has type 1 diabetes, is one of those people. In March 2002, Nayenci was paired with Pfizer-trained care manager Elvira Nasaysayan, a nurse at Miami’s Jackson Memorial Hospital.

“When I first met Nayenci, she had uncontrolled diabetes,” says Nasaysayan, who is currently in graduate school to be a mental health counselor. “She was a typical teenager—no one was going to tell her what to do. She hid food from her mom and ate all the sweets she wanted. She said she didn’t care if she got better or died.”

With regular calls from Nasaysayan, Nayenci improved her health—and her attitude. “We talked about her life—what are you studying? What do you want to be when you grow up? Today, her blood sugar and hemoglobin are down, she’s feeling good and she’s reduced her long-term risk of blindness and kidney failure,” says Nasaysayan.

Florida: A Healthy State has been so successful that Pfizer is considering similar partnerships with other states, private employers and even single-payer healthcare systems such as those in Europe. It will take time—but if the progress in Florida is any indication, the ultimate outcome could be just what the doctor ordered.

The bottom line: When people buy medicines, they buy a “unit of health”—and while spending on medicines may rise, the price of being healthy is going down.



AT A GLANCE

Important products from our three major businesses

PRESCRIPTION MEDICINES

ARICEPT

The world's leading medicine for Alzheimer's disease

BEXTRA

Selective COX-2 inhibitor for effective relief of joint pain, inflammation and stiffness from osteoarthritis and adult rheumatoid arthritis, and relief of premenstrual pain

CADUET

Combination Lipitor-Norvasc therapy for elevated cholesterol and high blood pressure

CAMPTOSAR

For metastatic colorectal cancer

CELEBREX

Selective COX-2 inhibitor for arthritis pain and inflammation, acute pain, premenstrual pain and a rare hereditary condition that leads to colorectal cancer

Detrol | Detrol LA

For overactive bladder

Disflucan

For life-threatening fungal infections and single-dose oral treatment of vaginal candidiasis and other less serious infections

Genotropin

The leading therapy for replacement of human growth hormone

GEODON | ZELDOX

For symptoms associated with schizophrenia

Inspira

For hypertension, and for congestive heart failure following heart attack

LIPITOR

For reduction of LDL ("bad") cholesterol and harmful triglycerides. Also increases HDL ("good") cholesterol

Medrol

For endocrine disorders, collagen diseases, dermatologic diseases, allergic states and other disorders

NORVASC

For high blood pressure and angina, with demonstrated efficacy in older patients and those with more severe cardiovascular conditions

NEURONTIN

For epilepsy and post-herpetic neuralgia

SPIRIVA

Inhaled treatment for chronic obstructive pulmonary disease

VIAGRA

For erectile dysfunction

Xalatan

For intraocular pressure associated with primary open-angle glaucoma

Zithromax

Oral antibiotic for respiratory infections, pediatric ear infections and blinding trachoma

Zoloft

Selective serotonin reuptake inhibitor for depression, panic disorder, social anxiety disorder, obsessive-compulsive disorder and post-traumatic stress disorder

ZYRTEC

For year-round treatment of indoor and outdoor allergies and hives

ZYVOX

Novel antibiotic for serious gram-positive infections, as well as for certain diabetic foot infections

CORPORATE AND SHAREHOLDER INFORMATION

Stock Listings

Our Common Stock is listed on the New York Stock Exchange. It is also listed on the London, Euronext and Swiss stock exchanges. Our Common Stock is also traded on various United States regional stock exchanges.

Stock Transfer Agent and Registrar

EquiServe Trust Company, N.A.
P.O. Box 43069
Providence, RI 02940-3069
Telephone: (800) PFE 9393
Internet: www.equiserve.com

Shareholder Services and Programs

Please contact our Stock Transfer Agent and Registrar with inquiries concerning shareholder accounts of record and stock transfer matters, and also for information on the following services and programs:

- Shareholder Investment Program
 - direct purchase of Pfizer stock
 - dividend reinvestment
 - automatic monthly investments
- Book-entry share ownership
- Direct deposit of dividends

Electronic Delivery of Proxy Materials

Shareholders of record may elect to receive future proxy materials electronically, instead of receiving paper copies in the mail. Participants will receive an e-mail message providing links on the Internet to our Proxy Statement, Financial Report, Annual Review and electronic voting site. To enroll in the electronic proxy delivery service, please go to www.econsent.com/pfe

Form 10-K and CEO/CFO Certifications

Upon written request, we will provide without charge a copy of our Form 10-K for the fiscal year ended December 31, 2003. Requests should be directed to:

Secretary
Pfizer Inc, 235 East 42nd Street
New York, NY 10017-5755

CONSUMER HEALTHCARE PRODUCTS

Benadryl

For seasonal and perennial allergies

LISTERINE

Oral care treatments for bad breath, plaque and gingivitis

Lubriderm

For dry skin

Nicorette | Nicotrol

For tobacco dependence

Rogaine

For hair growth in men and women

SUDAFED

For sinus congestion

Visine

For dry, red or itchy eyes

Zantac 75

For heartburn

ANIMAL HEALTH PRODUCTS

EQUIMAX

All-in-one dewormer for horses

NAOCEL | EXCENEL

An antibiotic used to treat a variety of infections in livestock and companion animals

RespiSure¹ONE

Vaccine to protect swine against mycoplasma pneumonia

revolution

A broad-spectrum, topically applied systemic parasiticide for cats and dogs

RIMADYL

Nonsteroidal drug to relieve pain and inflammation in dogs

Our 10-K will also be available on our Web site at www.pfizer.com. The most recent certifications by our Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are filed as exhibits to our Form 10-K.

Annual Meeting of Shareholders

Our Annual Meeting will be held on Thursday, April 22, 2004, at 10:00 a.m. Central Standard Time at the Ritz-Carlton, 100 Carondelet Plaza, St. Louis, Missouri. Detailed information about the meeting is contained in our Notice of Annual Meeting and Proxy Statement.

Political Action Committee (PAC)

To request a copy of our most recent PAC campaign contributions report, contact the Office of the Secretary, Pfizer Inc.

Environmental, Health, and Safety (EHS) Report

Pfizer takes great pride in our environmental, health, and safety performance. Our EHS report details our efforts to protect the environment and provide a safe and healthy workplace for employees.

You can access the report online at www.pfizer.com/ehs

HelpLines

Consumers or healthcare professionals who have questions about any of our medicines should call: (800) 438 1985.

People interested in receiving literature about us should call: (800) PFE 4717.

Send Us Your Feedback

We value your views on this Annual Review. Did it help you to better understand Pfizer? Was the information presented in a reader-friendly manner? Please send us your comments at annual.report@pfizer.com

All trademarks appearing in this Annual Review are owned by or licensed to Pfizer Inc or its affiliates, with the exception of Gleevec, a trademark of Novartis.

Design: VSA Partners, NYC; Photography: Principal, Neil Selkirk; additional, William Vazquez

BOARD OF DIRECTORS



Michael S. Brown, M.D. ^(4, 5)
Distinguished Chair, Biomedical Sciences,
Regental Professor, University of Texas
Southwestern Medical Center



M. Anthony Burns ^(1, 3)
Chairman Emeritus
Ryder System, Inc.



Robert N. Burt ⁽²⁾
Retired Chairman and CEO
FMC Corporation and
FMC Technologies, Inc.



W. Don Cornwell ⁽²⁾
Chairman and CEO
Granite Broadcasting Corporation



William H. Gray III ^{(4) *}
President and CEO
The College Fund/UNCF



Constance J. Horner ^(1, 4)
Guest Scholar
The Brookings Institution



William R. Howell ⁽²⁾
Chairman Emeritus
J.C. Penney Company, Inc.



Stanley O. Ikenberry, Ph.D. ^(1, 4, 5)
President Emeritus
University of Illinois



George A. Lorch ⁽³⁾
Chairman Emeritus
Armstrong Holdings, Inc.



Henry A. McKinnell, Ph.D. ⁽¹⁾
Chairman of the Board and
Chief Executive Officer
Pfizer Inc



Dana G. Mead, Ph.D. ⁽³⁾
Chairman
MIT Corporation



Franklin D. Raines ^(3, 5)
Chairman and CEO
Fannie Mae



Ruth J. Simmons, Ph.D. ⁽⁴⁾
President
Brown University



William C. Steere, Jr.
Chairman of the Board Emeritus
Pfizer Inc



Jean-Paul Vallès, Ph.D. ⁽²⁾
Chairman Emeritus
Minerals Technologies Inc.

- (1) Executive Committee
- (2) Audit Committee
- (3) Compensation Committee
- (4) Corporate Governance Committee
- (5) Science and Technology Committee
- * Will retire from The College Fund/
UNCF on 3/31/04

To Our Pfizer Colleagues, for All You Do

The Pfizer Leadership Team salutes our more than 122,000 Pfizer colleagues worldwide for your exceptional effort and dedication during 2003. Thanks to you, Pfizer turned in its finest year ever in the marketplace, even as we added to our track record as a good corporate citizen and created broader access to medicines for people everywhere. And all of this while we seamlessly integrated Pharmacia. So, to our colleagues, thank you; you are the single most important reason why Pfizer is able to do more good for more people than any other company on the planet.

—The Pfizer Leadership Team (PLT)

The Pfizer Leadership Team, from left to right:

*Yvonne Jackson, John Mitchell, David Shedlarz, Jeff Kindler, Hank McKinnell,
John LaMattina, Karen Katen, Chuck Hardwick, Peter Corr*



Henry A. McKinnell, Ph.D.

Chairman of the Board and
Chief Executive Officer

Peter B. Corr, Ph.D.

Senior Vice President, Pfizer Inc,
Science and Technology

Jeffrey B. Kindler

Senior Vice President, Pfizer Inc,
General Counsel

Karen L. Katen

Executive Vice President, Pfizer Inc,
President, Pfizer Global Pharmaceuticals

Charles L. Hardwick

Senior Vice President, Pfizer Inc,
Corporate Affairs

John L. LaMattina, Ph.D.

Senior Vice President, Pfizer Inc,
President, Pfizer Global Research
and Development

David L. Shedlarz

Executive Vice President, Pfizer Inc,
Chief Financial Officer

Yvonne R. Jackson

Senior Vice President, Pfizer Inc,
Human Resources

John W. Mitchell

Senior Vice President, Pfizer Inc,
President, Pfizer Global Manufacturing

OUR VALUES

These qualities embody our core beliefs and the defining features of a culture that fosters achievement.

These nine values crystallize who we are—who we have been—and what we stand for. They reflect the enduring character of Pfizer and its people.

INTEGRITY

LEADERSHIP

INNOVATION

PERFORMANCE

TEAMWORK

CUSTOMER FOCUS

COMMUNITY

RESPECT FOR PEOPLE

QUALITY



Life is our life's work®

Pfizer Inc. 235 East 42nd Street New York, NY 10017-5755 212 573 2323 www.pfizer.com





2003 Financial Report

CONTENTS

Letter to Shareholders | **1**

Financial Review | **2**

Management's Report and Audit Committee's Report | **21**

Independent Auditors' Report | **22**

Consolidated Financial Statements | **23**

Notes to Consolidated Financial Statements | **27**

Quarterly Consolidated Financial Data (Unaudited) | **54**

Financial Summary (1998-2003) | **56**

Dear Shareholders,

During the past four years, Pfizer has nearly tripled in size, adding some 80,000 new colleagues, many new products across a range of therapeutic areas and billions of dollars in sales and earnings. We have also broadened our efforts to expand access to medicines and healthcare, and to partner as a corporate citizen working to solve some of the world's most pressing healthcare crises.

We hope you share our pride in our growth and success. But with growth and success have come added complexity. Because of the need to fully explain the complexity of today's Pfizer, we have chosen this year to divide our traditional Annual Report into two related but separate publications: an Annual Review, which tells the story of our people, products and businesses and the many stakeholders they have served in 2003; and this Financial Report, which contains the full financial accounting of our businesses for the year.

At a time when a lack of transparency in financial reporting has cast a pall on many corporations, we want to be sure that Pfizer is doing the utmost to clearly present its performance results to you, our investors. We hope this Financial Report accomplishes that goal.



Hank McKinnell
Chairman of the Board and
Chief Executive Officer
February 26, 2004

Financial Review

Pfizer Inc and Subsidiary Companies

Overview of Consolidated Operating Results

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. We generate revenue, which totaled \$45 billion in 2003, through the sale of our products as well as through alliance agreements by copromoting products discovered by other companies. Our pharmaceutical segment represented 88% of our revenues in 2003 and, therefore, developments relating to the pharmaceutical industry can impact our operations. In 2003, five products each achieved more than \$2 billion in revenues and achieved double digit growth.

(MILLIONS OF DOLLARS)	% CHANGE		
	2003	2002	03/02
Lipitor	\$9,231	\$7,972	16
Norvasc	4,336	3,846	13
Zoloft	3,118	2,742	14
Neurontin	2,702	2,269	19
Zithromax	2,010	1,516	33

In addition, in 2003 we recorded revenues of \$2,132 million for Celebrex, which included \$249 million in alliance revenue under a copromotion agreement with Pharmacia Corporation prior to its acquisition by us in April 2003, as well as post-acquisition product sales.

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."

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

- Current demographics of developed countries which indicate that people are living longer and therefore have a great need for medicines;
- The large number of untreated patients within our various therapeutic categories. For example, of the tens of millions of Americans who are in need of medical therapy for high cholesterol, only one third are actually receiving treatment; and
- The promise of technology to improve upon existing therapies and to introduce treatments where none currently exist.

Both U.S. and international governmental regulations mandating prices or price controls can impact our revenues, and we continue to work within the current pricing structures to minimize the impact on our revenues. For example, the importation of medicines from Canada to the U.S. that were originally sold to Canadian parties has been actively managed by several initiatives including carefully managing our products with Canadian wholesalers. Managed care organizations, as well as government agencies, continue to seek discounts on our products and this has served to slow our revenue growth. Recent enactment of U.S. Medicare legislation 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. We are currently evaluating the impacts of the legislation. 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 health care costs such as hospitalization or emergency room costs, increased patient productivity and a better quality of life.

Intellectual property legal protections and remedies are also a significant factor in our business. Many of our products have a composition-of-matter or compound patent and may also have secondary patents. Secondary 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. Our major products are patented. However, once the patent protection period is finished, 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. Wherever appropriate, we aggressively defend our patent rights against such challenges (details of these matters are described in Note 20 to the consolidated financial statements—"Legal Proceedings and Contingencies").

Some of our products face competition in the form of new competitor products or generic drugs, which treat similar diseases or indications. We have been able to limit the impact of product competition and, at times, generic competition by highlighting the proven track record of safety and efficacy of our products. For example, Lipitor has gained wide physician and patient acceptance based on its ability to bring the vast majority of patients to target cholesterol goals across the full dosage range. Further, the safety and efficacy of Viagra have been demonstrated in more than 120 clinical trials worldwide and in more than five years of real-world experience.

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. We continue to successfully introduce new products, including Relpax and Somavert in the U.S. and Bextra, Vfend and Spiriva in various international markets. Our research and development pipeline has advanced with several New Drug Application filings and the initiation of five Phase III and twelve Phase II programs in 2003. While a significant portion of research and development 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 promising compounds to expand our pipeline of potential future products. Our research and development 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 who may have promising compounds and can benefit from our strength and skills. For example, the acquisition of Esperion Therapeutics for \$1.3 billion in cash, which was completed on February 10, 2004, will add a new acute-care dimension to our cardiovascular portfolio.

Pharmacia Acquisition

On April 16, 2003, by acquiring Pharmacia Corporation (Pharmacia), we created the world's largest pharmaceutical company, with the scientific depth, global marketing strength and financial resources to take greater advantage of new opportunities and to bring innovative new products to market faster. We acquired Pharmacia in a stock-for-stock transaction

valued at approximately \$56 billion. This non-cash transaction was accounted for as a purchase business combination under accounting principles generally accepted in the United States of America (GAAP). Under the purchase method of accounting, the assets acquired and liabilities assumed from Pharmacia are recorded as of the date of acquisition, at their respective fair values. We engaged independent valuation specialists to assist us in determining the fair values of assets acquired and liabilities assumed. Such a valuation requires us to make significant estimates and assumptions, especially with regard to the valuation of intangible assets. Our reported financial position and results of operations after April 16, 2003 reflect these values and were not restated to reflect the historical financial position or results of operations of Pharmacia. The impact of purchase accounting resulted in a number of significant non-cash charges to the 2003 income statement, such as Merger-Related In-Process Research and Development (IPR&D) (one-time \$5.1 billion); incremental cost of sales (non-recurring \$2.8 billion) from the sale of acquired inventory adjusted to fair value; and incremental amortization (\$2.4 billion) of tangible and intangible assets adjusted to fair value.

The results of operations discussed below include Pharmacia's product sales and expenses from the acquisition date. Therefore, our operating results for 2003 as compared to 2002 reflect the impact of the acquisition of Pharmacia.

In connection with the acquisition, we have taken actions to integrate and restructure the Pharmacia operations in order to increase our profitability through cost savings and operating efficiencies. In the U.S. and in more than thirty other countries, we have eliminated or are in the process of eliminating duplicative facilities, functions, organizations and systems. Reductions in cost of sales for the combined company are expected to be realized through the optimization of global manufacturing. To achieve the savings, we have incurred certain merger-related expenditures totaling \$2.6 billion in 2003, which are discussed in more detail in the "Costs and Expenses" section. Cost synergies from the Pharmacia acquisition achieved in 2003 totaled more than \$1.3 billion. As a result of these activities and the combining of operations, it is not possible to provide separate results of operations for Pharmacia for the period after the acquisition date.

In connection with our pending acquisition of Pharmacia and our merger with Warner-Lambert Company (Warner-Lambert) in June 2000, we incurred integration and restructuring costs that reduced net income by \$390 million after tax in 2002 as compared to \$505 million after tax in 2001.

Other Financial Impacts

In the fourth quarter of 2003, we recorded charges totaling \$1.4 billion for the resolution of two legacy Warner-Lambert legal matters: Rezulin personal-injury claims and governmental investigations of marketing practices relating to Neurontin, which are included in *Other (income)/deductions—net*.

We evaluate our businesses and products on an ongoing basis for strategic fit. As a result, in 2003 we sold the Adams confectionery business, the Schick-Wilkinson Sword shaving products business and certain women's health product lines, which in the aggregate, increased net income by \$2,285 million after tax. These divestitures are presented as discontinued operations in 2003, 2002 and 2001. The divestiture of the Tetra fish-care products business in December 2002, which increased 2002 net income by \$77 million after tax, is presented as discontinued operations in 2002 and 2001.

In 2003, we incurred a non-cash charge, which reduced net income by \$30 million after tax in connection with our January 1, 2003 adoption of Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations*. This charge is reported as a cumulative effect of a change in accounting principle.

In 2002, we incurred non-cash charges for impairment provisions related to goodwill and identifiable intangible assets, which reduced net income by \$410 million after tax as a result of the January 1, 2002 adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*. These charges were reported as a cumulative effect of a change in accounting principle.

Accounting Policies

We consider the following accounting policies important in understanding our operating results and financial condition. For additional accounting policies, see Note 1 to the consolidated financial statements—"Significant Accounting Policies."

Estimates and Assumptions

In preparing our financial information, we use certain estimates and assumptions that may affect reported amounts and disclosures. Estimates are used when accounting for sales discounts, allowances and incentives, depreciation, amortization, employee benefits, contingencies and asset and liability valuations. For instance, in determining our annual pension and other post-employment benefit costs, we estimate the rate of return on plan assets and the cost of future health care benefits. Our estimates of fair value of assets and liabilities are based on assumptions that we believe to be reasonable but that are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate and unanticipated events and circumstances may occur. We are also subject to risks and uncertainties that may cause actual results to differ from estimated results, such as changes in the healthcare environment, competition, foreign exchange, litigation, legislation and regulations. Certain of these risks, uncertainties and assumptions are discussed in the section "Forward-Looking Information and Factors That May Affect Future Results."

Business Acquisitions

We account for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact net income. Accordingly, for significant items, we typically obtain assistance from independent valuation specialists.

There are several methods that can be used to determine the fair value of assets acquired and liabilities assumed. For intangible assets, including acquired IPR&D, we typically utilize the "income method." This method starts with a forecast of all of the expected future net cash flows. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams. Some of the more significant estimates and assumptions inherent in the income method or other methods include: the projected future cash flows (including timing); the expected costs to develop IPR&D into commercially viable products and estimates of cash flows from the projects when completed; and the discount rate reflecting the risks inherent in the future cash flows.

Determining the useful life of an intangible asset also requires judgment. For example, different products or types of intangible assets will have different useful lives and certain assets may even be considered to have indefinite useful lives. For example, the useful life of the right associated with a pharmaceutical product's exclusive patent will be finite and will result in amortization expense being recorded in our results of operations over a determinable period. However, the useful life associated with a brand that has no patent protection but that retains, and is expected to retain, a distinct market identity could be considered to be indefinite.

All of these judgments and estimates can significantly impact net income.

Revenues

Sales Incentives—We generally record sales incentives as a reduction of revenues at the time the related revenues are recorded or when the incentive is offered, whichever is later. We estimate the cost of our sales incentives based on our historical experience with similar incentive programs.

Sales Rebates—We record provisions for rebates based upon our actual experience ratio of rebates paid and actual prescriptions written within a respective period. We apply the experience ratio to the respective period's sales to determine the rebate accrual and related expense. Periodically, we adjust the accrual based upon actual payments made for rebates.

Alliances—We have agreements to copromote pharmaceutical products discovered by other companies. Revenue is earned when our copromotion partnership the related product and title passes to their customer. Alliance revenue is primarily based upon a percentage of our copromotion partners' net sales. Expenses for selling and marketing these products are included in *Selling, informational and administrative expenses*.

Prior to the copromoted product receiving regulatory approval, we expense, as incurred, milestone payments made under these agreements and record them in *Other (income)/deductions—net*. Once the product receives regulatory approval, we record any subsequent milestone payments in *Identifiable intangible assets, less accumulated amortization* and amortize them evenly over the remaining agreement term or the expected product life cycle, whichever is shorter. At least annually, we review for impairment those milestone payments which have been recorded as assets.

Contingencies

We and certain of our subsidiaries are involved in various patent, product liability, consumer, commercial, environmental, and tax litigations and claims; government investigations; and other legal proceedings that arise from time to time in the ordinary course of our business. We record accruals for such contingencies to the extent that we conclude their occurrence is both probable and estimable. We consider many factors in making these assessments, including past history, scientific evidence and the specifics of each matter. However, litigation is inherently unpredictable and excessive verdicts do occur. We record anticipated recoveries under existing insurance contracts when assured of recovery. We also provide tax reserves when we believe that it is probable that a taxing authority will take a sustainable position on a matter contrary to the position taken by us or one of our subsidiaries when filing required tax returns.

Stock Options

We elect to account for our stock-based compensation under Accounting Principle Board Opinion No. 25, *Accounting for Stock Issued to Employees* which does not require compensation costs related to our stock options to be recorded in net income.

We believe that it is difficult to accurately measure the value of an employee stock option. The Black-Scholes model is a trading options-pricing model that neither considers the non-traded nature of employee stock options, nor the restrictions on such trading, the lack of transferability or the ability of employees to forfeit the options prior to expiry. If the model adequately permitted consideration of the unique characteristics of employee stock options, the resulting estimate of the fair value of the stock options could be different.

The pro forma effect on net income and diluted earnings per common share for the years ended 2003, 2002 and 2001 is set forth in Note 1 to the consolidated financial statements—"Significant Accounting Policies—Stock-Based Compensation."

Pension Plans

We provide defined benefit pension plans and defined contribution plans for the majority of employees worldwide. In the U.S., we have both qualified and supplemental (non-qualified) defined benefit plans. A qualified plan meets the requirements of certain sections of the Internal Revenue Code and generally contributions to qualified plans are tax deductible. It typically provides benefits to a broad group of employees and may not discriminate in favor of highly compensated employees in its coverage, benefits or contributions. The funded status of our U.S. qualified plans in the aggregate exceeds both the Accumulated Benefit Obligation (ABO) measure as well as a Projected Benefit Obligation (PBO) measure of plan obligations. Outside of the U.S., we fund our plans to the extent that tax or other incentives exist and we have accrued liabilities on our consolidated balance sheet to reflect those plans that are not fully funded.

We also provide benefits through supplemental (non-qualified) retirement plans to certain employees. These supplemental plans, which are not generally funded, provide out of our general assets an amount substantially equal to the amounts that would have been payable under the defined benefit qualified pension plans, in the absence of legislation limiting pension benefits and earnings that may be considered in calculating pension benefits. In addition, we provide medical and life insurance benefits to retirees and their eligible dependents through our postretirement plans, which, in general, are also unfunded obligations.

In 2003, we made required U.S. contributions of \$135 million and voluntary tax-deductible contributions in excess of minimum requirements of \$1,394 million to our pension plans in major markets. These voluntary contributions, as well as higher-than-assumed investment returns in 2003, have moved our U.S. qualified pension plans, in the aggregate, to an overfunded status on both an ABO measurement basis and a PBO measurement basis.

Our assumption for the expected long-term rate of return-on-assets in our U.S. pension plans to determine net periodic benefit cost is 9% for 2004, which is unchanged from 2003. The assumption for the expected return-on-assets reflects our long-term outlook for global capital market returns and our diversified investment strategy. The expected return is applied to the fair market value of plan assets at each year end. As a sensitivity measure, holding all other assumptions constant, the effect of a one-percentage-point decline in the return-on-assets assumption would be an increase in our 2004 U.S. qualified pension plan (pre-tax) expense of approximately \$61 million.

The discount rate used in calculating our U.S. pension benefit obligations at December 31, 2003 is 6.3%, which represents a 0.6 percentage-point decline from our December 31, 2002 rate of 6.9%. The discount rate is largely based upon an index of high-quality fixed income investments (U.S. Moody's AA Long-Term Corporate Bond Index) at the plans' respective measurement dates. Holding all other assumptions constant, the effect of this 0.6 percentage-point decrease in the discount rate assumption is an increase in our 2004 U.S. qualified pension plan (pre-tax) expense of approximately \$57 million and an increase in the U.S. qualified pension plans' projected benefit obligations at December 31, 2003 of approximately \$485 million.

Pharmacia Acquisition

On April 16, 2003, Pfizer acquired Pharmacia for a purchase price of approximately \$56 billion, which included the issuance of approximately 1.8 billion shares of Pfizer common stock, 180 million options on Pfizer common stock, six thousand shares of Pfizer Series A convertible perpetual preferred stock (convertible into 15.5 million shares of Pfizer common stock), and vested share awards, as well as transaction costs.

Commencing from the acquisition date, the Pharmacia assets acquired and liabilities assumed, as well as the results of Pharmacia's operations, are included in our consolidated financial statements. About 7½ months of results of operations of Pharmacia's international operations (which conforms to Pfizer's international operations fiscal year end of November 30th) and about 8½ months of results of operations of Pharmacia's U.S. operations are included in our consolidated financial statements for the year ended December 31, 2003.

The impact of purchase accounting results in a number of significant non-cash charges to the 2003 income statement, such as Merger-Related In-Process Research and Development (IPR&D) (one-time \$5.1 billion); incremental cost of sales (non-recurring \$2.8 billion) from the sale of acquired inventory adjusted to fair value; and incremental amortization (\$2.4 billion) of tangible and intangible assets adjusted to fair value. See also the discussion under the headings "Merger-Related In-Process Research and Development Charge" and "Merger-Related Costs."

The largest components of the purchase price recorded on the balance sheet are intangible assets (see Note 2 to the consolidated financial statements — "Pharmacia Acquisition"). The components of Pharmacia goodwill and identifiable intangible assets, by segment, at the acquisition date (determined in consultation with independent valuation specialists) follow:

(MILLIONS OF DOLLARS)	PHARMA- CEUTICAL	CONSUMER HEALTHCARE	ANIMAL HEALTH	OTHER	TOTAL
Goodwill	\$18,548	\$1,714	\$ 77	\$108	\$20,447
Finite-lived intangible assets	30,945	168	52	431	31,596
Indefinite-lived intangible assets	4,284	1,076	236	29	5,625

The \$31.6 billion of purchased intangibles with finite lives includes \$31.2 billion of developed technology rights and the \$5.6 billion of purchased intangibles with indefinite lives includes \$5.3 billion of brands.

Developed technology rights represent the value associated with developed technology to which Pfizer has rights. These rights can include the right to develop, use, market, sell and/or offer for sale the products, com-

pounds and intellectual property that we acquired from Pharmacia with respect to products, compounds and/or processes that have been completed. The significant components of developed technology rights include fair values determined for Celebrex, Detrol, Xalatan, Genotropin, Zyvox, Camptosar and Bextra.

Brands represent tradenames, as the products themselves no longer receive patent protection. Significant brands include fair values determined for Depo Provera contraceptive, Xanax, Medrol and tobacco-dependence products.

The fair value of all of these identifiable intangible assets is determined using the "income approach" on a project-by-project basis. This method starts with a forecast of all of the expected future net cash flows associated with the developed technology (both approved and unapproved uses), the brands and other intangible assets. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams, some of which are more certain than others.

The valuation of developed technology rights is derived from multiple cash flow streams, some of which are more certain than others. For example, the valuation of Pharmacia's second-generation COX-2 inhibitor, valdecoxib, includes the cash flows associated with the sale of Bextra, the product line approved by regulators for the treatment of osteoarthritis and rheumatoid arthritis, as well as the value associated with using the developed technology (valdecoxib) in current R&D projects. In this situation, the projected cash flows of the approved indications are more likely to be achieved than the potential cash flows associated with the R&D projects for the currently unapproved indications. The unequal probability of realizing these cash flow streams reflects the uncertainty associated with the future benefits of individual R&D projects, even those that leverage the benefits of developed technology. Of the value allocated to developed technology rights, approximately 96% is derived from regulatory-approved uses and indications.

The valuations are based on information that is available as of the acquisition date and the expectations and assumptions that have been deemed reasonable by our management. No assurance can be given, however, that the underlying assumptions or events associated with such assets will occur as projected. For these reasons, among others, the actual results may vary from the projected results.

At least annually, we review all of our intangible assets, including goodwill, for impairment.

Due to the continuing analyses relating to the determination of the fair values of the assets acquired and liabilities assumed in connection with our acquisition of Pharmacia (U.S. GAAP permits up to one year from the acquisition date to complete such analyses), any changes to the fair value of net assets acquired from Pharmacia, based on information as of the acquisition date, will result in an adjustment to the intangible asset's fair value and a corresponding adjustment to goodwill.

As a result of the acquisition of Pharmacia, regulatory authorities required us to divest several products and a product candidate. In April 2003, we sold Cortaid, an anti-itch cream, for \$35.8 million in cash. Also in April 2003, we sold the product candidate for overactive bladder, darifenacin, for \$225 million. We received \$50 million in cash upon closing and will receive the remaining \$175 million when, and if, darifenacin receives regulatory approvals.

Financial Review

Pfizer Inc and Subsidiary Companies

Analysis of the Consolidated Statement of Income

The results of operations in 2003 discussed below include Pharmacia's product sales and expenses from the acquisition date as well as certain non-cash charges relating to purchase accounting for the Pharmacia acquisition.

(MILLIONS OF DOLLARS)	2003	2002	2001	% CHANGE	
				03/02	02/01
Revenues	\$45,188	\$32,373	\$29,024	40	12
Cost of sales	9,832	4,045	3,823	143	6
% of revenues	21.8%	12.5%	13.2%		
SI&A expenses	15,242	10,846	9,717	41	12
% of revenues	33.7%	33.5%	33.5%		
R&D expenses	7,131	5,176	4,776	38	8
% of revenues	15.8%	16.0%	16.5%		
Merger-related IPR&D charge	5,052	—	—	—	—
% of revenues	11.2%	—	—		
Merger-related costs	1,058	630	819	68	(23)
% of revenues	2.3%	1.9%	2.8%		
Other (income)/deductions—net	3,610	(120)	(95)	*	27
Income from continuing operations before provision for taxes on income, minority interests and cumulative effect of change in accounting principles	3,263	11,796	9,984	(72)	18
% of revenues	7.2%	36.4%	34.4%		
Provision for taxes on income	1,621	2,609	2,433	(38)	7
Effective tax rate	49.7%	22.1%	24.4%		
Income from continuing operations before cumulative effect of change in accounting principles	1,639	9,181	7,537	(82)	22
% of revenues	3.6%	28.4%	26.0%		
Discontinued operations—net of tax	2,301	355	251	548	41
Income before cumulative effect of change in accounting principles	3,940	9,536	7,788	(59)	22
% of revenues	8.7%	29.5%	26.8%		
Cumulative effect of change in accounting principles—net of tax	(30)	(410)	—	*	—
Net income	\$ 3,910	\$ 9,126	\$ 7,788	(57)	17
% of revenues	8.7%	28.2%	26.8%		

* Calculation not meaningful.

Certain reclassifications were made in 2002 and 2001 to conform to the 2003 presentation.

Percentages in this table and throughout the Financial Review may reflect rounding adjustments.

Revenues

Revenues increased 40% to \$45,188 million in 2003 and 12% to \$32,373 million in 2002. Revenue increases in 2003 were primarily due to the inclusion of Pharmacia products, strong performances by our in-line and newly launched products across businesses and regions and the weakening of the U.S. dollar relative to other currencies.

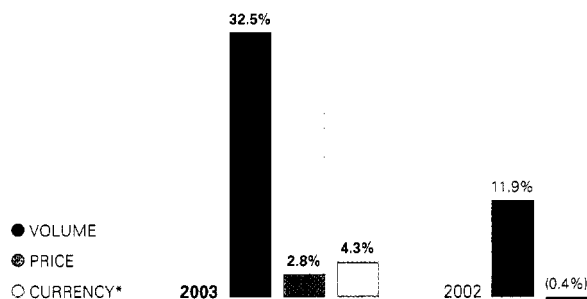
Effective January 2, 2004 and July 10, 2003, we increased the published prices for certain U.S. pharmaceutical products. These price increases had no material effect on 2003 wholesaler inventory levels. Pfizer's policy relating to supply of pharmaceutical inventory at domestic wholesalers is to maintain stocking levels under one month on average and to keep monthly levels consistent from year to year based on patterns of utilization. Pharmacia stocking levels began the second quarter of 2003 at a little over two months on average and have been reduced to Pfizer's levels. We completed the harmonization of Pharmacia's trade-inventory practices in 2003, however, such harmonization of trade-inventory practices with those of legacy Pfizer negatively impacted revenues by approximately \$500 million in 2003.

Revenue increases in 2002 were due primarily to newly launched products, new indications for existing products and sales volume growth of our pharmaceutical products.

Revenues in the U.S. grew 30% to \$26,844 million in 2003 and 12% to \$20,613 million in 2002. International revenues grew 56% to \$18,344 million in 2003 and 12% to \$11,760 million in 2002.

Revenues exceeded \$500 million in each of ten countries outside the U.S. in 2003 and in each of seven countries outside the U.S. in 2002. The U.S. was the only country to contribute more than 10% of total revenues in both years.

Elements of Total Revenue Growth (percentages)



* In 2002, currency had no impact on our revenues.

Revenues by Business Segment

We operate in the following business segments:

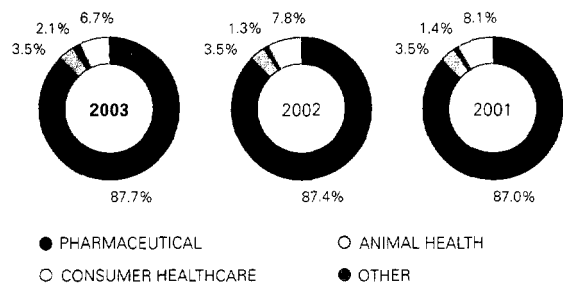
- Pharmaceutical**
 - The pharmaceutical segment includes treatments for cardiovascular and metabolic diseases, central nervous system disorders, arthritis and pain, infectious and respiratory diseases, urogenital conditions, cancer, eye disease, endocrine disorders and allergies.
- Consumer Healthcare**
 - The consumer healthcare segment includes self medications for oral care, upper respiratory health, tobacco dependence, gastrointestinal health, skin care, eye care and hair growth.
- Animal Health**
 - The animal health segment includes treatments for diseases in livestock and companion animals.

We operate several other businesses including the manufacture of empty soft-gelatin capsules, contract manufacturing, bulk pharmaceutical chemicals and diagnostics. Due to the size of these businesses, they are grouped into our "Corporate/Other" segment.

Financial Review

Pfizer Inc and Subsidiary Companies

Total Revenues by Business Segment



Percentage Change in Revenues

	TOTAL % CHANGE	ANALYSIS OF % CHANGE		
		VOLUME*	PRICE**	CURRENCY
Pharmaceutical				
2003 vs. 2002***	40.1	32.8	3.0	4.3
2002 vs. 2001	12.1	12.7	(0.7)	0.1
Consumer Healthcare				
2003 vs. 2002***	20.0	15.8	1.2	3.0
2002 vs. 2001	7.7	6.2	1.5	—
Animal Health				
2003 vs. 2002***	42.8	35.1	2.5	5.2
2002 vs. 2001	9.6	8.3	3.0	(1.7)
Total				
2003 vs. 2002***	39.6	32.5	2.8	4.3
2002 vs. 2001	11.5	11.9	(0.4)	—

* All alliance revenue changes are included in volume.

** Reflects impact of harmonization of accounting methodology in 2001 for Medicaid discounts and contract rebate accruals.

*** All changes related to Pharmacia products are included in volume.

Percentage Change in Geographic Revenues

	% CHANGE IN REVENUES			
	U.S.		INTERNATIONAL	
	03/02	02/01	03/02	02/01
Pharmaceutical*	32	12	55	12
Consumer Healthcare*	1	8	54	7
Animal Health	47	12	40	7
Total	30	12	56	12

* Certain reclassifications were made in 2002 and 2001 to conform to the 2003 presentation.

Pharmaceutical

Revenues of our pharmaceutical segment were as follows:

(MILLIONS OF DOLLARS)	2003	2002	2001	% CHANGE	
				03/02	02/01
Pharmaceutical*	\$39,631	\$28,283	\$25,240	40	12

* Certain reclassifications were made in 2002 and 2001 to conform to the 2003 presentation.

Our Pharmaceutical business is the largest in the world. Revenues from this segment contributed 88% of our total revenues in 2003 and 87% in each of 2002 and 2001. At the end of 2003, fourteen of our pharmaceutical products remained number one in their respective therapeutic category.

In the U.S. market, pharmaceutical revenue growth was 32% in 2003 and 12% in 2002. International growth was 55% in 2003 and 12% in 2002. The growth in our Pharmaceutical business was driven by strong performances across a broad range of products, the inclusion of post-acquisition results of legacy Pharmacia products (including recording product sales instead of alliance revenue for Celebrex and Bextra) and the favorable impact of the U.S. dollar against major currencies.

We recorded product sales of more than \$1 billion for each of nine products in 2003 and eight products in 2002. These products represented 70% in 2003 and 79% in 2002 of our pharmaceutical business.

Revenues — Major Pharmaceutical Products

(MILLIONS OF DOLLARS)	2003	2002	2001	% CHANGE	
				03/02	02/01
Cardiovascular					
Metabolic Diseases:	\$16,171	\$13,664	\$11,894	18	15
Lipitor	9,231	7,972	6,448	16	24
Norvasc	4,336	3,846	3,581	13	7
Accupril/Accuretic	706	668	604	6	11
Cardura	594	531	551	12	(4)
Glucotrol XL	331	297	283	11	5
Central Nervous System					
Disorders:	7,378	5,726	4,740	29	21
Zoloft	3,118	2,742	2,365	14	16
Neurontin	2,702	2,269	1,751	19	30
Geodon	353	222	150	59	49
Aricept*	254	203	157	25	29
Xanax/Xanax XR	238	—	—	—	—
Relpax	85	16	1	435	M+
Arthritis and Pain:	3,046	363	365	740	(1)
Celebrex**	1,883	100	76	M+	31
Bextra	687	—	—	—	—
Infectious and Respiratory					
Diseases:	4,677	3,615	3,638	29	(1)
Zithromax	2,010	1,516	1,506	33	1
Diflucan	1,176	1,112	1,066	6	4
Viracept	259	336	364	(23)	(8)
Vfend	200	42	—	379	—
Zyvox	181	—	—	—	—
Urology:	2,457	1,735	1,518	42	14
Viagra	1,879	1,735	1,518	8	14
Detrol/Detrol LA	544	—	—	—	—
Oncology:	713	—	—	—	—
Camptosar	299	—	—	—	—
Ellence	216	—	—	—	—
Ophthalmology:	770	—	—	—	—
Xalatan/Xalcom	623	—	—	—	—
Endocrine Disorders:	550	—	—	—	—
Genotropin	481	—	—	—	—
All Other:	3,110	1,584	1,531	96	3
Zyrtec	1,338	1,115	990	20	13
Medrol	241	—	—	—	—
Alliance Revenue***	759	1,596	1,379	(52)	16

M+ Change greater than one thousand percent.

* Represents direct sales under license agreement with Eisai Co., Ltd.

** Includes direct sales under license agreement with Pharmacia prior to the acquisition.

*** Includes alliance revenue for Celebrex and Bextra under copromotion agreements with Pharmacia prior to the acquisition.

- **Lipitor**, for the treatment of elevated cholesterol levels in the blood, is the most widely prescribed statin for lowering cholesterol and the most widely prescribed pharmaceutical product in the world. Despite the challenges of multiple new competitors both in the U.S. and in international markets, we expect that Lipitor's unsurpassed record of cholesterol reduction and patient safety at all doses make it the powerful cholesterol treatment patients and physicians choose, and trust, most. With 45% of total prescriptions in the U.S. lipid-lowering market in 2003, Lipitor has gained wide physician and patient acceptance based on its ability to bring the vast majority of patients to target cholesterol goals across the full dosing range. There continues to be an opportunity for further growth of the cholesterol-lowering market. We believe, worldwide, millions of people with high cholesterol are either not diagnosed or not meeting their cholesterol goals with treatment. Evolving treatment guidelines will likely continue to encourage the use of statin therapy.
- **Norvasc** is the world's most-prescribed branded medicine for treating hypertension and the fourth-largest selling pharmaceutical product in the world.
- **Zoloft**, for the treatment of depression, panic disorder, obsessive-compulsive disorder in adults and children, post-traumatic stress disorder (PTSD), premenstrual dysphoric disorder (PMDD) and social anxiety disorder (SAD), is the most-prescribed selective serotonin reuptake inhibitor (SSRI) in the U.S. Zoloft is approved for acute and long-term use in all of these indications with the exception of PMDD and is the only approved agent for the long-term treatment of PTSD and SAD, an important differentiating feature as these disorders tend to be chronic.
- **Neurontin**, for use in adjunctive therapy for epilepsy, is also approved in more than 60 markets for the treatment of a range of neuropathic pain conditions. Neurontin has also been approved for the management of post-herpetic neuralgia, which is described as pain in the area affected by a viral infection commonly known as shingles. Neurontin is the first oral medication approved in the U.S. for this condition.
- **Geodon**, for the treatment of symptoms associated with schizophrenia, has been approved in 64 countries and launched in the U.S., Germany, Spain, Brazil, and other major markets. Geodon remains the first and only atypical antipsychotic available in both an oral and a rapid-acting intramuscular dosage form. In 2003, Pfizer received a U.S. Food and Drug Administration (FDA) request for a diabetes class warning. Pfizer responded to this request by stating that Geodon has not been associated with increased risk for diabetes. Evidence from clinical trials has consistently demonstrated that Geodon has a weight-neutral profile overall. Data also show that Geodon did not adversely affect patients' fasting insulin levels, total cholesterol and triglycerides, and blood sugar levels. In addition, Pfizer submitted a full response to the FDA's request for class labeling that contained a summary of the relevant data and a proposal for Geodon labeling that did not include the class warning, but instead focused on Geodon's metabolic advantages.
- **Celebrex**, for relief of the pain and inflammation of osteoarthritis (OA), rheumatoid arthritis (RA), acute pain and primary dysmenorrhea (menstrual pain) in adults, is the leading selective COX-2 inhibitor in the world having the broadest range of approved indications. In addition, Celebrex is approved in the U.S. and E.U. to reduce the number of adenomatous colorectal polyps in familial adenomatous polyposis (FAP), a rare genetic disease that may result in colorectal cancer, as an adjunct to usual care. Celebrex is the most-prescribed arthritis brand in the U.S. market. We copromoted Celebrex with Pharmacia prior to our acquisition of Pharmacia. Revenue associated with the copromotion of Celebrex was recorded by Pfizer as alliance revenue prior to the acquisition date.
- **Bextra** is used for relief of the pain and inflammation of OA, RA and primary dysmenorrhea and offers a once-daily dosing for OA and RA patients. We copromoted Bextra with Pharmacia prior to our acquisition of Pharmacia. Revenue associated with our copromotion of Bextra was recorded by Pfizer as alliance revenue prior to the acquisition date.
- **Zithromax** is the largest-selling antibiotic worldwide. Zithromax continues to revolutionize antibiotic treatment in the U.S. with the only available single dose treatment for otitis media (middle ear infection). The Zithromax Tri-Pak provides the only three-day regimen for the treatment of acute bacterial exacerbations of chronic obstructive pulmonary disease (COPD). Zithromax is also recommended for the first-line treatment of community-acquired pneumonia and sinusitis.
- **Diflucan** remains the leading systemic antifungal in the world. Diflucan's sales volume after 14 years on the market reflects the product's continuing acceptance as the therapy of choice for a wide range of fungal infections. Diflucan lost patent protection in much of Europe in 2003 as well as Japan, the U.K. and Germany. Our basic product patent for fluconazole (Diflucan) expired in the U.S. in January 2004. The FDA has granted us pediatric exclusivity with respect to Diflucan, which extends our marketing exclusivity for six months, through July 29, 2004, but the grant of pediatric exclusivity is subject to a pending legal challenge by a generic manufacturer.
- **Viagra**, a treatment for erectile dysfunction (ED), is the world's most recognized pharmaceutical brand and among the most widely prescribed medications. We expect Viagra to continue to lead the erectile dysfunction market due to its unsurpassed medical profile. Future Viagra sales growth is expected to come from increased patient presentation and physician diagnosis. Direct-to-consumer advertising has been effective in encouraging more men to see a physician about ED.
- **Detrol** is the world's leading product for the treatment of overactive bladder. **Detrol LA** is an extended release formulation taken once a day.
- **Xalatan** is the most prescribed glaucoma medicine in the U.S., Europe and Japan. It is the first and only prostaglandin with a first-line indication for the treatment of elevated eye pressure. **Xalcom** consists of Xalatan with the beta-blocker timolol.
- **Zyrtec** provides strong, rapid and long-lasting relief for seasonal and year-round allergies and hives with once-daily dosing. Zyrtec is the leading branded antihistamine in the U.S. in new prescriptions and the only prescription antihistamine with a syrup formulation. **Zyrtec-D 12 Hour** is the only prescription oral antihistamine/decongestant combination medicine approved to treat both year-round indoor and outdoor allergies, as well as nasal congestion. Revenue and prescription gains were achieved despite multiple over-the-counter (OTC) branded and private-label loratadine (Claritin) product introductions since December 2002. Zyrtec's growth in this declining market can be attributed in part to strong performance in a broad range of formulations—tablets, syrup, and the 12-hour decongestant formulation—and for both adult and pediatric patients.

Financial Review

Pfizer Inc and Subsidiary Companies

- **Alliance revenue** reflects revenue associated with our copromotion of Aricept, Spiriva and Rebif and for Celebrex and Bextra prior to the acquisition of Pharmacia on April 16, 2003.
 - **Aricept**, discovered and developed by our alliance partner Eisai Co., Ltd., is the world's leading medicine to treat symptoms of Alzheimer's disease.
 - **Spiriva**, discovered and developed by our alliance partner Boehringer Ingelheim (BI), is used to treat COPD, a chronic respiratory disorder that includes chronic bronchitis and emphysema. BI received an approval letter from the FDA in January 2004 to market Spiriva in the U.S.
 - **Rebif**, discovered and developed by Serono S. A. (Serono), is used to treat symptoms of relapsing forms of multiple sclerosis.

Alliances allow us to copromote or license these products for sale in certain countries. Under the copromotion agreements, these products are marketed and promoted with our alliance partners. We provide funding through cash, staff and other resources to sell, market, promote and further develop these products.

Rebates under Medicaid and related state programs reduced revenues by \$800 million in 2003, \$570 million in 2002 and \$342 million in 2001. We also provided legislatively mandated discounts to the U.S. government of \$566 million in 2003, \$420 million in 2002 and \$343 million in 2001. Performance-based contracts also provide for rebates to several customers. These contracts are with managed care customers, including health maintenance organizations and pharmacy benefit managers, who receive rebates based on the achievement of contracted performance terms for products. Rebates are product-specific and therefore, for any given year can be impacted by the mix of products sold.

Consumer Healthcare

Revenues of our consumer healthcare business were as follows:

(MILLIONS OF DOLLARS)	2003	2002	2001	% CHANGE	
				03/02	02/01
Consumer healthcare*	\$3,042	\$2,535	\$2,354	20	8

* Certain reclassifications were made in 2002 and 2001 to conform to the 2003 presentation.

Our consumer healthcare business is one of the largest consumer healthcare companies in the world. The increase in consumer healthcare revenues in 2003, as compared to the prior-year periods, was primarily due to the inclusion of Pharmacia products as well as:

- the 12% increase in 2003 in sales of Listerine mouthwash, which benefited from the recent U.S. launch of Natural Citrus flavor
- the favorable impact of the weakening of the U.S. dollar against major currencies

partially offset by:

- the 13% decline in 2003 in sales of Listerine PocketPaks, reflecting the 2002 initial trade stocking as well as a change in demand from initial trial to a more normalized consumption pattern, which has been partially offset by the roll-out to international markets
- the 1% and 2% decline in 2003 of Benadryl and Sudafed as a result of the loratadine switch from prescription to OTC.
- the divestitures of the Nix and Bonine franchises in North America during the first half of 2003

The 8% increase in consumer healthcare revenues in 2002 was primarily due to:

- the success of Listerine PocketPaks representing 5% of the 8% overall increase in consumer healthcare revenues
- the 10% increase in sales of Listerine mouthwash

Animal Health

Revenues of our animal health business were as follows:

(MILLIONS OF DOLLARS)	2003	2002	2001	% CHANGE	
				03/02	02/01
Livestock products	\$ 970	\$ 595	\$ 562	63	6
Companion animal products	628	524	459	20	14
Total animal health products	\$1,598	\$1,119	\$1,021	43	10

Our animal health business is the largest in the world. The increase in animal health revenues in 2003, as compared to the prior-year periods, was primarily due to the inclusion of Pharmacia products, which are reflected in both product categories.

Livestock product revenues increased 63% in 2003, as compared with the prior year, with key performance as follows:

- swine vaccine sales grew 9% in 2003, as compared with prior year, due to the second quarter 2002 launches of Flusure (a swine influenza vaccine) in the U.S. and RespiSure One/Stellamune One (a single-dose swine vaccine to prevent pneumonia) in our international markets during 2002
- Advocin 180 (an antibiotic used to treat respiratory and internal infections in cattle and swine) was launched in the U.S. during the fourth quarter of 2002
- Spirovac (a reproductive cattle vaccine) was launched in the U.S. during the first quarter of 2003
- Dectomax (a treatment for internal and external parasites in cattle and swine) sales grew 1% despite increasing generic competition throughout our markets

Livestock product revenues increased 6% in 2002 with key performance as follows:

- swine vaccine sales grew 18% due to the 2002 launch of Flusure in the U.S., as well as the launch of RespiSure One/Stellamune One in our international markets
- cattle vaccine sales grew 12% due to growth in our European markets, where the livestock market has shown signs of recovery, and in Latin America, resulting from higher sales of vaccines for foot-and-mouth disease

partially offset by:

- Dectomax sales, which remained flat, as the product faced increased generic competition and price erosion throughout our markets

Companion animal product revenues increased 20% in 2003, as compared with the prior year, with key brand performance as follows:

- Revolution (a parasiticide for dogs and cats) sales grew 26% in 2003 due to increased promotional efforts and the weakening of the U.S. dollar against major currencies

Financial Review

Pfizer Inc and Subsidiary Companies

- Rimadyl (for relief of arthritis pain in dogs and for post-operative pain treatment) sales grew 13% due to increased field and marketing emphasis on the brand throughout our markets, the launch of Rimadyl Injectable in the U.S. and the weakening of the U.S. dollar against major currencies
- Clavamox/Synulox (an antibiotic for dogs and cats) sales grew 16% in 2003 due to increased promotional activities in the U.S. and the weakening of the U.S. dollar against major currencies

Companion animal product revenues increased 14% in 2002 driven by strong global performance that was well-balanced across key brand performance as follows:

- Revolution sales grew 35% largely due to benefits generated from increased promotional efforts in Europe and a change from distributorship to direct customer sales in one of our Asian markets
- Rimadyl sales grew 14% due to increased field and marketing emphasis on the brand throughout our international markets and increased veterinary demand in the U.S. based on a new FDA approval for a post-operative pain indication
- Clavamox/Synulox sales grew 21% due to field and marketing emphasis on the brand throughout our markets

partially offset by:

- our companion animal vaccine line, which showed growth of 5%, reflective of a mature market segment in which our commitment to customer service enables us to maintain our customer base

Product Developments

We continue to invest in R&D to provide future sources of revenue through the development of new products, as well as through additional uses for existing in-line and alliance products. We possess a broad and deep pipeline of medicines in development. We intend to submit New Drug Applications (NDA) to the FDA for twenty products in the five-year interval ending in 2006, of which six (Relpax, Inspra, Somavert, Spiriva, Caduet and pregabalin) have been submitted through December 31, 2003. We have three new products that were recently approved or are undergoing regulatory review in the U.S. and/or E.U. (Inspra, Caduet, pregabalin). We intend to launch all three of these products in new markets once regulatory approvals are received. However, there are no assurances as to when, or if, we will receive regulatory approval for these or any of our other new products.

Certain significant regulatory actions by, and filings pending with, the FDA follow:

U.S. FDA Approvals		
PRODUCT	INDICATION/DOSAGE	DATE APPROVED
Caduet	Single product that combines cholesterol-lowering and anti-hypertensive medications in Lipitor and Norvasc	January 2004
Spiriva	COPD	January 2004
Zithromax	Acute bacterial sinusitis	January 2004
Vfend	Oral suspension dosage form Antifungal—esophageal infections caused by candida ssp.	December 2003 November 2003
Detrol	Pediatric patients with neurogenic bladder (loss of control of urination)	December 2003
Inspra	Post-heart-attack heart failure	October 2003
Zyvox	Diabetic foot infections	July 2003
Viracept	HIV—new dosage form	April 2003
Somavert	Acromegaly (a growth disorder)	March 2003
Zoloft	Social anxiety disorder	February 2003
Pending U.S. NDAs and Supplemental NDAs		
PRODUCT	INDICATION/DOSAGE	DATE SUBMITTED
Depo-Provera	Injectable formulation to treat endometriosis	December 2003
	Subcutaneous formulation for contraception	June 2003
Zyvox	Use in penicillin-resistant streptococcus pneumonia infections in patients with pneumonia	December 2003
Bextra	Migraine	November 2003
pregabalin	Neuropathic pain, add-on epilepsy, and generalized anxiety disorder	October 2003
Geodon	Acute mania in bipolar disorder	October 2003
	Oral suspension dosage form	September 2002
Diflucan	Use in children	October 2003
Zyrtec	Chewable tablets	May 2003
Fragmin	Use to prevent the formation of venous blood clots	February 2003
Viracept	Use in children with HIV	June 2003
Cardura XL	Benign prostatic hyperplasia (enlarged prostate)	April 2001

Financial Review

Pfizer Inc and Subsidiary Companies

- In February 2004, a filing for Exubera, for the treatment of Type 1 and Type 2 diabetes, was submitted in the E.U.
- In December 2003, the FDA issued an approvable letter for Zolof for use with depressed hospital patients with acute myocardial infarction or unstable angina.
- In December 2003, the European regulatory submission for Caduet, the Lipitor-Norvasc one-pill combination was completed.
- In October 2003, the E.U. approved Onsenal (Celebrex) for familial adenomatous polyposis.
- In October 2003, fosfluconazole, the injectable pro-drug of leading antifungal agent Diflucan, was approved for marketing in Japan.
- In September 2003, the FDA issued an approvable letter for Zolof to add safety information regarding the treatment of depression in children and adolescents providing positive labeling on weight gain.
- In July 2003, Inspira was filed in the E.U. for the treatment of post-myocardial-infarction heart failure.
- In July 2003, the FDA issued a non-approvable letter for the liquid oral suspension dosage form of Geodon. We have responded to the FDA's questions and are working with the FDA to resolve the issues identified.
- In June 2003, the FDA issued an approvable letter to include the safety information from two trials in pediatric depression in the Zolof package insert.
- In June 2003, the E.U. approved Genotropin for treating children born small for gestational age.
- In June 2003, we submitted a filing in Japan for the use of Vfend in the treatment of serious fungal infections, including apsergillus, candida ssp. and cryptococcus.
- In May 2003, Bextra received marketing approval in the E.U. for treatment of OA, RA and primary dysmenorrhea.
- In March 2003, a filing for pregabalin, for the treatment of neuropathic pain and as adjunctive therapy in epilepsy, was submitted in the E.U.

Ongoing or planned clinical trials for additional uses and dosage forms for our currently marketed products include:

PRODUCT	INDICATION/DOSAGE
Viagra	Pulmonary arterial hypertension in both children and adults
Celebrex	Sporadic adenomatous polyposis—a precancerous condition caused by growths in the intestines Barrett's esophagus—a precancerous condition caused by repeated damage from stomach acid regurgitation Actinic keratosis—a precancerous skin growth caused by overexposure to sunlight Bladder cancer Ankylosing spondylitis—an inflammation of the spine Chronic lower back pain
Zithromax	Cystic fibrosis Drug resistant malaria (combination with chloroquine) Sustained release Zithromax (bacterial infections)
Vfend	Candidemia in non-neutropenic patients Fungal infections in immuno-compromised patients
Bextra	Acute pain, including gout Perioperative oral surgery pain
Camptosar IV	Use in children Adjuvant colorectal cancer Gastric cancer
Fragmin	Use in oncology to reduce cardiac toxicity associated with chemotherapy
Xalatan (new formulation)	Ocular hypertension

It is our current intention to submit applications for the following new chemical compounds in 2004 subject to ongoing negotiations and discussions with various regulatory agencies:

COMPOUND	INDICATION	ANTICIPATED SUBMISSION DATE
Dynastat	Injectable COX-2 inhibitor for pain and inflammation (powder)	2004
Indiplon	Insomnia (tablet)	2004

Advanced-stage clinical studies are continuing for Exubera, an inhalable form of insulin for Type 1 and Type 2 diabetes under co-development, co-manufacture, and co-marketing with Aventis Pharma (Aventis), with the participation of Nektar Therapeutics; varenicline for smoking cessation; Lipitor-torcetrapib for cholesterol disorders; lasofoxifene for osteoporosis and other indications; Macugen for macular degeneration and macular edema, under co-development with Eyetech Pharmaceuticals, Inc. (Eyetech); Daxas (roflumilast) for COPD and asthma, under co-development with Altana Pharma; capravirine for HIV/AIDS; a Zithromax/chloroquine combination for malaria; sumanirole for Parkinson's disease; asenapine for neurological disorders, under co-development with Akzo Nobel's Organon healthcare unit; edotecarin for Glioma and colorectal cancer; and SU-11,248, an angiogenesis inhibitor for treatment of gastrointestinal and other cancers.

Together with Aventis, we are completing additional long-term studies for the Exubera development program. These trials are well under way and involve patients with Type 1 and Type 2 diabetes. Because of the potential widespread use of Exubera among diabetes patients, additional rigorous testing and assessment of pulmonary function measures are appropriate to deepen the medical understanding of diabetes and Exubera's role in the future management of diabetes. Based on interim data from one-year controlled safety studies, we are confident that Exubera will be an important medication to treat this devastating disease. We are continuing our discussions with regulatory agencies regarding the timing of the submission in the U.S.

On October 20, 2003, Pfizer announced a global agreement to collaborate with Organon for the exclusive worldwide development and commercialization of asenapine, a 5HT₂/D₂ antagonist beginning Phase III trials for schizophrenia and bipolar disorder. Under terms of the agreement, the companies will collaborate on the clinical development and manufacturing of asenapine and copromote the product in the U.S., E.U., Japan, and other markets. The government cleared the transaction in December 2003 and we expensed a payment of \$100 million, included in *Other (income)/deductions—net*, to Organon in the fourth quarter of 2003. Additional milestone payments of \$270 million could potentially be made to Organon based upon regulatory approvals and launch of asenapine in the U.S., E.U., and Japan as well as the attainment of certain agreed upon sales levels. If approved, we will copromote asenapine with Organon and we will record alliance revenue for copromotion services provided to Organon.

In December 2002, we announced an agreement with Neurocrine Biosciences, Inc. (Neurocrine) for the exclusive worldwide development and commercialization of indiplon, Neurocrine's Phase III compound for the potential treatment of insomnia. Under terms of the agreement, we obtained an exclusive, worldwide license for indiplon. We will record all sales of indiplon and Neurocrine will have exclusive rights to copromote, but not to sell, indiplon in the U.S. Following filing of an NDA for indiplon, Neurocrine will also have rights to detail, but not to sell, our antidepressant, Zoloft, in the U.S. The government approved the transaction in February 2003 and we expensed a payment of \$100 million, included in *Other (income)/deductions—net*, to Neurocrine in the first quarter of 2003. Additional milestone payments of \$300 million could potentially be made to Neurocrine based on worldwide regulatory submissions and approvals. We will fund the ongoing development of

indiplon and pay royalties on worldwide sales and copromotion commissions in the U.S. Following the U.S. launch of indiplon, we will provide a \$175 million secured credit facility for a period of three years.

Also in December 2002, we announced an agreement with Eyetech to jointly develop and commercialize Eyetech's Macugen (pegaptanib sodium), a potential treatment for age-related macular degeneration (AMD) and diabetic macular edema (DME), both leading causes of blindness. The government cleared the transaction in February 2003 at which time we expensed a payment of \$100 million which is included in *Other (income)/deductions—net* to Eyetech. Additional milestone payments up to \$195.5 million could potentially be made to Eyetech based on worldwide regulatory submission and approvals. Eyetech also has the potential to receive up to an additional \$450 million in milestone payments, which are contingent upon successful commercialization of Macugen and attainment of agreed-upon sales levels. We will also fund the majority of the ongoing development costs for both the AMD and DME indications. If approved, we will copromote Macugen with Eyetech in the U.S. and we will record alliance revenue for copromotion services provided to Eyetech. Outside the U.S., we will market the product exclusively under a royalty-bearing license and we will directly record sales of the product.

Additional product-related programs are in various stages of discovery and development.

Costs and Expenses

Cost of Sales

Cost of sales increased 143% in 2003 and 6% in 2002 while revenues increased 40% in 2003 and 12% in 2002. In accordance with purchase accounting, Pharmacia's inventory was recorded on Pfizer's balance sheet at fair value (an amount higher than Pharmacia's cost to manufacture). As the inventory was sold, cost of sales was charged for the fair market value of the acquired inventory. Sales of this inventory were completed by the end of 2003. Overall, our 2003 cost of sales was impacted by:

- incremental cost of sales (\$2,820 million in 2003) from the sale of inventory acquired from Pharmacia adjusted to fair value
- change in product mix, given the addition of legacy Pharmacia's product portfolio, which has a higher product cost relative to legacy Pfizer's product portfolio
- the impact of reflecting cost of sales for Celebrex and Bextra after the acquisition date compared to reflecting alliance revenue for the copromotion of Celebrex and Bextra prior to April 16, 2003
- the unfavorable impact of foreign exchange

partially offset by:

- merger-related cost savings

The change in 2002 reflects favorable business and product mix, the benefit of integration synergies resulting from our merger with Warner-Lambert and improvements in manufacturing efficiencies. Manufacturing efficiencies stem from greater volume and cost reductions attributable to procurement initiatives, as well as plant operating efficiencies. Cost of sales in 2002 was also unfavorably impacted by foreign exchange.

Selling, Informational and Administrative Expenses (SI&A)

SI&A expenses increased 41% in 2003 and 12% in 2002. Overall, both years reflect increases due to strong marketing and sales support for our broad portfolio of pharmaceutical products. In 2003, these increases are mainly due to the inclusion of expenses related to Pharmacia SI&A activities from the acquisition date and product support in light of new product competition partially offset by initial cost synergies from Pharmacia-related restructuring activities. Marketing expenses of our pharmaceutical products included 2003 costs associated with the first quarter 2003 U.S. launch of the migraine product Relpax and continued commercial support for products recently launched in the U.S. including the anti-arthritis product Bextra (copromoted with Pharmacia in the U.S. prior to the acquisition date), the U.S. launch in the third quarter 2002 of the antifungal agent Vfend, and initial commercial support of the multiple sclerosis product Rebif (copromoted with Serono in the U.S.) launched in the fourth quarter 2002. In Europe, the launch of Spiriva (copromoted with BI) for COPD in the fourth quarter 2002 and the migraine product Relpax in the second quarter 2002 also contributed to the period over period increase in marketing expenses.

During 2002, marketing expenses included costs associated with the U.S. launch of the anti-arthritis product Bextra (launched in the second quarter 2002), the U.S. launch of the anti-fungal agent Vfend, and initial commercial support of the multiple sclerosis product Rebif in Europe. The launch of Spiriva for COPD and the migraine product Relpax also contributed to the year-over-year increase in marketing expenses.

Research and Development Expenses (R&D)

R&D expenses increased 38% in 2003 and 8% in 2002. In 2003, year-over-year growth for R&D spending is attributable to the incremental expenditures associated with the consolidation of Pharmacia-related activity subsequent to the acquisition date and increased support of the advanced-stage development portfolio, partially offset by initial cost synergies from Pharmacia-related restructuring activities. In 2002, growth is attributable to increased support of the advanced-stage R&D portfolio, higher costs as a result of the recent expansion of facilities and increased information technology costs due to the continued implementation of enterprise-wide resource management systems.

Merger-Related In-Process Research and Development Charge

We recorded a merger-related in-process research and development charge in 2003 in the amount of \$5,052 million for the preliminary estimate of the portion of the purchase price of Pharmacia allocated to in-process research and development. The components of the IPR&D charge include projects related to multiple therapeutic areas in Pharmacia's portfolio, such as arthritis and pain.

Our valuation is being performed in consultation with independent valuation specialists to determine the fair value of research and development projects of Pharmacia that were in-process, but not yet completed. The fair value is determined using the "income approach" on a project-by-project basis. This method starts with a forecast of all of the expected future net cash flows. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the project's stage of completion and other risk factors, including the nature of the product, the scientific data associated with the technology, the current patent situation and market competition (see Note 2 to the consolidated financial statements — "Pharmacia Acquisition").

The final valuation is expected to be completed as soon as possible, but no later than one year from the acquisition date. To the extent that our estimates need to be adjusted, we will do so.

Merger-Related Costs

We incurred the following merger-related costs in connection with our acquisition of Pharmacia which was completed on April 16, 2003, and our merger with Warner-Lambert which was completed on June 19, 2000:

(MILLIONS OF DOLLARS)	2003	2002	2001
Integration costs:			
Pharmacia	\$ 838	\$ 98	\$ —
Warner-Lambert	33	345	456
Restructuring costs:			
Pharmacia	177	—	—
Warner-Lambert	10	187	363
Total merger-related costs — expensed	\$1,058	\$630	\$819
Total merger-related costs — capitalized	\$1,578	—	—

Integration costs represent external, incremental costs directly related to integrating Warner-Lambert and Pharmacia, including expenditures for consulting and systems integration.

Restructuring costs represent costs associated with asset write-offs, exit activities, employee termination costs and certain relocation costs.

The restructuring of our operations resulting from our merger with Warner-Lambert was substantially complete as of December 31, 2003. Accordingly, we do not expect to incur significant integration or restructuring charges directly related to our merger with Warner-Lambert in 2004.

Cost synergies from the Pharmacia acquisition achieved in 2003 totaled \$1.3 billion. Cumulative cost synergies resulting from the acquisition of Pharmacia are expected to be about \$3.4 billion in 2004 and about \$4 billion in 2005. Synergies will come from a broad range of sources, including a streamlined organization, reduced operating expenses, and procurement savings.

Restructuring Costs — Pharmacia

Throughout 2003, in connection with the acquisition of Pharmacia, Pfizer management approved and initiated plans to restructure the operations of both legacy Pfizer and legacy Pharmacia to eliminate duplicative facilities and reduce costs. The restructuring of our operations as a result of our acquisition of Pharmacia is expected to continue through 2005 and is expected to include severance, costs of vacating duplicative facilities and contract termination and other exit costs. Total merger-related expenditures incurred during 2003-2005 are expected to be in the range of \$5.0 billion to \$5.5 billion, pre-tax.

Restructuring Costs Associated with Legacy Pfizer — Expensed

We recorded \$177 million of restructuring costs associated primarily with exiting certain activities of legacy Pfizer, including severance, costs of vacating duplicative facilities and contract termination and other exit costs. At December 31, 2003, liabilities for restructuring costs incurred, but not paid, totaled \$67 million and are included in *Other current liabilities*.

The majority of the restructuring costs are related to employee terminations. Through December 31, 2003, employee termination costs totaling \$140 million represent the approved reduction of the legacy Pfizer work force by 1,477 employees, mainly in corporate, manufacturing,

Financial Review

Pfizer Inc and Subsidiary Companies

distribution, sales and research. We notified affected individuals and 1,281 employees were terminated as of December 31, 2003.

Restructuring Costs Associated with Legacy Pharmacia — Capitalized

We recorded \$1,578 million of restructuring costs associated primarily with employee terminations and exiting certain activities of legacy Pharmacia. These costs were recognized as liabilities assumed in the purchase business combination. Accordingly, these costs are considered part of the purchase price of Pharmacia and have been recorded as an increase to goodwill. At December 31, 2003, liabilities for restructuring costs incurred, but not paid, totaled \$376 million and are included in *Other current liabilities*.

The majority of the restructuring costs are related to employee terminations. Through December 31, 2003, employee termination costs totaling \$1,289 million represent the approved reduction of the legacy Pharmacia work force by 11,249 employees mainly in corporate, manufacturing, distribution, sales and research. We notified affected individuals and 10,174 employees were terminated as of December 31, 2003. Employee termination costs include accrued severance benefits and costs associated with change in control provisions of certain Pharmacia employment contracts.

Changes to the estimates of completing the currently approved restructuring plans and additional restructuring costs relating to legacy Pharmacia will be recorded in goodwill for up to one year following the acquisition date of April 16, 2003.

Restructuring charges are recorded when specific decisions to exit activities are approved and incurred. Reductions to our accruals for restructuring charges relating to legacy Pharmacia that were originally recorded as goodwill will be recorded as an adjustment to goodwill. Changes to the estimates of completing the currently approved restructuring plans or costs related to new restructuring initiatives relating to legacy Pharmacia subsequent to April 15, 2004 will be recorded in our results of operations.

Other (Income)/Deductions — Net

In the fourth quarter of 2003, we recorded charges totaling \$1,402 million to cover the resolution of two legacy Warner-Lambert legal matters: Rezulin personal injury claims and a government investigation of marketing practices relating to Neurontin (see our discussions in Note 20 to the consolidated financial statements — “Legal Proceedings and Contingencies”).

Income Taxes

Our overall effective tax rate for continuing operations was 49.7% in 2003 and 22.1% in 2002. The higher tax rate in 2003 was primarily due to the impact of purchase accounting for the Pharmacia acquisition as well as the significantly low benefit attributable to our charges for litigation settlements.

Discontinued Operations

We sold the following businesses and products that did not fit within our strategic plans:

- In April 2003, we completed the sale of the hormone replacement therapy femhrt, formerly part of our Pharmaceutical segment, to Galen Holdings plc for \$160 million in cash with a right to receive up to \$63.8 million contingent on femhrt retaining market exclusivity until the expiration of its patent. We recognized a gain on the sale of this product of \$139 million (\$83 million net of tax) in 2003.
- In March 2003, we sold the Adams confectionery products business, formerly part of our Consumer Healthcare segment, to Cadbury Schweppes plc for \$4.2 billion in cash. We recognized a gain on the sale of this business of \$3,091 million (\$1,824 million net of tax) in 2003.
- In March 2003, we sold the Schick-Wilkinson Sword shaving products business, formerly part of our Consumer Healthcare segment, to Energizer Holdings, Inc., for \$930 million in cash. We recognized a gain on the sale of this business of \$462 million (\$262 million net of tax) in 2003.
- In March 2003, we sold the oral contraceptives Estrostep and Loestrin, formerly part of our Pharmaceutical segment, to Galen Holdings plc for \$197 million in cash with a right to receive up to \$47.3 million contingent on Estrostep retaining market exclusivity until the expiration of its patent. We recognized a gain on the sale of these two products of \$193 million (\$116 million net of tax) in 2003.
- In December 2002, we sold the Tetra fish-care products business, formerly part of our Consumer Healthcare segment, to the Triton Fund for \$238.5 million in cash. We recognized a gain on the sale of this business of \$117 million (\$77 million net of tax) in 2002.

These businesses and women's health product lines are reflected as discontinued operations in all periods presented.

The following amounts related to the Adams, Schick-Wilkinson Sword and Tetra (in 2002 and 2001) businesses and women's health product lines have been segregated from continuing operations and reflected as discontinued operations:

(MILLIONS OF DOLLARS)	2003	2002	2001
Revenues	\$ 762	\$2,908	\$2,958
Pre-tax income	\$ 26	\$ 447	\$ 405
Provision for taxes on income	10	169	154
Income from operations of discontinued businesses — net of tax	16	278	251
Pre-tax gains on sales of discontinued businesses	3,885	117	—
Provision for taxes on gains	1,600	40	—
Gains on sales of discontinued businesses — net of tax	2,285	77	—
Discontinued operations — net of tax	\$2,301	\$ 355	\$ 251

Financial Review

Pfizer Inc and Subsidiary Companies

On January 19, 2004, we announced that we agreed to sell our in-vitro allergy and diagnostics testing business for \$575 million in cash. This business is included in our "Corporate/Other" segment and became a part of Pfizer in April 2003 with our acquisition of Pharmacia. We recorded approximately \$153 million in revenues from this business in 2003.

On January 13, 2004, we announced that we are exploring strategic options for approximately 60 non-core consumer products, including the possible sale of these products, currently marketed in Europe by our Consumer Healthcare segment. The majority of these products are small brands, sold in single markets only and include certain products that became a part of Pfizer in April 2003 in connection with our acquisition of Pharmacia. We recorded approximately \$100 million in revenues for all of these products in 2003.

On July 24, 2003, we announced that we are exploring strategic options for our surgical ophthalmology business, including its possible sale. The surgical ophthalmology business is included in our Pharmaceutical segment and became a part of Pfizer in April 2003 with our acquisition of Pharmacia. We recorded approximately \$102 million in revenues from this business in 2003.

Adjusted Income

We believe investors' understanding of our performance is enhanced by disclosing adjusted income, defined as net income excluding the impact of purchase accounting for the Pharmacia acquisition, certain significant items, merger-related costs and the cumulative effect of change in accounting principles. Management analyzes the company's performance on this basis.

We have excluded significant purchase accounting impacts related to our acquisition of Pharmacia. These impacts primarily relate to the one-time charge for purchased in-process research and development; the incremental charge to cost of sales from the sale of acquired inventory that was written up to fair value; and the incremental charges related to the amortization of Pharmacia finite-lived intangible assets and depreciation of fixed assets for the increase to fair value. We believe that excluding these non-cash charges provides a better view of our economic performance.

The Company also excludes "certain significant items" from adjusted income in order to better portray its major operations—the discovery, development, manufacture, marketing, and sale of market-leading prescription medicines for humans and animals, as well as many of the world's best-known consumer healthcare products. For example, we exclude gains or losses on the sale of product lines or discontinued businesses. While we review our businesses and product lines on an ongoing basis for strategic fit with our operations, we do not build or run our businesses with an intent to sell them and, therefore, we have excluded such gains or losses on sales of businesses or product lines from adjusted income. Another example of an excluded "certain significant item" is co-promotion charges and payments for intellectual property rights for

unapproved products being developed by third parties, which are immediately expensed rather than amortized over the life of the agreement. Since such payments are expensed immediately, excluding such payments from our performance provides us with a better view of our operations. We exclude charges related to various litigation matters from adjusted income as they relate to settlement of legal matters. We also exclude gains and losses from the sale or write-down of equity investments from adjusted income. Generally, these investments are made in biotech companies on an opportunistic basis and are not part of our ongoing internal discovery and development programs.

While we continually look for improvement opportunities within our businesses and reorganize when necessary, at times we will perform a review for restructuring an area of our business. During 2003, our research division undertook such a review and began to initiate its restructuring plan in the second quarter of 2003. The last time that such a restructuring occurred in this division, with the exception of our acquisition-related restructurings, was in 1993. As such, we have excluded the charges of these activities from adjusted income.

In April 2003 we acquired Pharmacia and in June 2000 we merged with Warner-Lambert. These acquisitions have significant integration and restructuring costs attendant to them. We have excluded these costs from adjusted income, because integration and restructuring costs are unique to these transactions and generally occur over several years due to the global and highly regulated nature of our business.

A reconciliation between net income, as reported under GAAP, and adjusted income follows:

(MILLIONS OF DOLLARS)	2003	2002	2001	% CHANGE	
				03/02	02/01
Reported net income	\$ 3,910	\$9,126	\$7,788	(57)	17
Purchase accounting adjustments—net of tax	8,742	—	—	—	—
Total significant items and merger-related costs—net of tax	40	377	563	(89)	(33)
Cumulative effect of change in accounting principles—net of tax	30	410	—	*	—
Adjusted income	\$12,722	\$9,913	\$8,351	28	19

* Calculation not meaningful.

Financial Review

Pfizer Inc and Subsidiary Companies

Adjusted income excludes the following items:

(MILLIONS OF DOLLARS)	2003	2002	2001
Significant items, pre-tax:			
Gains on sales of discontinued businesses/product lines ^(a)	\$(3,885)	\$(117)	\$ —
Merger-related and exit costs of discontinued businesses ^(b)	33	6	20
Copromotion charges and intellectual property rights payments ^(b)	380	32	206
Gains on the sales of products ^(b)	(87)	(34)	—
Charges to write-down equity investments ^(b)	16	45	—
Gains on the sales of equity investments ^(b)	—	—	(17)
Asset impairment charges ^(b)	—	18	—
Various litigation matters ^(c)	1,435	25	—
Restructuring charges ^(d)	61	—	—
Harmonization of accounting methodology ^(e)	—	—	(175)
Total significant items, pre-tax	(2,047)	(25)	34
Total merger-related costs, pre-tax	1,058	630	819
Total significant items and merger-related costs, pre-tax	(989)	605	853
Provision/(benefit) for taxes on income	1,029	(228)	(290)
Total significant items and merger-related costs—net of tax	40	377	563
Purchase accounting adjustments, pre-tax:			
IPR&D ^(f)	5,052	—	—
Sale of acquired inventory written up to fair value ^(g)	2,820	—	—
Intangible amortization/fixed asset depreciation ^(h)	2,373	—	—
Total purchase accounting adjustments, pre-tax	10,245	—	—
Provision/(benefit) for taxes on income	(1,503)	—	—
Total purchase accounting adjustments—net of tax	8,742	—	—
Cumulative effect of change in accounting principles—net of tax⁽ⁱ⁾	30	410	—
Total significant items, merger-related costs, purchase accounting adjustments and cumulative effect of change in accounting principles—net of tax	\$ 8,812	\$ 787	\$ 563

^(a) Included in *Discontinued operations—net of tax*.

^(b) Included in *Other (income)/deductions—net*.

^(c) Included in *Other (income)/deductions—net* in 2003 (includes \$1,402 million of legal provisions recorded in the fourth quarter of 2003) and in *Selling, informational and administrative expenses* (\$10 million) and in *Other (income)/deductions—net* (\$15 million) in 2002.

^(d) Included in *Research and development expenses*.

^(e) Represents an increase to *Revenues* from the harmonization of Pfizer/Warner-Lambert accounting methodology for Medicaid discounts and contract rebate accounts.

^(f) Included in *Merger-related in-process research and development charge*.

^(g) Included in *Cost of sales*.

^(h) Included in *Cost of sales*, (\$80 million); *Selling, informational and administrative expenses* (\$40 million); *Research and development expenses* (\$106 million); and *Other (income)/deductions—net* (\$2,147 million) for 2003.

⁽ⁱ⁾ Represents the non-cash charge recorded upon the adoption of SFAS No. 143, *Accounting for Asset Retirement Obligations*, in 2003 and upon the adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, in 2002.

Financial Condition, Liquidity and Capital Resources

Our net financial asset position as of December 31 was as follows:

(MILLIONS OF DOLLARS)	2003	2002
Financial assets:		
Cash and cash equivalents	\$ 1,520	\$ 1,878
Short-term investments	10,432	10,673
Short-term loans	391	399
Long-term investments and loans	6,142	5,161
Total financial assets	\$18,485	\$18,111
Debt:		
Short-term borrowings	\$ 8,818	\$ 8,669
Long-term debt	5,755	3,140
Total debt	\$14,573	\$11,809
Net financial assets	\$ 3,912	\$ 6,302

We rely largely on operating cash flow, short-term commercial paper borrowings and long-term debt to provide for the working capital needs of our operations, including our R&D activities. Our short-term and long-term investments consist primarily of high quality, liquid investment-grade debt securities. Our long-term investments include debt securities that totaled \$4,400 million at December 31, 2003, which have maturities ranging substantially from two to ten years. Wherever possible, cash management is centralized and intercompany financing is used to provide working capital to our operations. Where local restrictions prevent intercompany financing, working capital needs are met through operating cash flows and/or external borrowings.

Our short-term borrowings are rated P1 by Moody's Investors Service (Moody's) and A-1+ by Standard & Poor's (S&P). Also, our long-term debt has been rated Aaa by Moody's and AAA by S&P for more than 17 years. Moody's and S&P are the major corporate debt-rating organizations. Our superior credit ratings are primarily based on our diversified product portfolio, our strong operating cash flows and our substantial financial assets. Our access to short-term financing at favorable rates would be affected by a substantial downgrade in our credit ratings.

In connection with our acquisition of Pharmacia, we acquired cash and cash equivalents of \$1,789 million, short-term investments of \$657 million, long-term investments of \$398 million and assumed \$245 million in short-term borrowings and \$2,999 million in long-term debt.

We have available lines of credit and revolving-credit agreements with a group of banks and other financial intermediaries. We maintain cash balances and short-term investments in excess of our commercial paper borrowings and have access to \$2.7 billion of lines of credit of which \$2.2 billion expire within one year. Of these lines of credit, \$2.3 billion are unused, of which our lenders have committed to loan us \$1.0 billion at our request.

At December 31, 2003, we had the ability to borrow approximately \$4.4 billion by issuing debt securities under our \$5 billion debt shelf registration statement filed with the SEC in November 2002.

In February 2003, we issued the following debt under our debt shelf registration which was used for general corporate purposes:

- \$300 million senior unsecured notes, due March 2009, which pay interest semi-annually, beginning on September 2, 2003, at a rate of 3.3%; and

Financial Review

Pfizer Inc and Subsidiary Companies

- \$300 million senior unsecured notes, due March 2018, which pay interest semi-annually, beginning on September 1, 2003, at a rate of 4.65%.

In February 2004, we issued the following debt under our debt shelf registration which will be used for current general corporate purposes, including the refinancing of existing debt:

- \$750 million senior unsecured notes due February 2014, which pay interest semi-annually, beginning on August 15, 2004, at a rate of 4.5%; and
- \$700 million senior unsecured notes due March 2007, which pay interest semi-annually, beginning on September 15, 2004, at a rate of 2.5%

Selected Measures of Liquidity and Capital Resources

We use the following measures to manage our business:

(MILLIONS OF DOLLARS, EXCEPT RATIOS)	2003	2002
Cash and cash equivalents and short-term investments and loans	\$12,343	\$12,950
Working capital*	6,084	6,226
Current ratio**	1.26:1	1.34:1
Shareholders' equity per common share***	\$ 8.63	\$ 3.27

* Working capital includes assets and liabilities of our discontinued businesses held for sale at December 31, 2002.

** Current ratio is the proportion of current assets to current liabilities.

*** Represents total shareholders' equity divided by the actual number of common shares outstanding (which excludes treasury shares, including those held by our employee benefit trusts).

The decrease in working capital in 2003 compared to 2002 was primarily due to the following:

- purchases of property, plant and equipment—\$2,641 million
- purchases of common stock—\$13,037 million
- cash dividends on our common and preferred stock—\$4,353 million
- accrual for litigation settlements of \$1,402 million

partially offset by:

- positive working capital of Pharmacia acquired on April 16, 2003
- cash from current period operations
- proceeds from the sales of businesses and product lines—\$5,602 million

The increase in shareholders' equity per common share in 2003 is primarily due to the acquisition of Pharmacia.

Summary of Cash Flows

(MILLIONS OF DOLLARS)	2003	2002	2001
Cash provided by/(used in):			
Operating activities	\$ 11,725	\$ 9,864	\$ 8,861
Investing activities	4,838	(4,338)	(7,135)
Financing activities	(16,909)	(4,999)	(2,096)
Discontinued operations	14	319	313
Effect of exchange-rate changes on cash and cash equivalents	(26)	(4)	(6)
Net increase/(decrease) in cash and cash equivalents	\$ (358)	\$ 842	\$ (63)

Operating Activities

Net cash provided by continuing operating activities increased \$1,861 million to \$11,725 million primarily due to:

- current period income from continuing operations, net of non-cash items, which included the operating cash flows of Pharmacia from April 16, 2003, the acquisition date

partially offset by:

- timing of tax payments

Our net cash provided by continuing operating activities increased \$1,003 million in 2002 to \$9,864 million primarily due to:

- current period income from continuing operations, net of non-cash items

partially offset by:

- timing of collections of accounts receivable

Investing Activities

Our net cash provided by investing activities increased \$9,176 million in 2003 to \$4,838 million primarily due to:

- proceeds received from the sale of the Adams and Schick-Wilkinson Sword businesses, the women's health product lines and other products in the aggregate amount of \$5,602 million
- cash and cash equivalents acquired in the Pharmacia acquisition of \$1,789 million
- a decline in long-term and short-term investment purchases of \$3,715 million

partially offset by:

- increases in purchases of property, plant and equipment of \$883 million which included worldwide renovations to certain properties, the purchase of an additional building for our corporate headquarters and the construction of a new manufacturing plant in Singapore
- a decline in proceeds from long-term and short-term investments of \$842 million

Our net cash used in investing activities decreased \$2,797 million in 2002 to \$4,338 million primarily due to:

- a decline in property, plant and equipment purchases of \$347 million
- a decline in long-term and short-term investment purchases of \$2,397 million
- proceeds from the sale of the Tetra business

partially offset by:

- an increase in product rights acquired of \$360 million

Financial Review

Pfizer Inc and Subsidiary Companies

Financing Activities

Our net cash used in financing activities, funded by the cash generated by operating and investing activities, increased \$11,910 million in 2003 to \$16,909 million primarily due to:

- an increase in cash dividends paid on our common stock of \$1,178 million primarily as a result of a 15% increase in our quarterly dividends
- an increase in common stock purchases under our share-purchase programs of \$8,041 million
- a decrease in net proceeds from borrowings of \$3,096 million

Our net cash used in financing activities increased \$2,903 million in 2002 to \$4,999 million primarily due to:

- a decrease in net proceeds from borrowings of \$1,006 million
- an increase in common stock purchases under our share-purchase programs of \$1,331 million
- an increase in cash dividends paid of \$453 million as a result of an 18% increase in our quarterly dividends

We continue to purchase our common stock via open market purchases or in privately negotiated transactions, as circumstances and prices warrant. Purchased shares under each of the share-purchase programs are available for general corporate purposes.

In December 2003, we announced a new \$5 billion share-purchase program which we expect to be completed by the end of 2004 and will be funded from operating cash flows.

In July 2002, we announced a \$16 billion share-purchase program, increased from the initial \$10 billion authorized by our board of directors on June 27, 2002 which we completed in November 2003. In total under the June 2002 program, we purchased approximately 508 million shares.

In May 2002, we completed the share-purchase program authorized in June 2001. In total under the June 2001 program, we purchased 120 million shares at a total cost of approximately \$4.8 billion.

A summary of common stock purchases follows:

(MILLIONS OF SHARES AND DOLLARS EXCEPT PER-SHARE DATA)	SHARES OF COMMON STOCK PURCHASED	AVERAGE PER-SHARE PRICE PAID	TOTAL COST OF COMMON STOCK PURCHASED
2003:			
December 2003 program	1	\$34.57	\$ 37
June 2002 program	406	\$31.99	13,000
Total	407		\$13,037
2002:			
June 2002 program	102	\$29.41	\$ 3,000
June 2001 program	51	\$38.87	1,996
Total	153		\$ 4,996

Payments due under contractual obligations at December 31, 2003 mature as follows:

(MILLIONS OF DOLLARS)	TOTAL	YEARS			
		WITHIN 1	OVER 1 TO 3	OVER 3 TO 5	AFTER 5
Long-term debt*	\$5,755	\$ —	\$1,721	\$1,108	\$2,926
Lease commitments	2,052	290	507	400	855
Purchase obligations	3,684	2,481	958	245	—

* Long-term debt consists of senior unsecured notes, floating-rate unsecured notes, foreign denominated notes and other borrowings and mortgages.

In 2004, we expect to spend approximately \$2.9 billion on property, plant and equipment.

On February 10, 2004 we completed the acquisition of Esperion Therapeutics, Inc., a biopharmaceutical company focused on the development of high density lipoprotein (HDL) targeted therapies for the treatment of cardiovascular disease, for \$1.3 billion in cash, which we paid from operating cash flows in the U.S. and borrowings.

Off-Balance Sheet Arrangements

Legacy Pharmacia guaranteed certain transactions in which Monsanto, its former agricultural subsidiary, is involved. These guarantees continued after Pfizer's acquisition of Pharmacia and at December 31, 2003 included approximately \$250 million of bank notes with maturities not later than 2004 and \$5 million of environmental guarantees, which are required until Monsanto can obtain certain approvals.

Dividends on Common Stock

Our dividend payout ratios were approximately 111.1% in 2003 and 35.6% in 2002. The significant change in the ratio in 2003 compared to 2002 is primarily a result of the impact that certain non-cash charges relating to purchase accounting had on our 2003 net income combined with increasing our dividend payments in 2003.

In December 2003, our Board of Directors declared a first-quarter 2004 dividend of \$.17 per share. The 2004 cash dividend marks the 37th consecutive year of dividend increases.

Recently Issued Accounting Standards

In December 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46R (FIN 46R), *Consolidation of Variable Interest Entities*. FIN 46R replaces the same titled FIN 46 that was issued in January 2003. FIN 46R identifies when entities must be consolidated with the financial statements of a company where the investors in an entity do not have the characteristics of a controlling financial interest or the entity does not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. Application of this Interpretation applies to our financial statements beginning January 1, 2004. We do not expect the adoption of FIN 46R to have a material impact on our consolidated financial statements.

Forward-Looking Information and Factors That May Affect Future Results

The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This annual report and other written and oral statements that we make from time to time contain such forward-looking statements that set out anticipated results based on management's plans and assumptions. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will" and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective products or product approvals, future performance or results of current and anticipated products, sales efforts, expenses, interest rates, foreign exchange rates, the outcome of contingencies, such as legal proceedings, and financial results. Among the factors that could cause actual results to differ materially are the following:

- the success of research and development activities and the speed with which regulatory authorizations, pricing approvals, and product launches may be achieved
- competitive developments affecting our current growth products
- the ability to successfully market both new and existing products domestically and internationally
- difficulties or delays in manufacturing
- trade buying patterns
- the ability to meet generic and branded competition after the loss of patent protection for our products
- trends toward managed care and health care cost containment
- possible U.S. legislation or regulatory action affecting, among other things, pharmaceutical pricing and reimbursement, including Medicaid and Medicare and involuntary approval of prescription medicines for over-the-counter use
- the potential impact of the Medicare Prescription Drug Improvement and Modernization Act of 2003
- legislation or regulations in markets outside the U.S. affecting product pricing, reimbursement or access
- contingencies related to actual or alleged environmental contamination
- legal defense costs, insurance expense, settlement costs, and the risk of an adverse decision or settlement related to product liability, patent protection, government investigations, and other legal proceedings
- the company's ability to protect its patents and other intellectual property both domestically and internationally
- interest rate and foreign currency exchange rate fluctuations
- governmental laws and regulations affecting domestic and foreign operations, including tax obligations
- changes in generally accepted accounting principles
- any changes in business, political and economic conditions due to the threat of future terrorist activity in the U.S. and other parts of the world, and related U.S. military action overseas
- growth in costs and expenses
- changes in our product mix
- the impact of acquisitions, divestitures, restructurings, product withdrawals and other unusual items, including our ability to integrate and obtain the anticipated results and synergies from our acquisition of Pharmacia

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from past results and those anticipated, estimated or projected. Investors should bear this in mind as they consider forward-looking statements.

We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

Certain risks, uncertainties and assumptions are discussed here and under the heading entitled "Cautionary Factors That May Affect Future Results" in Item 1 of our annual report on Form 10-K for the year ended December 31, 2003, which will be filed in March 2004.

This discussion of potential risks and uncertainties is by no means complete, but is designed to highlight important factors that may impact our outlook.

Financial Risk Management

The overall objective of our financial risk management program is to seek a reduction in the potential negative earnings effects from changes in foreign exchange and interest rates arising in our business activities. We manage these financial exposures through operational means and by using various financial instruments. These practices may change as economic conditions change.

Foreign Exchange Risk—A significant portion of our revenues and earnings are exposed to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing local currency revenues in relation to local currency costs and local currency assets in relation to local currency liabilities.

Foreign exchange risk is also managed through the use of foreign currency forward-exchange contracts. These contracts are used to offset the potential earnings effects from mostly intercompany short-term foreign currency assets and liabilities that arise from operations. We also use foreign currency forward-exchange contracts and foreign currency swaps to hedge the potential earnings effects from short- and long-term foreign currency investments and loans and intercompany loans.

Foreign currency put options are sometimes purchased to reduce a portion of the potential negative effects on earnings related to certain of our significant anticipated intercompany inventory purchases for up to one year. In 2003 and 2002, these purchased options hedge Japanese yen versus the U.S. dollar.

In addition, under certain market conditions, we protect against possible declines in the reported net assets of our subsidiaries in Japan.

For additional details on foreign exchange exposures, see Note 5-D to the consolidated financial statements — "Financial Instruments — Derivative Financial Instruments and Hedging Activities."

Financial Review

Pfizer Inc and Subsidiary Companies

Our financial instrument holdings at year end were analyzed to determine their sensitivity to foreign exchange rate changes. The fair values of these instruments were determined as follows:

- foreign currency forward-exchange contracts, currency swaps and foreign currency put options—net present values
- foreign receivables, payables, debt and loans—changes in exchange rates

In this sensitivity analysis, we assumed that the change in one currency's rate relative to the U.S. dollar would not have an effect on other currencies' rates relative to the U.S. dollar. All other factors were held constant.

If there were an adverse change in foreign exchange rates of 10%, the expected effect on net income related to our financial instruments would be immaterial. For additional details, see Note 5-D to the consolidated financial statements—"Financial Instruments—Derivative Financial Instruments and Hedging Activities: Accounting Policies."

Interest Rate Risk—Our U.S. dollar interest-bearing investments, loans and borrowings are subject to interest rate risk. We are also subject to interest rate risk on Japanese yen short-and long-term borrowings. We invest and borrow primarily on a short-term or variable-rate basis. From time-to-time, depending on market conditions, we will fix interest rates either through entering into fixed rate instruments and borrowings or through the use of derivative financial instruments like interest rate swaps.

Our financial instrument holdings at year end were analyzed to determine their sensitivity to interest rate changes. The fair values of these instruments were determined by net present values.

In this sensitivity analysis, we used the same change in interest rate for all maturities. All other factors were held constant.

If there were an adverse change in interest rates of 10%, the expected effect on net income related to our financial instruments would be immaterial.

Legal Proceedings and Contingencies

We and certain of our subsidiaries are involved in various patent, product liability, consumer, commercial, environmental, and tax litigations and claims; government investigations; and other legal proceedings that arise from time to time in the ordinary course of our business. We do not believe any of them will have a material adverse effect on our financial position. Litigation is inherently unpredictable, and excessive verdicts do occur. Although we believe we have valid defenses in these matters, we could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on our results of operations in any particular period.

Patent claims include challenges to the coverage and/or validity of our patents on various products or processes. Although we believe that we have valid defenses to these challenges with respect to all our material patents, there can be no assurance as to the outcome of these matters, and a loss in any of these cases could result in a loss of patent protection for the drug at issue, which could lead to a significant loss of sales of that drug and could materially affect future results of operations.

Outlook

Our expectations for strong financial performance in 2004 remain substantially unchanged. We are comfortable with targets for 2004 revenue of about \$54 billion, for 2004 adjusted income of \$16.3 billion, and for 2004 adjusted diluted EPS of \$2.13. We now project 2004 reported net income of \$12.8 billion and 2004 reported diluted EPS of \$1.68. The difference between reported and adjusted diluted EPS is attributable to projected incremental purchase-accounting-related intangible amortization/fixed asset depreciation of \$2.3 billion, or \$.30 per share, and merger-related costs of \$1.2 billion, or \$.15 per share. We plan to spend about \$7.9 billion on R&D during 2004.

Our estimates for both reported and adjusted income for 2004 exclude the results and any gains or losses in connection with the divestiture of non-strategic businesses and minor product lines that may be divested in 2004 and for which we are exploring strategic options. However, our estimates for both reported and adjusted income for 2004 include milestone payments associated with existing copromotion agreements. These estimates are based on January 2004 exchange rates and assume that Pfizer will maintain U.S. marketing exclusivity for the full year for Norvasc and Neurontin.

Management's Report

We prepared and are responsible for the financial statements that appear on pages 23 to 55. These financial statements are in conformity with accounting principles generally accepted in the United States of America, and therefore, include amounts based on informed judgments and estimates. We also accept responsibility for the preparation of other financial information that is included in this document.

We have designed a system of internal controls to:

- safeguard the Company's assets,
- ensure that transactions are properly authorized,
- provide reasonable assurance, at reasonable cost, of the integrity, objectivity and reliability of the financial information, and
- include procedures for appropriate disclosure.

An effective internal control system has inherent limitations no matter how well designed, and therefore, can provide only reasonable assurance with respect to financial statement preparation. The system is built on a business ethics policy that requires all employees to maintain the highest ethical standards in conducting Company affairs. Our system of internal control includes:

- careful selection, training and development of financial managers,
- an organizational structure that segregates responsibilities,
- a communications program that ensures that the Company's policies and procedures are well understood throughout the organization,
- an extensive program of internal audits, with prompt follow-up, including reviews of separate operations and functions around the world, and
- the periodic evaluation of disclosure controls and procedures.

Our independent certified public accountants, KPMG LLP, have audited the annual financial statements in accordance with auditing standards generally accepted in the United States of America. The independent auditors' report expresses an informed judgment as to the fair presentation of the Company's reported operating results, financial position and cash flows. Their judgment is based on the results of auditing procedures performed and such other tests that they deemed necessary, including their consideration of our internal control system.

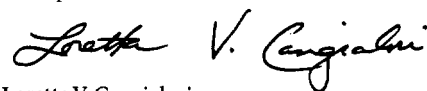
We consider, and take appropriate action on recommendations made by KPMG LLP and our internal auditors. We believe that our system of internal control is effective and adequate to accomplish the objectives discussed above.



Henry A. McKinnell
Chairman and
Chief Executive Officer



David L. Shedlarz
Principal Financial Officer



Loretta V. Cangialosi
Principal Accounting Officer

February 26, 2004

Audit Committee's Report

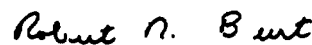
The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls.

In this context, the Committee has met and held discussions with management and the independent auditor regarding the fair and complete presentation of the Company's results. The Committee has discussed significant accounting policies applied by the Company in its financial statements, as well as alternative treatments. Management represented to the Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Committee has reviewed and discussed the consolidated financial statements with management and the independent auditor. The Committee discussed with the independent auditor matters required to be discussed by Statement of Auditing Standards No. 61, *Communication With Audit Committees*.

In addition, the Committee has discussed with the independent auditor the auditor's independence from the Company and its management, including the matters in the written disclosures required by the Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*. The Committee also has considered whether the independent auditor's provision of non-audit services to the Company is compatible with the auditor's independence. The Committee has concluded that the independent auditor is independent from the Company and its management.

The Committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Committee meets with the internal and independent auditors, with and without management present, to discuss the results of their examinations, the evaluations of the Company's internal controls, and the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003, for filing with the Securities and Exchange Commission. The Committee has selected and the Board of Directors has ratified, subject to shareholder approval, the selection of the Company's independent auditor.



Robert Burt
Chair, Audit Committee

February 26, 2004

The Audit Committee's Report shall not be deemed to be filed or incorporated by reference into any Company filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates the Audit Committee's Report by reference therein.

Independent Auditors' Report

To the Shareholders and Board of Directors of Pfizer Inc:

We have audited the accompanying consolidated balance sheets of Pfizer Inc and Subsidiary Companies as of December 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three year period ended December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pfizer Inc and Subsidiary Companies as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the consolidated financial statements, effective January 1, 2002, Pfizer Inc adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*.

KPMG LLP

KPMG LLP
New York, NY

February 26, 2004

Consolidated Statement of Income

Pfizer Inc and Subsidiary Companies

(MILLIONS, EXCEPT PER COMMON SHARE DATA)	YEAR ENDED DECEMBER 31		
	2003	2002	2001
Revenues	\$45,188	\$32,373	\$29,024
Costs and expenses:			
Cost of sales	9,832	4,045	3,823
Selling, informational and administrative expenses	15,242	10,846	9,717
Research and development expenses	7,131	5,176	4,776
Merger-related in-process research and development charge	5,052	—	—
Merger-related costs	1,058	630	819
Other (income)/deductions—net	3,610	(120)	(95)
Income from continuing operations before provision for taxes on income, minority interests and cumulative effect of change in accounting principles	3,263	11,796	9,984
Provision for taxes on income	1,621	2,609	2,433
Minority interests	3	6	14
Income from continuing operations before cumulative effect of change in accounting principles	1,639	9,181	7,537
Discontinued operations:			
Income from operations of discontinued businesses and product lines—net of tax	16	278	251
Gains on sales of discontinued businesses and product lines—net of tax	2,285	77	—
Discontinued operations—net of tax	2,301	355	251
Income before cumulative effect of change in accounting principles	3,940	9,536	7,788
Cumulative effect of change in accounting principles—net of tax	(30)	(410)	—
Net income	\$ 3,910	\$ 9,126	\$ 7,788
Earnings per common share—basic			
Income from continuing operations before cumulative effect of change in accounting principles	\$.22	\$ 1.49	\$ 1.21
Discontinued operations:			
Income from operations of discontinued businesses and product lines—net of tax	—	.05	.04
Gains on sales of discontinued businesses and product lines—net of tax	.32	.01	—
Discontinued operations—net of tax	.32	.06	.04
Income before cumulative effect of change in accounting principles	.54	1.55	1.25
Cumulative effect of change in accounting principles—net of tax	—	(.07)	—
Net income	\$.54	\$ 1.48	\$ 1.25
Earnings per common share—diluted			
Income from continuing operations before cumulative effect of change in accounting principles	\$.22	\$ 1.47	\$ 1.18
Discontinued operations:			
Income from operations of discontinued businesses and product lines—net of tax	—	.05	.04
Gains on sales of discontinued businesses and product lines—net of tax	.32	.01	—
Discontinued operations—net of tax	.32	.06	.04
Income before cumulative effect of change in accounting principles	.54	1.53	1.22
Cumulative effect of change in accounting principles—net of tax	—	(.07)	—
Net income	\$.54	\$ 1.46	\$ 1.22
Weighted average shares—basic	7,213	6,156	6,239
Weighted average shares—diluted	7,286	6,241	6,361

See Notes to Consolidated Financial Statements which are an integral part of these statements.

Consolidated Balance Sheet

Pfizer Inc and Subsidiary Companies

	YEAR ENDED DECEMBER 31	
(MILLIONS, EXCEPT PREFERRED STOCK ISSUED AND PER COMMON SHARE DATA)	2003	2002
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,520	\$ 1,878
Short-term investments	10,432	10,673
Accounts receivable, less allowance for doubtful accounts: 2003 — \$186; 2002 — \$122	8,775	5,785
Short-term loans	391	399
Inventories		
Finished goods	2,308	1,133
Work in process	2,219	1,142
Raw materials and supplies	1,310	403
Total inventories	5,837	2,678
Prepaid expenses and taxes	2,786	1,797
Assets of discontinued businesses held for sale	—	1,571
Total current assets	29,741	24,781
Long-term investments and loans	6,142	5,161
Property, plant and equipment, less accumulated depreciation	18,287	10,712
Goodwill	22,306	1,200
Identifiable intangible assets, less accumulated amortization	36,350	921
Other assets, deferred taxes and deferred charges	3,949	3,581
Total assets	\$116,775	\$ 46,356
Liabilities and Shareholders' Equity		
Current Liabilities		
Short-term borrowings, including current portion of long-term debt	\$ 8,818	\$ 8,669
Accounts payable	2,601	1,620
Dividends payable	1,300	926
Income taxes payable	1,919	2,231
Accrued compensation and related items	1,753	1,084
Accrued litigation settlements	1,402	—
Other current liabilities	5,864	3,448
Liabilities of discontinued businesses held for sale	—	577
Total current liabilities	23,657	18,555
Long-term debt	5,755	3,140
Pension benefit obligations	2,861	1,327
Postretirement benefit obligations	1,451	623
Deferred taxes	13,238	364
Other noncurrent liabilities	4,436	2,397
Total liabilities	51,398	26,406
Shareholders' Equity		
Preferred stock, without par value, at stated value; 27 shares authorized; 5,445 issued in 2003	219	—
Common stock, \$.05 par value; 12,000 shares authorized; issued: 2003 — 8,702; 2002 — 6,829	435	341
Additional paid-in capital	66,396	9,368
Employee benefit trust	(1,898)	(1,786)
Treasury stock, shares at cost: issued: 2003 — 1,073; 2002 — 667	(29,352)	(16,341)
Retained earnings	29,382	30,243
Accumulated other comprehensive income/(expense)	195	(1,875)
Total shareholders' equity	65,377	19,950
Total liabilities and shareholders' equity	\$116,775	\$ 46,356

See Notes to Consolidated Financial Statements which are an integral part of these statements.

Consolidated Statement of Shareholders' Equity

Pfizer Inc and Subsidiary Companies

(MILLIONS, EXCEPT PREFERRED SHARES)	PREFERRED STOCK		COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	EMPLOYEE BENEFIT TRUST		TREASURY STOCK		RETAINED EARNINGS	ACCUM. OTHER COMPRE- HENSIVE INC./EXP.	TOTAL
	SHARES	STATED VALUE	SHARES	PAR VALUE		SHARES	FAIR VALUE	SHARES	COST			
Balance January 1, 2001	—	\$ —	6,749	\$337	\$ 8,895	(74)	\$(3,382)	(435)	\$(7,858)	\$19,599	\$(1,515)	\$ 16,076
Comprehensive income:												
Net income										7,788		7,788
Other comprehensive												
expense—net of tax:												
Currency translation											(37)	(37)
adjustment												
Net unrealized loss on											(91)	(91)
available-for-sale												
securities											(106)	(106)
Minimum pension liability												
Total other comprehensive											(234)	(234)
expense												
Total comprehensive income												7,554
Cash dividends declared—										(2,869)		(2,869)
common stock												
Stock option transactions			40	2	981	8	337	6	104			1,424
Purchases of common stock								(89)	(3,665)			(3,665)
Employee benefit trust								2	25			(304)
transactions—net					(724)	(1)	395					
Other			3	1	148			1	16	(88)		77
Balance December 31, 2001	—	—	6,792	340	9,300	(67)	(2,650)	(515)	(11,378)	24,430	(1,749)	18,293
Comprehensive income:												
Net income										9,126		9,126
Other comprehensive												
expense—net of tax:												
Currency translation											85	85
adjustment												
Net unrealized loss on											(32)	(32)
available-for-sale												
securities											(179)	(179)
Minimum pension liability												
Total other comprehensive											(126)	(126)
expense												
Total comprehensive income												9,000
Cash dividends declared—										(3,313)		(3,313)
common stock												
Stock option transactions			34	1	789	9	366	—	(8)			1,148
Purchases of common stock								(153)	(4,996)			(4,996)
Employee benefit trust								1	28			(337)
transactions—net					(863)	—	498					
Other			3	—	142			—	13	—		155
Balance December 31, 2002	—	—	6,829	341	9,368	(58)	(1,786)	(667)	(16,341)	30,243	(1,875)	19,950
Comprehensive income:												
Net income										3,910		3,910
Other comprehensive												
income—net of tax:												
Currency translation											2,070	2,070
adjustment												
Net unrealized gain on											68	68
available-for-sale												
securities											(68)	(68)
Minimum pension liability												
Total other comprehensive											2,070	2,070
income												
Total comprehensive income												5,980
Pharmacia acquisition	6,019	242	1,817	91	55,402							55,735
Cash dividends declared—										(4,764)		(4,764)
common stock												
preferred stock										(7)		(7)
Stock option transactions			52	3	1,374	5	175	(1)	(20)			1,532
Purchases of common stock								(407)	(13,037)			(13,037)
Employee benefit trust												
transactions—net					112	(1)	(287)	1	10			(165)
Preferred stock—conversions												
and redemptions	(574)	(23)			23				6			6
Other			4	—	117			1	30	—		147
Balance December 31, 2003	5,445	\$219	8,702	\$435	\$66,396	(54)	\$(1,898)	(1,073)	\$(29,352)	\$29,382	\$ 195	\$ 65,377

See Notes to Consolidated Financial Statements which are an integral part of these statements.

Consolidated Statement of Cash Flows

Pfizer Inc and Subsidiary Companies

(MILLIONS OF DOLLARS)	YEAR ENDED DECEMBER 31		
	2003	2002	2001
Operating Activities			
Net Income	\$ 3,910	\$ 9,126	\$ 7,788
Adjustments to reconcile net income to net cash provided by continuing operating activities:			
Cumulative effect of change in accounting principles	30	410	—
Income from operations of discontinued businesses and product lines	(16)	(278)	(251)
Harmonization of accounting methodology	—	—	(175)
Merger-related in-process research and development charge	5,052	—	—
Charge for fair value mark-up of acquired inventory sold	2,820	—	—
Deferred taxes	(104)	(285)	1,092
Charges to write-down equity investments	16	45	—
Gains on sales of discontinued businesses and product lines	(3,885)	(117)	—
Gains on sales of products	(87)	(34)	—
Depreciation and amortization	4,078	1,036	972
Other	604	(367)	176
Changes in assets and liabilities, net of effect of businesses acquired and divested:			
Accounts receivable	(904)	(963)	81
Inventories	(202)	(129)	(110)
Prepaid and other assets	(905)	(1,009)	(765)
Accounts payable and accrued liabilities	670	461	(412)
Income taxes payable	(550)	1,591	209
Other deferred items	1,198	377	256
Net cash provided by continuing operating activities	11,725	9,864	8,861
Investing Activities			
Purchases of property, plant and equipment	(2,641)	(1,758)	(2,105)
Purchases of short-term investments, net of maturities	(9,931)	(12,652)	(14,218)
Proceeds from redemptions of short-term investments	12,060	9,781	12,808
Purchases of long-term investments	(1,883)	(2,877)	(3,708)
Proceeds from redemptions of long-term investments	356	3,477	80
Purchases of other assets	(788)	(528)	(227)
Proceeds from sales of other assets	360	272	132
Proceeds from sales of businesses, product lines and other products	5,602	220	8
Cash and cash equivalents acquired through acquisition of Pharmacia	1,789	—	—
Other investing activities	(86)	(273)	95
Net cash provided by/(used in) investing activities	4,838	(4,338)	(7,135)
Financing Activities			
Proceeds from issuances of long-term debt	600	603	1,837
Repayments of long-term debt	(439)	(374)	(151)
Increase in short-term borrowings, net	194	2,815	2,344
Decrease in short-term borrowings, net	(946)	(539)	(519)
Purchases of common stock	(13,037)	(4,996)	(3,665)
Cash dividends paid	(4,353)	(3,168)	(2,715)
Stock option transactions and other	1,072	660	773
Net cash used in financing activities	(16,909)	(4,999)	(2,096)
Net cash provided by discontinued operations	14	319	313
Effect of exchange-rate changes on cash and cash equivalents	(26)	(4)	(6)
Net increase/(decrease) in cash and cash equivalents	(358)	842	(63)
Cash and cash equivalents at beginning of year	1,878	1,036	1,099
Cash and cash equivalents at end of year	\$ 1,520	\$ 1,878	\$ 1,036
Supplemental Cash Flow Information			
Non-cash transactions:			
Acquisition of Pharmacia, net of transaction costs	\$ 55,871	\$ —	\$ —
Cash paid during the period for:			
Income taxes	\$ 2,905	\$ 1,480	\$ 957
Interest	350	256	291

See Notes to Consolidated Financial Statements which are an integral part of these statements.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

1. Significant Accounting Policies

A. Consolidation and Basis of Presentation

The consolidated financial statements include our parent company and all subsidiaries, including those operating outside the U.S. For subsidiaries operating outside the U.S., the financial information is included as of and for the year ended November 30 for each year. Substantially all unremitted earnings of international subsidiaries are free of legal and contractual restrictions. All significant transactions among our businesses have been eliminated. We have made certain reclassifications to the 2002 and 2001 financial statements to conform to the 2003 presentation.

On April 16, 2003, we completed our acquisition of Pharmacia Corporation (Pharmacia) in a stock-for-stock transaction accounted for under the purchase method of accounting (see Note 2, "Pharmacia Acquisition"). Commencing from the acquisition date, the Pharmacia assets acquired and liabilities assumed, as well as the results of Pharmacia's operations, are included in our consolidated financial statements. Approximately 7½ months of results of operations of Pharmacia's international operations and about 8½ months of results of operations of Pharmacia's U.S. operations are included in our consolidated financial statements for the year ended December 31, 2003.

In preparing the consolidated financial statements, we use certain estimates and assumptions that affect reported amounts and disclosures. Estimates are used when accounting for sales discounts, allowances and incentives, depreciation, amortization, employee benefits, contingencies and asset valuations. We are also subject to risks and uncertainties that may cause actual results to differ from estimated results, such as changes in the healthcare environment, competition, foreign exchange, litigation, legislation and regulations. These and other uncertainties are discussed in the accompanying financial review, which is unaudited, under the heading "Forward-Looking Information and Factors That May Affect Future Results."

B. New Accounting Standards

In January 2003, we adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 143, *Accounting for Asset Retirement Obligations*. SFAS No. 143 addresses financial accounting requirements for retirement obligations associated with tangible long-lived assets. As a result of adopting SFAS No. 143, we recorded a non-cash pre-tax charge of \$47 million (\$30 million net of tax) for the change in accounting for costs associated with the eventual retirement of certain manufacturing and research facilities. This charge is reported as a one-time cumulative effect of a change in accounting principle as of the beginning of 2003. Our asset retirement obligations primarily relate to remediation and land restoration requirements.

In January 2003, we adopted the provisions of FASB Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. FIN 46 provides guidance on the identification of variable interest entities, entities for which control is achieved through means other than through voting rights, and how to determine whether a variable interest holder should consolidate the variable interest entities. The adoption of FIN 46 did not have a material impact on our consolidated financial statements.

C. Business Acquisitions

We account for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. Our consolidated financial statements and results of operations reflect an acquired business after the completion of the acquisition and are not restated. The cost to acquire a business, including transaction costs, is allocated to the underlying net assets of the acquired business in proportion to their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Amounts allocated to acquired in-process research and development are expensed at the date of acquisition.

D. Foreign Currency Translation

For most international operations, local currencies have been determined to be the functional currencies. We translate assets and liabilities to their U.S. dollar equivalents at rates in effect at the balance sheet date and record translation adjustments in *Shareholders' equity*. We translate statement of income accounts at average rates for the period. Transaction adjustments are recorded in *Other (income)/deductions—net*.

For operations in highly inflationary economies, we translate the balance sheet items as follows:

- monetary items (that is, assets and liabilities that will be settled for cash) at rates in effect at the balance sheet date, with translation adjustments recorded in *Other (income)/deductions—net*
- nonmonetary items at historical rates (that is, those rates in effect when the items were first recorded)

E. Revenues

Revenue Recognition—We record revenue from product sales when the goods are shipped and title passes to the customer.

Sales Incentives—We generally record sales incentives as a reduction of revenues at the time the related revenues are recorded or when the incentive is offered, whichever is later. We estimate the cost of our sales incentives based on our historical experience with similar incentive programs.

Sales Rebates—We record provisions for rebates based upon our actual experience ratio of rebates paid and actual prescriptions written within a respective period. We apply the experience ratio to the respective period's sales to determine the rebate accrual and related expense. Periodically, we adjust the accrual based upon actual payments made for rebates. *Other current liabilities* include accruals for customer rebates of \$1,107 million at December 31, 2003 and \$1,003 million at December 31, 2002.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

Alliances—We have agreements to copromote pharmaceutical products discovered by other companies. Revenue is earned when our copromotion partners ship the related product and title passes to their customer. Alliance revenue is included in *Revenues* and is primarily based upon a percentage of our copromotion partners' net sales. Expenses for selling and marketing these products are included in *Selling, informational and administrative expenses*.

Prior to the copromoted product receiving regulatory approval, we expense, as incurred, milestone payments made under these agreements and record them in *Other (income)/deductions—net*. Once the product receives regulatory approval, we record any subsequent milestone payments in *Identifiable intangible assets, less accumulated amortization* and amortize them evenly over the remaining agreement term or the expected product life cycle, whichever is shorter. At least annually, we review for impairment those milestone payments which have been recorded as assets.

F. Cost of Sales and Inventories

We value inventories at cost or fair value, if lower. Cost is determined as follows:

- finished goods and work in process at average actual cost
- raw materials and supplies at average or latest actual cost

G. Selling, Informational and Administrative Expenses

Selling, informational and administrative costs are generally expensed as incurred. Among other things, these expenses include the costs of marketing, advertising, shipping and handling, information technology and non-plant employee compensation.

We record advertising expenses as follows:

- production costs are expensed as incurred
- costs of radio time, television time and space in publications are expensed when the related advertising occurs

Advertising expenses totaled approximately \$2,962 million in 2003, \$2,307 million in 2002 and \$2,157 million in 2001.

H. Research and Development Expenses

Research and development (R&D) costs are expensed as incurred. These expenses include the costs of our proprietary R&D efforts as well as costs incurred in connection with our third-party collaboration efforts. Pre-approval milestone payments made by us to third parties under contracted R&D arrangements are expensed when the specific milestone has been achieved. We have no third-party R&D arrangements that result in the recognition of revenue.

I. Merger-Related Costs

In connection with an acquisition of a business, we may review the operations of the acquired business and implement plans to restructure and integrate its operations. For restructuring charges associated with the acquired company's operations that are identified in the first year after the acquisition date, the related costs are recorded as additional goodwill as they are considered to be liabilities assumed in the acquisition. All subsequent restructuring charges, all integration costs and any charges related to our pre-existing businesses impacted by the acquisition are included in our results of operations.

J. Depreciation, Amortization and Long-Lived Assets

Long-lived assets include:

- property, plant and equipment—These assets are recorded at original cost and increased by the cost of any significant improvements after purchase. We depreciate the cost evenly over the assets' estimated useful lives. For tax purposes, accelerated depreciation methods are used as allowed by tax laws.
- goodwill—Goodwill represents the difference between the purchase price of acquired businesses and the fair value of their net assets. Goodwill is not amortized.
- identifiable intangible assets—These assets are recorded at original cost. Intangible assets with finite lives are amortized evenly over their estimated useful lives. Intangible assets with indefinite lives are not amortized.

At least annually, we review all long-lived assets for impairment. When necessary, we record charges for impairments of long-lived assets for the amount by which the present value of future cash flows, or some other fair value measure, is less than the carrying value of these assets.

K. Cash Equivalents

Cash equivalents include items almost as liquid as cash, such as certificates of deposit and time deposits with maturity periods of three months or less when purchased. If items meeting this definition are part of a larger investment pool, we classify them as *Short-term investments*.

L. Stock-Based Compensation

In accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, we elected to account for our stock-based compensation under Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*.

The exercise price of stock options granted equals the market price on the date of grant. There is no recorded expense related to grants of stock options.

We estimated the fair value of employee stock options using the Black-Scholes option-pricing model, modified for dividends and using the assumptions as described in Note 18, "Stock Option and Performance Unit Awards," as required under accounting principles generally accepted in the United States of America (GAAP). The Black-Scholes model is a trading option-pricing model that neither considers the non-traded nature of employee stock options, nor considers the restrictions on trading, the lack of transferability or the ability of employees to forfeit the options prior to expiry. If the model adequately permitted considerations of the unique characteristics of employee stock options, the resulting estimate of the fair value of the stock option could be different.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

The following table summarizes our results as if we had recorded compensation expense for the 2003, 2002 and 2001 option grants:

(MILLIONS OF DOLLARS, EXCEPT PER COMMON SHARE DATA)	2003	2002	2001
Net income available to common shareholders used in the calculation of basic earnings per common share:			
As reported under GAAP*	\$3,906	\$9,126	\$7,788
Compensation expense	(541)	(518)	(560)
Pro forma	\$3,365	\$8,608	\$7,228
Basic earnings per common share:			
As reported under GAAP	\$.54	\$ 1.48	\$ 1.25
Compensation expense	(.07)	(.08)	(.09)
Pro forma	\$.47	\$ 1.40	\$ 1.16
Net income available to common shareholders used in the calculation of diluted earnings per common share:			
As reported under GAAP*	\$3,907	\$9,126	\$7,788
Compensation expense	(541)	(518)	(560)
Pro forma	\$3,366	\$8,608	\$7,228
Diluted earnings per common share:			
As reported under GAAP	\$.54	\$ 1.46	\$ 1.22
Compensation expense	(.08)	(.08)	(.08)
Pro forma	\$.46	\$ 1.38	\$ 1.14

* Includes stock-based compensation expense net of related tax effects of \$34 million in 2003, \$23 million in 2002 and \$66 million in 2001.

2. Pharmacia Acquisition

A. Description of Acquisition

On April 16, 2003, Pfizer acquired Pharmacia for a purchase price of approximately \$56 billion, which includes Pfizer common stock, options on Pfizer common stock, Pfizer convertible perpetual preferred stock, and vested share awards, as well as transaction costs.

The fair value of Pfizer equity items was derived using an average market price per share of Pfizer common stock of \$29.81, which was based on Pfizer's average stock price for the period two days before through two days after the terms of the acquisition were agreed to and announced on July 15, 2002.

Under the terms of the merger agreement, each outstanding share of Pharmacia common stock was exchanged for 1.4 shares of Pfizer common stock in a tax-free transaction. Each share of Pharmacia Series C convertible perpetual preferred stock was exchanged for a newly created class of Pfizer Series A convertible perpetual preferred stock with rights substantially similar to the rights of the Pharmacia Series C convertible perpetual preferred stock.

Pharmacia's core business, much like that of Pfizer, was the development, manufacture and sale of prescription pharmaceutical products. Other businesses of Pharmacia included production and distribution of consumer healthcare products (primarily those available over-the-counter without a prescription) and animal healthcare products (primarily pharmaceuticals and feed additives for livestock and companion animals). The acquisition expands our global pharmaceutical leadership, broadens our product base and bolsters our research and development capacity.

The acquisition has been accounted for as a purchase business combination. Under the purchase method of accounting, the assets acquired and liabilities assumed from Pharmacia are recorded at the date of acquisition, at their respective fair values. The consolidated financial statements and reported results of operations of Pfizer issued after completion of the acquisition reflect these values.

(MILLIONS OF DOLLARS, EXCEPT COMMON STOCK ISSUED (in thousands) AND PREFERRED STOCK, COMMON STOCK ISSUABLE AND PER SHARE DATA)	CONVERSION CALCULATION	FAIR VALUE
---	---------------------------	---------------

Common Stock

Pharmacia common stock outstanding as of April 16, 2003	1,298,157	
Exchange ratio	1.4	
Pfizer common stock issued	1,817,420	
Value of Pfizer's common stock	\$29.81	\$54,177

Preferred Stock

Pharmacia Series C perpetual preferred stock outstanding and convertible into common stock as of April 16, 2003 ^(a)	6,018.86	
Conversion feature	1,839.19	
Pharmacia common stock issuable upon conversion	11,069,827	
Exchange ratio	1.4	
	15,497,758	
Value of Pfizer's common stock	\$29.81	462

Stock Options

Value of Pfizer stock options issued in exchange for Pharmacia stock options as of April 16, 2003 ^(b)	1,102
--	-------

Vested Share Award Programs

Value of Pharmacia share awards that became fully vested in connection with the acquisition ^(c)	130
Other transaction costs	101

Total estimated purchase price	\$55,972
---------------------------------------	-----------------

(a) Pharmacia Series B perpetual preferred stock was exchanged for substantially similar Pharmacia Series C perpetual preferred stock as of April 16, 2003.

(b) Estimated fair value of 180,068 Pfizer stock options (in thousands) issued as of April 16, 2003 in exchange for 128,906 Pharmacia outstanding stock options (in thousands), calculated using the Black-Scholes option pricing model, modified for dividends, with model assumptions estimated as of April 16, 2003 and a Pfizer stock price of \$29.81.

(c) The fair value of unissued shares of fully vested awards is based on the same exchange ratio as for the Pharmacia common stock and a Pfizer stock price of \$29.81. Awards can be settled in cash or shares, at the election of the program participant.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

B. Allocation of Purchase Price

The above purchase price has been preliminarily allocated based on an estimate of the fair value of assets acquired and liabilities assumed. The final valuation of net assets is expected to be completed as soon as possible, but no later than one year from the acquisition date in accordance with GAAP. Given the size and complexity of the acquisition, the fair valuation of certain net assets is still being finalized. To the extent that our estimates need to be adjusted, we will do so.

(MILLIONS OF DOLLARS)

Estimated book value of net assets acquired	\$ 8,795
Less: existing goodwill and other intangible assets	1,559
Tangible book value of net assets acquired	7,236
Remaining allocation:	
Increase inventory to fair value ^(a)	2,979
Increase long-term investments to fair value ^(b)	40
Increase property, plant and equipment to fair value ^(c)	439
Record in-process research and development charge ^(d)	5,052
Record identifiable intangible assets ^(d)	37,221
Increase long-term debt to fair value	(370)
Increase benefit plan liabilities to fair value ^(e)	(1,471)
Increase other net assets to fair value ^(f)	(431)
Restructuring costs incurred through December 31, 2003 ^(g)	(1,578)
Tax adjustments ^(h)	(13,592)
Goodwill ⁽ⁱ⁾	20,447
Estimated purchase price	\$ 55,972

Since our initial allocation of the purchase price in the second quarter of 2003, our estimates have been revised for inventory (\$1,371 million increase), fixed assets (\$372 million decrease) and identifiable intangible assets (\$715 million increase). These revisions reflect our greater understanding of Pharmacia net assets since the acquisition date.

- (a) Components of the increase to fair value for acquired inventory are as follows:

(MILLIONS OF DOLLARS)

Finished goods	\$ 958
Work in process	1,862
Reversal of LIFO Reserve	269
Additional valuation adjustments	(110)
Total	\$2,979

The fair value of acquired inventory, developed in consultation with independent valuation specialists, was determined as follows:

- Finished goods—the estimated selling price less the cost of disposal and a reasonable profit for the selling effort.
- Work in process—the estimated selling price of finished goods less the cost to complete, cost of disposal and reasonable profit on the selling and remaining manufacturing efforts.
- Raw materials—estimated current replacement cost, which equaled Pharmacia's historical cost.

We have conformed Pharmacia's inventory valuation methods to Pfizer's methodology and ceased using the LIFO method of inventory valuation for these inventories.

In addition, we performed detailed inventory counts around the world to assess the need for additional adjustments.

- (b) Primarily related to one publicly traded, equity-method investment adjusted to fair value. The basis for the valuation was the quoted market price from the Stockholm Exchange.

- (c) Components of the increase to fair value for acquired property, plant and equipment are as follows:

(MILLIONS OF DOLLARS)

Land	\$ (26)
Buildings	743
Machinery and equipment	(177)
Furniture and fixtures	(38)
Construction in progress	(63)
Total	\$ 439

The fair value of acquired property, plant and equipment, developed in consultation with independent valuation specialists, was valued at its value-in-use, unless there was a known plan to dispose of an asset. Assets to be disposed of were valued at prevailing market rates, less costs to sell, or nil, if to be abandoned.

In addition, we performed detailed fixed asset reviews around the world to assess the need for additional adjustments.

- (d) We are working with independent valuation specialists to determine the following:

- the fair value of research and development projects of Pharmacia which were in-process, but not yet completed (collectively, In-Process Research and Development, or IPR&D); and
- the fair value of identifiable intangible assets

As required, we recorded a charge of \$5,052 million for the preliminary estimate of the portion of the purchase price allocated to acquired IPR&D.

Components of the fair value of acquired identifiable intangible assets are as follows:

(MILLIONS OF DOLLARS)	FAIR VALUE	WEIGHTED AVERAGE LIFE (YEARS)	USEFUL LIFE (YEARS)
Developed technology rights	\$31,208	11	3–20
Brands (indefinite-lived assets)	5,308		
Brands (finite-lived assets)	117	40	40
Other (indefinite-lived assets)	317		
Other (finite-lived assets)	271	9	2–20
Total	\$37,221		

The total weighted average life of identifiable intangible assets acquired from Pharmacia that are subject to amortization is 11 years.

Developed technology rights represent the value associated with developed technology from Pharmacia to which Pfizer has rights. These rights can include the right to develop, use, market, sell and/or offer for sale the products, compounds and intellectual property that we acquired from Pharmacia with respect to products, compounds and/or processes that have been completed. Most of these assets are related to our Pharmaceutical segment.

Brands with indefinite-life treatment represent the value associated with tradenames, as the products themselves no longer receive patent protection. The valuation of these brands include all cash flows

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

associated with the use of the tradenames. Most of these assets are related to our Pharmaceutical and Consumer Healthcare segments.

The fair value of both IPR&D and identifiable intangible assets is determined using the "income approach" on a project-by-project basis. This method starts with a forecast of all of the expected future net cash flows. These net cash flow projections do not anticipate any revenue or cost synergies. These cash flows are then adjusted to present value by applying an appropriate discount rate that reflects the risk factors associated with the cash flow streams, some of which are more certain than others. For IPR&D, the discount rate also reflects the project's stage of completion and other risk factors which include the nature of the product, the scientific data associated with the technology, the current patent situation and market competition. Of the value allocated to developed technology rights, approximately 96% is derived from regulatory-approved uses and indications.

The forecast of future cash flows for IPR&D and identifiable intangible assets requires the following assumptions to be made:

- Revenue that is reasonably likely to result from the approved and unapproved, potential uses of identifiable intangible assets that includes the estimated number of units to be sold, estimated selling prices, estimated market penetration and estimated market share and year-over-year growth rates over the product life cycles
- Cost of sales using historical data, industry data or other sources of market data
- Sales and marketing expense using historical data, industry data or other sources of market data
- General and administrative expenses
- R&D expenses
- The estimated life of the product or potential product

In addition, for IPR&D projects we also considered the project's stage of completion, the costs incurred to date, the projected costs to complete, the contribution, if any, of developed technology and the projected launch date of the potential product.

To the extent that the IPR&D project is expected to utilize developed technology, the value of the in-process research and development project has been reduced to reflect this contribution. The value of this contribution has been capitalized as additional value associated with developed technology. Developed technology represents the technical processes, intellectual property, and institutional understanding that were acquired from Pharmacia with respect to products, compounds and/or processes that have been completed.

The valuations are based on the information that is available as of the acquisition date and the expectations and assumptions that have been deemed reasonable by our management. No assurance can be given, however, that the underlying assumptions or events associated with such assets will occur as projected. For these reasons, among others, the actual results may vary from the projected results.

- (e) Components of the increase to fair value for acquired benefit plans are \$1,148 million for pension benefit obligations and \$323 million for postretirement benefit obligations.

The fair value of the pension and postretirement obligations, determined in consultation with independent actuarial specialists, includes assumptions relating to economic factors such as interest rates of high quality fixed income investments, demographic factors such as salary growth projection and other data, such as expected employee terminations. The underlying assets of the plans were measured using market rates as of the acquisition date.

- (f) Includes accruals for legal and environmental matters that we intend to resolve in a manner different from the manner Pharmacia had planned (\$260 million). Also, includes adjustments to accruals for unfavorable leases (\$193 million); adjustments to accruals for sales allowances (\$144 million); adjusted to accruals for award programs that became fully vested in connection with the acquisition (\$68 million); and adjustments to other accounts based on detailed reviews of the assets and liabilities acquired (\$110 million); partially offset by the reversal of Pharmacia deferred income that no longer represents a performance obligation to third parties (\$344 million).
- (g) Included in *Other current liabilities* are restructuring costs that impacted goodwill. These exit costs are associated with Pharmacia employees, assets or activities and were recorded as a liability in conjunction with recording the initial purchase of Pharmacia.
- (h) Reflects the estimated tax effects of the acquisition, including a provision for taxes on unremitted earnings of international Pharmacia subsidiaries that are not expected to be permanently reinvested overseas.
- (i) In accordance with the requirements of SFAS No. 142, *Goodwill and Other Intangible Assets*, the goodwill and the acquired indefinite-lived intangibles assets associated with the merger will not be amortized. None of the goodwill is deductible for tax purposes.

C. Pro Forma Results

The following unaudited pro forma financial information presents the combined results of operations of Pfizer and Pharmacia as if the acquisition had occurred as of the beginning of the years presented. The unaudited pro forma financial information is not necessarily indicative of what our consolidated results of operations actually would have been had we completed the acquisition at the beginning of each year. In addition, the unaudited pro forma financial information does not attempt to project the future results of operations of the combined company.

(MILLIONS OF DOLLARS, EXCEPT PER COMMON SHARE DATA) (UNAUDITED)		
	2003	2002
Revenues:	\$48,894	\$44,998
Income from continuing operations before cumulative effect of change in accounting principles	8,344	9,268
Net income	10,536	7,373
Per share amounts:		
Income from continuing operations before cumulative effect of change in accounting principles per common share—basic	1.07	1.16
Net income per common share—basic	1.36	.92
Income from continuing operations before cumulative effect of change in accounting principles per common share—diluted	1.06	1.15
Net income per common share—diluted	1.34	.91

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

The unaudited pro forma financial information above reflects the following:

- a. The elimination of transactions between Pfizer and Pharmacia, which upon completion of the merger would be considered inter-company. The majority of these transactions occurred under the Celebrex and Bextra marketing agreements. This reflects:
 - the elimination of certain sales, alliance revenue and certain co-promotion expenses, and
 - the elimination of certain impacts of milestone payments made by Pfizer to Pharmacia.
- b. A decrease in interest expense of \$11 million in 2003 and \$38 million in 2002 related to the estimated fair value adjustment of long-term debt from the purchase price allocation.
- c. Additional amortization and depreciation expense of approximately \$993 million in 2003 and \$3,311 million in 2002 related to the estimated fair value of identifiable intangible assets and property, plant and equipment from the purchase price allocation. Identifiable intangible assets are being amortized over their estimated useful lives over a range of 2 to 40 years and property, plant and equipment is being depreciated over the estimated useful lives of the underlying assets.

The unaudited pro forma financial information above excludes the following material, non-recurring charges incurred in the year ended December 31, 2003:

- purchase accounting adjustments related to purchased IPR&D charge of \$5,052 million and the incremental charge of \$2,820 million reported in *Cost of sales* for the sale of acquired inventory that was written up to fair value.

3. Merger-Related Costs

We incurred the following merger-related costs in connection with our acquisition of Pharmacia which was completed on April 16, 2003 and our merger with Warner-Lambert Company (Warner-Lambert) which was completed on June 19, 2000:

(MILLIONS OF DOLLARS)	2003	2002	2001
Integration costs:			
Pharmacia	\$ 838	\$ 98	\$ —
Warner-Lambert	33	345	456
Restructuring costs:			
Pharmacia	177	—	—
Warner-Lambert	10	187	363
Total merger-related costs—expensed	\$1,058	\$630	\$819
Total merger-related costs—capitalized	\$1,578	\$ —	\$ —

A. Integration Costs

Integration costs represent external, incremental costs directly related to our merger with Warner-Lambert and our acquisition of Pharmacia, including expenditures for consulting and systems integration.

B. Restructuring Costs—Pharmacia

Throughout 2003, in connection with the acquisition of Pharmacia, Pfizer management approved and initiated plans to restructure the operations of both legacy Pfizer and legacy Pharmacia to eliminate duplicative facilities and reduce costs. The restructuring of our operations as a result of our acquisition of Pharmacia is expected to continue through 2005 and include severance, costs of vacating duplicative facilities and contract termination and other exit costs. Total merger-related

expenditures incurred during 2003-2005 are expected to be in the range of \$5.0 billion to \$5.5 billion, pre-tax.

Restructuring Costs Associated with Legacy Pfizer—Expensed

We recorded \$177 million of restructuring costs associated primarily with exiting certain activities of legacy Pfizer, including severance, costs of vacating duplicative facilities and contract termination and other exit costs. These costs have been recorded as a charge to the results of operations through the year ended December 31, 2003 and are included in *Merger-related costs*. The components of the restructuring charges associated with the acquisition of Pharmacia which were expensed in 2003 follow:

	PROVISIONS	UTILIZATION THROUGH DEC. 31,	RESERVE*
(MILLIONS OF DOLLARS)	2003	2003	2003
Employee termination costs	\$140	\$ (79)	\$61
Asset impairments	21	(21)	—
Other	16	(10)	6
	\$177	\$(110)	\$67

* Included in *Other current liabilities*.

Through December 31, 2003, the employee termination costs represent the approved reduction of the legacy Pfizer work force by 1,477 employees, mainly in corporate, manufacturing, distribution, sales and research. We notified affected individuals and 1,281 employees were terminated as of December 31, 2003. Asset impairments primarily include charges to write-down property, plant and equipment. Other primarily includes costs to exit certain assets and activities of legacy Pfizer.

Restructuring charges are recorded when specific decisions to exit activities are approved and incurred. Changes to the estimates of completing the currently approved restructuring plans or costs related to new restructuring initiatives for legacy Pfizer will be recorded in our results of operations.

Restructuring Costs Associated with Legacy Pharmacia—Capitalized

We recorded \$1,578 million of restructuring costs associated primarily with employee terminations and exiting certain activities of legacy Pharmacia. These costs were recognized as liabilities assumed in the purchase business combination. Accordingly, these costs are considered part of the purchase price of Pharmacia and have been recorded as an increase to goodwill. These restructuring costs also include costs associated with relocation. The components of the restructuring charges capitalized in 2003 as a cost of the acquisition of Pharmacia follow:

	COSTS INCURRED	UTILIZATION THROUGH DEC. 31,	RESERVE*
(MILLIONS OF DOLLARS)	2003	2003	2003
Employee termination costs	\$1,289	\$(1,083)	\$206
Other	289	(119)	170
	\$1,578	\$(1,202)	\$376

* Included in *Other current liabilities*.

Through December 31, 2003, the employee termination costs represent the approved reduction of the legacy Pharmacia work force by 11,249 employees, mainly in corporate, manufacturing, distribution, sales and research. We notified affected individuals and 10,174 employees were terminated as of December 31, 2003. Employee termination costs include accrued severance benefits and costs associated with change in control provisions of certain Pharmacia employment contracts. Other includes costs to exit certain assets and activities of legacy Pharmacia.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

Changes to the estimates of completing the currently approved restructuring plans or costs related to new restructuring initiatives for legacy Pharmacia will be recorded in goodwill for up to one year following the acquisition date of April 16, 2003 and in our results of operations after that date.

C. Restructuring Costs—Warner-Lambert

The restructuring of our operations resulting from our merger with Warner-Lambert was substantially complete as of December 31, 2003. Accordingly, we do not expect to incur significant integration or restructuring charges directly related to our merger with Warner-Lambert in 2004.

The components of the restructuring charges associated with the merger of the Warner-Lambert operations follow:

	PROVISIONS			CUMULATIVE PROVISIONS THROUGH DEC. 31,	UTILIZATION THROUGH DEC. 31,	RESERVE*
	2003	2002	2001	2003	2003	2003
(MILLIONS OF DOLLARS)						
Employee termination costs	\$10	\$170	\$249	\$1,279	\$(1,270)	\$9
Asset impairments	—	4	84	134	(134)	—
Other	—	13	30	64	(64)	—
Total	\$10	\$187	\$363	\$1,477	\$(1,468)	\$9

* Included in *Other current liabilities*.

Through December 31, 2003, the employee termination costs represent the approved reduction of the work force of our continuing businesses by 8,095 employees, mainly in corporate, manufacturing, distribution, sales and research. We notified affected individuals and 7,817 employees had been terminated as of December 31, 2003. Employee termination costs include accrued severance benefits and costs associated with change-in-control provisions of certain Warner-Lambert employment contracts. Under the terms of these contracts, certain terminated employees may elect to defer receipt of severance benefits. Severance benefits deferred for future payments were \$230 million at December 31, 2003 and \$218 million at December 31, 2002. The deferred severance benefits are considered utilized charges and are included in *Other non-current liabilities* in the consolidated balance sheet.

4. Discontinued Operations

We sold the following businesses and products that did not fit within our strategic plans:

- In April 2003, we completed the sale of the hormone replacement therapy femhrt, formerly part of our Pharmaceutical segment and a component of the women's health product line, to Galen Holdings plc for \$160 million in cash with a right to receive up to \$63.8 million contingent on femhrt retaining market exclusivity until the expiration of its patent. We recognized a gain on the sale of this product of \$139 million (\$83 million net of tax) in 2003.
- In March 2003, we sold the oral contraceptives Estrostep and Loestrin, formerly part of our Pharmaceutical segment and a com-

ponent of the women's health product line, to Galen Holdings plc for \$197 million in cash with a right to receive up to \$47.3 million contingent on Estrostep retaining market exclusivity until the expiration of its patent. We recognized a gain on the sale of these two products of \$193 million (\$116 million net of tax) in 2003.

- In March 2003, we sold the Adams confectionery products business, formerly part of our Consumer Healthcare segment, to Cadbury Schweppes plc for \$4.2 billion in cash. We recognized a gain on the sale of this business of \$3,091 million (\$1,824 million net of tax) in 2003.
- In March 2003, we sold the Schick-Wilkinson Sword shaving products business, formerly part of our Consumer Healthcare segment, to Energizer Holdings, Inc., for \$930 million in cash. We recognized a gain on the sale of this business of \$462 million (\$262 million net of tax) in 2003.
- In December 2002, we sold our Tetra fish-care products business, formerly part of our Consumer Healthcare segment to the Triton Fund, for \$238.5 million in cash. We recognized a gain on the sale of this business of \$117 million (\$77 million net of tax) in 2002.

The divestitures of the Adams and Schick-Wilkinson Sword businesses and the women's health product lines are presented as discontinued operations in 2003, 2002, and 2001. The divestiture of the Tetra business is reflected in discontinued operations in 2002 and 2001.

The following amounts related to the Tetra, Adams and Schick-Wilkinson Sword businesses and women's health product lines have been segregated from continuing operations and reflected as discontinued operations:

(MILLIONS OF DOLLARS)	2003	2002	2001
Revenues	\$ 762	\$2,908	\$2,958
Pre-tax income	\$ 26	\$ 447	\$ 405
Provision for taxes on income	10	169	154
Income from operations of discontinued businesses—net of tax	16	278	251
Pre-tax gains on sales of discontinued businesses	3,885	117	—
Provision for taxes on gains	1,600	40	—
Gains on sales of discontinued businesses—net of tax	2,285	77	—
Discontinued operations—net of tax	\$2,301	\$ 355	\$ 251

On January 19, 2004, we announced that we agreed to sell our in-vitro allergy and diagnostics testing business for \$575 million in cash. This business is included in our Corporate/Other segment and became a part of Pfizer in April 2003 with our acquisition of Pharmacia. We recorded approximately \$153 million in revenues from this business in 2003.

On January 13, 2004, we announced that we are exploring strategic options, including possible sale, for approximately 60 non-core consumer products, currently marketed in Europe by our Consumer Healthcare segment. The majority of these products are small brands, sold in single markets only and include certain products that became a

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

part of Pfizer in April 2003 in connection with our acquisition of Pharmacia. We recorded approximately \$100 million in revenues for all of these products in 2003.

On July 24, 2003, we announced that we are exploring strategic options for our surgical ophthalmology business, including its possible sale. The surgical ophthalmology business is included in our Pharmaceutical segment and became a part of Pfizer in April 2003 with our acquisition of Pharmacia. We recorded approximately \$102 million in revenues from this business in 2003.

5. Financial Instruments

A. Investments in Debt and Equity Securities

In 2002, we reclassified substantially all of our held-to-maturity debt securities to available-for-sale debt securities. The amortized cost of the securities reclassified was \$13,839 million and the unrealized gain on such securities was immaterial. We review the key characteristics of our debt securities portfolio on at least a quarterly basis. Upon completion of this review, we reclassified the securities because we no longer had the positive intent to hold such securities to maturity. As a result of this decision, any debt security that we may purchase over a two-year period, which began July 1, 2002, will not be classified as held-to-maturity.

On an ongoing basis, we evaluate our investment in debt and equity securities to determine if a decline in fair value is other-than-temporary. When a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

Information about our investments follows:

(MILLIONS OF DOLLARS)	2003	2002
Trading investments*	\$ 467	\$ —
Amortized cost and fair value of available-for-sale debt securities:**		
Corporate debt	9,524	5,471
Foreign government and foreign government agency debt	2,692	4,399
Corporate asset-backed securities	1,231	2,021
Supranational debt	1,142	3,090
Certificates of deposit	1,063	1,531
Total available-for-sale debt securities	15,652	16,512
Amortized cost and fair value of held-to-maturity debt securities:**		
Certificates of deposit and other	44	74
Total held-to-maturity debt securities	44	74
Cost of available-for-sale equity securities	234	123
Gross unrealized gains	263	53
Gross unrealized losses	(6)	(16)
Fair value of available-for-sale equity securities	491	160
Total investments	\$16,654	\$16,746

* Trading investments are held in trust for legacy Pharmacia severance benefits.

** Gross unrealized gains and losses are not material.

These investments were in the following captions in the consolidated balance sheet:

(MILLIONS OF DOLLARS)	2003	2002
Cash and cash equivalents	\$ 864	\$ 1,380
Short-term investments	10,432	10,673
Long-term investments and loans	5,358	4,693
Total investments	\$16,654	\$16,746

The contractual maturities of the available-for-sale and held-to-maturity debt securities as of December 31, 2003 follow:

(MILLIONS OF DOLLARS)	YEARS				TOTAL
	WITHIN 1	OVER 1 TO 5	OVER 5 TO 10	OVER 10	
Available-for-sale debt securities:					
Corporate debt	\$ 7,766	\$1,000	\$ 677	\$ 81	\$ 9,524
Foreign government and foreign government agency debt	1,840	288	564	—	2,692
Corporate asset-backed securities	18	470	405	338	1,231
Supranational debt	657	328	157	—	1,142
Certificates of deposit	988	75	—	—	1,063
Held-to-maturity debt securities:					
Certificates of deposit and other	27	9	—	8	44
Total debt securities	\$11,296	\$2,170	\$1,803	\$427	\$15,696
Trading investments					467
Available-for-sale equity securities					491
Total investments					\$16,654

B. Short-Term Borrowings

The weighted average effective interest rate on short-term borrowings outstanding at December 31 was 1.7% in 2003 and 2002. At December 31, 2003, we had access to \$2.7 billion of lines of credit of which \$2.2 billion expire within one year. Of these lines of credit, \$2.3 billion are unused, of which our lenders have committed to loan us \$1.0 billion at our request.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

C. Long-Term Debt

(MILLIONS OF DOLLARS)	MATURITY DATE	2003	2002
5.625% senior unsecured notes*	February 2006	\$ 804	\$ 819
6.6% senior unsecured notes*	December 2028	736	—
5.625% senior unsecured notes*	April 2009	656	665
5.75% senior unsecured notes*	December 2005	615	—
.80% Japanese yen senior unsecured notes	March 2008	559	506
6.5% senior unsecured notes*	December 2018	521	—
4.65% senior unsecured notes*	March 2018	290	—
3.3% senior unsecured notes*	March 2009	296	—
6% senior unsecured notes*	January 2008	275	281
Floating-rate unsecured notes	March 2005	200	200
3.625% senior unsecured notes*	November 2004	—	619
Other debentures, notes, borrowings and mortgages		803	50
Total long-term debt		\$5,755	\$3,140
Current portion not included above		\$ 726	\$ 256

* Includes unrealized gains and losses for debt with fair value hedges in 2003 and/or 2002 (see note 5D, "Financial Instruments—Derivative Financial Instruments and Hedging Activities").

The floating-rate unsecured notes bear interest at a variable rate based on the commercial paper borrowing rate. The weighted average interest rates of these notes were 1.3% at December 31, 2003 and 1.5% at December 31, 2002.

In 2003, we issued:

- \$300 million senior unsecured notes, which pay interest semi-annually, beginning on September 2, 2003, at a rate of 3.3%; and
- \$300 million senior unsecured notes, which pay interest semi-annually, beginning on September 1, 2003, at a rate of 4.65%

The notes were issued under a \$5 billion debt shelf registration statement filed with the SEC in November 2002 and were used for general corporate purposes.

In 2002, we issued \$600 million of senior unsecured notes, which pay interest annually, in arrears, beginning on April 15, 2003, at a rate of 5.625%. The proceeds from the note issuances were used for general corporate purposes.

Long-term debt outstanding at December 31, 2003 matures as follows:

(MILLIONS OF DOLLARS)	2005	2006	2007	2008	AFTER 2008
Maturities	\$891	\$830	\$20	\$1,088	\$2,926

At December 31, 2003, we had the ability to borrow \$4.4 billion by issuing debt securities under our existing debt shelf registration statement filed with the SEC.

In February 2004, we issued the following debt under our debt shelf registrations which will be used for current general corporate purposes, including the refinancing of existing debt:

- \$750 million senior unsecured notes due February 2014, which pay interest semi-annually, beginning on August 15, 2004, at a rate of 4.5%; and
- \$700 million senior unsecured notes due March 2007, which pay interest semi-annually, beginning on September 15, 2004, at a rate of 2.5%.

In connection with these debt issues, we entered into:

- \$750 million notional amount of interest rate swaps maturing in 2014; and
- \$700 million notional amount of interest rate swaps maturing in 2007

D. Derivative Financial Instruments and Hedging Activities

PURPOSE

Foreign Exchange Risk

A significant portion of revenues, earnings and net investments in foreign affiliates are exposed to changes in foreign exchange rates. We seek to manage our foreign exchange risk in part through operational means, including managing expected local currency revenues in relation to local currency costs and local currency assets in relation to local currency liabilities. Depending on market conditions, foreign exchange risk is also managed through the use of derivative financial instruments and foreign currency debt. These financial instruments serve to protect net income against the impact of the translation into U.S. dollars of certain foreign exchange denominated transactions. We entered into financial instruments to hedge or offset by the same currency, an appropriate portion of the currency risk and the timing of the hedged or offset item. At December 31, 2003 and 2002, the financial instruments employed to manage foreign exchange risk follow:

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

FINANCIAL INSTRUMENT	HEDGE TYPE	HEDGED OR OFFSET ITEM	NOTIONAL AMOUNT (MILLIONS OF DOLLARS)		MATURITY DATE
			2003	2002	
Forward Contracts	—	Short-term foreign currency assets and liabilities ⁽¹⁾	\$7,203	\$ —	Through 2004
Forward Contracts	—	Short-term foreign currency assets and liabilities ⁽¹⁾	—	1,928	Through 2003
Forward Contracts	Cash flow	Euro available-for-sale investments	2,388	—	Through 2004
Forward Contracts	Cash flow	Euro available-for-sale investments	—	1,802	Through 2003
Short-term yen borrowings	Net investment	Yen net investments	1,539	—	Through 2004
Short-term yen borrowings	Net investment	Yen net investments	—	1,603	Through 2003
Swaps	Cash flow	U.K. pound intercompany loan	714	645	2006
Long-term yen debt	Net investment	Yen net investments	559	506	2008
Forward Contracts	Cash flow	Japanese yen intercompany loan	266	—	2004
Swaps	Cash flow	Japanese yen intercompany loan	260	—	2004
Swaps	Cash flow	U.K. pound intercompany loan	—	466	Late 2003
Put options	Cash flow	Yen forecasted intercompany inventory purchase	—	460	Through 2003
Swaps	Fair value	Euro debt investments	—	230	Mid-2003
Swaps	Fair value	Euro loans of a foreign subsidiary	—	104	Mid-2003

(1) Primarily from intercompany transactions in euros, Japanese yen and Swedish krona in 2003, and in euros, Japanese yen and Australian dollars in 2002. As these forward contracts mature, we usually enter into similar term forward contracts.

Interest Rate Risk

Our interest-bearing investments, loans and borrowings are subject to interest rate risk. We invest and borrow primarily on a short-term or variable-rate basis. From time-to-time, depending on market conditions, we will fix interest rates either through entering into fixed rate

investments and borrowings or through the use of derivative financial instruments. At December 31, 2003 and 2002, the derivative financial instruments employed to manage interest rate risk follow:

FINANCIAL INSTRUMENT	HEDGE TYPE	HEDGED OR OFFSET ITEM	NOTIONAL AMOUNT (MILLIONS OF DOLLARS)		MATURITY DATE
			2003	2002	
Swaps	Cash flow	Yen "LIBOR" interest rate related to forecasted issuances of short-term debt ⁽¹⁾	\$1,129	\$ —	2006
Swaps	Cash flow	Yen "LIBOR" interest rate related to forecasted issuances of short-term debt ⁽¹⁾	—	1,022	Late 2003
Forward-starting swaps	Cash flow	Yen "LIBOR" interest rate related to forecasted issuances of short-term debt ⁽²⁾	—	1,022	Late 2003
Swaps	Fair value	U.S. dollar fixed rate debt ⁽³⁾	900	600	2009
Swaps	Fair value	U.S. dollar fixed rate debt ⁽³⁾	750	750	2006
Swaps	Fair value	U.S. dollar fixed rate debt ⁽³⁾	600	600	2004
Swaps	Cash flow	U.S. dollar fixed rate investment ⁽³⁾	590	—	2008
Swaps	Fair value	U.S. dollar fixed rate debt ⁽³⁾	250	250	2008
Swaps	Cash flow	"LIBOR" interest rate related to forecasted purchases of short-term fixed rate debt ⁽⁴⁾	95	95	2004

(1) Serve to reduce variability by effectively fixing the maximum rates on short-term debt at .9% in 2003 and 1.2% in 2002.

(2) Serve to reduce variability by effectively fixing the maximum rates on short-term debt at .9%. These forward-starting swaps effectively replaced existing yen interest rate swaps upon maturity in 2003.

(3) Serve to reduce exposure to long-term U.S. dollar interest rates by effectively converting fixed rates associated with long-term debt obligations or investments to floating rates.

(4) Serve to reduce the variability of LIBOR interest rates by effectively fixing the rates on short-term debt securities at 3.5%. Investments will be classified as "Available-for-Sale."

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

ACCOUNTING POLICIES

All derivative contracts are reported at fair value, with changes in fair value reported in earnings or deferred, depending on the nature and effectiveness of the offset or hedging relationship, as follows:

Foreign Exchange Risk

- We recognize the earnings impact of foreign currency forward-exchange contracts during the terms of the contracts, along with the earnings impact of the items they generally offset.
- We recognize the earnings impact of foreign currency swaps and foreign currency forwards designated as cash flow or fair value hedges upon the recognition of the foreign exchange gain or loss on the translation to U.S. dollars of the hedged item.
- We recognize the earnings impact of yen put options when the related inventory is sold to third-party customers.

Interest Rate Risk

- We recognize the earnings impact of interest rate swaps designated as cash flow hedges upon the recognition of the interest related to the hedged short-term debt and available-for-sale debt securities.
- We recognize the earnings impact of interest rate swaps designated as fair value hedges upon the recognition of the change in fair value for interest rate risk related to the hedged long-term debt.

Any ineffectiveness in a hedging relationship is recognized immediately into earnings. There was no significant ineffectiveness in 2003 or 2002.

Financial Statement Presentation

The consolidated financial statements include the following items related to the derivatives and other financial instruments serving as off-sets or hedges:

Prepaid expenses and taxes includes:

- fair value of foreign currency put options in 2002

Other assets, deferred taxes and deferred charges includes:

- fair value of forward-starting interest rate swaps in 2002 and interest rate swaps

Other current liabilities includes:

- fair value of foreign currency forward-exchange contracts
- fair value of foreign currency swaps

Other noncurrent liabilities includes:

- fair value of interest rate swaps designated as cash flow hedges and fair value of foreign currency swaps designated as cash flow hedges

Long-term debt includes:

- changes in the fair value of fixed rate debt hedged by interest rate swaps

Accumulated other comprehensive income/(expense) includes:

- changes in the foreign exchange translation of yen debt
- changes in the fair value of foreign currency forward-exchange contracts designated as cash flow hedges
- changes in the fair value of interest rate swaps designated as cash flow hedges
- changes in the fair value of forward-starting swaps in 2002 designated as cash flow hedges

Other (income)/deductions—net includes:

- changes in the fair value of foreign currency forward-exchange contracts

- changes in the fair value of foreign currency swap contracts that hedge foreign exchange
- changes in the fair value of interest rate swap contracts that hedge interest expense

E. Fair Value

The following methods and assumptions were used to estimate the fair value of derivative and other financial instruments at the balance sheet date:

- short-term financial instruments (cash equivalents, accounts receivable and payable, held-to-maturity short-term investments and debt)—we use cost or contract value because of the short maturity period
- available-for-sale debt securities—we use a valuation model that uses observable market quotes and credit ratings of the securities
- derivative contracts—we use valuation models that use observable market quotes and our view of the creditworthiness of the derivative counterparty
- loans—we use cost because of the short interest-reset period
- held-to-maturity long-term investments and long-term debt—we use valuation models that use observable market quotes

The differences between the estimated fair values and carrying values of our financial instruments were not material at December 31, 2003.

F. Credit Risk

We periodically review the creditworthiness of counterparties to foreign exchange and interest rate agreements and do not expect to incur a loss from failure of any counterparties to perform under the agreements. In general, there is no requirement for collateral from customers. There are no significant concentrations of credit risk related to our financial instruments with any individual counterparty. At December 31, 2003, we had \$2,049 million due from a broad group of banks around the world.

6. Comprehensive Income

Changes, net of tax, in accumulated other comprehensive income/(expense) follow:

(MILLIONS OF DOLLARS)	CURRENCY TRANSLATION ADJUSTMENT	NET UNREALIZED GAIN/(LOSS) ON AVAILABLE- FOR-SALE SECURITIES	MINIMUM PENSION LIABILITY	ACCUMULATED OTHER COM- PREHENSIVE INCOME (EXPENSE)*
Balance				
January 1, 2001	\$(1,486)	\$193	\$(222)	\$(1,515)
Period change	(37)	(91)	(106)	(234)
Balance				
December 31, 2001	(1,523)	102	(328)	(1,749)
Period change	85	(32)	(179)	(126)
Balance				
December 31, 2002	(1,438)	70	(507)	(1,875)
Period change	2,070	68	(68)	2,070
Balance				
December 31, 2003	\$ 632	\$138	\$(575)	\$ 195

* Income tax expense for other comprehensive income/(expense) was \$530 million in 2003, \$148 million in 2002 and \$146 million in 2001.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

The change in net unrealized gain/(loss) on available-for-sale securities includes:

(MILLIONS OF DOLLARS)	2003	2002	2001
Holding gain/(loss), net of tax	\$ 74	\$(59)	\$(86)
Reclassification adjustment, net of tax	(6)	27	(5)
Net unrealized gain/(loss) on available-for-sale securities	\$ 68	\$(32)	\$(91)

7. Property, Plant and Equipment

The major categories of property, plant and equipment follow:

(MILLIONS OF DOLLARS)	USEFUL LIVES (YEARS)	2003	2002
Land	—	\$ 522	\$ 252
Buildings	33 1/3 – 50	9,296	5,407
Machinery and equipment	8 – 20	9,435	6,023
Furniture, fixtures and other	3 – 12 1/2	3,642	2,977
Construction in progress	—	2,486	1,484
		25,381	16,143
Less: accumulated depreciation		7,094	5,431
Total property, plant and equipment		\$18,287	\$10,712

8. Goodwill and Other Intangible Assets

A. Goodwill

The changes in the carrying amount of goodwill by segment for the years ended December 31, 2003 and 2002 follow:

(MILLIONS OF DOLLARS)	PHARMA-CEUTICAL	CONSUMER HEALTHCARE	ANIMAL HEALTH	OTHER	TOTAL
Balance					
December 31, 2001	\$ 311	\$ 833	\$ 536	\$ 9	\$ 1,689
Impairment loss	—	—	(536)	—	(536)
Other*	51	(4)	—	—	47
Balance					
December 31, 2002	362	829	—	9	1,200
Pharmacia acquisition (preliminary estimate)	18,548	1,714	77	108	20,447
Other*	581	72	1	5	659
Balance					
December 31, 2003	\$19,491	\$2,615	\$ 78	\$122	\$22,306

* Primarily reflects the impact of foreign exchange.

In 2002, as a result of adopting SFAS No. 142, *Goodwill and Other Intangible Assets*, we recorded a write-down of \$536 million for the impairment provisions related to goodwill in our animal health business. The fair value of the animal health business was determined using discounted cash flows. This write-down, along with \$29 million for impairment provisions related to identifiable intangible assets, was reported as a cumulative effect of a change in accounting principle as of the beginning of 2002 totaling \$565 million (\$410 million net of tax).

B. Intangibles

The components of identifiable intangible assets follow:

(MILLIONS OF DOLLARS)	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	2003	2002	2003	2002
Amortized identifiable intangible assets:						
Developed technology rights	\$32,289	\$ 526	\$(2,400)	\$(72)		
Trademarks	147	133	(88)	(72)		
License agreements	48	42	(13)	(25)		
Patents	33	33	(27)	(24)		
Noncompete agreements	50	48	(46)	(39)		
Customer contracts	149	—	(25)	—		
Other	355	78	(77)	(31)		
Total amortized identifiable intangible assets	33,071	860	(2,676)	(263)		
Unamortized identifiable intangible assets:						
Brands	5,308	—	—	—		
License agreements	288	—	—	—		
Trademarks	266	240	—	—		
Pension asset	41	60	—	—		
Other	52	24	—	—		
Total unamortized intangible assets	5,955	324	—	—		
Total identifiable intangible assets	\$39,026	\$1,184	\$(2,676)	\$(263)		

Post-approval milestone payments made under our alliance agreements for the human pharmaceutical products, such as Rebif, Spiriva and Celebrex (prior to our acquisition of Pharmacia), are included in developed technology rights.

Total amortization expense for finite-lived intangible assets was \$2,405 million in 2003, \$60 million in 2002 and \$54 million in 2001. Amortization expense for finite-lived intangible assets is recorded in various expenses, including *Cost of sales*, *Selling*, *informational and administrative expenses*, *Research and development expenses* and *Other (income)/deductions—net*.

The annual amortization expense expected for the years 2004 through 2008 is as follows:

(MILLIONS OF DOLLARS)	2004	2005	2006	2007	2008
Amortization expense	\$3,378	\$3,372	\$3,265	\$3,113	\$2,608

C. Change in Accounting Principle

In 2001, we recorded amortization of goodwill, net of taxes, of \$36 million and amortization of indefinite-lived intangible assets, net of taxes, of \$8 million. If the provisions of SFAS No. 142, which were adopted beginning in 2002, were in effect in 2001, our reported net income of \$7,788 million would have increased to \$7,832 million. The addback of amortization of goodwill and indefinite-lived intangible assets, net of taxes, would have represented an increase in our basic and diluted earnings per common share of \$.01. This would have resulted in our 2001 reported basic earnings per common share (EPS) increasing from \$1.25 to \$1.26 and our reported diluted EPS increasing from \$1.22 to \$1.23.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

9. Other (Income)/Deductions — Net

The components of *Other (income)/deductions — net* follow:

(MILLIONS OF DOLLARS)	2003	2002	2001
Interest income	\$ (346)	\$(382)	\$(539)
Interest expense	290	279	322
Interest expense capitalized	(20)	(28)	(56)
Net interest income	(76)	(131)	(273)
Various litigation matters	1,435	15	—
Copromotion charges and intellectual property rights payments	380	32	206
Charges to write-down equity investments	16	45	—
Gains on the sales of products	(87)	(34)	—
Amortization of finite-lived intangibles	2,183	28	45
Net exchange losses	1	40	33
Other, net	(242)	(115)	(106)
Other (income)/deductions — net	\$3,610	\$(120)	\$ (95)

In the fourth quarter of 2003, we recorded charges totaling \$1,402 million for the resolution of two legacy Warner-Lambert litigation matters (see our discussions in Note 20 — “Legal Proceedings and Contingencies”). The increase in amortization of finite-lived intangibles in 2003 reflects the impact of the acquisition of Pharmacia.

10. Taxes on Income

Income from continuing operations before provision for taxes on income, minority interests and the cumulative effect of change in accounting principles consists of the following:

(MILLIONS OF DOLLARS)	2003	2002	2001
United States	\$ (209)	\$ 4,523	\$4,193
International	3,472	7,273	5,791
Total income from continuing operations before provision for taxes on income, minority interests and cumulative effect of change in accounting principles	\$3,263	\$11,796	\$9,984

The decrease in domestic and international income from continuing operations before taxes in 2003 compared to 2002 is due primarily to several non-cash charges associated with purchase accounting; an increase in merger-related costs incurred in connection with our acquisition of Pharmacia; and the provisions for two legacy Warner-Lambert legal matters.

The provision for taxes on income from continuing operations before minority interests and the cumulative effect of change in accounting principles consists of the following:

(MILLIONS OF DOLLARS)	2003	2002	2001
United States:			
Taxes currently payable:			
Federal	\$ 29	\$1,403	\$ 480
State and local	115	226	51
Deferred income taxes	502	(88)	974
Total U.S. tax provision	646	1,541	1,505
International:			
Taxes currently payable	1,581	1,265	810
Deferred income taxes	(606)	(197)	118
Total international tax provision	975	1,068	928
Total provision for taxes on income	\$1,621	\$2,609	\$2,433

Amounts are reflected in the preceding tables based on the location of the taxing authorities. As of December 31, 2003, we have not made a U.S. tax provision on approximately \$38 billion of unremitted earnings of our international subsidiaries. These earnings are expected, for the most part, to be reinvested overseas. It is not practical to compute the estimated deferred tax liability on these earnings.

We operate manufacturing subsidiaries in Puerto Rico that benefit from Puerto Rican incentive grants that expire between 2012 and 2020. Under the grants, we are partially exempt from income, property and municipal taxes. Under Section 936 of the U.S. Internal Revenue Code, Pfizer is a “grandfathered” entity and is entitled to the benefits under such statute until 2006.

Reconciliation of the U.S. statutory income tax rate to our effective tax rate for continuing operations before the cumulative effect of change in accounting principles follows:

(PERCENTAGES)	2003	2002	2001
U.S. statutory income tax rate	35.0	35.0	35.0
Earnings taxed at other than U.S. statutory rate	(53.2)	(12.6)	(11.0)
U.S. research tax credit	(3.1)	(1.1)	(0.8)
Acquired IPR&D	54.2	—	—
Litigation settlement provisions	13.7	—	—
All other — net	3.1	0.8	1.2
Effective tax rate for income from continuing operations before cumulative effect of change in accounting principles	49.7	22.1	24.4

The component percentages above reflect the decrease in income from continuing operations in 2003 compared to prior years due to the impacts of the Pharmacia acquisition. In addition, the charge for acquired IPR&D of \$5,052 million is not deductible and the litigation settlement provisions of \$1,402 million recorded in the fourth quarter of 2003 either are not deductible or are deductible at rates lower than the U.S. statutory rate.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

Deferred taxes arise because of different treatment between financial statement accounting and tax accounting, known as "temporary differences." We record the tax effect of these temporary differences as "deferred tax assets" (generally items that can be used as a tax deduction or credit in future periods) or "deferred tax liabilities" (generally items for which we received a tax deduction but that have not yet been recorded in the consolidated statement of income).

The tax effects of the major items recorded as deferred tax assets and liabilities are:

(MILLIONS OF DOLLARS)	2003 DEFERRED TAX		2002 DEFERRED TAX	
	ASSETS	LIABS.	ASSETS	LIABS.
Prepaid/deferred items	\$ 957	\$ (592)	\$ 931	\$ (279)
Intangibles	257	(11,376)	13	(8)
Inventories	1,668	(343)	726	(137)
Property, plant and equipment	207	(1,541)	55	(813)
Employee benefits	2,022	(207)	601	(253)
Restructurings and other charges	428	(789)	186	(83)
Foreign tax credit carryforwards	153	—	253	—
Other carryforwards	92	—	53	—
Unremitted earnings	—	(2,837)	—	—
All other	1,033	(460)	385	(174)
Subtotal	6,817	(18,145)	3,203	(1,747)
Valuation allowance	(3)	—	(103)	—
Total deferred taxes	\$6,814	\$(18,145)	\$3,100	\$(1,747)
Net deferred tax asset/(liability)		\$(11,331)		\$1,353

In 2003, the net deferred tax liability position is primarily due to the deferred taxes recorded in connection with our acquisition of Pharmacia.

A valuation allowance is recorded because some items recorded as deferred tax assets may ultimately not be deductible or creditable.

Deferred tax assets and liabilities in the preceding table, netted by taxing location, are in the following captions in the consolidated balance sheet:

(MILLIONS OF DOLLARS)	2003	2002
Prepaid expenses and taxes	\$ 1,907	\$1,185
Other assets, deferred taxes and deferred charges	—	532
Deferred taxes on income	(13,238)	(364)
Net deferred tax asset/(liability)	\$(11,331)	\$1,353

The Internal Revenue Service (IRS) has completed and closed its audits of Pfizer Inc's tax returns through 1998 and Warner-Lambert Company through 1998. The IRS is currently conducting audits of Pfizer Inc's tax returns for the years 1999 through 2001. With respect to Pharmacia, the IRS is currently conducting audits of Pharmacia Inc's tax returns for the years 1998 and 1999, while its tax returns for 1995 through 1997 are open and under appeal. Pharmacia also has responsibility for the current ongoing IRS audit of its former agricultural subsidiary Monsanto's tax returns for the years 1998 and 1999.

We believe that our accruals for tax liabilities are adequate for all open years.

11. Benefit Plans

We provide defined benefit pension plans and defined contribution plans for the majority of our employees worldwide. In the U.S., we have both qualified and supplemental (non-qualified) defined benefit plans. A qualified plan meets the requirements of certain sections of the Internal Revenue Code and generally contributions to qualified plans are tax deductible. It typically provides benefits to a broad group of employees and may not discriminate in favor of highly compensated employees in its coverage, benefits or contributions. We also provide benefits through supplemental (non-qualified) retirement plans to certain employees. In addition, we provide medical and life insurance benefits to retirees and their eligible dependents through our postretirement plans.

We use a measurement date of December 31st for a majority of our U.S. and November 30th for our international pension and postretirement plans.

In December 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Act) was enacted. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Due to uncertainties in determining the impact the Act could have to our accumulated postretirement obligation and net periodic postretirement benefit cost, the consolidated financial statements do not reflect the effect the Act may have on our postretirement plans. Upon resolution of such uncertainties, which are substantially beyond our control, our postretirement plans will recognize the effects of the Act, which are not likely to be material.

Acquisitions and Divestitures

We acquired certain pension and postretirement plans from Pharmacia on April 16, 2003. The related obligations and plan assets acquired at fair value included global pension benefit obligations of \$3.7 billion and pension plan assets of \$1.9 billion and other postretirement benefit obligations of \$966 million and postretirement plan assets of \$172 million.

During 2003, pursuant to the divestitures of the Adams, Schick-Wilkinson Sword and Tetra businesses, pension plan assets and accumulated benefit obligations were transferred to the purchasers of those businesses.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

Components of Net Periodic Benefit Costs

The annual cost of the U.S. qualified and International pension plans and the postretirement plans follow:

(MILLIONS OF DOLLARS)	PENSION PLANS						POSTRETIREMENT PLANS		
	U.S. QUALIFIED			INTERNATIONAL					
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Service cost	\$ 229	\$ 156	\$ 123	\$ 212	\$ 140	\$ 114	\$ 31	\$ 17	\$ 15
Interest cost	354	254	239	224	148	130	101	57	50
Expected return on plan assets	(384)	(366)	(400)	(213)	(150)	(143)	(11)	—	—
Amortization of:									
Prior service costs	17	16	16	7	6	5	14	14	5
Net transition asset	—	—	(1)	1	(1)	(3)	—	—	—
Actuarial (gains)/losses	115	38	(24)	43	24	22	20	14	5
Curtailments and settlements — net	6	—	—	13	6	3	1	—	—
Net periodic benefit costs	\$ 337	\$ 98	\$ (47)	\$ 287	\$ 173	\$ 128	\$ 156	\$ 102	\$ 75

The increase in the 2003 U.S. qualified pension plans' net periodic benefit cost was largely driven by lower than assumed 2002 investment returns, the acquisition of Pharmacia pension plans in 2003 and changes in the discount rate and return on assets assumptions used for the 2003 net periodic benefit cost.

The net periodic pension cost for the U.S. supplemental (non-qualified) pension plans was \$127 million in 2003, \$87 million in 2002 and \$86 million in 2001. The increase in the 2003 net periodic pension cost for U.S. supplemental (non-qualified) pension plans was primarily driven by the acquisition of Pharmacia pension plans in 2003 and changes in discount rate assumptions used for the 2003 net periodic pension cost for U.S. supplemental (non-qualified) pension plans.

The following table provides the weighted average actuarial assumptions at December 31:

(PERCENTAGES)	2003	2002	2001
Weighted average assumptions used to determine benefit obligations:			
Discount rate:			
U.S. qualified pension plans	6.3	6.9	7.3
U.S. non-qualified pension plans	6.3	6.8	7.3
International pension plans	5.0	5.1	5.3
Postretirement plans	6.3	6.8	7.3
Rate of compensation increase:			
U.S. qualified pension plans	4.5	4.5	4.5
U.S. non-qualified pension plans	4.5	4.5	4.5
International pension plans	3.6	3.6	3.4
Weighted-average assumptions used to determine net benefit cost ⁽¹⁾ :			
Discount rate:			
U.S. qualified pension plans	6.8	7.3	7.8
U.S. non-qualified pension plans	6.7	7.3	7.8
International pension plans	5.2	5.3	5.5
Postretirement plans	6.6	7.3	7.8
Expected return on plan assets:			
U.S. qualified pension plans	9.0	10.0	10.0
International pension plans	7.0	7.3	7.8
Postretirement plans	9.0	—	—
Rate of compensation increase:			
U.S. qualified pension plans	4.5	4.5	4.5
U.S. non-qualified pension plans	4.5	4.5	4.5
International pension plans	3.6	3.6	3.6

(1) The 2003 net benefit cost assumptions for legacy Pharmacia plans are as of April 16, 2003.

These assumptions are used to develop the projected benefit obligations at fiscal year end and to develop net periodic pension cost for the subsequent fiscal year. Therefore, the assumptions used to determine net

periodic benefit cost were established at year end 2002 while the assumptions used to determine benefit obligations were established at year end 2003.

The net periodic benefit cost and the actuarial present value of projected benefit obligations are based on actuarial assumptions that are reviewed on an annual basis. We revise these assumptions based on an annual evaluation of long-term trends, as well as market conditions, that may have an impact on the cost of providing retirement benefits and in accordance with the requirements of SFAS No. 87, *Employers' Accounting for Pensions*.

The expected rate of return represents our long-term assessment of return expectations which we will only change based on significant shifts in economic and financial market conditions. The 2004 expected rate of return of 9% for both the U.S. qualified pension and postretirement benefit plans reflects our long-term outlook for a globally diversified portfolio. Our long-term outlook is influenced by a combination of return expectations by individual asset class, actual historical experience and our diversified investment strategy. The historical returns are used to provide context for the development of our return expectations. Using this information we develop ranges of returns for each asset class and a weighted-average expected return for our targeted portfolio which includes the impact of portfolio diversification.

An average increase of 10% in the cost of global postretirement health care benefits was assumed for 2004 and is projected to decrease over the next 8 years to 5% and then remain at that level.

A one-percentage-point change in the medical trend rate assumed for postretirement benefits would have the following effects at December 31, 2003:

(MILLIONS OF DOLLARS)	INCREASE	DECREASE
Total of service and interest cost components	\$ 16	\$ (11)
Postretirement benefit obligation	222	(179)

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

Obligations and Funded Status

The following table presents an analysis of the changes in 2003 and 2002 in the projected benefit obligation, the plan assets and the funded status of our U.S. qualified and International pension plans and the postretirement plans as of December 31:

(MILLIONS OF DOLLARS)	PENSION PLANS					
	U.S. QUALIFIED		INTERNATIONAL		POSTRETIREMENT	
	2003	2002	2003	2002	2003	2002
Change in benefit obligation						
Balance beginning of year	\$4,104	\$3,618	\$ 3,104	\$ 2,633	\$ 905	\$ 785
Service cost	229	156	212	140	31	17
Interest cost	354	254	224	148	101	57
Employee contributions	—	—	14	10	9	5
Plan amendments	—	36	23	(11)	(1)	—
Increases arising primarily from changes in actuarial assumptions	419	313	177	168	178	113
Foreign exchange impact	—	—	603	176	4	(1)
Acquisitions	1,894	—	1,597	55	966	—
Divestitures	(55)	—	(28)	(55)	—	—
Curtailments	(48)	3	(7)	(2)	(9)	2
Settlements	—	—	(21)	(29)	—	—
Benefits paid	(405)	(276)	(217)	(129)	(131)	(73)
Benefit obligation at end of year	\$6,492	\$4,104	\$ 5,681	\$ 3,104	\$ 2,053	\$ 905
Change in plan assets						
Fair value of plan assets at beginning of year	\$3,527	\$3,862	\$ 1,930	\$ 1,786	\$ —	\$ —
Actual gain/(loss) on plan assets	901	(545)	249	(153)	53	—
Company contributions	1,404	486	419	285	122	—
Employee contributions	—	—	14	9	9	—
Foreign exchange impact	—	—	346	138	—	—
Acquisitions	1,221	—	695	10	172	—
Divestitures	(55)	—	(23)	(10)	—	—
Settlements	—	—	(26)	(21)	—	—
Benefits paid from plan assets	(405)	(276)	(194)	(114)	(131)	—
Fair value of plan assets at end of year	\$6,593	\$3,527	\$ 3,410	\$ 1,930	\$ 225	\$ —
Funded status (plan assets greater than/(less than) benefit obligation)	\$ 101	\$ (577)	\$ (2,271)	\$ (1,174)	\$ (1,828)	\$ (905)
Unrecognized:						
Net transition asset	—	—	10	2	2	1
Actuarial losses	1,602	1,863	1,437	1,230	371	263
Prior service costs	163	186	59	46	4	18
Net asset/(liability) recorded in consolidated balance sheet	\$1,866	\$1,472	\$ (765)	\$ 104	\$ (1,451)	\$ (623)

The improvement in the 2003 U.S. qualified pension plans projected benefit obligation funded status was the result of required and voluntary contributions in 2003 of \$1,404 million, higher than assumed 2003 investment returns partially offset by the acquisition of underfunded Pharmacia pension plans and the 0.6 percentage point decline in the discount rate. The U.S. supplemental (non-qualified) pension plans are not generally funded as no tax or other incentives exist and these obligations are paid from ongoing cash generation which is substantially greater than the annual cash outlay for these liabilities. The projected benefit obligations for the U.S. supplemental (non-qualified) pension plans was \$1,014 million in 2003 and \$804 million in 2002. The increase in the projected benefit obligation for U.S. supplemental (non-qualified) pension plans was primarily due to the acquisition of \$229 million of U.S. supplemental (non-qualified) Pharmacia pension plans and a 0.5 percentage

point decline in the discount rate. The net liability of U.S. supplemental (non-qualified) pension plans was \$395 million in 2003 and \$258 million in 2002.

The unrecognized actuarial losses primarily represent the cumulative difference between the actuarial assumptions and actual return on plan assets and changes in discount rates. These actuarial losses are largely deferred and a portion of this loss is currently being amortized for all U.S. plans' net periodic benefit cost over an average period of 14 years. The unrecognized actuarial losses in the U.S. supplemental (non-qualified) pension plans amounted to \$603 million in 2003 and \$529 million in 2002. For U.S. supplemental (non-qualified) pension plans the unrecognized actuarial losses represent the cumulative difference between actuarial assumptions and actual results primarily related to changes in discount rates.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

The components of the net asset/(liability) recorded in the consolidated balance sheet follow:

(MILLIONS OF DOLLARS)	PENSION PLANS					
	U.S. QUALIFIED		INTERNATIONAL		POSTRETIREMENT	
	2003	2002	2003	2002	2003	2002
Prepaid benefit cost	\$2,090	\$1,472	\$ 540	\$ 318	\$ —	\$ —
Accrued benefit liability	(224)	—	(1,895)	(772)	(1,451)	(623)
Intangible asset	—	—	17	33	—	—
Accumulated other comprehensive income	—	—	573	525	—	—
Net asset/(liability) recorded in consolidated balance sheet	\$1,866	\$1,472	\$ (765)	\$ 104	\$(1,451)	\$(623)

The accrued benefit liability for U.S. supplemental (non-qualified) pension plans was \$797 million in 2003 and \$599 million in 2002. The intangible asset and the accumulated other comprehensive income related to U.S. supplemental (non-qualified) pension plans was \$24 million in 2003 and \$27 million in 2002 and \$378 million in 2003 and \$314 million in 2002.

The increase in the 2003 U.S. qualified pension plans' prepaid benefit cost to \$2,090 million is largely reflective of the voluntary contributions made in 2003 to the U.S. plans.

The accumulated benefit obligations for our U.S. qualified pension plans was \$5,352 million in 2003 and \$3,365 million in 2002. The accumulated benefit obligations for our U.S. supplemental (non-qualified) pension plans was \$781 million in 2003 and \$599 million in 2002. The 2003 increase in the U.S. qualified pension plans' accumulated benefit obligations was primarily driven by the acquisition of Pharmacia and the 0.6 percentage point decline in the discount rate. The accumulated benefit obligations increase for the U.S. supplemental (non-qualified) pension plans for 2003 was primarily due to the acquisition of Pharmacia pension plans and a 0.5 percentage point decline in the discount rate.

Information related to both U.S. qualified and international pension plans follows:

(MILLIONS OF DOLLARS)	U.S. QUALIFIED PLANS		INTERNATIONAL PLANS	
	2003	2002	2003	2002
Pension plans with an accumulated benefit obligation in excess of plan assets:				
Fair value of plan assets	\$ 296	\$ —	\$1,674	\$ 834
Accumulated benefit obligation (ABO)	\$ 466	\$ —	\$3,309	\$1,581
Pension plans with a projected benefit obligation in excess of plan assets:				
Fair value of plan assets	\$2,524	\$3,520	\$2,987	\$1,561
Projected benefit obligation (PBO)	\$2,780	\$4,101	\$5,274	\$2,754

In the aggregate, our U.S. qualified pension plans had assets greater than their ABO and PBO at December 31, 2003. Certain individual U.S. qualified pension plans had assets less than their ABO and PBO at December 31, 2003.

The increase in the 2003 international plans with an excess of ABO and PBO of plan assets is reflective of our acquisition of underfunded Pharmacia plans as well as our plans in the U.K., Japan, and certain of our plans in Germany and Sweden, all of whose liabilities are included in our consolidated balance sheet. U.S. supplemental (non-qualified) pension plans with ABOs in excess of plan assets had ABO balances of \$781 million in 2003 and \$599 million in 2002. U.S. supplemental (non-qualified) pension plans with PBOs in excess of plan assets had PBO balances of \$1,014 million in 2003 and \$804 million in 2002.

Plan Assets

Our U.S. qualified pension and postretirement plans reflect weighted average target allocations as of December 31, 2003 and the percentages of the fair value of plan assets are allocated at December 31, 2003 and 2002 by asset category as follows:

(PERCENTAGES)	TARGET ALLOCATION	PERCENTAGE OF PLAN ASSETS	
	2003	2003	2002
U.S. qualified pension plans			
Global equity securities	65	67.2	62.6
Debt securities	25	24.4	24.9
Alternative investments*	10	7.6	11.6
Cash	0	0.8	0.9
Total	100	100.0	100.0
U.S. postretirement plans**			
Global equity securities	75	71.5	—
Debt securities	25	28.5	—
Total	100	100.0	—

* Private equity, venture capital, private debt and real estate.

** Reflects postretirement plan assets which support a portion of our U.S. retiree medical plans.

The U.S. qualified pension plan assets long-term target asset allocation is shown in the table above. The long-term allocation targets reflect our asset class return expectations and tolerance for investment risk within the context of the pension plans' long-term benefit obligations. The long-term asset allocation is supported by an analysis that incorporates historical and expected returns by asset class as well as volatilities and correlations across asset classes and our liability profile. This analysis, referred to as an asset-liability analysis, also provides an estimate of expected returns on plan assets as well as a forecast of potential future asset and liability balances. Due to market conditions and other factors, actual asset allocations may vary from the target allocation outlined above. The year end 2003 alternative investments allocation of 7.6% was below the target allocation primarily due to the timing of our contributions to the U.S. qualified plans and the cash allocation of 0.8% was above the target allocation due to the need to fund certain expected benefit payments. The assets are periodically rebalanced back to the target allocation.

The U.S. postretirement plan assets long-term target asset allocation is shown in the table above. The long-term allocation targets reflect our asset class return expectations and tolerance for investment risk within the context of the postretirement plans' long-term benefit obligations.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

The U.S. qualified pension plans held approximately 10 million shares (fair value of approximately \$364 million representing 5.5% of U.S. Plan assets) at December 31, 2003 and approximately 8.7 million shares (fair value of approximately \$265 million representing 7.5% of U.S. Plan assets) at December 31, 2002 of our common stock. The plans received approximately \$6 million in dividends on these shares in 2003 and approximately \$4 million in dividends on these shares in 2002.

Cash Flows

It is our practice to fund amounts for our qualified pension plans at least sufficient to meet the minimum requirements set forth in applicable employee benefit laws and local tax laws. Liabilities for amounts in excess of these funding levels are included in our consolidated balance sheet. Our U.S. qualified pension plans have been well-funded historically and the pre-2003 decline in the equity markets coupled with the decline in long-term interest rates has allowed us to make tax-deductible voluntary contributions in excess of minimum requirements of \$1,269 million to our U.S. qualified pension plans and \$125 million to our U.K. pension plans. We made required contributions to certain U.S. qualified pension plans of \$135 million in addition to the voluntary U.S. plan contributions.

The following table presents expected cash flow information:

FOR THE YEAR ENDED DECEMBER 31 (MILLIONS OF DOLLARS)	U.S. QUALIFIED PENSION PLANS	U.S. POSTRETIREMENT BENEFITS
Employer Contributions:		
2004 (estimated)	\$ 34	\$136
Expected Benefit Payments:		
2004	\$ 292	\$137
2005	289	141
2006	294	145
2007	306	149
2008	325	152
2009 — 2013	2,086	751

Employer contributions for U.S. supplemental (non-qualified) pension plans for 2004 are estimated to be \$87 million and expected benefit payments for 2004 through 2008 are estimated to be \$87 million, \$96 million, \$66 million, \$53 million and \$58 million, respectively, and for 2009 through 2013 totaling \$359 million.

The table reflects the total U.S. plan benefits projected to be paid from the plans or from the Company's general assets under the current actuarial assumptions used for the calculation of the projected benefit obligation and therefore, actual benefit payments may differ from projected benefit payments.

Defined Contribution Plans

We have savings and investment plans in several countries including the U.S. and Puerto Rico. Employees may contribute a portion of their salaries to the plans, and we match, in company stock, a portion of the employee contributions. The contribution and match for legacy Pfizer U.S. participants are held in an employee stock ownership plan that was adopted in 2002. The value of our stock contributions was \$180 million in 2003, \$139 million in 2002 and \$107 million in 2001.

12. Lease Commitments

We lease properties and equipment for use in our operations. In addition to rent, the leases may require us to pay directly for taxes, insurance, maintenance and other operating expenses, or to pay higher rent when operating expenses increase. Rental expense, net of sublease income, was \$634 million in 2003, \$341 million in 2002 and \$280 million in 2001. This table shows future minimum rental commitments under noncancellable operating leases at December 31, 2003:

(MILLIONS OF DOLLARS)	2004	2005	2006	2007	2008	AFTER 2008
Lease commitments	\$290	\$265	\$242	\$215	\$185	\$855

13. Common Stock

In December 2002, in connection with our acquisition of Pharmacia, our shareholders approved a 3 billion share increase to our authorized number of shares of common stock.

We continue to purchase our common stock via open market purchases or in privately negotiated transactions as circumstances and prices warrant. Purchased shares under each of the share-purchase programs are available for general corporate purposes.

In December 2003, we announced a \$5 billion share-purchase program which we expect to be completed by the end of 2004.

In July 2002, we announced a \$16 billion share-purchase program (increased from the initial \$10 billion) authorized by our board of directors, which we completed in November 2003. In total, under the June 2002 program we purchased approximately 508 million shares.

In May 2002, we completed the share-purchase program authorized in June 2001. In total, under the June 2001 program we purchased 120 million shares at a total cost of approximately \$4.8 billion.

A summary of common stock purchases follows:

(MILLIONS OF SHARES AND DOLLARS EXCEPT PER-SHARE DATA)	SHARES OF COMMON STOCK PURCHASED	AVERAGE PER-SHARE PRICE PAID	TOTAL COST OF COMMON STOCK PURCHASED
2003:			
December 2003 program	1	\$34.57	\$ 37
June 2002 program	406	\$31.99	13,000
Total	407		\$13,037
2002:			
June 2002 program	102	\$29.41	\$ 3,000
June 2001 program	51	\$38.87	1,996
Total	153		\$ 4,996
2001:			
June 2001 program	69	\$40.83	\$ 2,797
September 1998 program	20	\$42.72	868
Total	89		\$ 3,665

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

14. Preferred Stock

In December 2002, in connection with our acquisition of Pharmacia, our shareholders approved a 15 million share increase to our authorized number of shares of preferred stock.

In connection with our acquisition of Pharmacia in 2003, we issued a newly created class of Series A convertible perpetual preferred stock (7,500 shares designated) in exchange for and with rights substantially similar to Pharmacia's Series C convertible perpetual preferred stock. The Series A convertible perpetual preferred stock is held by an Employee Stock Ownership Plan ("Preferred ESOP") Trust and provides dividends at the rate of 6.25% which are accumulated and paid quarterly. The per-share stated value is \$40,300 and the preferred stock ranks senior to our common stock as to dividends and liquidation rights. Each share is convertible, at the holder's option, into 2,547.87 shares of our common stock with equal voting rights. The Company may redeem the preferred stock, at any time or upon termination of the Preferred ESOP, at its option, in cash, in shares of common stock or a combination of both at a price of \$40,300 per share.

15. Employee Stock Ownership Plans

In connection with our acquisition of Pharmacia, we assumed two employee stock ownership plans (collectively the "ESOPs"), a Preferred ESOP and another that held Pharmacia common stock that upon acquisition was exchanged for the common stock of the Company ("Common ESOP"). The matching contributions for legacy Pharmacia domestic participants are funded through the ESOPs.

Legacy Pharmacia guaranteed two notes relating to the ESOPs for original principal amounts of \$275 million (9.79%) and \$80 million (8.13%). These guarantees continued after Pfizer's acquisition of Pharmacia. At December 31, 2003, the balance of the two notes was \$64 million of which \$60 million was classified as current. Compensation expense related to the ESOPs totaled approximately \$37 million in 2003. The Preferred ESOP has access to up to \$95 million in financing at the rate of 7.00% per annum of which \$22 million was utilized prior to our acquisition of Pharmacia.

Allocated shares held by the Common ESOP are considered outstanding for the EPS calculations and the eventual conversion of allocated preferred shares held by the Preferred ESOP is assumed in the diluted EPS calculation. At December 31, 2003, the Preferred ESOP held preferred shares convertible into approximately 14 million shares of our common stock and the Common ESOP held approximately 2 million shares. The value of the shares held in the Preferred ESOP at December 31, 2003 was approximately \$219 million.

16. Employee Benefit Trust

The Pfizer Inc Employee Benefit Trust (EBT) was established in 1999 to fund our employee benefit plans through the use of its holding of Pfizer Inc stock. The consolidated balance sheet reflects the fair value of the shares owned by the EBT as a reduction of *Shareholders' equity*.

17. Earnings Per Common Share

Basic and diluted earnings per common share were computed using the following common share data:

(MILLIONS)	2003	2002	2001
EPS Numerator — Basic:			
Income from continuing operations before cumulative effect of change in accounting principles	\$1,639	\$9,181	\$7,537
Less: Preferred stock dividends—net of tax	4	—	—
Income available to common shareholders from continuing operations before cumulative effect of change in accounting principles	1,635	9,181	7,537
Discontinued operations:			
Income from operations of discontinued businesses/product lines—net of tax	16	278	251
Gains on sales of discontinued businesses/product lines—net of tax	2,285	77	—
Discontinued operations—net of tax	2,301	355	251
Income available to common shareholders before cumulative effect of change in accounting principles	3,936	9,536	7,788
Cumulative effect of change in accounting principles—net of tax	(30)	(410)	—
Net income available to common shareholders	\$3,906	\$9,126	\$7,788
EPS Denominator — Basic:			
Weighted average number of common shares outstanding	7,213	6,156	6,239
EPS Numerator — Diluted:			
Income from continuing operations before cumulative effect of change in accounting principles	\$1,639	\$9,181	\$7,537
Less: ESOP contribution—net of tax	3	—	—
Income available to common shareholders from continuing operations before cumulative effect of change in accounting principles	1,636	9,181	7,537
Discontinued operations:			
Income from operations of discontinued businesses/product lines—net of tax	16	278	251
Gains on sales of discontinued businesses/product lines—net of tax	2,285	77	—
Discontinued operations—net of tax	2,301	355	251
Income available to common shareholders before cumulative effect of change in accounting principles	3,937	9,536	7,788
Cumulative effect of change in accounting principles—net of tax	(30)	(410)	—
Net income available to common shareholders	\$3,907	\$9,126	\$7,788
EPS Denominator — Diluted:			
Weighted average number of common shares outstanding	7,213	6,156	6,239
Common share equivalents—stock options, stock issuable under employee compensation plans and convertible preferred stock	73	85	122
Weighted average number of common shares outstanding and common share equivalents	7,286	6,241	6,361

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

Stock options and stock issuable under employee compensation plans representing equivalents of 331 million shares of common stock during 2003, 244 million shares of common stock during 2002 and 136 million shares of common stock during 2001 had exercise prices greater than the annual average market price of Pfizer common stock. These common stock equivalents were outstanding during 2003, 2002 and 2001, but were not included in the computation of diluted earnings per common share for those years because their inclusion would have had an anti-dilutive effect.

18. Stock Option and Performance Unit Awards

We have stock and incentive plans related to employees that allow for stock options, performance unit awards and stock awards.

We may grant stock options to employees, including officers, under the plans. Options are exercisable after five years or less, subject to continuous employment and certain other conditions, and expire 10 years after the grant date. Once options are exercisable, the employee can purchase shares of our common stock at the market price on the date we granted the option. Former Pharmacia plans provided that, in the event of a change in control of Pharmacia, stock options already granted became immediately exercisable.

The following shares (in thousands) were available for award at:

• December 31, 2001	249,572
• December 31, 2002	178,626
• December 31, 2003	152,173

The table below summarizes information concerning options outstanding under the plans at December 31, 2003:

(THOUSANDS OF SHARES)						
OPTIONS OUTSTANDING				OPTIONS EXERCISABLE		
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT 12/31/03	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM (YEARS)	WEIGHTED AVERAGE EXERCISE PRICE (TOTAL OPTIONS)	NUMBER EXERCISABLE AT 12/31/03	WEIGHTED AVERAGE EXERCISE PRICE (EXERCISABLE OPTIONS)	
\$ 0–\$19.99	108,125	2.6	\$12.80	108,125	\$12.80	
20– 29.99	149,111	7.6	27.70	83,488	26.42	
30– 34.99	126,058	6.6	32.61	102,721	32.99	
35– 39.99	45,895	4.5	35.58	45,502	35.56	
40– 41.99	65,700	8.2	41.30	2,512	41.24	
42– 44.99	56,629	5.3	42.07	54,696	42.07	
over 45	67,078	7.1	45.40	31,439	45.46	
Total	618,596			428,483		

The following table summarizes the activity for the plans:

(THOUSANDS OF SHARES)	UNDER OPTION	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Balance January 1, 2001	395,614	\$22.71
Granted	79,155	45.34
Exercised	(54,082)	12.81
Cancelled	(6,764)	39.23
Balance December 31, 2001	413,923	28.05
Granted	73,874	41.30
Exercised	(43,135)	14.26
Cancelled	(12,681)	36.33
Balance December 31, 2002	431,981	31.45
Pharmacia option exchange	180,068	28.84
Granted	102,027	29.78
Exercised	(57,237)	18.24
Cancelled	(38,243)	35.89
Balance December 31, 2003	618,596	\$31.36

The tax benefits related to certain stock option transactions were \$238 million in 2003 and 2002 and \$395 million in 2001.

The weighted average fair value per stock option granted was \$7.35 for 2003, \$12.58 for 2002 and \$15.12 for 2001. We estimated the fair values using the Black-Scholes option pricing model, modified for dividends and using the following assumptions:

	2003	2002	2001
Expected dividend yield	3.15%	1.90%	1.41%
Risk-free interest rate	2.75%	4.35%	5.00%
Expected stock price volatility	33.05%	32.41%	31.45%
Expected term until exercise (years)	5.58	5.30	5.50

In 2001, our shareholders approved a Performance-Contingent Share Award Plan (the Plan) allowing a maximum of 12.5 million shares to be awarded. The Plan replaces the Performance-Contingent Share Award Program (the Program) that was established and became effective in 1993 to provide executives and other key employees the right to earn common stock awards. Similar to the Program, determination of award payouts under the Plan is made after the performance period ends, based upon specific performance criteria. The performance period for the Program and the Plan typically covers several years. Awards for performance periods beginning prior to January 1, 2002 are made under the Program. Awards for performance periods beginning on and after January 1, 2002 are made under the Plan. Under the Program, up to 120 million shares could have been awarded; however, since awards for performance periods beginning on and after January 1, 2002 are made under the Plan, no further performance periods will begin under the Program. The actual number of shares awarded and pending under the Program, through December 31, 2003, is 17 million shares. In addition, certain awards were made under a Stock and Incentive Plan totaling about 4.3 million shares since 1994. At December 31, 2003, participants had the right to earn up to 5.9 million shares under the Program and the Stock and Incentive Plan, and up to 6.0 million shares under the Plan. Based on participants achieving performance criteria for performance periods beginning prior to January 1, 2002 relating to the Program and the Stock and Incentive Plan, we awarded approximately 1.4 million

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

shares in 2003, approximately 2.0 million shares in 2002 and approximately 1.7 million shares in 2001. We did not award any shares under the Plan as of December 31, 2003. Compensation expense relating to the awards totaled approximately \$41 million in 2003, \$36 million in 2002 and \$94 million in 2001.

We entered into forward-purchase contracts that offset the potential impact on net income of our liability under the Program and the Plan. At settlement date we will, at the option of the counterparty to each of the contracts, either receive our own stock or settle the contracts for cash. Other contract terms are as follows:

(THOUSANDS OF SHARES)	PER SHARE	MAXIMUM MATURITY IN YEARS	
		2003	2002
3,051	\$33.84	.4	—
3,051	\$33.84	—	.8

The financial statements include the following items related to these contracts:

Prepaid expenses and taxes includes:

- fair value of these contracts

Other (income)/deductions—net includes:

- changes in the fair value of these contracts

19. Insurance

Our insurance coverage reflects market conditions (including cost and availability) existing at the time it is written, and our decision to obtain insurance coverage or to self-insure varies accordingly. As a result of external events, the cost of insurance has risen substantially and the availability of insurance has become more restrictive. Thus, depending upon the cost of insurance and the nature of the risk involved, the amount of self-insurance may be significant. We consider the impact of these changes as we assess our insurance needs in the future.

20. Legal Proceedings and Contingencies

We and certain of our subsidiaries are involved in various patent, product liability, consumer, commercial, environmental, and tax litigations and claims; government investigations; and other legal proceedings that arise from time to time in the ordinary course of our business. We do not believe any of them will have a material adverse effect on our financial position. Litigation is inherently unpredictable, and excessive verdicts do occur. Although we believe we have valid defenses in these matters, we could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on our results of operations in any particular period.

Patent claims include challenges to the coverage and/or validity of our patents on various products or processes. Although we believe that we have valid defenses to these challenges with respect to all our material patents, there can be no assurance as to the outcome of these matters, and a loss in any of these cases could result in a loss of patent protection for the drug at issue, which could lead to a significant loss of sales of that drug and could materially affect future results of operations.

Among the principal matters pending to which we are a party are the following:

PATENT MATTERS

We are involved in a number of patent suits, the majority of which involve claims by generic drug manufacturers that patents covering our products, processes or dosage forms are invalid and/or do not cover the product of the generic manufacturer. Pending suits include generic challenges to patents covering, among other products, amlodipine (*Norvasc*), gabapentin (*Neurontin*), atorvastatin (*Lipitor*), latanoprost (*Xalatan*), tolterodine (*Detrol*) and celecoxib (*Celebrex*). In addition, counterclaims in these suits as well as various independent actions in connection with gabapentin have been filed claiming that our assertions of or attempts to enforce our patent rights constitute unfair competition and/or violations of the antitrust laws.

Norvasc (amlodipine)

In December 2001, a manufacturer filed an application with the FDA seeking approval to market amlodipine maleate, a different salt form from amlodipine besylate, which is employed in our product, *Norvasc*. In June 2002, we filed a patent infringement suit against the manufacturer in the U.S. District Court for the District of New Jersey. The manufacturer's motion to dismiss the complaint was granted in December 2002, and we appealed that decision. On February 27, 2004 the U.S. Court of Appeals for the Federal Circuit reversed the District Court's dismissal and held that the sale of any amlodipine product, regardless of the salt form, would infringe our patent.

Three manufacturers have filed abbreviated new drug applications with the FDA seeking to market a generic version of amlodipine besylate. We filed patent infringement suits against these manufacturers, respectively, in the U.S. District Court for the District of New Jersey in October 2002, in the U.S. District Court for the Northern District of Illinois in July 2003 and in the U.S. District Court for the Southern District of New York in February 2004.

Neurontin (gabapentin)

In 2000, 2001 and 2003, Warner-Lambert brought patent infringement suits in various federal courts against several generic manufacturers that have filed abbreviated new drug applications with the FDA asserting the invalidity and non-infringement of our gabapentin (*Neurontin*) low-lactam patent. These suits have been consolidated for pre-trial purposes in the U.S. District Court for the District of New Jersey. The defendants have filed various summary judgment motions asserting invalidity and non-infringement on a number of grounds, and responses have been filed. Counterclaims in these suits as well as various independent actions have been filed claiming that our assertions of or attempts to enforce rights under our patents for gabapentin constitute unfair competition and/or violations of the antitrust laws. These counterclaims and independent actions have been consolidated in the same federal court and stayed pending the outcome of the patent infringement suits.

The 30-month stay of FDA approval triggered by our infringement lawsuits has expired. One of the generic manufacturers has received final approval from the FDA to market its AB-rated (i.e., allowed to be substituted for *Neurontin*) generic gabapentin product and is entitled to 180 days of marketing exclusivity. Other generic manufacturers have received tentative approval from the FDA, which allows them to market their generic gabapentin products following the expiration of the 180-

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

day marketing exclusivity period. Any launches of generic gabapentin products during this period would still be subject to our patents, even though the stay has expired.

Lipitor (atorvastatin)

A generic manufacturer filed an abbreviated new drug application with the FDA for atorvastatin (*Lipitor*) in 2002 and amended the application in early 2003 to allege that its product would not infringe our basic product patent for atorvastatin. Shortly thereafter, the generic manufacturer also asserted that our patent covering the active enantiomeric form of the drug is invalid. In 2003, we filed suits in the U.S. District Court for the District of Delaware against the generic manufacturer for infringement of both our basic product patent and our patent covering the active enantiomeric form of the drug. The trial of this matter has been scheduled for November 30, 2004. Our basic product patent, including the additional six-month pediatric exclusivity period, expires in 2010. Our enantiomer patent, including the six-month pediatric exclusivity period, provides one additional year of protection, expiring in 2011.

Diflucan (fluconazole)

Our basic product patent for fluconazole (*Diflucan*) expired in January 2004. As a result, the patent infringement suit that we filed against a generic manufacturer in May 2002 in the U.S. District Court for the District of New Jersey became moot, and a stipulation of dismissal has been entered.

The FDA has granted us pediatric exclusivity with respect to *Diflucan*, which extends our marketing exclusivity for six months after the patent expiration date, through July 29, 2004. One of the generic manufacturers that has filed an abbreviated new drug application for fluconazole has brought an action against the FDA challenging the grant of pediatric exclusivity. A hearing on this matter is scheduled for March 4, 2004. If that challenge is successful, our sales of *Diflucan* could be subject to competition from generic fluconazole products immediately.

Xalatan (latanoprost)

In November 2001, a generic manufacturer notified Pharmacia that it had filed an abbreviated new drug application with the FDA seeking approval to market a product containing latanoprost, which Pharmacia markets as *Xalatan*. In December 2001, Pharmacia filed suit against the generic manufacturer in the U.S. District Court for the District of New Jersey alleging infringement of various patents relating to latanoprost that are held by or licensed to Pharmacia. The generic manufacturer has admitted infringement but claims that these patents are invalid and unenforceable. The trial of this matter is scheduled for March 15, 2004.

Detrol (tolterodine)

In February 2004, a generic manufacturer notified us that it had filed an abbreviated new drug application with the FDA seeking approval to market tolterodine (*Detrol*). We intend to file a patent infringement suit against the generic manufacturer shortly.

PDE5 Inhibitors for the Treatment of Male Erectile Dysfunction

In October 2002, we were granted a broad patent, which expires in 2019, covering the use of orally-effective PDE5 inhibitors for the treatment of male erectile dysfunction. At that time, we brought suit in the U.S. District Court for the District of Delaware against the manufacturers of competing PDE5 inhibitors for infringement of this patent. In October 2003, we received notice that the U.S. Patent and Trademark Office has initiated a reexamination of this patent. In November 2003, our suits

against competing PDE5 inhibitor manufacturers were stayed pending the completion of the patent reexamination.

The Patent and Trademark Office reexamination with regard to this use patent and our suits against competing PDE5 inhibitor manufacturers do not involve and will have no effect on our basic product patent for *Viagra*, which expires in 2012.

Celebrex, Bextra (celecoxib, valdecoxib)

In 2000, the University of Rochester filed a patent infringement action against Pfizer and Pharmacia in the U.S. District Court for the Western District of New York alleging that sales of *Celebrex* infringe the broad method of use claims of the University's patent. The suit also alleges infringement by *Bextra*. In 2003, the court granted our motion for summary judgment, and the University appealed that decision. On February 13, 2004, the U.S. Court of Appeals for the Federal Circuit affirmed the District Court's grant of summary judgment in our favor.

In January 2004, a generic manufacturer notified us that it had filed an abbreviated new drug application with the FDA seeking approval to market a product containing celecoxib and asserting the non-infringement and invalidity of our patents relating to celecoxib. In February 2004, we filed suit against the generic manufacturer in the U.S. District Court for the District of New Jersey asserting infringement of our patents relating to celecoxib.

PRODUCT LIABILITY MATTERS

Rezulin

As announced on January 22, 2004, we took a charge to fourth quarter 2003 earnings of \$975 million pre-tax (\$955 million after-tax), which is expected to be sufficient to cover all known *Rezulin* personal injury claims arising from the use of the drug. The charge was taken in connection with our reaching agreements under which the cases and claims of approximately 35,000 individuals will be settled or withdrawn. The settlements are subject to receipt of standard documentation from the claimants. The charge also includes provisions that we believe will be sufficient to resolve, either through litigation or settlement, the remaining pending personal injury cases and claims against Warner-Lambert that will not be settled or withdrawn. We intend to continue to defend vigorously those remaining cases and claims as well as any cases or claims that may be filed or asserted in the future. Consequently, we anticipate trials in a number of *Rezulin* cases in the coming year.

One of our insurance carriers that provides the first layer of excess coverage for these *Rezulin* claims has denied coverage. We believe that the carrier's position is without merit and, pursuant to the provisions of the insurance policy, we have initiated an arbitration proceeding.

The agreements announced in January do not resolve and the charge does not cover non-personal injury matters, including various purported class actions. In September 2002, the federal district court managing pre-trial proceedings in the *Rezulin* litigation denied the plaintiffs' motion to certify a nationwide class of allegedly injured *Rezulin* users seeking money damages and a subclass of uninjured users seeking medical monitoring and damages for alleged consumer fraud or restitution of amounts they paid for *Rezulin*. In denying class certification, the court stated that *Rezulin* was "enormously beneficial to many patients." Similarly, state courts in California and Texas have denied attempts at statewide class certification. As previously reported, the West Virginia Supreme Court of Appeals did reverse a lower court's decision denying the plaintiffs' motion to certify a statewide class of allegedly injured users

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

and purchasers of *Rezulin*. In addition, a purported class action seeking economic damages on behalf of users of *Rezulin* is pending in state court in Madison County, Illinois. The Company has entered into a contingent agreement to settle the Madison County action on behalf of all Illinois users of *Rezulin*. The agreement is subject to a number of significant conditions and, if the agreement becomes effective, is subject to notice, a hearing and court approval.

In April 2001, Louisiana Health Service Indemnity Company and Eastern States Health and Welfare Fund filed a consolidated complaint against Warner-Lambert in the U.S. District Court for the Southern District of New York purportedly on behalf of a class consisting of all health benefit providers that paid for *Rezulin* between February 1997 and April 2001. The action seeks to recover amounts paid for *Rezulin* by the health benefit providers on behalf of their plan participants during the specified period. In October 2001, the District Court dismissed the complaint. In April 2003, the U.S. Court of Appeals for the Second Circuit reversed the dismissal order. The Second Circuit made no decision on the merits of the plaintiffs' claims or on whether the claims may proceed as a class action. We believe that we have meritorious defenses to these claims.

A federal grand jury in Maryland has sought documents relating to *Rezulin* from us and testimony from former Warner-Lambert employees. We are cooperating fully with this investigation.

Asbestos

In the 1960s, Pfizer acquired two businesses, the Gibsonburg Lime Products Company and Quigley Company, Inc., that sold, among other things, products containing small amounts of asbestos. The sale of these products was discontinued in the early 1970s. Gibsonburg Lime was operated as an unincorporated division of Pfizer, whereas Quigley has been and continues to be a separately incorporated subsidiary of Pfizer. As of December 31, 2003, approximately 165,700 claims naming Pfizer and/or Quigley and numerous other defendants were pending in various federal and state courts seeking damages for alleged asbestos exposure and exposure to other allegedly hazardous materials. The majority of these claims involve alleged activities of Quigley, for which we believe any liability should be solely the responsibility of Quigley. While Quigley continues to have insurance covering asbestos claims, that insurance is limited and contains substantial self-insurance aspects. Quigley has conducted no active trade or business since 1992. Its sole activity is management of its asbestos-related claims.

Between 1967 and 1982, Warner-Lambert owned American Optical Corporation, which manufactured and sold respiratory protective devices and asbestos safety clothing. In connection with the sale of American Optical in 1982, Warner-Lambert agreed to indemnify the purchaser for certain liabilities, including certain asbestos-related and other claims. As of December 31, 2003, approximately 133,100 claims naming American Optical and numerous other defendants were pending in various federal and state courts seeking damages for alleged asbestos exposure and exposure to other allegedly hazardous materials. Several of the insur-

ance carriers that provided coverage for the American Optical asbestos and other claims have denied coverage. We believe that these carriers' position is without merit and have initiated legal proceedings against such carriers.

In addition, there is a small number of lawsuits pending in federal and state courts that seek damages for alleged exposure to asbestos in facilities owned or formerly owned by Pfizer or its subsidiaries.

Based upon available data and our experience in handling asbestos claims, we believe that a substantial portion of the plaintiffs alleging injury against Pfizer, Quigley and American Optical do not have any impairing medical condition. For those claimants who do, we believe we have meritorious defenses.

COMMERCIAL MATTERS

Neurontin

The U.S. Attorney's office in Boston, Massachusetts has been conducting an investigation into Warner-Lambert's promotion of *Neurontin*, which originated with a *qui tam* ("whistleblower") lawsuit filed in the U.S. District Court for the District of Massachusetts in 1996 by a former Warner-Lambert employee. In addition, investigations by various state attorneys general concerning the promotion of *Neurontin* are ongoing. These investigations all concern allegations of Warner-Lambert conduct prior to Pfizer's acquisition of Warner-Lambert in June 2000. Pfizer has cooperated fully with these investigations and is currently in discussions to resolve these matters. Those discussions recently have advanced to the point where it is appropriate to take a provision that we believe will be sufficient to resolve all outstanding federal and state governmental investigations related to the promotion of *Neurontin* as well as the pending civil *qui tam* lawsuit concerning this matter. As announced on January 22, 2004, we took a charge to fourth quarter 2003 earnings of \$427 million pre-tax (\$403 million after-tax) in connection with these investigations.

In addition to the foregoing, a number of civil suits, including purported class actions, have been filed on behalf of private parties in various federal and state courts alleging claims arising from the promotion and sale of *Neurontin*. We also are defending a number of product liability claims and lawsuits alleging injury from ingesting *Neurontin*.

Average Wholesale Price Litigation

A number of states and counties have sued Pharmacia, Pfizer and other pharmaceutical manufacturers alleging that they sold certain products at prices lower than the published average wholesale price ("AWP"). The AWP is used to determine reimbursement levels under Medicare Part B and under many private-sector insurance policies and medical plans. Several of the suits also allege that Pharmacia did not report to the states its best price for certain products under the Medicaid program. Each of these suits alleges, among other things, deceptive trade practices and fraud and seeks monetary and other relief, including civil penalties and treble damages.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

In addition, Pharmacia, Pfizer and other pharmaceutical manufacturers are defendants in a number of purported class action suits in various federal and state courts brought by employee benefit plans and self-styled public interest groups that state claims similar to those in the state and county actions. These suits allege, among other things, fraud, unfair competition and unfair trade practices and seek monetary and other relief, including civil penalties and treble damages.

All of these state, county and purported class action suits were transferred to the U.S. District Court for the District of Massachusetts for consolidated pre-trial proceedings. Certain of the state suits and one of the private suits have been remanded to their respective state courts.

Motions to dismiss have been made in each of these state, county and purported class actions suits. By decision dated February 24, 2004, the court in the consolidated proceeding in Massachusetts in large part denied defendants' motions to dismiss plaintiffs' amended master consolidated complaint. The dismissal motions made in the state and county actions have not yet been decided.

Qui Tam Action Relating to Manufacturing Practices

Pfizer, Pharmacia and other pharmaceutical companies have been named in a *qui tam* action that was filed in the U. S. District Court for the Northern District of Texas in June 2001 but not served on Pfizer and Pharmacia until 2003. The complaint alleges that the defendants have generally failed to comply with good manufacturing practices mandated by the FDA, that as a consequence their products sold to or reimbursed by the federal government are adulterated and/or misbranded, and that the federal government is entitled to refunds of purchase prices paid. In February 2004, the court granted the plaintiff's motion for leave to amend the complaint and denied defendants' consolidated motion to dismiss as moot. To date, the federal government has not intervened in the action. We believe the claims with respect to Pfizer and Pharmacia are without merit.

NeoPharm Arbitration

In 1999, Pharmacia and NeoPharm entered into an agreement to develop NeoPharm's technology for liposome encapsulation of certain cancer drugs. In April 2002, NeoPharm filed a demand for arbitration under the agreement, alleging that Pharmacia had breached the agreement by failing to use reasonable efforts to develop, market and sell the technology. NeoPharm is seeking specific performance and damages for lost profits. In May 2002, Pharmacia filed its response and asserted a counterclaim for rescission and the return of certain payments on the ground that NeoPharm misrepresented the technology. The arbitration proceeding concluded in February 2004, and a decision is expected within the next several months.

Genotropin and Bextra

The Company recently was notified that the U.S. Department of Justice is conducting investigations relating to the marketing and sale of *Genotropin* and *Bextra*, as well as certain managed care payments. We are cooperating in these investigations.

OTHER MATTERS

Monsanto-Related Matters

In 1997, Monsanto Company ("Former Monsanto") contributed certain chemical manufacturing operations and facilities to a newly formed corporation, Solutia Inc. ("Solutia"), and spun off the shares of Solutia. In 2000, Former Monsanto merged with Pharmacia & Upjohn to form Pharmacia Corporation ("Pharmacia"). Pharmacia then transferred its

agricultural operations to a newly created subsidiary, named Monsanto Company ("New Monsanto"), which it spun off in a two-stage process that was completed in 2002. Pharmacia was acquired by Pfizer on April 16, 2003 and is now a wholly owned subsidiary of Pfizer.

In connection with its spin-off that was completed in 2002, New Monsanto assumed, and agreed to indemnify Pharmacia for, any liabilities related to Pharmacia's former agricultural business. New Monsanto is defending and indemnifying Pharmacia for various claims and litigation arising out of or related to the agricultural business.

In connection with its spin-off in 1997, Solutia assumed liabilities related to Former Monsanto's chemical businesses. As a result, while Pharmacia remains a defendant in various legal proceedings involving Former Monsanto's chemical businesses, Solutia manages the litigation and is responsible for all costs and expenses and any judgment or settlement amounts. In addition, in connection with its spin-off that was completed in 2002, New Monsanto assumed, and agreed to indemnify Pharmacia for, any liabilities primarily related to Former Monsanto's chemical businesses, including any such liabilities that Solutia assumed to the extent that Solutia fails to pay or discharge them. Solutia's assumption of these liabilities, and New Monsanto's agreement to indemnify Pharmacia for these liabilities to the extent that Solutia fails to pay or discharge them, apply to, among other matters, the litigation discussed below relating to polychlorinated biphenyls ("PCBs").

As previously reported, Pharmacia is a defendant in various actions in state and federal court in Alabama relating to PCBs that were discharged from a plant site in Anniston, Alabama. The principal actions against Pharmacia were *Abernathy et al. v. Monsanto et al.* and *Tolbert et al. v. Solutia et al.* In August 2003, both of these actions were settled, subject to the execution of releases by the plaintiffs, without the payment of a material amount by Pharmacia or Pfizer. Releases from the requisite number of plaintiffs have been executed, and the settlement has been finalized.

In December 2003, Solutia filed a petition in the U.S. Bankruptcy Court for the Southern District of New York seeking reorganization under Chapter 11 of the U.S. bankruptcy code. Solutia has asked the Bankruptcy Court to relieve it from liabilities related to Former Monsanto's chemical businesses that were assumed by Solutia in 1997, including without limitation some or all of Solutia's \$50 million share of the settlement in the *Abernathy* and *Tolbert* cases. Should the Bankruptcy Court grant such relief, New Monsanto would be responsible for such liabilities under its indemnification agreement with Pharmacia. Solutia also has filed a motion with the Bankruptcy Court seeking to reject its contractual indemnity and other obligations to Pharmacia. If approved by the Bankruptcy Court, rejection will result in a breach of these obligations and substantial damage claims against Solutia. Pharmacia intends to oppose the motion to reject. If the motion is granted, New Monsanto will continue to be liable to indemnify Pharmacia for any obligations that Solutia fails to perform.

In December 2003, Solutia filed an action, also in the U.S. Bankruptcy Court for the Southern District of New York, seeking a determination that Pharmacia rather than Solutia is responsible for an estimated \$475 million in health care benefits for certain Solutia retirees. Pharmacia intends to vigorously defend this action. New Monsanto will be responsible for costs and expenses and any judgment or settlement amounts in this action under its indemnification agreement with Pharmacia.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

Celebrex

In April and May 2003, several purported class action complaints were filed in the U.S. District Court for the District of New Jersey by persons who claim to have been purchasers of publicly traded securities of Pharmacia during the period from April 17, 2000 through August 22, 2001 (the "Purported Class Period"). Named as defendants in the actions are Pharmacia and certain former officers of Pharmacia. The complaints allege that the defendants violated federal securities laws by misrepresenting the safety of *Celebrex*. Several of the cases further allege that all of the individual defendants breached fiduciary duties by virtue of their alleged conduct concerning *Celebrex*. Plaintiffs purport to represent a class of all persons who purchased Pharmacia securities during the Purported Class Period and were damaged as a result of the decline in the price of Pharmacia's securities allegedly attributable to the misrepresentations. Plaintiffs seek damages in an unspecified amount.

Pfizer and Pharmacia are defendants in a purported class action filed in the U.S. District Court for the Eastern District of New York in June 2001 alleging cardiovascular issues associated with *Celebrex*. Plaintiffs claim that the putative class members are entitled to a refund of amounts paid for *Celebrex* as well as medical expenses and medical monitoring. Plaintiffs also sought injunctive relief, but defendants' motion to dismiss the claim for injunctive relief was granted in 2002. Pfizer and Pharmacia also are defendants in two purported class actions filed in the U.S. District Court for the District of New Jersey in January and July 2002 alleging that the companies misrepresented and over-promoted *Celebrex* in violation of the New Jersey Consumer Fraud Act and that they misled the FDA to obtain approval of *Celebrex*. Plaintiffs seek damages, including punitive damages, and certain injunctive relief, but state no claims for personal injuries. On December 2, 2003, one of these two class actions was dismissed without prejudice. A Canadian subsidiary of Pfizer is the defendant in a purported class action filed in the Superior Court, Province of Quebec, District of Montreal, in September 2002 by a self-styled consumer organization that asserts substantially similar allegations and seeks substantially similar relief as in the New Jersey actions.

In addition, Pfizer and Pharmacia are defendants in a number of individual product liability suits in various federal and state courts alleging injury as a result of the use of *Celebrex*. Also, a group of state attorneys general has asked Pharmacia to provide documents concerning an investigation it is undertaking with respect to the marketing of *Celebrex*. Pharmacia is cooperating in that investigation.

Environmental Matters

We will be required to submit a corrective measures study report to the United States Environmental Protection Agency with regard to Pharmacia's discontinued industrial chemical facility in North Haven, Connecticut.

We are a party to a number of other proceedings brought under the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended, (CERCLA or Superfund) and other state, local or foreign laws in which the primary relief sought is the cost of past and/or future remediation.

Guarantees

Legacy Pharmacia guaranteed certain transactions in which Monsanto, its former agricultural subsidiary, is involved. These guarantees continued after Pfizer's acquisition of Pharmacia and at December 31, 2003 included approximately \$250 million of bank notes with maturities not later than 2004 and \$5 million of environmental guarantees, which are required until Monsanto can obtain certain approvals.

21. Segment, Geographic and Revenue Information

Business Segments

We operate in the following business segments:

- **Pharmaceutical**
 - The Pharmaceutical segment includes treatments for cardiovascular and metabolic diseases, central nervous system disorders, arthritis and pain, infectious and respiratory diseases, urogenital conditions, cancer, eye disease, endocrine disorders and allergies.
- **Consumer Healthcare**
 - The Consumer Healthcare segment includes self medications for oral care, upper respiratory health, tobacco dependence, gastrointestinal health, skin care, eye care and hair growth.
- **Animal Health**
 - The Animal Health segment includes treatments for diseases in livestock and companion animals.

We operate several other businesses which include the manufacture of empty soft-gelatin capsules, contract manufacturing, bulk pharmaceutical chemicals and diagnostics. Due to the size of these businesses, they are grouped into the "Corporate/Other" category.

Each separately managed segment offers different products requiring different marketing and distribution strategies.

We sell our products primarily to customers in the wholesale sector. In 2003, sales to our three largest wholesalers represented 45% of total revenues and they accounted for 22% of total accounts receivable at December 31, 2003. These sales and related accounts receivable were concentrated in the pharmaceutical segment.

Revenues exceeded \$500 million in each of ten countries outside the U.S. in 2003. The U.S. was the only country to contribute more than 10% of total revenues.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

The 2003 financial statement elements highlighted below reflect the impact of our acquisition of Pharmacia on April 16, 2003.

The following tables present segment, geographic and revenue information:

Segment

(MILLIONS OF DOLLARS)		PHARMACEUTICAL	CONSUMER HEALTHCARE	ANIMAL HEALTH	CORPORATE/ OTHER ⁽¹⁾	CONSOLIDATED
Revenues	2003	\$39,631	\$3,042	\$1,598	\$ 917	\$ 45,188
	2002	28,283	2,535	1,119	436	32,373
	2001	25,240 ⁽²⁾⁽³⁾	2,354 ⁽³⁾	1,021 ⁽³⁾	409	29,024
Segment profit ⁽⁴⁾	2003 ⁽⁵⁾	6,837	571	100	(4,245)	3,263 ⁽⁵⁾
	2002	12,718	549	132	(1,603)	11,796
	2001	10,797	494	(98)	(1,209)	9,984
Identifiable assets ⁽⁶⁾	2003	81,522	5,644	1,870	27,739	116,775
	2002	16,922	2,105	1,233	26,096	46,356
	2001	14,735	1,956	1,793	20,669	39,153
Property, plant and equipment additions ⁽⁶⁾	2003	2,129	98	57	357	2,641
	2002	1,446	112	37	163	1,758
	2001	1,888	66	43	108	2,105
Depreciation and amortization ⁽⁶⁾	2003 ⁽⁷⁾	3,720	77	60	221	4,078 ⁽⁷⁾
	2002	837	62	55	82	1,036
	2001	709	88	87	88	972

Geographic

(MILLIONS OF DOLLARS)		UNITED STATES ⁽⁸⁾	JAPAN	ALL OTHER COUNTRIES	CONSOLIDATED
Revenues	2003	\$26,844	\$2,663	\$15,681	\$45,188
	2002	20,613	1,971	9,789	32,373
	2001	18,485 ⁽²⁾⁽³⁾	1,792 ⁽³⁾	8,747 ⁽³⁾	29,024
Long-lived assets	2003 ⁽⁹⁾	32,486	640	22,814	55,940 ⁽⁹⁾
	2002	6,975	439	5,419	12,833
	2001	6,757	444	5,030	12,231

(1) Corporate/Other includes our other businesses, which include the manufacturing of empty soft-gelatin capsules, contract manufacturing, bulk pharmaceutical chemicals and diagnostics. Corporate/Other also includes other income/(expense) of our investments in debt and equity securities, certain performance-based compensation expenses not allocated to the operating segments and merger-related costs, interest income/(expense) and corporate expenses.

(2) Includes an increase to revenues of \$175 million from the harmonization of Pfizer/ Warner-Lambert accounting methodology for Medicaid discounts and contract rebate accruals.

(3) Reflects reclassification of certain marketing expenses as a result of adopting Emerging Issues Task Force (EITF) Issue No. 00-25 *Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products* and certain sales incentives as a result of adopting EITF Issue No. 00-14, *Accounting for Certain Sales Incentives*. Both reclassifications were from *Selling, informational and administrative expenses to Revenues*.

(4) Equals income from continuing operations before provision for taxes on income, minority interests and cumulative effect of change in accounting principles.

(5) In 2003, includes non-cash charges associated with purchase accounting including acquired in-process research and development, the sale of acquired inventory written up to fair value and incremental intangible asset amortization and fixed asset depreciation of \$9,943 million for Pharmaceutical, \$78 million for Consumer Healthcare, \$146 million for Animal Health and \$78 million for Corporate/Other.

(6) Certain production facilities are shared by various segments. Property, plant and equipment, as well as capital additions and depreciation, are allocated based on physical production. Corporate assets are primarily cash, short-term investments, long-term loans and investments and assets held for sale.

(7) In 2003, includes non-cash charges associated with purchase accounting related to incremental intangible asset amortization and fixed asset depreciation of \$2,294 million for Pharmaceutical, \$2 million each for Consumer Healthcare and Animal Health and \$75 million for Corporate/Other.

(8) Includes operations in Puerto Rico.

(9) In 2003, excludes goodwill recorded in connection with our acquisition of Pharmacia.

Notes to Consolidated Financial Statements

Pfizer Inc and Subsidiary Companies

Revenues by Business Segment

(MILLIONS OF DOLLARS)	YEAR ENDED DECEMBER 31		
	2003	2002	2001
PHARMACEUTICAL			
Cardiovascular and metabolic diseases	\$16,171	\$13,664	\$11,894
Central nervous system disorders	7,378	5,726	4,740
Arthritis and pain	3,046	363	365
Infectious and respiratory diseases	4,677	3,615	3,638
Urology	2,457	1,735	1,518
Oncology	713	—	—
Ophthalmology	770	—	—
Endocrine disorders	550	—	—
All other	3,110	1,584	1,531
Alliance revenue	759	1,596	1,379
Total Pharmaceutical excluding harmonization of accounting methodology	39,631	28,283	25,065
Harmonization of accounting methodology	—	—	175
Total Pharmaceutical	39,631	28,283	25,240
CONSUMER HEALTHCARE	3,042	2,535	2,354
ANIMAL HEALTH	1,598	1,119	1,021
OTHER	917	436	409
Total revenues	\$45,188	\$32,373	\$29,024

Quarterly Consolidated Financial Data (Unaudited)

Pfizer Inc and Subsidiary Companies

(MILLIONS OF DOLLARS, EXCEPT PER COMMON SHARE DATA)	QUARTER			
	FIRST	SECOND	THIRD	FOURTH
2003				
Revenues	\$8,525	\$ 9,993	\$12,504	\$14,167
Costs and expenses	5,210	7,983	9,794	12,829
Merger-related in-process research and development charge	—	5,130	(87)	9
Merger-related costs	91	285	303	378
Income/(loss) from continuing operations before provision for taxes on income, minority interests and cumulative effect of change in accounting principles	3,224	(3,405)	2,494	951
Provision for taxes on income	764	270	253	335
Minority interests	—	(1)	2	2
Income/(loss) from continuing operations before cumulative effect of change in accounting principles	2,460	(3,674)	2,239	614
Discontinued operations:				
Income/(loss) from operations of discontinued businesses and product lines—net of tax	33	—	(4)	(12)
Gains on sales of discontinued businesses—net of tax	2,202	83	—	—
Discontinued operations—net of tax	2,235	83	(4)	(12)
Income/(loss) before cumulative effect of change in accounting principles	4,695	(3,591)	2,235	602
Cumulative effect of change in accounting principles—net of tax	(30)	—	—	—
Net income/(loss)	\$4,665	\$(3,591)	\$ 2,235	\$ 602
Earnings per common share—basic:				
Income/(loss) from continuing operations before cumulative effect of change in accounting principles	\$.40	\$ (.49)	\$.29	\$.08
Discontinued operations:				
Income/(loss) from operations of discontinued businesses and product lines—net of tax	—	—	—	—
Gains on sales of discontinued businesses—net of tax	.36	.01	—	—
Discontinued operations—net of tax	.36	.01	—	—
Income/(loss) before cumulative effect of change in accounting principles	.76	(.48)	.29	.08
Cumulative effect of change in accounting principles—net of tax	—	—	—	—
Net income/(loss)	\$.76	\$ (.48)	\$.29	\$.08
Earnings per common share—diluted:				
Income/(loss) from continuing operations before cumulative effect of change in accounting principles	\$.40	\$ (.49)	\$.29	\$.08
Discontinued operations:				
Income/(loss) from operations of discontinued businesses and product lines—net of tax	—	—	—	—
Gains on sales of discontinued businesses—net of tax	.36	.01	—	—
Discontinued operations—net of tax	.36	.01	—	—
Income/(loss) before cumulative effect of change in accounting principles	.76	(.48)	.29	.08
Cumulative effect of change in accounting principles—net of tax	—	—	—	—
Net income/(loss)	\$.76	\$ (.48)	\$.29	\$.08
Cash dividends paid per common share	\$.15	\$.15	\$.15	\$.15
Stock prices				
High	\$32.55	\$ 36.92	\$ 35.29	\$ 35.39
Low	\$27.90	\$ 26.95	\$ 29.43	\$ 29.50

All financial information reflects our confectionery, shaving and fish-care products businesses, as well as the femhrt, Loestrin and Estrostep women's health product lines, as discontinued operations.

Merger-related in-process research and development charge amounts in the third and fourth quarters of 2003 include changes to the preliminary estimate of the portion of the purchase price allocated to in-process research and development in connection with our acquisition of Pharmacia.

Merger-related costs include pre-integration, integration and restructuring costs related to our acquisition of Pharmacia and integration and restructuring costs related to our merger with Warner-Lambert.

Under accounting principles generally accepted in the U.S., quarterly computations of earnings per common share (EPS) must stand on their own and, therefore, the sum of basic and diluted

EPS numbers for each of the four quarters of 2003 does not equal full-year basic and diluted EPS. Basic and diluted EPS for each quarter of 2003 is computed using the weighted-average number of common shares outstanding during the quarter, while basic and diluted EPS for the full year is computed using the weighted-average number of common shares outstanding during that more extended period.

The weighted-average number of common shares outstanding is higher for the four quarters of 2003 than for the full year as a result of the issuance of approximately 1.8 billion common shares on April 16, 2003 in connection with our acquisition of Pharmacia. This significant increase in the number of common shares outstanding from the first quarter has resulted in our having differing bases of shares outstanding and therefore the results are not additive.

As of January 31, 2004, there were 288,819 record holders of our common stock (symbol PFE).

Quarterly Consolidated Financial Data (Unaudited)

Pfizer Inc and Subsidiary Companies

(MILLIONS OF DOLLARS, EXCEPT PER COMMON SHARE DATA)	QUARTER			
	FIRST	SECOND	THIRD	FOURTH
2002				
Revenues	\$7,747	\$7,296	\$7,996	\$9,333
Costs and expenses	4,578	4,759	4,982	5,627
Merger-related costs	109	164	114	243
Income from continuing operations before provision for taxes on income, minority interests and cumulative effect of change in accounting principles	3,060	2,373	2,900	3,463
Provision for taxes on income	747	480	630	751
Minority interests	1	—	1	5
Income from continuing operations before cumulative effect of change in accounting principles	2,312	1,893	2,269	2,707
Discontinued operations:				
Income from operations of discontinued businesses—net of tax	61	64	81	72
Gain on sale of discontinued business—net of tax	—	—	—	77
Discontinued operations—net of tax	61	64	81	149
Income before cumulative effect of change in accounting principles	2,373	1,957	2,350	2,856
Cumulative effect of change in accounting principles—net of tax	(410)	—	—	—
Net income	\$1,963	\$1,957	\$2,350	\$2,856
Earnings per common share—basic:				
Income from continuing operations before cumulative effect of change in accounting principles	\$.38	\$.30	\$.38	\$.43
Discontinued operations:				
Income from operations of discontinued businesses—net of tax	.01	.01	.01	.02
Gain on sale of discontinued business—net of tax	—	—	—	.01
Discontinued operations—net of tax	.01	.01	.01	.03
Income before cumulative effect of change in accounting principles	.39	.31	.39	.46
Cumulative effect of change in accounting principles—net of tax	(.07)	—	—	—
Net income	\$.32	\$.31	\$.39	\$.46
Earnings per common share—diluted:				
Income from continuing operations before cumulative effect of change in accounting principles	\$.37	\$.30	\$.37	\$.43
Discontinued operations:				
Income from operations of discontinued businesses—net of tax	.01	.01	.01	.02
Gain on sale of discontinued business—net of tax	—	—	—	.01
Discontinued operations—net of tax	.01	.01	.01	.03
Income before cumulative effect of change in accounting principles	.38	.31	.38	.46
Cumulative effect of change in accounting principles—net of tax	(.07)	—	—	—
Net income	\$.31	\$.31	\$.38	\$.46
Cash dividends paid per common share	\$.13	\$.13	\$.13	\$.13
Stock prices				
High	\$42.46	\$40.40	\$35.23	\$34.00
Low	\$39.10	\$32.75	\$25.13	\$28.25

All financial information reflects our confectionery, shaving and fish-care products businesses, as well as the femhrt, Loestrin and Estrostep women's health product lines, as discontinued operations.

Merger-related costs include transaction, integration and restructuring costs related to our merger with Warner-Lambert. Merger-related costs for the third and fourth quarters of 2002 include pre-integration costs related to our pending acquisition of Pharmacia.

Financial Summary

Pfizer Inc and Subsidiary Companies

	YEAR ENDED DECEMBER 31					
	2003	2002	2001	2000	1999	1998
(MILLIONS, EXCEPT PER COMMON SHARE DATA)						
Revenues ⁽¹⁾	\$ 45,188	\$32,373	\$29,024	\$26,045	\$26,940	\$23,017
Research and development	7,131	5,176	4,776	4,374	4,036	3,305
Other costs and expenses	28,684	14,771	13,445	12,947	15,926	15,315
Merger-related in-process research and development charge ⁽²⁾	5,052	—	—	—	—	—
Merger-related costs ⁽³⁾	1,058	630	819	3,223	33	—
Income from continuing operations before provision for taxes on income, minority interests and cumulative effect of change in accounting principles	3,263	11,796	9,984	5,501	6,945	4,397
Provision for taxes on income	(1,621)	(2,609)	(2,433)	(1,946)	(1,968)	(1,163)
Income from continuing operations before cumulative effect of change in accounting principles	1,639	9,181	7,537	3,542	4,972	3,232
Discontinued operations—net of tax	2,301	355	251	184	(20)	1,401
Cumulative effect of change in accounting principles—net of tax ⁽⁴⁾	(30)	(410)	—	—	—	—
Net income	\$ 3,910	\$ 9,126	\$ 7,788	\$ 3,726	\$ 4,952	\$ 4,633
Effective tax rate—continuing operations	49.7%	22.1%	24.4%	35.4%	28.3%	26.4%
Depreciation and amortization	4,078	1,036	972	879	905	797
Property, plant and equipment additions	2,641	1,758	2,105	2,073	2,493	1,951
Cash dividends paid—common stock	4,346	3,168	2,715	2,197	1,820	1,501
As of December 31						
Working capital ⁽⁵⁾	6,084	6,226	5,483	6,048	4,415	3,806
Property, plant and equipment—net	18,287	10,712	9,783	8,757	8,685	7,237
Total assets ⁽⁵⁾	116,775	46,356	39,153	33,510	31,372	27,227
Long-term debt	5,755	3,140	2,609	1,123	1,774	1,794
Long-term capital ⁽⁶⁾	84,429	23,505	21,348	17,575	16,240	14,820
Shareholders' equity	65,377	19,950	18,293	16,076	13,950	12,616
Earnings per common share—basic:						
Income from continuing operations before cumulative effect of change in accounting principles	\$.22	\$ 1.49	\$ 1.21	\$.57	\$.81	\$.53
Discontinued operations—net of tax	.32	.06	.04	.03	—	.23
Cumulative effect of change in accounting principles—net of tax ⁽⁴⁾	—	(.07)	—	—	—	—
Net income	\$.54	\$ 1.48	\$ 1.25	\$.60	\$.81	\$.76
Earnings per common share—diluted:						
Income from continuing operations before cumulative effect of change in accounting principles	\$.22	\$ 1.47	\$ 1.18	\$.56	\$.79	\$.51
Discontinued operations—net of tax	.32	.06	.04	.03	(.01)	.22
Cumulative effect of change in accounting principles—net of tax ⁽⁴⁾	—	(.07)	—	—	—	—
Net income	\$.54	\$ 1.46	\$ 1.22	\$.59	\$.78	\$.73
Market value per share (December 31)	\$ 35.33	\$ 30.57	\$ 39.85	\$ 46.00	\$ 32.44	\$ 41.67
Return on shareholders' equity	9.2%	47.7%	45.3%	24.8%	37.3%	39.4%
Cash dividends paid per common share ⁽⁷⁾	\$.60	\$.52	\$.44	\$.36	\$.30 ² / ₃	\$.25 ¹ / ₃
Shareholders' equity per common share	8.63	3.27	2.95	2.58	2.28	2.06
Current ratio	1.26:1	1.34:1	1.40:1	1.50:1	1.37:1	1.38:1
Weighted average shares used to calculate:						
Basic earnings per common share amounts	7,213	6,156	6,239	6,210	6,126	6,120
Diluted earnings per common share amounts	7,286	6,241	6,361	6,368	6,317	6,362

2001, 2000, 1999 and 1998 data was reclassified to reflect reclassifications between Revenues and Other costs and expenses of \$108 million in 2001, \$105 million in 2000, \$226 million in 1999 and \$214 million in 1998 as a result of the January 1, 2002 adoption of EITF Issue No. 00-25, *Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products*. In addition, Depreciation and amortization includes amortization of goodwill prior to our adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*, in 2002.

All financial information for 2003, 2002, 2001 and 2000 reflects our confectionery, shaving and fish-care products businesses as well as the femhr, Loestrin and Estrostep women's health product lines as discontinued operations. We have not restated periods prior to 2000 for these discontinued operations because the data are not available. After we reorganized our financial systems due to the merger with Warner-Lambert, the level of detail necessary to develop financial information for these discontinued operations for periods prior to 2000 was no longer available. All financial information reflects the previously discontinued Medical Technology Group (MTG) and Food Science businesses as discontinued operations.

We have restated all common share and per share data for the 1999 three-for-one stock split.

(1) In 2001, we brought the accounting methodology pertaining to accruals for estimated liabilities related to Medicaid discounts and contract rebates of Warner-Lambert into conformity with our historical method. This adjustment increased revenues in 2001 by \$175 million.

(2) In 2003, as required by Financial Accounting Standards Board Interpretation No. 4, *Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method*, we recorded a non-cash charge of \$5,052 million for the preliminary estimate of the portion of the purchase price allocated to in-process research and development.

(3) Merger-related costs include the following:

2003—Integration costs of \$838 million and \$33 million and restructuring charges of

\$177 million and \$10 million related to our acquisition of Pharmacia in 2003 and our merger with Warner-Lambert in 2000.

2002—Integration costs of \$345 million and restructuring charges of \$187 million related to our merger with Warner-Lambert in 2000 and pre-integration costs of \$98 million related to our pending acquisition of Pharmacia.

2001—Integration costs of \$456 million and restructuring charges of \$363 million related to our merger with Warner-Lambert in 2000.

2000—Transaction costs directly related to our merger with Warner-Lambert of \$226 million; costs related to Warner-Lambert's termination of the Warner-Lambert/American Home Products merger of \$1,838 million; integration costs of \$242 million and restructuring charges of \$917 million.

1999—Transaction costs directly related to the merger with Agouron Pharmaceuticals, Inc. of \$33 million.

(4) In 2003, as a result of adopting SFAS No. 143, we recorded a non-cash pre-tax charge of \$47 million (\$30 million net of tax).

In 2002, as a result of adopting SFAS No. 142, we recorded pre-tax charges of \$565 million (\$410 million net of tax).

(5) For 2002, 2001 and 2000, includes assets held for sale of our confectionery and shaving businesses (and the Tetra business in 2001 and 2000) as well as the femhr, Loestrin and Estrostep women's health product lines.

(6) Defined as long-term debt, deferred taxes, minority interests and shareholders' equity.

(7) Cash dividends paid per common share for years prior to our merger with Warner-Lambert in 2000 are those of Pfizer.

All trademarks appearing in this Financial Report are owned by or licensed to Pfizer Inc or its affiliates.

Design: VSA Partners, NYC



Life is our life's work®

Pfizer Inc 235 East 42nd Street New York, NY 10017-5755 212 573 2323 www.pfizer.com

© Pfizer 2004. All rights reserved



10%
TOTAL RECOVERED FIBER