PFIZER INC
Form 10-Q
November 08, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER 1-3619

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PFIZER INC.
(Exact name of registrant as specified in its charter)

DELAWARE 13-5315170
(State of Incorporation) (I.R.S. Employer Identification No.)

235 East 42nd Street, New York, New York 10017
(Address of principal executive offices) (zip code)
(212) 733-2323
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES X NO ___

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
YES X NO ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (check one):

Large Accelerated filer X Accelerated filer ___ Non-accelerated filer ___ Smaller reporting company ___ Emerging growth company ___

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ___

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ____ NO X

At November 5, 2018, 5,780,474,578 shares of the issuer's voting common stock were outstanding.

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GLOSSARY OF DEFINED TERMS

Unless the context requires otherwise, references to “Pfizer,” “the Company,” “we,” “us” or “our” in this Quarterly Report on Form 10-Q (defined below) refer to Pfizer Inc. and its subsidiaries. We also have used several other terms in this Quarterly Report on Form 10-Q, most of which are explained or defined below:

| | |
|---|---|
| 2017 Financial Report | Financial Report for the fiscal year ended December 31, 2017, which was filed as Exhibit 13 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 |
| 2017 Form 10-K | Annual Report on Form 10-K for the fiscal year ended December 31, 2017 |
| ACA (Also referred to as U.S. Healthcare Legislation) | U.S. Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act |
| ACIP | Advisory Committee on Immunization Practices |
| ALK | anaplastic lymphoma kinase |
| Alliance revenues | Revenues from alliance agreements under which we co-promote products discovered or developed by other companies or us |
| Allogene | Allogene Therapeutics, Inc. |
| AMPA | -amino-3-hydroxy-5-methyl-4-isoxazolepropionic acid |
| Anacor | Anacor Pharmaceuticals, Inc. |
| AOCI | Accumulated Other Comprehensive Income |
| Astellas | Astellas Pharma Inc., Astellas US LLC and Astellas Pharma US, Inc. |
| ASU | Accounting Standards Update |
| ATM-AVI | aztreonam-avibactam |
| Avillion | Avillion LLP |
| Bain Capital | Bain Capital Private Equity and Bain Capital Life Sciences |
| Biogen | Biogen Inc. |
| BMS | Bristol-Myers Squibb Company |
| BRCA | BReast CAncer susceptibility gene |
| CAR T | chimeric antigen receptor T cell |
| CDC | U.S. Centers for Disease Control and Prevention |
| Cellectis | Cellectis S.A. |
| Cerevel | Cerevel Therapeutics, LLC |
| CIAS | cognitive impairment associated with schizophrenia |
| Citibank | Citibank, N.A. |
| CML | chronic myelogenous leukemia |
| Developed Markets | U.S., Western Europe, Japan, Canada, Australia, South Korea, Scandinavian countries, Finland and New Zealand |
| EEA | European Economic Area |
| EH | Essential Health |
| EMA | European Medicines Agency |
| Emerging Markets | Includes, but is not limited to, the following markets: Asia (excluding Japan and South Korea), Latin America, Eastern Europe, Africa, the Middle East, Central Europe and Turkey |
| EPS | earnings per share |
| EU | European Union |
| Exchange Act | Securities Exchange Act of 1934, as amended |
| FASB | Financial Accounting Standards Board |
| FDA | U.S. Food and Drug Administration |
| GAAP | Generally Accepted Accounting Principles |
| GIST | gastrointestinal stromal tumors |
| GPD | Global Product Development |

| | |
|---|---|
| HER2- | human epidermal growth factor receptor 2-negative |
| hGH-CTP | human growth hormone |
| HIS | Hospira Infusion Systems |
| Hisun Pfizer | Hisun Pfizer Pharmaceuticals Company Limited |
| Hospira | Hospira, Inc. |
| HR+ | hormone receptor-positive |
| ICU Medical | ICU Medical, Inc. |
| IH | Innovative Health |
| IPR&D | in-process research and development |
| IRS | U.S. Internal Revenue Service |

| | |
|---|---|
| IV | intravenous |
| Janssen | Janssen Biotech Inc. |
| J&J | Johnson & Johnson |
| King | King Pharmaceuticals LLC (formerly King Pharmaceuticals, Inc.) |
| LDL | low density lipoprotein |
| LEP | Legacy Established Products |
| LIBOR | London Interbank Offered Rate |
| Lilly | Eli Lilly & Company |
| LOE | loss of exclusivity |
| MCC | Merkel Cell Carcinoma |
| MCO | Managed Care Organization |
| MD&A | Management's Discussion and Analysis of Financial Condition and Results of Operations |
| Medivation | Medivation LLC (formerly Medivation, Inc.) |
| Merck | Merck & Co., Inc. |
| Meridian | Meridian Medical Technologies, Inc. |
| Moody's | Moody's Investors Service |
| NDA | new drug application |
| NovaQuest | NovaQuest Co-Investment Fund V, L.P. |
| NSCLC | non-small cell lung cancer |
| NYSE | New York Stock Exchange |
| OPKO | OPKO Health, Inc. |
| OTC | over-the-counter |
| PARP | poly ADP ribose polymerase |
| PBM | Pharmacy Benefit Manager |
| Pharmacia | Pharmacia Corporation |
| PP&E | Property, plant & equipment |
| Quarterly Report on Form 10-Q | Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2018 |
| RCC | renal cell carcinoma |
| R&D | research and development |
| RPI | RPI Finance Trust |
| Sandoz | Sandoz, Inc., a division of Novartis AG |
| SEC | U.S. Securities and Exchange Commission |
| Servier | Les Laboratoires Servier SAS |
| SFJ | SFJ Pharmaceuticals Group |
| Shire | Shire International GmbH |
| SI&A | Selling, informational and administrative |
| SIP | Sterile Injectable Pharmaceuticals |
| S&P | Standard and Poor's |
| StratCO | Strategy and Commercial Operations |
| Tax Cuts and Jobs Act or TCJA | Legislation commonly referred to as the U.S. Tax Cuts and Jobs Act of 2017 |
| Teuto | Laboratório Teuto Brasileiro S.A. |
| U.K. | United Kingdom |
| U.S. | United States |
| ViiV | ViiV Healthcare Limited |
| WRD | Worldwide Research and Development |

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements
PFIZER INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

| (MILLIONS, EXCEPT PER COMMON SHARE DATA) | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2018 | October 1, 2017 | September 30, 2018 | October 1, 2017 |
| Revenues | $13,298 | $ 13,168 | $39,670 | $ 38,843 |
| Costs and expenses: | | | | |
| Cost of sales[(a)] | 2,694 | 2,844 | 8,173 | 7,972 |
| Selling, informational and administrative expenses[(a)] | 3,494 | 3,504 | 10,448 | 10,249 |
| Research and development expenses[(a)] | 2,008 | 1,865 | 5,549 | 5,367 |
| Amortization of intangible assets | 1,253 | 1,177 | 3,640 | 3,571 |
| Restructuring charges and certain acquisition-related costs | 85 | 114 | 172 | 267 |
| Other (income)/deductions—net | (414) | 79 | (1,143) | 65 |
| Income from continuing operations before provision for taxes on income | 4,177 | 3,585 | 12,831 | 11,351 |
| Provision for taxes on income | 66 | 727 | 1,270 | 2,287 |
| Income from continuing operations | 4,111 | 2,858 | 11,562 | 9,064 |
| Discontinued operations—net of tax | 11 | — | 10 | 1 |
| Net income before allocation to noncontrolling interests | 4,122 | 2,858 | 11,571 | 9,066 |
| Less: Net income attributable to noncontrolling interests | 8 | 18 | 25 | 32 |
| Net income attributable to Pfizer Inc. | $4,114 | $ 2,840 | $11,546 | $ 9,034 |
| | | | | |
| Earnings per common share—basic: | | | | |
| Income from continuing operations attributable to Pfizer Inc. common shareholders | $0.70 | $ 0.48 | $1.96 | $ 1.51 |
| Discontinued operations—net of tax | — | — | — | — |
| Net income attributable to Pfizer Inc. common shareholders | $0.70 | $ 0.48 | $1.96 | $ 1.51 |
| | | | | |
| Earnings per common share—diluted: | | | | |
| Income from continuing operations attributable to Pfizer Inc. common shareholders | $0.69 | $ 0.47 | $1.92 | $ 1.49 |
| Discontinued operations—net of tax | — | — | — | — |
| Net income attributable to Pfizer Inc. common shareholders | $0.69 | $ 0.47 | $1.92 | $ 1.49 |
| | | | | |
| Weighted-average shares—basic | 5,875 | 5,951 | 5,899 | 5,972 |
| Weighted-average shares—diluted | 5,986 | 6,041 | 5,998 | 6,057 |
| Cash dividends paid per common share | $0.34 | $ 0.32 | $1.02 | $ 0.96 |

(a) Excludes amortization of intangible assets, except as disclosed in Note 9A. Identifiable Intangible Assets and Goodwill: Identifiable Intangible Assets.

Amounts may not add due to rounding.

See Notes to Condensed Consolidated Financial Statements.

PFIZER INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

| (MILLIONS OF DOLLARS) | Three Months Ended September 30, 2018 | Three Months Ended October 1, 2017 | Nine Months Ended September 30, 2018 | Nine Months Ended October 1, 2017 |
|---|---|---|---|---|
| Net income before allocation to noncontrolling interests | $4,122 | $ 2,858 | $11,571 | $9,066 |
| Foreign currency translation adjustments, net | (567) | 878 | (507) | 1,352 |
| Reclassification adjustments | (2) | (3) | (22) | 110 |
| | (569) | 875 | (530) | 1,461 |
| Unrealized holding gains/(losses) on derivative financial instruments, net | 222 | (50) | 236 | (149) |
| Reclassification adjustments for (gains)/losses included in net income[a] | (235) | 56 | 119 | (393) |
| | (13) | 6 | 355 | (542) |
| Unrealized holding gains/(losses) on available-for-sale securities, net | 149 | 384 | (65) | 698 |
| Reclassification adjustments for gains included in net income[a] | (36) | (278) | (67) | (181) |
| Reclassification adjustments for unrealized gains included in Retained earnings[b] | — | — | (462) | — |
| | 112 | 106 | (595) | 518 |
| Benefit plans: actuarial gains/(losses), net | 8 | (103) | 114 | (41) |
| Reclassification adjustments related to amortization | 60 | 140 | 183 | 448 |
| Reclassification adjustments related to settlements, net | 42 | 38 | 108 | 89 |
| Other | 49 | (76) | 69 | (111) |
| | 158 | (1) | 474 | 384 |
| Benefit plans: prior service costs and other, net | — | — | — | (2) |
| Reclassification adjustments related to amortization | (46) | (46) | (137) | (138) |
| Reclassification adjustments related to curtailments, net | (4) | (3) | (18) | (14) |
| Other | — | 1 | 1 | 2 |
| | (50) | (48) | (154) | (151) |
| Other comprehensive income/(loss), before tax | (361) | 938 | (449) | 1,669 |
| Tax provision/(benefit) on other comprehensive income/(loss) | 62 | (80) | 667 | (218) |
| Other comprehensive income/(loss) before allocation to noncontrolling interests | $(422) | $ 1,018 | $(1,116) | $1,888 |
| Comprehensive income before allocation to noncontrolling interests | $3,700 | $ 3,876 | $10,455 | $10,953 |
| Less: Comprehensive income attributable to noncontrolling interests | — | 19 | 5 | 48 |
| Comprehensive income attributable to Pfizer Inc. | $3,700 | $ 3,857 | $10,450 | $10,906 |

(a) Reclassified into Other (income)/deductions—net and Cost of sales in the condensed consolidated statements of income. For additional information on amounts reclassified into Cost of sales, see Note 7F. Financial Instruments: Derivative Financial Instruments and Hedging Activities.

(b) For additional information, see Note 1B. Basis of Presentation and Significant Accounting Policies: Adoption of New Accounting Standards.

Amounts may not add due to rounding.

See Notes to Condensed Consolidated Financial Statements.

PFIZER INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| (MILLIONS OF DOLLARS) | September 30, 2018 (Unaudited) | December 31, 2017 |
|---|---|---|
| Assets | | |
| Cash and cash equivalents | $ 3,559 | $ 1,342 |
| Short-term investments | 13,680 | 18,650 |
| Trade accounts receivable, less allowance for doubtful accounts: 2018—$567; 2017—$584 | 10,024 | 8,221 |
| Inventories | 8,184 | 7,578 |
| Current tax assets | 3,686 | 3,050 |
| Other current assets | 2,450 | 2,301 |
| Total current assets | 41,583 | 41,141 |
| Long-term investments | 6,444 | 7,015 |
| Property, plant and equipment, less accumulated depreciation: 2018—$17,078; 2017—$16,172 | 14,036 | 13,865 |
| Identifiable intangible assets, less accumulated amortization | 45,306 | 48,741 |
| Goodwill | 55,614 | 55,952 |
| Noncurrent deferred tax assets and other noncurrent tax assets | 1,875 | 1,855 |
| Other noncurrent assets | 2,980 | 3,227 |
| Total assets | $ 167,838 | $ 171,797 |
| | | |
| Liabilities and Equity | | |
| Short-term borrowings, including current portion of long-term debt: 2018—$4,255; 2017—$3,546 | $ 7,385 | $ 9,953 |
| Trade accounts payable | 4,297 | 4,656 |
| Dividends payable | 1,963 | 2,029 |
| Income taxes payable | 2,781 | 477 |
| Accrued compensation and related items | 2,096 | 2,196 |
| Other current liabilities | 10,490 | 11,115 |
| Total current liabilities | 29,013 | 30,427 |
| | | |
| Long-term debt | 33,652 | 33,538 |
| Pension benefit obligations, net | 4,886 | 5,926 |
| Postretirement benefit obligations, net | 1,455 | 1,504 |
| Noncurrent deferred tax liabilities | 5,512 | 3,900 |
| Other taxes payable | 15,289 | 18,697 |
| Other noncurrent liabilities | 6,367 | 6,149 |
| Total liabilities | 96,174 | 100,141 |
| | | |
| Commitments and Contingencies | | |
| | | |
| Preferred stock | 20 | 21 |
| Common stock | 466 | 464 |
| Additional paid-in capital | 85,828 | 84,278 |
| Treasury stock | (96,574) | (89,425) |
| Retained earnings | 91,995 | 85,291 |
| Accumulated other comprehensive loss | (10,417) | (9,321) |
| Total Pfizer Inc. shareholders' equity | 71,319 | 71,308 |
| Equity attributable to noncontrolling interests | 346 | 348 |

| | | |
|---|---|---|
| Total equity | 71,664 | 71,656 |
| Total liabilities and equity | $ 167,838 | $ 171,797 |

Amounts may not add due to rounding.
See Notes to Condensed Consolidated Financial Statements.

PFIZER INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| (MILLIONS OF DOLLARS) | Nine Months Ended September 30, 2018 | October 1, 2017 |
|---|---|---|
| Operating Activities | | |
| Net income before allocation to noncontrolling interests | $11,571 | $ 9,066 |
| Adjustments to reconcile net income before allocation to noncontrolling interests to net cash provided by operating activities: | | |
| Depreciation and amortization | 4,743 | 4,695 |
| Asset write-offs and impairments | 88 | 326 |
| Adjustments to loss on sale of HIS net assets | (1) | 52 |
| TCJA impact[(a)] | (410) | — |
| Deferred taxes from continuing operations | (974) | 241 |
| Share-based compensation expense | 682 | 595 |
| Benefit plan contributions in excess of income—2018 and expense—2017 | (1,000) | (1,042) |
| Other adjustments, net | (1,169) | (604) |
| Other changes in assets and liabilities, net of acquisitions and divestitures | (2,441) | (3,616) |
| Net cash provided by operating activities | 11,089 | 9,713 |
| Investing Activities | | |
| Purchases of property, plant and equipment | (1,357) | (1,256) |
| Purchases of short-term investments | (7,364) | (6,469) |
| Proceeds from redemptions/sales of short-term investments | 12,752 | 5,778 |
| Net proceeds from redemptions/sales of short-term investments with original maturities of three months or less | 385 | 2,758 |
| Purchases of long-term investments | (1,503) | (2,526) |
| Proceeds from redemptions/sales of long-term investments | 2,174 | 2,403 |
| Acquisitions of businesses, net of cash acquired | — | (1,000) |
| Acquisitions of intangible assets | (47) | (188) |
| Other investing activities, net | 248 | 519 |
| Net cash provided by investing activities | 5,289 | 19 |
| Financing Activities | | |
| Proceeds from short-term borrowings | 1,945 | 7,003 |
| Principal payments on short-term borrowings | (4,239) | (7,659) |
| Net (payments on)/proceeds from short-term borrowings with original maturities of three months or less | (973) | 566 |
| Proceeds from issuance of long-term debt | 4,974 | 5,273 |
| Principal payments on long-term debt | (3,104) | (4,474) |
| Purchases of common stock | (7,168) | (5,000) |
| Cash dividends paid | (6,015) | (5,750) |
| Proceeds from exercise of stock options | 1,099 | 656 |
| Other financing activities, net | (553) | (223) |
| Net cash used in financing activities | (14,034) | (9,607) |
| Effect of exchange-rate changes on cash and cash equivalents and restricted cash and cash equivalents | (116) | 67 |
| Net increase in cash and cash equivalents and restricted cash and cash equivalents | 2,227 | 193 |
| Cash and cash equivalents and restricted cash and cash equivalents, beginning | 1,431 | 2,666 |

| | | |
|---|---|---|
| Cash and cash equivalents and restricted cash and cash equivalents, end | $3,658 | $ 2,858 |
| | | |
| Supplemental Cash Flow Information | | |
| Non-cash transactions: | | |
| Receipt of ICU Medical common stock[b] | $— | $ 428 |
| Promissory note from ICU Medical[b] | — | 75 |
| Equity investment in Cerevel Therapeutics, Inc. in exchange for Pfizer's portfolio of clinical and preclinical neuroscience assets[b] | 343 | — |
| Equity investment in Allogene received in exchange for Pfizer's allogeneic CAR T developmental program assets[b] | 92 | — |
| Cash paid (received) during the period for: | | |
| Income taxes | $1,666 | $ 1,424 |
| Interest | 968 | 1,101 |
| Interest rate hedges | (104) | (183) |

(a) As a result of the enactment of the TCJA in December 2017, Pfizer's Provision for taxes on income for the nine months ended September 30, 2018 was favorably impacted by approximately $410 million, primarily related to certain tax initiatives associated with the TCJA, as well as favorable adjustments to the provisional estimates of the legislation. See Note 5A. Tax Matters: Taxes on Income from Continuing Operations.

(b) For additional information, see Note 2B. Acquisition, Divestitures, Licensing Arrangements, Collaborative Arrangements and Privately Held Investment: Divestitures.

Amounts may not add due to rounding.

See Notes to Condensed Consolidated Financial Statements.

PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation and Significant Accounting Policies

A. Basis of Presentation

See the Glossary of Defined Terms at the beginning of this Quarterly Report on Form 10-Q for terms used throughout the condensed consolidated financial statements and related notes in this Quarterly Report on Form 10-Q.

We prepared the condensed consolidated financial statements following the requirements of the SEC for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by U.S. GAAP can be condensed or omitted.

The financial information included in our condensed consolidated financial statements for subsidiaries operating outside the U.S. is as of and for the three and nine months ended August 26, 2018 and August 27, 2017. The financial information included in our condensed consolidated financial statements for U.S. subsidiaries is as of and for the three and nine months ended September 30, 2018 and October 1, 2017.

Revenues, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be representative of those for the full year.

We are responsible for the unaudited financial statements included in this Quarterly Report on Form 10-Q. The interim financial statements include all normal and recurring adjustments that are considered necessary for the fair statement of our condensed consolidated balance sheets and condensed consolidated statements of income. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the consolidated financial statements and accompanying notes included in our 2017 Financial Report.

We manage our commercial operations through two distinct business segments: Pfizer Innovative Health (IH) and Pfizer Essential Health (EH). For additional information, see Note 13 and Notes to Consolidated Financial Statements—Note 18. Segment, Geographic and Other Revenue Information in Pfizer's 2017 Financial Report.

Certain amounts in the condensed consolidated financial statements and associated notes may not add due to rounding. All percentages have been calculated using unrounded amounts.

In the first quarter of 2018, as of January 1, 2018, we adopted eleven new accounting standards. See Note 1B for further information.

Our significant business development activities include:

- On February 3, 2017, we completed the sale of our global infusion systems net assets, HIS, to ICU Medical. The operating results of HIS are included in our condensed consolidated statement of income and EH's operating results through February 2, 2017 and, therefore, our financial results, and EH's operating results, for the third quarter of 2017 do not reflect any contribution from HIS global operations, while our financial results, and EH's operating results, for the first nine months of 2017 reflect approximately one month of HIS domestic operations and approximately two months of HIS international operations. Our financial results, and EH's operating results, for 2018 do not reflect any contribution from HIS global operations.
- On December 22, 2016, which fell in the first fiscal quarter of 2017 for our international operations, we acquired the development and commercialization rights to AstraZeneca's small molecule anti-infectives business, primarily outside

the U.S. Commencing from the acquisition date, our financial statements reflect the assets, liabilities, operating results and cash flows of this business, and, in accordance with our international reporting period, our financial results, EH's operating results, and cash flows for the third quarter and first nine months of 2017 reflect approximately three months and eight months, respectively, of the small molecule anti-infectives business acquired from AstraZeneca. Our financial results, EH's operating results, and cash flows for the third quarter and first nine months of 2018 reflect three months and nine months, respectively, of the small molecule anti-infectives business acquired from AstraZeneca.
For additional information, see Note 2 and Notes to Consolidated Financial Statements—Note 2. Acquisitions, Sale of Hospira Infusion Systems Net Assets, Research and Development and Collaborative Arrangements, Equity-Method Investments and Cost-Method Investment in Pfizer's 2017 Financial Report.

PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

B. Adoption of New Accounting Standards

On January 1, 2018, we adopted eleven new accounting standards. The quantitative impacts on our prior period condensed consolidated financial statements of adopting the following new standards are summarized in the tables within the section titled Impacts to our Condensed Consolidated Financial Statements, further below.

Revenues—We adopted a new accounting standard for revenue recognition and changed our revenue recognition policies accordingly. Generally, the previous revenue recognition standards permitted recognition when persuasive evidence of a contract existed, delivery had occurred, and the seller's price to the buyer was fixed or determinable. Under the new standard, revenue is recognized upon transfer of control of the product to our customer in an amount that reflects the consideration we expect to receive in exchange. We adopted the new accounting standard utilizing the modified retrospective method, and, therefore, no adjustments were made to amounts in our prior period financial statements. We recorded the cumulative effect of adopting the standard as an adjustment to increase the opening balance of Retained earnings by $584 million on a pre-tax basis ($450 million after-tax). This amount includes $500 million (pre-tax) related to the timing of recognizing Other (income)/deductions—net primarily for upfront and milestone payments on our collaboration arrangements ($394 million, pre-tax) and, to a lesser extent, product rights and out-licensing arrangements, and $84 million (pre-tax) related to the timing of recognizing Revenues and Cost of sales on certain product shipments. The impact of adoption did not have a material impact to our condensed consolidated statements of income for the three and nine months ended September 30, 2018 or our condensed consolidated balance sheet as of September 30, 2018. For additional information, see Note 1C.

Financial Assets and Liabilities—The new accounting standard related to the recognition and measurement of financial assets and liabilities makes the following changes to prior guidance and requires:

- certain equity investments to be measured at fair value with changes in fair value now recognized in net income. However, equity investments that do not have readily determinable fair values may be measured at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment of the same issuer;
- a qualitative assessment of equity investments without readily determinable fair values to identify impairment; and
- separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or in the accompanying notes to the financial statements.

We adopted the new accounting standard utilizing the modified retrospective method, and, therefore, no adjustments were made to amounts in our prior period financial statements. We recorded the cumulative effect of adopting the standard as an adjustment to increase the opening balance of Retained earnings by $462 million on a pre-tax basis ($419 million after-tax) related to the net impact of unrealized gains and losses primarily on available-for-sale equity securities, restricted stock and private equity securities. In the third quarter of 2018, we recorded net unrealized gains on equity securities of $8 million and in the first nine months of 2018, we recorded net unrealized gains on equity securities of $344 million, in Other (income)/deductions—net. For additional information, see Note 4 and Note 7.

Presentation of Net Periodic Pension and Postretirement Benefit Cost—We adopted a new accounting standard that requires the net periodic pension and postretirement benefit costs other than the service costs be presented in Other (income)/deductions—net, and that the presentation be applied retrospectively. We adopted the presentation of the net periodic benefit costs other than service costs by reclassifying these costs from Cost of sales, Selling, informational and administrative expenses, Research and development expenses and Restructuring charges and certain acquisition-related costs to Other (income)/deductions—net. We elected to apply the practical expedient as it is impracticable to determine the disaggregation of the cost components for amounts capitalized within Inventories and property, plant and equipment and amortized in each of those periods. We have therefore reclassified the prior period net periodic benefit costs/(credits) disclosed in Note 10 to apply the retrospective presentation for comparative periods.

As of January 1, 2018, only service costs will be included in amounts capitalized in Inventories or property, plant and equipment, while the other components of net periodic benefit costs will be included in Other (income)/deductions—net. For additional information, see Note 4 and Note 10.

Income Tax Accounting—The new guidance removes the prohibition against recognizing current and deferred income taxes for an intra-entity asset transfer until the asset has been sold to a third party, unless the asset transferred is inventory. We adopted the standard utilizing the modified retrospective method, and, therefore, no adjustments were made to amounts in our prior period financial statements. We recorded the cumulative effect of adopting the standard as an adjustment to decrease the opening balance of Retained earnings by $189 million.

PFIZER INC. AND SUBSIDIARY COMPANIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Accounting for Hedging Activities—The standard includes the following changes:

- Permits hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk;
- Changes the guidance for designating fair value hedges of interest rate risk and for measuring the change in fair value of the hedged item in fair value hedges of interest rate risk;
- No longer requires the separate measurement and reporting of hedge ineffectiveness, but requires the income statement presentation of the earnings effect of the hedging instrument with the earnings effect of the hedged item;
- Permits us to exclude the portion of the change in fair value of a currency swap that is attributable to a cross-currency basis spread from the assessment of hedge effectiveness; and
- Simplifies hedge effectiveness testing.

We early adopted the new accounting standard on January 1, 2018 on a prospective basis. In the third quarter of 2018, we recorded income of $23 million and in the first nine months of 2018, we recorded income of $68 million in Other (income)/deductions—net, whereas this item would have been classified in interest income in prior periods. For additional information, see Note 7F.

Reclassification of Certain Tax Effects from AOCI—We early adopted a new accounting standard that provides guidance on the reclassification of certain tax effects from AOCI. Under the new guidance, we elected to reclassify the stranded tax amounts related to the TCJA from AOCI to Retained earnings. We adopted the new accounting standard utilizing the modified retrospective method, and recorded the cumulative effect of adopting the standard as an adjustment to increase the opening balance of Retained earnings by $495 million, primarily due to the effect of the change in the U.S. Federal corporate tax rate. The impact on other stranded tax amounts related to the application of the TCJA was not material to our condensed consolidated financial statements.

Classification of Certain Transactions in the Statement of Cash Flows—We retrospectively adopted an accounting standard that changed the presentation of certain information in the condensed consolidated statements of cash flows, including the classification of:

- debt prepayment and extinguishment costs, resulting in an increase in Operating activities—Other adjustments, net and a decrease in Financing activities—Other financing activities, net of $7 million for the nine months ended September 30, 2018; and
- accreted interest on the settlement of commercial paper debt instruments, resulting in a decrease in Operating activities—Other adjustments, net, and an increase in Financing activities—Other financing activities, net of $69 million for the nine months ended September 30, 2018.

The new standard also establishes guidance on the classification of certain cash flows related to contingent consideration in a business acquisition. Cash payments made soon after a business acquisition date will be classified as Investing activities, while payments made thereafter will be classified as Financing activities. Payments made in excess of the amount of the original contingent consideration liability will be classified as Operating activities. The adoption of this guidance did not have a material impact to our condensed consolidated financial statements.

Presentation of Restricted Cash in the Statement of Cash Flows—We adopted, on a retrospective basis, the new accounting standard, which requires that restricted cash and restricted cash equivalents be included with Cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the condensed consolidated statements of cash flows. As a result, for the nine months ended September 30, 2018, $10 million is presented as an increase in Cash, cash equivalents, restricted cash and restricted cash equivalents.

Definition of a Business—We prospectively adopted the standard for determining whether business development transactions should be accounted for as acquisitions (or disposals) of assets or businesses. If substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset, the transaction will not qualify for treatment as a business. To be considered a business, a set of integrated activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs, without regard as to whether a purchaser could replace missing elements. In addition, the definition of the term “output”

has been narrowed to make it consistent with the updated revenue recognition guidance. In the third quarter and first nine months of 2018, there was no impact to our condensed consolidated financial statements from the adoption of this new standard.

Derecognition of Nonfinancial Assets—We prospectively adopted the standard, which applies to the full or partial sale or transfer of nonfinancial assets, including intangible assets, real estate and inventory. The standard provides that the gain or loss is determined by the difference between the consideration received and the carrying value of the asset. In the third quarter and

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first nine months of 2018, there was no impact to our condensed consolidated financial statements from the adoption of this new standard.

Accounting for Modifications of Share-Based Payment Awards—We prospectively adopted the standard, which clarifies that certain changes in the terms or conditions of a share-based payment award be accounted for as a modification. There was no impact to our condensed consolidated financial statements from the adoption of this new standard.

Impacts to our Condensed Consolidated Financial Statements—The impacts on our prior period condensed consolidated financial statements of adopting the new standards described above are summarized in the following tables:

Adoption of the standard related to pension and postretirement benefit costs impacted our prior period condensed consolidated statements of income as follows:

| | Three Months Ended October 1, 2017 | | |
|---|---|---|---|
| (MILLIONS OF DOLLARS) | As Previously Reported | Effect of Change Higher/(Lower) | As Restated |
| Cost of sales | $2,847 | $ (3) | $ 2,844 |
| Selling, informational and administrative expenses | 3,500 | 4 | 3,504 |
| Research and development expenses | 1,859 | 6 | 1,865 |
| Restructuring charges and certain acquisition-related costs | 149 | (35) | 114 |
| Other (income)/deductions—net | 51 | 28 | 79 |
| Income from continuing operations before provision for taxes on income | 3,585 | — | 3,585 |

| | Nine Months Ended October 1, 2017 | | |
|---|---|---|---|
| (MILLIONS OF DOLLARS) | As Previously Reported | Effect of Change Higher/(Lower) | As Restated |
| Cost of sales | $7,980 | $ (9) | $ 7,972 |
| Selling, informational and administrative expenses | 10,233 | 16 | 10,249 |
| Research and development expenses | 5,346 | 21 | 5,367 |
| Restructuring charges and certain acquisition-related costs | 377 | (110) | 267 |
| Other (income)/deductions—net | (16) | 81 | 65 |
| Income from continuing operations before provision for taxes on income | 11,351 | — | 11,351 |

Adoption of the standards impacted our condensed consolidated balance sheet as follows:

| | | Effect of New Accounting Standards Higher/(Lower) | | | | |
|---|---|---|---|---|---|---|
| (MILLIONS OF DOLLARS) | As Previously Reported Balance at December 31, 2017 | Revenues | Financial Assets and Liabilities | Income Tax Accounting | Reclassification of Certain Tax Effects from AOCI | Balance at January 1, 2018 |
| Trade accounts receivable | $ 8,221 | $13 | $ — | $ — | $ — | $8,234 |
| Inventories | 7,578 | (11) | — | — | — | 7,567 |
| Current tax assets | 3,050 | (11) | — | (3) | — | 3,036 |
| | 1,855 | (17) | — | — | — | 1,838 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Noncurrent deferred tax assets and other noncurrent tax assets | | | | | | |
| Other noncurrent assets | 3,227 | — | — | (204) | — | 3,023 |
| Other current liabilities | 11,115 | (123) | — | — | — | 10,992 |
| Noncurrent deferred tax liabilities | 3,900 | 106 | — | (18) | — | 3,988 |
| Other noncurrent liabilities | 6,149 | (459) | — | — | — | 5,690 |
| Retained earnings | 85,291 | 450 | 419 | (189) | 495 | 86,466 |
| Accumulated other comprehensive loss | (9,321) | — | (419) | — | (495) | (10,235) |

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Adoption of the standards related to the classification of certain transactions in the statement of cash flows and the presentation of restricted cash in the statement of cash flows impacted our condensed consolidated statement of cash flows as follows:

| | Nine Months Ended October 1, 2017 | | | |
|---|---|---|---|---|
| (MILLIONS OF DOLLARS) | As Previously Reported | Effect of New Accounting Standards Cash Flow Classification Inflow/(Outflow) | Restricted Cash | As Restated |
| Operating Activities | | | | |
| Other adjustments, net | $(561) | $ (43) | $ — | $ (604) |
| Other changes in assets and liabilities, net of acquisitions and divestitures | (3,644) | — | 28 | (3,616) |
| Investing Activities | | | | |
| Proceeds from redemptions/sales of short-term investments | 5,783 | — | (5) | 5,778 |
| Proceeds from redemptions/sales of long-term investments | 2,417 | — | (14) | 2,403 |
| Financing Activities | | | | |
| Principal payments on short-term borrowings | (7,691) | 33 | — | (7,659) |
| Net proceeds from short-term borrowings with original maturities of three months or less | 555 | 10 | — | 566 |
| Net increase in cash and cash equivalents and restricted cash and cash equivalents | 184 | — | 9 | 193 |
| Cash and cash equivalents and restricted cash and cash equivalents, beginning | 2,595 | — | 70 | 2,666 |
| Cash and cash equivalents and restricted cash and cash equivalents, ending | 2,779 | — | 79 | 2,858 |

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheet that sum to the total of the same amounts shown in the condensed consolidated statements of cash flows:

| (MILLIONS OF DOLLARS) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Cash and cash equivalents | $ 3,559 | $ 1,342 |
| Restricted cash and cash equivalents in Short-term investments | 40 | — |
| Restricted cash and cash equivalents in Long-term investments | 59 | — |
| Restricted cash and cash equivalents in Other current assets | — | 14 |
| Restricted cash and cash equivalents in Other noncurrent assets | — | 75 |
| Total cash and cash equivalents and restricted cash and cash equivalents shown in the condensed consolidated balance sheets | $ 3,658 | $ 1,431 |

Amounts included in restricted cash represent those required to be set aside by a contractual agreement in connection with ongoing litigation or to secure delivery of Pfizer medicines at the agreed upon terms. The restriction will lapse upon the resolution of the litigation or the proper delivery of the medicines.

C. Revenues

On January 1, 2018, we adopted a new accounting standard for revenue recognition. For further information, see Note 1B.

We recorded direct product sales and/or alliance revenues of more than $1 billion for each of nine products in 2017. These direct products sales and/or alliance product revenues represented 46% of our revenues in 2017. The loss or expiration of intellectual property rights can have a significant adverse effect on our revenues as our contracts with customers will generally be at lower selling prices due to added competition and we generally provide for higher sales returns during the period in which individual markets begin to near the loss or expiration of intellectual property rights. Our Consumer Healthcare business includes OTC brands with a focus on dietary supplements, pain management, gastrointestinal and respiratory and personal care. According to Euromonitor International's retail sales data, in 2017, our Consumer Healthcare business was the fifth-largest branded multi-national, OTC consumer healthcare business in the world and produced two of the ten largest selling consumer

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healthcare brands (Centrum and Advil) in the world. We sell biopharmaceutical products after patent expiration, and under patent, and, to a much lesser extent, consumer healthcare products worldwide to developed and emerging market countries.

Revenue Recognition—We record revenues from product sales when there is a transfer of control of the product from us to the customer. We determine transfer of control based on when the product is shipped or delivered and title passes to the customer.

- Customers—Our biopharmaceutical products are sold principally to wholesalers but we also sell directly to retailers, hospitals, clinics, government agencies and pharmacies, and, in the case of our vaccine products in the U.S., we primarily sell directly to the CDC, wholesalers and individual provider offices. Our consumer healthcare customers include retailers and, to a lesser extent, wholesalers and distributors.

Biopharmaceutical products that ultimately are used by patients are generally covered under governmental programs, managed care programs and insurance programs, including those managed through pharmacy benefit managers, and are subject to sales allowances and/or rebates payable directly to those programs. Those sales allowances and rebates are generally negotiated, but government programs may have legislated amounts by type of product (e.g., patented or unpatented).

- Our Sales Contracts—Sales on credit are typically under short-term contracts. Collections are based on market payment cycles common in various markets, with shorter cycles in the U.S. Sales are adjusted for sales allowances, chargebacks, rebates and sales returns and cash discounts. Sales returns occur due to loss of exclusivity, product recalls or a changing competitive environment.

- Deductions from Revenues—Our gross product revenues are subject to a variety of deductions, which generally are estimated and recorded in the same period that the revenues are recognized. Such variable consideration represents chargebacks, rebates, sales allowances and sales returns. These deductions represent estimates of the related obligations and, as such, knowledge and judgment is required when estimating the impact of these revenue deductions on gross sales for a reporting period.

Specifically:

- In the U.S., we sell our products to distributors and hospitals under our sales contracts. However, we also have contracts with managed care or pharmacy benefit managers and legislatively mandated contracts with the federal and state governments under which we provide rebates to them based on medicines utilized by the lives they cover. We record provisions for Medicare, Medicaid, and performance-based contract pharmaceutical rebates based upon our experience ratio of rebates paid and actual prescriptions written during prior quarters. We apply the experience ratio to the respective period's sales to determine the rebate accrual and related expense. This experience ratio is evaluated regularly to ensure that the historical trends are as current as practicable. We estimate discounts on branded prescription drug sales to Medicare Part D participants in the Medicare "coverage gap," also known as the "doughnut hole," based on the historical experience of beneficiary prescriptions and consideration of the utilization that is expected to result from the discount in the coverage gap. We evaluate this estimate regularly to ensure that the historical trends and future expectations are as current as practicable. For performance-based contract rebates, we also consider current contract terms, such as changes in formulary status and rebate rates.
- Outside the U.S., the majority of our pharmaceutical sales allowances are contractual or legislatively mandated and our estimates are based on actual invoiced sales within each period, which reduces the risk of variations in the estimation process. In certain European countries, rebates are calculated on the government's total unbudgeted pharmaceutical spending or on specific product sales thresholds and we apply an estimated allocation factor against our actual invoiced sales to project the expected level of reimbursement. We obtain third-party information that helps us to monitor the adequacy of these accruals.
- Provisions for pharmaceutical chargebacks (primarily reimbursements to U.S. wholesalers for honoring contracted prices to third parties) closely approximate actual amounts incurred, as we settle these deductions generally within two to five weeks of incurring the liability.

- Provisions for pharmaceutical sales returns are based on a calculation for each market that incorporates the following, as appropriate: local returns policies and practices; historical returns as a percentage of sales; an understanding of the reasons for past returns; estimated shelf life by product; an estimate of the amount of time between shipment and return or lag time; and any other factors that could impact the estimate of future returns, such as loss of exclusivity, product recalls or a changing competitive environment. Generally, returned products are destroyed, and customers are refunded the sales price in the form of a credit.
- We 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 incentives programs to predict customer behavior.

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Our accruals for Medicare rebates, Medicaid and related state program rebates, performance-based contract rebates, chargebacks, sales allowances and sales returns and cash discounts totaled $5.5 billion as of September 30, 2018 and $4.9 billion as of December 31, 2017.
The following table provides information about the balance sheet classification of these accruals:

| (MILLIONS OF DOLLARS) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Reserve against Trade accounts receivable, less allowance for doubtful accounts | $ 1,297 | $ 1,352 |
| | | |
| Other current liabilities: | | |
| Accrued rebates | 3,235 | 2,674 |
| Other accruals | 641 | 512 |
| | | |
| Other noncurrent liabilities | 374 | 385 |
| Total accrued rebates and other accruals | $ 5,548 | $ 4,923 |

Amounts recorded for revenue deductions can result from a complex series of judgments about future events and uncertainties and can rely heavily on estimates and assumptions. On a quarterly basis, our adjustments of estimates to reflect actual results generally have been less than 1% of revenues, and have resulted in either a net increase or a net decrease in Revenues. Product-specific rebates, however, can have a significant impact on year-over-year individual product growth trends.

Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from Revenues.
D. Collaborative Arrangements
Payments to and from our collaboration partners are presented in our condensed consolidated statements of income based on the nature of the arrangement (including its contractual terms), the nature of the payments and applicable accounting guidance. Under co-promotion agreements, we record the amounts received from our collaboration partners as alliance revenues, a component of Revenues, when our collaboration partners are the principal in the transaction and we receive a share of their net sales or profits. Alliance revenues are recorded as we perform co-promotion services for the collaboration and the collaboration partners sell the products to their customers within the applicable period. The related expenses for selling and marketing these products are included in Selling, informational and administrative expenses. In collaborative arrangements where we manufacture a product for our collaboration partners, we record revenues when we transfer control of the product to our collaboration partners. All royalty payments to collaboration partners are included in Cost of sales. Royalty payments received from collaboration partners are included in Other (income)/deductions—net.
Reimbursements to or from our collaboration partners for development costs are recorded net in Research and development expenses. Upfront payments and pre-approval milestone payments due from us to our collaboration partners in development stage collaborations are recorded as Research and development expenses. Milestone payments due from us to our collaboration partners after regulatory approval has been attained for a medicine are recorded in Identifiable intangible assets—Developed technology rights. Upfront and pre-approval milestone payments earned from our collaboration partners by us are recognized in Other (income)/deductions—net over the development period for the collaboration products, when our performance obligations include providing R&D services to our collaboration partners. Upfront, pre-approval and post-approval milestone payments earned by us may be recognized in Other (income)/deductions—net immediately when earned or over other periods depending upon the nature of our performance obligations in the applicable collaboration. Where the milestone event is regulatory approval for a medicine, we generally recognize milestone payments due to us in the transaction price when regulatory approval in the applicable jurisdiction has been attained. We may recognize milestone payments due to us in the transaction price

earlier than the milestone event in certain circumstances when recognition of the income would not be probable of a significant reversal.

On January 1, 2018, we adopted a new accounting standard on revenue recognition (see Note 1B). As a result of the adoption, we recognized the following cumulative effect adjustments related to collaboration arrangements to Retained earnings:

- $394 million (pre-tax) for collaborative arrangements where upfront, pre-approval and regulatory approval milestone payments received from our collaboration partners are recognized in Other (income)/deductions—net over a reduced period. Under the new standard, the income from upfront and pre-approval milestone payments due to us is typically recognized over the development period for the collaboration when our performance obligation, in addition to granting a license, is to provide research and development services to our collaboration partners, and major regulatory approval milestones are typically recognized immediately when earned as the related development period has ended. The income from upfront and milestone payments is typically recognized immediately as earned if our performance obligation, in addition to granting a license, is

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only for commercialization activities. Under the old standard, this income was recognized over the combined development and estimated commercialization (including co-promotion) period for the collaboration products.

- $82 million (pre-tax) for collaborative arrangements where we manufacture products for our collaboration partners and recognize Revenues and Cost of sales for product shipments at an earlier point in time. Under the new standard, revenue is recognized when we transfer control of the products to our collaboration partners. Under the old standard, revenue was recognized when our collaboration partners sell the products and transfer title to their third party customers.

Note 2. Acquisition, Divestitures, Licensing Arrangements, Collaborative Arrangements and Privately Held Investment

A. Acquisition

AstraZeneca's Small Molecule Anti-Infectives Business (EH)

On December 22, 2016, which fell in the first fiscal quarter of 2017 for our international operations, we acquired the development and commercialization rights to AstraZeneca's small molecule anti-infectives business, primarily outside the U.S., including the commercialization and development rights to the approved EU drug Zavicefta™ (ceftazidime-avibactam), the marketed agents Merrem™/Meronem™ (meropenem) and Zinforo™ (ceftaroline fosamil), and the clinical development assets ATM-AVI and CXL (ceftaroline fosamil-AVI). In 2017, under the terms of the agreement, we made payments of approximately $605 million to AstraZeneca related to the transaction. We made an additional milestone payment of $125 million in our first fiscal quarter of 2018 and we will make a deferred payment of $175 million to AstraZeneca in January 2019. In addition, we may be required to pay an additional milestone payment of $75 million if the related milestone is achieved prior to December 31, 2021, and up to $600 million if sales of Zavicefta™ exceed certain thresholds prior to January 1, 2026, as well as tiered royalties on sales of Zavicefta™ and ATM-AVI in certain markets for a period ending on the later of 10 years from first commercial sale or the loss of patent protection or loss of regulatory exclusivity. The total royalty payments are unlimited during the royalty term and the undiscounted payments are expected to be in the range of approximately $292 million to $512 million. The total fair value of consideration transferred for AstraZeneca's small molecule anti-infectives business was approximately $1,040 million inclusive of cash paid and the fair value of contingent consideration. In connection with this acquisition, we recorded $894 million in Identifiable intangible assets, consisting of $728 million in Developed technology rights and $166 million in IPR&D. We also recorded $92 million in Other current assets related to the economic value of inventory which was retained by AstraZeneca for sale on our behalf, $73 million in Goodwill and $19 million of net deferred tax liabilities. The final allocation of the consideration transferred to the assets acquired and the liabilities assumed has been completed.

B. Divestitures

Sale of Hospira Infusion Systems Net Assets to ICU Medical, Inc. (EH)

On October 6, 2016, we announced that we entered into a definitive agreement under which ICU Medical agreed to acquire all of our global infusion systems net assets, HIS, for approximately $1 billion in cash and ICU Medical common stock. HIS includes IV pumps, solutions, and devices. As a result of the performance of HIS relative to ICU Medical's expectations, on January 5, 2017, we entered into a revised agreement with ICU Medical under which ICU Medical would acquire HIS for up to approximately $900 million, composed of cash and contingent cash consideration, ICU Medical common stock and seller financing.

The revised transaction closed on February 3, 2017. At closing, we received 3.2 million newly issued shares of ICU Medical common stock (as originally agreed), which we initially valued at approximately $428 million (based upon the closing price of ICU Medical common stock on the closing date less a discount for lack of marketability) and which are reported as equity securities at fair value in Long-term investments on the condensed consolidated balance sheet. In August 2018, we sold 700,000 shares of ICU Medical common stock for which we recognized a gain during the period of $50 million, reflecting the increase in fair value of the equity investment since the beginning of the year,

most of which was previously recognized as 2018 unrealized gains. In addition, we continue to hold 2.5 million shares of ICU Medical common stock and we recognized unrealized gains of $24 million in the third quarter of 2018 and unrealized gains of $229 million in the first nine months of 2018 related to these remaining shares. We also received a promissory note in the amount of $75 million, which was repaid in full as of December 31, 2017, and net cash of approximately $200 million before customary adjustments for net working capital, which is reported in Other investing activities, net on the condensed consolidated statement of cash flows for the nine months ended October 1, 2017. In addition, we are entitled to receive a contingent amount of up to an additional $225 million in cash based on ICU Medical's achievement of certain cumulative performance targets for the combined company through December 31, 2019. After our recent sale of ICU Medical shares, we own approximately 12% of ICU Medical. We recognized pre-tax income of $2 million in the third quarter of 2018 and pre-tax income of $1 million in the first nine months of 2018, and

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we recognized pre-tax income of $12 million in the third quarter of 2017 and pre-tax losses of $52 million in the first nine months of 2017 in Other (income)/deductions—net, representing adjustments to amounts previously recorded in 2016 to write down the HIS net assets to fair value less costs to sell. For additional information, see Note 4 and Notes to Consolidated Financial Statements—Note 2. Acquisitions, Sale of Hospira Infusion Systems Net Assets, Research and Development and Collaborative Arrangements, Equity-Method Investments and Cost-Method Investment in Pfizer's 2017 Financial Report.

While we have received the full purchase price excluding the contingent amount as of the February 3, 2017 closing, the sale of the HIS net assets was not fully completed in certain non-U.S. jurisdictions as of the third quarter of 2018 due to temporary regulatory or operational constraints. In these jurisdictions, which represent a relatively small portion of the HIS net assets, we continued to operate the net assets for the net economic benefit of ICU Medical, and we were indemnified by ICU Medical against risks associated with such operations during the interim period, subject to our obligations under the definitive transaction agreements. We have previously treated these jurisdictions as sold for accounting purposes.

In connection with the sale transaction, we entered into certain transitional agreements designed to facilitate the orderly transition of the HIS net assets to ICU Medical. These agreements primarily relate to administrative services, which are generally to be provided for a period of up to 24 months after the closing date. We will also manufacture and supply certain HIS products for ICU Medical and ICU Medical will manufacture and supply certain retained Pfizer products for us after closing, generally for a term of five years. These agreements are not material to Pfizer and none confers upon us the ability to influence the operating and/or financial policies of ICU Medical subsequent to the sale.

Contribution Agreement Between Pfizer and Allogene Therapeutics, Inc. (WRD)

In April 2018, Pfizer and Allogene announced that the two companies entered into a contribution agreement for Pfizer's portfolio of assets related to allogeneic CAR T therapy, an investigational immune cell therapy approach to treating cancer. Under this agreement, Allogene received from Pfizer rights to pre-clinical and clinical CAR T assets, all of which were previously licensed to Pfizer from French cell therapy company, Cellectis, beginning in 2014 and French pharmaceutical company, Servier, beginning in 2015. Allogene assumed responsibility for all potential financial obligations to both Cellectis and Servier. Pfizer will continue to participate financially in the development of the CAR T portfolio through an ownership stake in Allogene. Separately, Pfizer continues to maintain its approximate 7% ownership stake in Cellectis that was obtained in 2014 as part of the licensing agreement in which Pfizer obtained exclusive rights to pursue the development and commercialization of certain Cellectis CAR T therapies in exchange for an upfront payment of $80 million, as well as potential future development, regulatory and commercial milestone payments and royalties. In connection with the Allogene transaction, Pfizer recognized a non-cash $50 million pre-tax gain in Other (income)/deductions—net in the second quarter of 2018, representing the difference between the $127 million fair value of the equity investment received and the book value of assets transferred (including an allocation of goodwill) (see Note 4).

In October 2018, Allogene consummated an initial public offering of new shares of its common stock, which resulted in Pfizer's preferred stock converting into common stock and a decrease in our ownership percentage from approximately 25% to approximately 19%. The closing price on the day of the initial public offering was $25 per share. Beginning as of the date of the initial public offering, our investment in Allogene, which is reported at $127 million in Long-term investments on the condensed consolidated balance sheet as of September 30, 2018, will be measured at fair value with changes in fair value recognized in net income.

Sale of Phase 2b Ready AMPA Receptor Potentiator for CIAS to Biogen Inc. (WRD)

In April 2018, we sold our Phase 2b ready AMPA receptor potentiator for CIAS to Biogen. We received $75 million upfront and have the opportunity to receive up to $515 million in future development and commercialization milestones, as well as tiered royalties in the low-to-mid-teen percentages. We recognized $75 million in Other (income)/deductions—net in the second quarter of 2018 (see Note 4). We will record the milestones and royalties to

Other (income)/deductions—net when due, or earlier if we have sufficient experience to determine such amounts are not probable of significant reversal.

Divestiture of Neuroscience Assets (WRD)

In September 2018, we and Bain Capital entered into a transaction to create a new biopharmaceutical company, Cerevel, to continue development of a portfolio of clinical and preclinical stage neuroscience assets primarily targeting disorders of the central nervous system including Parkinson's disease, epilepsy, Alzheimer's disease, schizophrenia and addiction. These assets were part of the neuroscience discovery and early development efforts, which we announced we were ending in January 2018. In connection with this transaction, we out-licensed the portfolio to Cerevel in exchange for a 25% ownership stake in Cerevel's parent company, Cerevel Therapeutics, Inc., and potential future regulatory and commercial milestone payments and royalties. Bain Capital has committed to invest $350 million to develop the portfolio, with the potential for additional funding as the assets advance. In connection with the transaction, we recognized a non-cash $343 million pre-tax gain in Other (income)/

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deductions—net, representing the fair value of the equity investment received as the assets transferred had a book value of $0 (see Note 4). Our investment in Cerevel Therapeutics, Inc. is reported in Long-term investments on the consolidated balance sheet as of September 30, 2018.

C. Licensing Arrangements

Shire International GmbH (IH)

In 2016, we out-licensed PF-00547659, an investigational biologic being evaluated for the treatment of moderate-to-severe inflammatory bowel disease, including ulcerative colitis and Crohn's disease, to Shire for an upfront payment of $90 million, up to $460 million in development and sales-based milestone payments and potential future royalty payments on commercialized products. The $90 million upfront payment was initially deferred and recognized in Other (income)/deductions—net ratably through December 2017. In the first quarter of 2018, we recognized $75 million in Other (income)/deductions—net for a milestone payment received from Shire related to their first dosing of a patient in a Phase 3 clinical trial of the compound for the treatment of ulcerative colitis, and in the third quarter of 2018, we recognized $35 million in Other (income)/deductions—net for a milestone payment received from Shire related to their first dosing of a patient in a Phase 3 clinical trial of the compound for the treatment of Crohn's disease (see Note 4).

BionTech AG (WRD)

In August 2018, a multi-year R&D arrangement went into effect between BionTech AG (BionTech), a privately held company, and Pfizer to develop mRNA-based vaccines for prevention of influenza (flu). In September 2018, we made an upfront payment of $50 million to BionTech, which was recorded in Research and development expenses, and BionTech is eligible to receive up to an additional $325 million in future development and sales based milestones and future royalty payments associated with worldwide sales. As part of the transaction, we also purchased 169,670 newly-issued ordinary shares of BionTech for $50 million in the third quarter of 2018, which are reported in Long-term investments in the condensed consolidated balance sheet as of September 30, 2018.

D. Collaboration Arrangements

Collaboration with Merck & Co., Inc. (IH)

Under a worldwide collaboration agreement, except for Japan, we collaborated with Merck on the clinical development of ertugliflozin and ertugliflozin-containing fixed-dose combinations with metformin and Januvia (sitagliptin) tablets, which were approved by the FDA in December 2017 and the European Commission in March 2018 as Steglatro, Segluromet and Steglujan. Merck will exclusively promote Steglatro and the two fixed-dose combination products and we will share revenues and certain costs with Merck on a 60%/40% basis, with Pfizer having the 40% share. Pfizer records its share of the collaboration revenues as product sales as we supply the ertugliflozin active pharmaceutical ingredient to Merck for use in the alliance products.

In the first quarter of 2017, we received a $90 million milestone payment from Merck upon the FDA's acceptance for review of the NDAs for ertugliflozin and two fixed-dose combinations (ertugliflozin plus Januvia (sitagliptin) and ertugliflozin plus metformin), which, as of December 31, 2017, was deferred and primarily reported in Other noncurrent liabilities, and through December 31, 2017, was being recognized in Other (income)/deductions—net over a multi-year period. As of December 31, 2017, we were due a $60 million milestone payment from Merck, which we received in the first quarter of 2018, in conjunction with the approval of ertugliflozin by the FDA. As of December 31, 2017, the $60 million due from Merck was deferred and primarily reported in Other noncurrent liabilities. In the first quarter of 2018, in connection with the approval of ertugliflozin in the EU, we recognized a $40 million milestone payment from Merck in Other (income)/deductions—net (see Note 4). We are eligible for additional payments associated with the achievement of future commercial milestones. In the first quarter of 2018, in connection with the adoption of a new accounting standard, as of January 1, 2018, the $60 million of deferred income and approximately $85 million of the $90 million of deferred income associated with the above-mentioned milestone payments were recorded to and included in the $584 million cumulative effect adjustment to Retained earnings. See Note 1B for additional information.

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Collaboration with Eli Lilly & Company (IH)

In 2013, we entered into a collaboration agreement with Lilly to jointly develop and globally commercialize Pfizer's tanezumab, which provides that Pfizer and Lilly will equally share product-development expenses as well as potential revenues and certain product-related costs. We received a $200 million upfront payment from Lilly in accordance with the collaboration agreement between Pfizer and Lilly, which was deferred and primarily reported in Other noncurrent liabilities, and through December 31, 2017, was being recognized in Other (income)/deductions—net over a multi-year period beginning in the second quarter of 2015. Pfizer and Lilly resumed the Phase 3 chronic pain program for tanezumab in July 2015. The FDA granted Fast Track designation for tanezumab for the treatment of chronic pain in patients with osteoarthritis and chronic low back pain in June 2017. Under the collaboration agreement with Lilly, we are eligible to receive additional payments from Lilly upon the achievement of specified regulatory and commercial milestones.

In the first quarter of 2018, in connection with the adoption of a new accounting standard, as of January 1, 2018, approximately $107 million of deferred income associated with the above-mentioned upfront payment was recorded to and included in the $584 million cumulative effect adjustment to Retained earnings. See Note 1B for additional information. Approximately $33 million of the upfront payment continues to be deferred, of which approximately $24 million is reported in Other current liabilities and approximately $9 million is reported in Other noncurrent liabilities as of September 30, 2018. This amount is expected to be recognized in Other (income)/deductions—net over the remaining development period for the product between 2018 and 2020.

E. Privately Held Investment

AM-Pharma B.V. (WRD)

In April 2015, we acquired a minority equity interest in AM-Pharma B.V., a privately-held Dutch biopharmaceutical company focused on the development of human recombinant Alkaline Phosphatase (recAP) for inflammatory diseases, and secured an exclusive option to acquire the remaining equity in the company. The option became exercisable after completion of a Phase 2 trial of recAP for the treatment of Acute Kidney Injury related to sepsis in the first quarter of 2018. We declined to exercise the option and the option expired unexercised during the second quarter of 2018.

Note 3. Restructuring Charges and Other Costs Associated with Acquisitions and Cost-Reduction/Productivity Initiatives

We incur significant costs in connection with acquiring, integrating and restructuring businesses and in connection with our global cost-reduction/productivity initiatives. For example:

- In connection with acquisition activity, we typically incur costs associated with executing the transactions, integrating the acquired operations (which may include expenditures for consulting and the integration of systems and processes), and restructuring the combined company (which may include charges related to employees, assets and activities that will not continue in the combined company); and
- In connection with our cost-reduction/productivity initiatives, we typically incur costs and charges associated with site closings and other facility rationalization actions, workforce reductions and the expansion of shared services, including the development of global systems.

All of our businesses and functions may be impacted by these actions, including sales and marketing, manufacturing and R&D, as well as groups such as information technology, shared services and corporate operations.

In connection with our acquisition of Hospira in September 2015, we focused our efforts on achieving an appropriate cost structure for the combined company. We expect to incur costs of approximately $1 billion (not including costs of

$215 million associated with the return of acquired IPR&D rights as described in the Current-Period Key Activities section of Notes to Consolidated Financial Statements—Note 3. Restructuring Charges and Other Costs Associated with Acquisitions and Cost-Reduction/Productivity Initiatives in our 2017 Financial Report) associated with the integration of Hospira. The majority of these costs were incurred within the three-year period post-acquisition.

As a result of the evaluation performed in connection with our decision in September 2016 to not pursue, at that time, splitting IH and EH into two separate publicly-traded companies, we identified new opportunities to potentially achieve greater optimization and efficiency to become more competitive in our business. Therefore, in early 2017, we initiated new enterprise-wide cost reduction/productivity initiatives, which we expect to substantially complete by the end of 2019. These initiatives encompass all areas of our cost base and include:

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- Optimization of our manufacturing plant network to support IH and EH products and pipelines. During 2017-2019, we expect to incur costs of approximately $700 million related to this initiative. Through September 30, 2018, we incurred approximately $322 million associated with this initiative.
- Activities in non-manufacturing related areas, which include further centralization of our corporate and platform functions, as well as other activities where opportunities are identified. During 2017-2019, we expect to incur costs of approximately $450 million related to this initiative. Through September 30, 2018, we incurred approximately $252 million associated with this initiative.

The costs expected to be incurred during 2017-2019, of approximately $1.2 billion for the above-mentioned programs (but not including the costs associated with the Hospira integration), include restructuring charges, implementation costs and additional depreciation—asset restructuring. Of this amount, we expect that about 20% of the total charges will be non-cash.

Current-Period Key Activities

For the first nine months of 2018, we incurred costs of $226 million associated with the 2017-2019 program, $186 million associated with the integration of Hospira and $35 million associated with all other acquisition-related initiatives.

The following table provides the components of costs associated with acquisitions and cost-reduction/productivity initiatives:

| (MILLIONS OF DOLLARS) | Three Months Ended September 30, 2018 | Three Months Ended October 1, 2017 | Nine Months Ended September 30, 2018 | Nine Months Ended October 1, 2017 |
|---|---|---|---|---|
| Restructuring (credits)/charges: | | | | |
| Employee terminations | $(24) | $ (55) | $(53) | $ (113) |
| Asset impairments[a] | 12 | 101 | 8 | 126 |
| Exit costs | 14 | 10 | 14 | 16 |
| Restructuring charges/(credits)[b] | 1 | 56 | (32) | 28 |
| Transaction costs[c] | 1 | (14) | 1 | 4 |
| Integration costs[d] | 82 | 73 | 202 | 235 |
| Restructuring charges and certain acquisition-related costs | 85 | 114 | 172 | 267 |
| Net periodic benefit costs recorded in Other (income)/deductions—net[e] | 41 | 35 | 103 | 110 |
| Additional depreciation—asset restructuring, virtually all of which is recorded in Cost of sales[f] | 12 | 39 | 43 | 74 |
| Implementation costs recorded in our condensed consolidated statements of income as follows[g]: | | | | |
| Cost of sales | 21 | 26 | 57 | 77 |
| Selling, informational and administrative expenses | 17 | 22 | 51 | 46 |
| Research and development expenses | 9 | 9 | 22 | 26 |
| Total implementation costs | 48 | 57 | 130 | 150 |
| Total costs associated with acquisitions and cost-reduction/productivity initiatives | $186 | $ 245 | $447 | $ 601 |

(a) The asset impairment charges for the three and nine months ended October 1, 2017 are largely associated with our acquisitions of Hospira and Medivation.

(b) In the third quarter of 2018, restructuring charges are primarily due to accruals for exit costs and asset write downs related to our acquisition of Hospira, partially offset by the reversal of previously recorded accruals for employee termination costs. In the first nine months of 2018, restructuring credits are mostly related to the reversal of

previously recorded accruals for employee termination costs. In the three and nine months ended October 1, 2017, restructuring charges were mainly associated with our acquisitions of Hospira and Medivation, partially offset by credits associated with cost-reduction and productivity initiatives not associated with acquisitions that mostly related to the reversal of previously recorded accruals for employee termination costs. Employee terminations primarily include revisions of our estimates of severance benefits. Employee termination costs are generally recorded when the actions are probable and estimable and include accrued severance benefits, many of which may be paid out during periods after termination.

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The restructuring activities for 2018 are associated with the following:

- For the third quarter of 2018, IH ($13 million credit); EH ($7 million charge); manufacturing operations ($1 million charge); WRD/GPD ($3 million charge); and Corporate ($3 million charge).
- For the first nine months of 2018, IH ($25 million credit); EH ($5 million credit); WRD/GPD ($1 million charge); manufacturing operations ($16 million charge); and Corporate ($19 million credit).

The restructuring activities for 2017 are associated with the following:

- For the third quarter of 2017, IH ($1 million charge); EH ($1 million charge); WRD/GPD ($2 million charge); manufacturing operations ($40 million charge); and Corporate ($12 million charge).
- For the first nine months of 2017, IH ($1 million credit); EH ($11 million credit); WRD/GPD ($24 million credit); manufacturing operations ($48 million charge); and Corporate ($15 million charge).

(c) Transaction costs represent external costs for banking, legal, accounting and other similar services, which in the third quarter of 2017 reflect the reversal of an accrual related to the acquisition of Medivation. Transaction costs for the first nine months of 2017 were directly related to our acquisitions of Hospira, Anacor and Medivation.

(d) Integration costs represent external, incremental costs directly related to integrating acquired businesses, and primarily include expenditures for consulting and the integration of systems and processes. In the third quarter and first nine months of 2018, integration costs were primarily related to our acquisition of Hospira. In the third quarter and first nine months of 2017, integration costs primarily relate to our acquisitions of Hospira and Medivation. The first nine months of 2017 also include a net gain of $12 million related to the settlement of the Hospira U.S. qualified defined benefit pension plan (see Note 10).

(e) In the three and nine months ended September 30, 2018, primarily represents the net pension curtailments and settlements included in Other (income)/deductions—net upon the adoption of a new accounting standard in the first quarter of 2018. In the three and nine months ended October 1, 2017, primarily represents the net pension curtailments and settlements, partially offset by net periodic benefit credits, excluding service costs, related to our acquisition of Hospira, both of which were reclassified to Other (income)/deductions—net as a result of the retrospective adoption of a new accounting standard in the first quarter of 2018. These credits included a net settlement gain, partially offset by accelerated amortization of actuarial losses and prior service costs upon the settlement of the remaining obligation associated with the Hospira U.S. qualified defined benefit pension plan. For additional information, see Note 1B and Note 10.

(f) Additional depreciation—asset restructuring represents the impact of changes in the estimated useful lives of assets involved in restructuring actions.

(g) Implementation costs represent external, incremental costs directly related to implementing our non-acquisition-related cost-reduction/productivity initiatives.

The following table provides the components of and changes in our restructuring accruals:

| (MILLIONS OF DOLLARS) | Employee Termination Costs | Asset Impairment Charges | Exit Costs | Accrual |
|---|---|---|---|---|
| Balance, December 31, 2017[a] | $ 1,039 | $ — | $ 66 | $ 1,105 |
| Provision/(Credit) | (53) | 8 | 14 | (32) |
| Utilization and other[b] | (235) | (8) | (34) | (277) |
| Balance, September 30, 2018[c] | $ 750 | $ — | $ 46 | $ 796 |

(a) Included in Other current liabilities ($643 million) and Other noncurrent liabilities ($462 million).
(b) Includes adjustments for foreign currency translation.
(c) Included in Other current liabilities ($397 million) and Other noncurrent liabilities ($399 million).

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Note 4. Other (Income)/Deductions—Net

The following table provides components of Other (income)/deductions—net:

| (MILLIONS OF DOLLARS) | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2018 | October 1, 2017 | September 30, 2018 | October 1, 2017 |
| Interest income[a] | $(82) | $ (99) | $(240) | $ (275) |
| Interest expense[a] | 310 | 320 | 946 | 940 |
| Net interest expense | 228 | 220 | 706 | 666 |
| Royalty-related income | (143) | (140) | (360) | (331) |
| Net gains on asset disposals[b] | (4) | (13) | (19) | (36) |
| Net gains recognized during the period on investments in equity securities[c] | (94) | (45) | (460) | (111) |
| Net realized (gains)/losses on sales of investments in debt securities | 8 | (23) | 12 | (45) |
| Income from collaborations, out-licensing arrangements and sales of compound/product rights[d] | (139) | (78) | (455) | (163) |
| Net periodic benefit costs/(credits) other than service costs[e] | (65) | 28 | (231) | 81 |
| Certain legal matters, net[f] | 37 | 183 | (70) | 194 |
| Certain asset impairments[g] | (1) | 130 | 40 | 143 |
| Adjustments to loss on sale of HIS net assets[h] | (2) | (12) | (1) | 52 |
| Business and legal entity alignment costs[i] | — | 16 | 4 | 54 |
| Other, net[j] | (239) | (186) | (309) | (439) |
| Other (income)/deductions—net | $(414) | $ 79 | $(1,143) | $ 65 |

(a) Interest income decreased in the third quarter and first nine months of 2018, primarily driven by a lower investment balance. Interest expense decreased in the third quarter of 2018, primarily as a result of refinancing activity that occurred in the fourth quarter of 2017 and a credit to interest expense due to settlement of a tax indemnification case. Interest expense increased for the first nine months of 2018, primarily as a result of higher short-term interest rates, offset, in part, by refinancing activity that occurred in the fourth quarter of 2017.

(b) In the first nine months of 2017, primarily includes a realized gain on sale of property of $52 million, partially offset by a realized net loss of $30 million related to the sale of our 40% ownership investment in Teuto, including the extinguishment of a put option for the then remaining 60% ownership interest.

(c) The net gains on investments in equity securities for the third quarter of 2018 include unrealized net gains on equity securities of $8 million and, for the first nine months of 2018, include unrealized net gains on equity securities of $344 million, reflecting the adoption of a new accounting standard in the first quarter of 2018. We continue to hold 2.5 million shares of ICU Medical common stock and we recognized unrealized gains of $24 million in the third quarter of 2018 and unrealized gains of $229 million in the first nine months of 2018 related to these remaining shares. Prior to the adoption of a new accounting standard in the first quarter of 2018, net unrealized gains and losses on virtually all equity securities with readily determinable fair values were reported in Accumulated other comprehensive income. For additional information, see Note 1B, Note 2B and Note 7B.

(d) Includes income from upfront and milestone payments from our collaboration partners and income from out-licensing arrangements and sales of compound/product rights. In the third quarter of 2018, primarily includes, among other things, (i) $40 million in milestone income from a certain licensee, (ii) a $35 million milestone payment received from Shire related to their first dosing of a patient in a Phase 3 clinical trial of a compound out-licensed by Pfizer to Shire for the treatment of Crohn’s disease and (iii) $45 million in gains related to sales of compound/product rights. In the first nine months of 2018, primarily includes, among other things, (i) approximately $128 million in milestone income from multiple licensees, (ii) an upfront payment to us of $75 million for the sale of an AMPA receptor potentiator for CIAS to Biogen, (iii) $110 million in milestone payments

received from Shire, of which $75 million was received in the first quarter of 2018 related to their first dosing of a patient in a Phase 3 clinical trial for the treatment of ulcerative colitis and $35 million was received from Shire related to their first dosing of a patient in a Phase 3 clinical trial for the treatment of Crohn's disease, (iv) a $40 million milestone payment from Merck in conjunction with the approval of ertugliflozin in the EU and (v) $45 million in gains related to sales of compound/product rights. In the third quarter of 2017, primarily includes, among other things, $50 million in milestone income from a certain licensee and a $15 million gain related to the sale of compound/product rights. In the first nine months of 2017, primarily includes, among other things, approximately $81 million in milestone income from multiple licensees and a $43 million gain related to the sale of compound/product rights. For additional information, see Note 2B, Note 2C and Note 2D.

(e) Represents the net periodic benefit costs/(credits), excluding service costs, as a result of the adoption of a new accounting standard in the first quarter of 2018. Effective January 1, 2018, the U.S. Pfizer Consolidated Pension Plan was frozen to future benefit accruals and for the third quarter and first nine months of 2018, resulted in the recognition of lower net periodic benefit costs due to the extension of the amortization period for the actuarial losses. There was also a greater than expected gain on plan assets due to a higher plan asset base compared to the third quarter and first nine months of 2017. For additional information, see Note 1B and Note 10.

(f) For the first nine months of 2018, the net credits primarily represent the reversal of a legal accrual where a loss was no longer deemed probable. In the third quarter and first nine months of 2017, primarily includes a $94 million charge to resolve a class action lawsuit filed by direct purchasers relating to Celebrex, which was approved by the court in April 2018, and a $79 million charge to reflect damages awarded by a jury in a patent matter.

(g) In the first nine months of 2018, primarily includes a $31 million intangible asset impairment charge recorded in the second quarter of 2018 related to an IH finite-lived developed technology right, acquired in connection with our acquisition of Anacor, for the treatment for toenail fungus marketed in the U.S. market only. The impairment charge recorded in the second quarter of 2018 related to IH reflects, among other things, updated commercial forecasts. In the third quarter and first nine months of 2017, primarily includes an intangible asset impairment charge of $127 million related to developed technology rights, acquired in connection with our acquisition of Hospira, for a generic sterile injectable product for the treatment of edema associated with certain conditions.

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The intangible asset impairment charge for the third quarter and first nine months of 2017 is associated with EH and reflects, among other things, updated commercial forecasts and an increased competitive environment.

(h) Represents adjustments to amounts previously recorded in 2016 to write down the HIS net assets to fair value less costs to sell related to the sale of HIS net assets to ICU Medical on February 3, 2017. For additional information, see Note 2B.

(i) Represents expenses for changes to our infrastructure to align our commercial operations of our current segments, including costs to internally separate our businesses into distinct legal entities, as well as to streamline our intercompany supply operations to better support each business.

(j) In the third quarter and first nine months of 2018, includes a non-cash $343 million pre-tax gain associated with our transaction with Bain Capital to create a new biopharmaceutical company, Cerevel, to continue development of a portfolio of clinical and preclinical stage neuroscience assets primarily targeting disorders of the central nervous system (see Note 2B). The third quarter and first nine months of 2018 also include, among other things, dividend income of $91 million and $226 million, respectively, from our investment in ViiV, and charges of $122 million and $257 million, respectively, reflecting the change in the fair value of contingent consideration. The first nine months of 2018 also include a non-cash $50 million pre-tax gain on the contribution of Pfizer's allogeneic CAR T therapy development program assets obtained from Cellectis and Servier in connection with our contribution agreement entered into with Allogene in which Pfizer obtained a 25% ownership stake in Allogene (see Note 2B), and a non-cash $17 million pre-tax gain on the cash settlement of a liability that we incurred in April 2018 upon the EU approval of Mylotarg (see Note 7E). In the third quarter and first nine months of 2017, includes, among other things, dividend income of $54 million and $211 million, respectively, from our investment in ViiV and income of $62 million from resolution of a contract disagreement.

The following table provides additional information about the intangible asset that was impaired during 2018 in Other (income)/deductions:

| | Fair Value[a] | | | | Nine Months Ended September 30, 2018 |
|---|---|---|---|---|---|
| (MILLIONS OF DOLLARS) | Amount | Level 1 | Level 2 | Level 3 | Impairment |
| Intangible assets—Developed technology right, finite-lived[b] | $35 | $ — | $ — | $ 35 | $ 31 |

(a) The fair value amount is presented as of the date of impairment, as these assets are not measured at fair value on a recurring basis.

(b) Reflects an intangible asset written down to fair value in the first nine months of 2018. Fair value was determined using the income approach, specifically the multi-period excess earnings method, also known as the discounted cash flow method. We started with a forecast of all the expected net cash flows associated with the asset and then applied an asset-specific discount rate to arrive at a net present value amount. Some of the more significant estimates and assumptions inherent in this approach include: the amount and timing of the projected net cash flows, which includes the expected impact of competitive, legal and/or regulatory forces on the product; the discount rate, which seeks to reflect the various risks inherent in the projected cash flows; and the tax rate, which seeks to incorporate the geographic diversity of the projected cash flows.

Note 5. Tax Matters

A. Taxes on Income from Continuing Operations

In the fourth quarter of 2017, we recorded an estimate of certain tax effects of the TCJA, including the impact on deferred tax assets and liabilities from the reduction in the U.S. Federal corporate tax rate from 35% to 21%, the

impact on valuation allowances and other state income tax considerations, the $15.2 billion repatriation tax liability on accumulated post-1986 foreign earnings for which we plan to elect payment over eight years through 2026 (with the first of eight installments due in April 2019) that is reported primarily in Other taxes payable, and deferred taxes on basis differences expected to give rise to future taxes on global intangible low-taxed income. In addition, we had provided deferred tax liabilities in the past on foreign earnings that were not indefinitely reinvested. As a result of the TCJA, we reversed an estimate of the deferred taxes that are no longer expected to be needed due to the change to the territorial tax system. The estimated amounts recorded may change in the future due to uncertain tax positions. With respect to the aforementioned repatriation tax liability related to the TCJA repatriation tax, our obligations may vary as a result of changes in our uncertain tax positions and/or availability of attributes such as foreign tax and other credit carryforwards.

The TCJA subjects a U.S. shareholder to current tax on global intangible low-taxed income earned by certain foreign subsidiaries. The FASB Staff Q&A, Topic 740, No. 5, Accounting for Global Intangible Low-Taxed Income, states that we are permitted to make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as global intangible low-taxed income in future years or provide for the tax expense related to such income in the year the tax is incurred. We have elected to recognize deferred taxes for temporary differences expected to reverse as global intangible low-taxed income in future years. However, given the complexity of these provisions, we have not finalized our analysis. We were able to make a reasonable estimate of the deferred taxes on the temporary differences expected to reverse in the future and provided a provisional deferred tax liability of approximately $1 billion as of December 31, 2017. The provisional amount is based on the evaluation of certain temporary differences inside each of our foreign subsidiaries that are expected to reverse as global intangible low-taxed income. However, as we continue to evaluate the TCJA’s global intangible low-taxed income provisions during the measurement period, we may revise the methodology used for determining the deferred tax liability associated with such income.

We believe that we have made reasonable estimates with respect to each of the above items, however, all of the amounts recorded remain provisional as we have not completed our analysis of the complex and far reaching effects of the TCJA. Further, we continue to consider our assertions on any remaining outside basis differences in our foreign subsidiaries as of

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September 30, 2018 and have not completed our analysis. In the third quarter of 2018, we recorded a favorable adjustment to the provisional estimate of the impact of the legislation, primarily related to the remeasurement of deferred tax assets and liabilities as well as revised estimates of benefits related to certain tax initiatives. Under guidance issued by the staff of the SEC, we expect to finalize our accounting related to the tax effects of the TCJA on deferred taxes, valuation allowances, state tax considerations, the repatriation tax liability, global intangible low-taxed income, and any remaining outside basis differences in our foreign subsidiaries during the fourth quarter of 2018, as we complete the remainder of our tax return filings and as any interpretations or clarifications of the TCJA occur through further legislation or U.S. Treasury actions or other means.

Our effective tax rate for continuing operations was 1.6% for the third quarter of 2018, compared to 20.3% for the third quarter of 2017 and was 9.9% for the first nine months of 2018, compared to 20.1% for the first nine months of 2017.

The lower effective tax rate for the third quarter and first nine months of 2018 in comparison with the same periods in 2017 was primarily due to:

- the adoption of a territorial system and the lower U.S. tax rate as a result of the December 2017 enactment of the TCJA as well as favorable adjustments to the provisional estimate of the impact of the legislation;
- the favorable change in the jurisdictional mix of earnings as a result of operating fluctuations in the normal course of business; as well as
- an increase in benefits associated with the resolution of certain tax positions pertaining to prior years primarily with various foreign tax authorities, and the expiration of certain statutes of limitations.

B. Deferred Taxes

We have not completed our analysis of the TCJA on our prior assertion of indefinitely reinvested earnings. Accordingly, we continue to evaluate our assertion with respect to our accumulated foreign earnings subject to the deemed repatriation tax and we also continue to evaluate the amount of earnings that are indefinitely reinvested. Additionally, we continue to evaluate our assertions on any remaining outside basis differences in our foreign subsidiaries as of September 30, 2018 as we have not finalized our analysis of the effects of all of the new provisions in the TCJA. As of September 30, 2018, it is not practicable to estimate the additional deferred tax liability that would be recorded if the earnings subject to the deemed repatriation tax and any remaining outside basis differences as of September 30, 2018 are not indefinitely reinvested. In accordance with the authoritative guidance issued by the SEC Staff Accounting Bulletin 118, we expect to complete our analysis within the measurement period.

C. Tax Contingencies

We are subject to income tax in many jurisdictions, and a certain degree of estimation is required in recording the assets and liabilities related to income taxes. All of our tax positions are subject to audit by the local taxing authorities in each tax jurisdiction. These tax audits can involve complex issues, interpretations and judgments and the resolution of matters may span multiple years, particularly if subject to negotiation or litigation. Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but our estimates of unrecognized tax benefits and potential tax benefits may not be representative of actual outcomes, and variation from such estimates could materially affect our financial statements in the period of settlement or when the statutes of limitations expire, as we treat these events as discrete items in the period of resolution.

The U.S. is one of our major tax jurisdictions, and we are regularly audited by the IRS:

- With respect to Pfizer, the IRS has issued a Revenue Agent’s Report (RAR) for tax years 2009-2010. We are not in agreement with the RAR and are currently appealing certain disputed issues. Tax years 2011-2015 are currently under audit. Tax years 2016-2018 are open but not under audit. All other tax years are closed.
- With respect to Hospira, the federal income tax audit of tax year 2014 through short-year 2015 was effectively settled in the second quarter of 2018. All other tax years are closed.

- With respect to Anacor and Medivation, the open tax years are not considered material to Pfizer.

In addition to the open audit years in the U.S., we have open audit years in other major tax jurisdictions, such as Canada (2013-2018), Japan (2017-2018), Europe (2011-2018, primarily reflecting Ireland, the United Kingdom, France, Italy, Spain and Germany), Latin America (1998-2018, primarily reflecting Brazil) and Puerto Rico (2011-2018).

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D. Tax Provision/(Benefit) on Other Comprehensive Income/(Loss)
The following table provides the components of Tax provision/(benefit) on other comprehensive income/(loss):

| (MILLIONS OF DOLLARS) | Three Months Ended September 30, 2018 | Three Months Ended October 1, 2017 | Nine Months Ended September 30, 2018 | Nine Months Ended October 1, 2017 |
|---|---|---|---|---|
| Foreign currency translation adjustments, net[a] | $ 14 | $ (62) | $ 82 | $ (192) |
| Unrealized holding gains/(losses) on derivative financial instruments, net | 35 | 28 | 39 | 30 |
| Reclassification adjustments for (gains)/losses included in net income | (28) | (29) | 36 | (169) |
| Reclassification adjustments of certain tax effects from AOCI to Retained earnings[b] | — | — | 1 | — |
| | 7 | (1) | 77 | (139) |
| Unrealized holding gains/(losses) on available-for-sale securities, net | 20 | 37 | (8) | 93 |
| Reclassification adjustments for gains included in net income | (6) | (49) | (8) | (45) |
| Reclassification adjustments for tax on unrealized gains from AOCI to Retained earnings[c] | — | — | (45) | — |
| | 14 | (12) | (62) | 47 |
| Benefit plans: actuarial gains/(losses), net | 2 | (37) | 27 | (15) |
| Reclassification adjustments related to amortization | 15 | 60 | 43 | 152 |
| Reclassification adjustments related to settlements, net | 10 | 22 | 25 | 30 |
| Reclassification adjustments of certain tax effects from AOCI to Retained earnings[b] | — | — | 637 | — |
| Other | 11 | (33) | 18 | (46) |
| | 38 | 11 | 750 | 121 |
| Benefit plans: prior service costs and other, net | — | — | — | — |
| Reclassification adjustments related to amortization | (11) | (17) | (33) | (50) |
| Reclassification adjustments related to curtailments, net | (1) | (1) | (4) | (5) |
| Reclassification adjustments of certain tax effects from AOCI to Retained earnings[b] | — | — | (144) | — |
| Other | 1 | 1 | 1 | 1 |
| | (11) | (17) | (179) | (55) |
| Tax provision/(benefit) on other comprehensive income/(loss) | $ 62 | $ (80) | $ 667 | $ (218) |

(a) Taxes are not provided for foreign currency translation adjustments relating to investments in international subsidiaries that will be held indefinitely.

(b) For additional information on the adoption of a new accounting standard related to reclassification of certain tax effects from AOCI, see Note 1B.

(c) For additional information on the adoption of a new accounting standard related to financial assets and liabilities, see Note 1B.

Note 6. Accumulated Other Comprehensive Loss, Excluding Noncontrolling Interests
The following table provides the changes, net of tax, in Accumulated other comprehensive loss:

| (MILLIONS OF DOLLARS) | Net Unrealized Gains/(Losses) Foreign Currency Translation Adjustments | Net Unrealized Gains/(Losses) Derivative Financial Instruments | Net Unrealized Gains/(Losses) Available-For-Sale Securities | Benefit Plans Actuarial Gains/(Losses) | Benefit Plans Prior Service (Costs)/Credits and Other | Accumulated Other Comprehensive Income/(Loss) |
|---|---|---|---|---|---|---|
| Balance, December 31, 2017 | $(5,180) | $ (30) | $ 401 | $(5,262) | $ 750 | $ (9,321) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other comprehensive income/(loss) due to the adoption of new accounting standards[a] | (2) | (1) | (416) | (637) | 144 | (913) |
| Other comprehensive income/(loss)[b] | (589) | 279 | (116) | 361 | (118) | (183) |
| Balance, September 30, 2018 | $(5,772) | $ 248 | $ (131) | $(5,538) | $ 776 | $ (10,417) |

(a) Amounts represent the cumulative effect adjustments as of January 1, 2018 from the adoption of new accounting standards related to (i) financial assets and liabilities and (ii) the reclassification of certain tax effects from AOCI. For additional information, see Note 1B.

(b) Amounts do not include foreign currency translation adjustments attributable to noncontrolling interests of $20 million loss for the first nine months of 2018.

As of September 30, 2018, with respect to derivative financial instruments, the amount of unrealized pre-tax net gains on derivative financial instruments estimated to be reclassified into income within the next 12 months is approximately $177 million, which is expected to be offset primarily by net losses resulting from reclassification adjustments related to net losses related to foreign currency exchange-denominated forecasted intercompany inventory sales and available-for-sale debt securities.

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Note 7. Financial Instruments

A. Fair Value Measurements

Financial Assets and Liabilities Measured at Fair Value on a Recurring Basis

On January 1, 2018, we adopted a new accounting and disclosure standard related to accounting for the recognition of financial assets and liabilities. For additional information see Note 1B.
The following table presents the financial assets and liabilities measured at fair value using a market approach on a recurring basis by balance sheet categories and fair value hierarchy level as defined in Notes to Consolidated Financial Statements—Note 1E. Basis of Presentation and Significant Accounting Policies: Fair Value in Pfizer's 2017 Financial Report:

| | September 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| (MILLIONS OF DOLLARS) | Total | Level 1 | Level 2 | Total | Level 1 | Level 2 |
| Financial assets measured at fair value on a recurring basis: | | | | | | |
| Short-term investments | | | | | | |
| Classified as equity securities: | | | | | | |
| Money market funds | $1,184 | $— | $1,184 | $2,115 | $— | $2,115 |
| Equity[(a)] | 29 | 17 | 12 | 35 | 16 | 19 |
| | 1,213 | 17 | 1,196 | 2,150 | 16 | 2,134 |
| Classified as available-for-sale debt securities: | | | | | | |
| Government and agency—non-U.S. | 8,336 | — | 8,336 | 12,242 | — | 12,242 |
| Corporate | 2,890 | — | 2,890 | 2,766 | — | 2,766 |
| Government—U.S. | 8 | — | 8 | 252 | — | 252 |
| Agency asset-backed—U.S. | 17 | — | 17 | 23 | — | 23 |
| Other asset-backed | 5 | — | 5 | 79 | — | 79 |
| | 11,256 | — | 11,256 | 15,362 | — | 15,362 |
| Total short-term investments | 12,469 | 17 | 12,452 | 17,512 | 16 | 17,496 |
| Other current assets | | | | | | |
| Derivative assets: | | | | | | |
| Interest rate contracts | 88 | — | 88 | 104 | — | 104 |
| Foreign exchange contracts | 488 | — | 488 | 234 | — | 234 |
| Total other current assets | 576 | — | 576 | 337 | — | 337 |
| Long-term investments | | | | | | |
| Classified as equity securities: | | | | | | |
| Equity[(a)] | 1,563 | 1,527 | 36 | 1,440 | 1,398 | 42 |
| Classified as trading securities: | | | | | | |
| Debt | 50 | 50 | — | 73 | 73 | — |
| | 1,612 | 1,577 | 36 | 1,514 | 1,472 | 42 |
| Classified as available-for-sale debt securities: | | | | | | |
| Government and agency—non-U.S. | 106 | — | 106 | 387 | — | 387 |
| Corporate | 3,210 | — | 3,210 | 4,172 | 36 | 4,136 |
| Government—U.S. | 421 | — | 421 | 495 | — | 495 |
| Other asset-backed | 4 | — | 4 | 35 | — | 35 |
| | 3,742 | — | 3,742 | 5,090 | 36 | 5,054 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total long-term investments | 5,354 | 1,577 | 3,778 | 6,603 | 1,507 | 5,096 |
| Other noncurrent assets | | | | | | |
| Derivative assets: | | | | | | |
| Interest rate contracts | 246 | — | 246 | 477 | — | 477 |
| Foreign exchange contracts | 220 | — | 220 | 7 | — | 7 |
| Total other noncurrent assets | 467 | — | 467 | 484 | — | 484 |
| Total assets | $18,866 | $1,594 | $17,272 | $24,937 | $1,523 | $23,414 |
| | | | | | | |
| Financial liabilities measured at fair value on a recurring basis: | | | | | | |
| Other current liabilities | | | | | | |
| Derivative liabilities: | | | | | | |
| Interest rate contracts | $9 | $— | $9 | $1 | $— | $1 |
| Foreign exchange contracts | 80 | — | 80 | 201 | — | 201 |
| Total other current liabilities | 89 | — | 89 | 201 | — | 201 |
| Other noncurrent liabilities | | | | | | |
| Derivative liabilities: | | | | | | |
| Interest rate contracts | 653 | — | 653 | 177 | — | 177 |
| Foreign exchange contracts | 432 | — | 432 | 313 | — | 313 |
| Total other noncurrent liabilities | 1,085 | — | 1,085 | 490 | — | 490 |
| Total liabilities | $1,174 | $— | $1,174 | $691 | $— | $691 |

(a) As of September 30, 2018, short-term equity securities of $12 million and long-term equity securities of $35 million are held in trust for benefits attributable to the former Pharmacia Savings Plus Plan. As of December 31, 2017, short-term equity securities of $19 million and long-term equity securities of $42 million are held in trust for benefits attributable to the former Pharmacia Savings Plus Plan.

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Financial Assets and Liabilities Not Measured at Fair Value on a Recurring Basis
The following table presents the financial liabilities not measured at fair value on a recurring basis, including the carrying values and estimated fair values:

| | September 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Carrying Value | Estimated Fair Value | | Carrying Value | Estimated Fair Value | |
| (MILLIONS OF DOLLARS) | | Total | Level 2 | | Total | Level 2 |
| Financial Liabilities | | | | | | |
| Long-term debt, excluding the current portion | $33,652 | $36,243 | $36,243 | $33,538 | $37,253 | $37,253 |

The differences between the estimated fair values and carrying values of held-to-maturity debt securities, restricted stock and private equity securities at cost, and short-term borrowings not measured at fair value on a recurring basis were not significant as of September 30, 2018 or December 31, 2017, except for our investment in Allogene (see Note 2B). The fair value measurements of our held-to-maturity debt securities and our short-term borrowings are based on Level 2 inputs. The fair value measurements of our private equity securities carried at cost, which represent investments in the life sciences sector, are based on Level 3 inputs.

In addition, as of September 30, 2018 and December 31, 2017, we had long-term receivables whose fair value is based on Level 3 inputs. As of September 30, 2018 and December 31, 2017, the differences between the estimated fair values and carrying values of these receivables were not significant.

Total Short-Term and Long-Term Investments
The following table represents our investments by classification type:

| (MILLIONS OF DOLLARS) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Short-term investments | | |
| Equity securities | $ 1,213 | $ 2,150 |
| Available-for-sale debt securities | 11,256 | 15,362 |
| Held-to-maturity debt securities | 1,211 | 1,138 |
| Total Short-term investments | $ 13,680 | $ 18,650 |
| | | |
| Long-term investments | | |
| Equity securities | $ 1,563 | $ 1,440 |
| Trading debt securities | 50 | 73 |
| Available-for-sale debt securities | 3,742 | 5,090 |
| Held-to-maturity debt securities | 63 | 4 |
| Private equity investments carried at equity-method or cost | 1,027 | 408 |
| Total Long-term investments | $ 6,444 | $ 7,015 |
| Held-to-maturity cash equivalents | $ 237 | $ 719 |

Fair Value Methodology
The following inputs and valuation techniques were used to estimate the fair value of our financial assets and liabilities:

- Trading debt securities—quoted market prices.
- Available-for-sale debt securities—third-party matrix-pricing model that uses significant inputs derived from or corroborated by observable market data and credit-adjusted interest rate yield curves. Mortgage-backed, loan-backed and receivable-backed securities are valued by third-party models that use significant inputs derived from observable market data like prepayment rates, default rates, and recovery rates.

- Equity securities—quoted market prices.
- Derivative assets and liabilities (financial instruments)—third-party matrix-pricing model that uses significant inputs derived from or corroborated by observable market data. Where applicable, these models discount future cash flow amounts using market-based observable inputs, including interest rate yield curves, and forward and spot prices for currencies. The credit risk impact to our derivative financial instruments was not significant.
- Money market funds—observable net asset value prices.

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We periodically review the methodologies, inputs and outputs of third-party pricing services for reasonableness. Our procedures can include, for example, referencing other third-party pricing models, monitoring key observable inputs (like LIBOR interest rates) and selectively performing test-comparisons of values with actual sales of financial instruments.

B. Investments

At September 30, 2018, the investment securities portfolio consisted of debt securities that were virtually all investment-grade. Information on investments in debt and equity securities at September 30, 2018 and December 31, 2017 is as follows, including, as of September 30, 2018, the contractual maturities, or as necessary, the estimated maturities, of the available-for-sale and held-to-maturity debt securities:

| | September 30, 2018 | | | | | | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross Unrealized | | | Maturities (in Years) | | | | | Gross Unrealized | | |
| (MILLIONS OF DOLLARS) | Amortized Cost | Gains | Losses | Fair Value | Within 1 | Over 1 to 5 | Over 5 | Total | Amortized Cost | Gains | Losses | Fair Value |
| Available-for-sale debt securities | | | | | | | | | | | | |
| Government and agency—non-U.S. | $8,476 | $9 | $(43) | $8,442 | $8,336 | $106 | $— | $8,442 | $12,616 | $61 | $(48) | $12,629 |
| Corporate[a] | 6,192 | 2 | (94) | 6,100 | 2,890 | 2,356 | 854 | 6,100 | 6,955 | 15 | (33) | 6,938 |
| Government—U.S. | 451 | — | (23) | 428 | 8 | 421 | — | 428 | 765 | — | (19) | 747 |
| Agency asset-backed—U.S. | 18 | — | (1) | 18 | 17 | — | — | 18 | 24 | — | (1) | 24 |
| Other asset-backed[b] | 9 | — | — | 9 | 5 | 3 | 2 | 9 | 114 | — | — | 114 |
| Held-to-maturity debt securities | | | | | | | | | | | | |
| Time deposits and other | 734 | — | — | 734 | 670 | 23 | 40 | 734 | 1,091 | — | — | 1,091 |
| Government and agency—non-U.S. | 778 | — | — | 778 | 778 | — | — | 778 | 770 | — | — | 770 |
| Total debt securities | $16,658 | $11 | $(160) | $16,509 | $12,704 | $2,909 | $896 | $16,509 | $22,337 | $77 | $(100) | $22,313 |
| Available-for-sale equity securities[c] | | | | | | | | | | | | |
| Money market funds | | | | | | | | | $2,115 | $— | $— | $2,115 |
| Equity | | | | | | | | | 728 | 586 | (124) | 1,190 |
| Total available-for-sale equity securities | | | | | | | | | $2,843 | $586 | $(124) | $3,304 |

[a] Issued by a diverse group of corporations.

[b] Includes mortgage-backed, loan-backed and receivable-backed securities, all of which are in senior positions in the capital structure of the security. Mortgage-backed securities are collateralized by diversified pools of residential and commercial mortgages. Loan-backed securities are collateralized by senior secured obligations of a diverse pool of companies or student loans. Receivable-backed securities are collateralized by credit cards receivables.

[c]

Upon the 2018 adoption of a new accounting standard related to financial assets and liabilities, available-for-sale equity securities were classified as equity securities. For additional information see Note 1B.

The following table presents the net unrealized gains and losses for the period that relates to equity securities still held at the reporting date, calculated as follows:

| (MILLIONS OF DOLLARS) | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2018 |
|---|---|---|
| Net gains recognized during the period on investments in equity securities[a] | $ 94 | $ 460 |
| Less: Net gains recognized during the period on equity securities sold during the period | (54) | (90) |
| Net unrealized gains during the reporting period on equity securities still held at the reporting date[b] | $ 40 | $ 370 |

[a] The net gains on investments in equity securities are reported in Other (income)/deductions—net and, for the third quarter and first nine months of 2018, include unrealized net gains on equity securities reflecting the adoption of a new accounting standard in the first quarter of 2018. For additional information, see Note 4.

[b] The third quarter of 2018 includes $8 million of unrealized net gains in Other (income)/deductions—net reflecting the adoption of a new accounting standard in the first quarter of 2018 and $32 million of unrealized gains on other equity securities. The first nine months of 2018 includes $344 million of unrealized net gains in Other (income)/deductions—net reflecting the adoption of a new accounting standard in the first quarter of 2018 and $26 million of unrealized gains on other equity securities. For additional information, see Note 1B and Note 4.

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C. Short-Term Borrowings
Short-term borrowings include:

| (MILLIONS OF DOLLARS) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Commercial paper | $ 2,600 | $ 6,100 |
| Current portion of long-term debt, principal amount | 4,260 | 3,532 |
| Other short-term borrowings, principal amount[a] | 537 | 320 |
| Total short-term borrowings, principal amount | 7,396 | 9,951 |
| Net fair value adjustments related to hedging and purchase accounting | (5) | 14 |
| Net unamortized discounts, premiums and debt issuance costs | (7) | (12) |
| Total Short-term borrowings, including current portion of long-term debt, carried at historical proceeds, as adjusted | $ 7,385 | $ 9,953 |

[a] Other short-term borrowings primarily include cash collateral. For additional information, see Note 7F.

D. Long-Term Debt
New Issuances
In the third quarter of 2018, we issued the following senior unsecured notes:

| (MILLIONS OF DOLLARS) | Maturity Date | Principal As of September 30, 2018 |
|---|---|---|
| 3.000% notes[a] | September 15, 2021 | $ 1,000 |
| Floating rate notes (LIBOR plus 0.33%)[b] | September 15, 2023 | 300 |
| 3.200% notes[a] | September 15, 2023 | 1,000 |
| 3.600% notes[a] | September 15, 2028 | 1,000 |
| 4.100% notes[a] | September 15, 2038 | 700 |
| 4.200% notes[a] | September 15, 2048 | 1,000 |
| Total long-term debt issued in the third quarter of 2018 | | $ 5,000 |

[a] Fixed rate notes may be redeemed by us at any time, in whole, or in part, at varying redemption prices plus accrued and unpaid interest.

[b] Floating rate notes may not be redeemed by their terms prior to maturity.

The following table provides the aggregate principal amount of our senior unsecured long-term debt, and adjustments to report our aggregate long-term debt:

| (MILLIONS OF DOLLARS) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Total long-term debt, principal amount | $ 33,658 | $ 32,783 |
| Net fair value adjustments related to hedging and purchase accounting | 129 | 872 |
| Net unamortized discounts, premiums and debt issuance costs | (142) | (125) |
| Other long-term debt | 7 | 8 |
| Total long-term debt, carried at historical proceeds, as adjusted | $ 33,652 | $ 33,538 |
| Current portion of long-term debt, carried at historical proceeds, as adjusted | $ 4,255 | $ 3,546 |

E. Other Noncurrent Liabilities

Mylotarg (gemtuzumab ozogamicin)
In April 2018, the EU approved Mylotarg for the treatment of acute myeloid leukemia. In connection with the EU approval, we incurred an obligation to make guaranteed fixed annual payments over a ten-year period aggregating $301 million related to a research and development arrangement. We recorded the estimated net present value of $240

million as a liability and an intangible asset in Developed technology rights as of the approval date. In June 2018, we entered into a transaction with the obligee to buyout the remaining liability for the fixed annual payments for a lump sum payment of $224 million. As a result of the buyout transaction, the liability was extinguished and we recognized a non-cash $17 million pre-tax gain in Other (income)/deductions—net in the second quarter of 2018 (see Note 4).

Bosulif (bosutinib)

In December 2017, the U.S. FDA approved Bosulif for the treatment of patients with newly-diagnosed chronic-phase Ph+ CML. In connection with the U.S. approval, we incurred an obligation to make guaranteed fixed annual payments over a ten-

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year period aggregating $416 million related to a research and development arrangement. We recorded the estimated net present value of $364 million as of the approval date as an intangible asset in Developed technology rights. In August 2018, we entered into a transaction with the obligee to buyout a portion of the remaining liability for the fixed annual payments for a lump sum payment of $71 million. As a result of the buyout transaction, the liability was reduced and we recognized a non-cash $9 million pre-tax gain in Other (income)/deductions—net in the third quarter of 2018. The present value of the remaining future payments as of September 30, 2018 is $208 million, of which $23 million is recorded in Other current liabilities and $185 million is recorded in Other noncurrent liabilities.

Besponsa (inotuzumab ozogamicin)

In August 2017, the U.S. FDA approved Besponsa and in June 2017, the EU approved Besponsa as monotherapy for the treatment of adults with relapsed or refractory CD22-positive B-cell precursor acute lymphoblastic leukemia. In connection with the U.S. approval, we incurred an obligation to make guaranteed fixed annual payments over a nine-year period aggregating $296 million related to a research and development arrangement. We recorded the estimated net present value of $248 million as of the approval date as an intangible asset in Developed technology rights. The present value of the remaining future payments as of September 30, 2018 is $240 million, of which $7 million is recorded in Other current liabilities and $233 million is recorded in Other noncurrent liabilities. In connection with the EU approval, we incurred an obligation to make guaranteed fixed annual payments over a nine-year period aggregating $148 million related to a research and development arrangement. We recorded the estimated net present value of $123 million as of the approval date as an intangible asset in Developed technology rights. The present value of the remaining future payments as of September 30, 2018 is $121 million, of which $3 million is recorded in Other current liabilities and $118 million is recorded in Other noncurrent liabilities.

The differences between the estimated fair values in the Level 2 fair value hierarchy and carrying values of these obligations were not significant as of September 30, 2018.

F. Derivative Financial Instruments and Hedging Activities

We adopted a new accounting standard in the first quarter of 2018, as of January 2018. For additional information, see Note 1B.

Foreign Exchange Risk

A significant portion of our revenues, earnings and net investments in foreign affiliates is exposed to changes in foreign exchange rates. We manage our foreign exchange risk, in part, through operational means, including managing same-currency revenues in relation to same-currency costs and same-currency assets in relation to same-currency liabilities. We also manage our foreign exchange risk, depending on market conditions, through fair value, cash flow, and net investment hedging programs through the use of derivative financial instruments and foreign currency debt. These financial instruments serve to protect net income against the impact of remeasurement into another currency, or against the impact of translation into U.S. dollars of certain foreign exchange-denominated transactions.

All derivative financial instruments used to manage foreign currency risk are measured at fair value and are reported as assets or liabilities on the consolidated balance sheet. The derivative financial instruments primarily hedge or offset exposures in the euro, Japanese yen, U.K. pound and Swedish krona. Changes in fair value are reported in earnings or in Other comprehensive income/(loss), depending on the nature and purpose of the financial instrument (hedge or offset relationship) and the effectiveness of the hedge relationships, as follows:

- Generally, we recognize the gains and losses on foreign exchange contracts that are designated as fair value hedges in earnings upon the recognition of the change in fair value of the hedged risk. Upon the adoption of the new standard in 2018, for certain foreign exchange contracts, we exclude an amount from the assessment of hedge effectiveness and recognize that excluded amount through an amortization approach. We also recognize the offsetting foreign exchange impact attributable to the hedged item in earnings.

- Generally, we record in Other comprehensive income/(loss) gains or losses on foreign exchange contracts that are designated as cash flow hedges and reclassify those amounts, as appropriate, into earnings in the same period or periods during which the hedged transaction affects earnings. Upon the adoption of the new standard in 2018, for certain foreign exchange contracts, we exclude an amount from the assessment of hedge effectiveness and recognize that excluded amount through an amortization approach.
- Historically, as part of our net investment hedging program, we recognize the gain and loss impact on foreign exchange contracts designated as hedges of our net investments in earnings in three ways: over time—for the periodic net swap payments; immediately—to the extent of any change in the difference between the foreign exchange spot rate and forward rate; and upon sale or substantial liquidation of our net investments—to the extent of change in the foreign exchange spot rates. Upon the adoption of the new standard in 2018, for foreign exchange contracts, we exclude an amount from the

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assessment of hedge effectiveness and recognize that excluded amount through an amortization approach. We record in Other comprehensive income/(loss) the foreign exchange gains and losses related to foreign exchange-denominated debt designated as a hedge of our net investments in foreign subsidiaries and reclassify those amounts into earnings upon the sale or substantial liquidation of our net investments.

- For certain foreign exchange contracts not designated as hedging instruments, we recognize the gains and losses on foreign currency exchange contracts that are used to offset the same foreign currency assets or liabilities immediately into earnings along with the earnings impact of the items they generally offset. These contracts essentially take the opposite currency position of that reflected in the month-end balance sheet to counterbalance the effect of any currency movement.

As a part of our cash flow hedging program, we designate foreign exchange contracts to hedge a portion of our forecasted euro, Japanese yen, Chinese renminbi, Canadian dollar, U.K. pound, and Australian dollar-denominated intercompany inventory sales expected to occur no more than two years from the date of each hedge.

For the third quarter and first nine months ended October 1, 2017, any ineffectiveness is recognized immediately into earnings. There is no significant ineffectiveness for these periods.

Interest Rate Risk

Our interest-bearing investments and borrowings are subject to interest rate risk. With respect to our investments, we strive to maintain a predominantly floating-rate basis position, but our strategy may change based on prevailing market conditions. We currently borrow primarily on a long-term, fixed rate basis. Historically, we strove to borrow primarily on a floating-rate basis; but in recent years we borrowed on a long-term, fixed-rate basis. From time to time, depending on market conditions, we will change the profile of our outstanding debt by entering into derivative financial instruments like interest rate swaps. We entered into derivative financial instruments to hedge or offset the fixed interest rates on the hedged item, matching the amount and timing of the hedged item. The derivative financial instruments primarily hedge U.S. dollar fixed-rate debt.

All derivative contracts used to manage interest rate risk are measured at fair value and reported as assets or liabilities on the consolidated balance sheet. Changes in fair value are reported in earnings, as follows:

- We recognize the gains and losses on interest rate contracts that are designated as fair value hedges in earnings upon the recognition of the change in fair value of the hedged risk. We also recognize the offsetting earnings impact of fixed-rate debt attributable to the hedged risk in earnings.

For the third quarter and first nine months ended October 1, 2017, any ineffectiveness is recognized immediately into earnings. There is no significant ineffectiveness for these periods.

The following table provides the fair value of the derivative financial instruments and the related notional amounts presented between those derivatives that are designated as hedging instruments and those that are not designated as hedging instruments:

| (MILLIONS OF DOLLARS) | September 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | | Fair Value | | | Fair Value | |
| | Notional | Asset | Liability | Notional | Asset | Liability |
| Derivatives designated as hedging instruments: | | | | | | |
| Foreign exchange contracts[(a)] | $19,955 | $590 | $ 464 | $18,723 | $179 | $ 459 |
| Interest rate contracts | 11,300 | 335 | 661 | 12,430 | 581 | 178 |
| | | 925 | 1,126 | | 760 | 637 |
| Derivatives not designated as hedging instruments: | | | | | | |
| Foreign exchange contracts | $16,798 | 118 | 48 | $14,300 | 62 | 54 |
| Total | | $1,043 | $ 1,174 | | $822 | $ 691 |

(a) As of September 30, 2018, the notional amount of outstanding foreign currency forward-exchange contracts hedging our intercompany forecasted inventory sales was $5.4 billion.

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The following table provides information about the gains/(losses) incurred to hedge or offset operational foreign exchange or interest rate risk:

| (MILLIONS OF DOLLARS) | Amount of Gains/(Losses) Recognized in OID[a, b] | | Amount of Gains/(Losses) Recognized in OCI[a, c] | | Amount of Gains/(Losses) Reclassified from OCI into OID and COS[a, c] | |
|---|---|---|---|---|---|---|
| | Sep 30, 2018 | Oct 1, 2017 | Sep 30, 2018 | Oct 1, 2017 | Sep 30, 2018 | Oct 1, 2017 |
| Three Months Ended | | | | | | |
| Derivative Financial Instruments in Cash Flow Hedge Relationships: | | | | | | |
| Foreign exchange contracts[d] | $ — | $ 1 | $ 183 | $ (51) | $ 198 | $ (56) |
| Amount excluded from effectiveness testing recognized in earnings based on an amortization approach | — | — | 39 | — | 36 | — |
| Derivative Financial Instruments in Fair Value Hedge Relationships: | | | | | | |
| Interest rate contracts | (195) | 10 | — | — | — | — |
| Hedged item gain/(loss) | 195 | (10) | — | — | — | — |
| Foreign exchange contracts | 1 | (11) | — | — | — | — |
| Hedged item gain/(loss) | (1) | 11 | — | — | — | — |
| Derivative Financial Instruments in Net Investment Hedge Relationships: | | | | | | |
| Foreign exchange contracts | — | — | 43 | — | — | — |
| The portion of gains/(losses) on foreign exchange contracts excluded from the assessment of hedge effectiveness | — | — | 14 | — | 21 | — |
| Non-Derivative Financial Instruments in Net Investment Hedge Relationships: | | | | | | |
| Foreign currency short-term borrowings[e] | — | — | 8 | — | — | — |
| Foreign currency long-term debt[e] | — | — | 17 | (166) | — | — |
| Derivative Financial Instruments Not Designated as Hedges: | | | | | | |
| Foreign exchange contracts | 150 | 33 | — | — | — | — |
| All other net | — | — | — | 1 | — | — |
| | $ 150 | $ 34 | $ 304 | $ (216) | $ 256 | $ (55) |

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| (MILLIONS OF DOLLARS) | Amount of Gains/(Losses) Recognized in OID[a], [b] | | Amount of Gains/(Losses) Recognized in OCI[a], [c] | | Amount of Gains/(Losses) Reclassified from OCI into OID and COS[a], [c] | |
|---|---|---|---|---|---|---|
| | Sep 30, 2018 | Oct 1, 2017 | Sep 30, 2018 | Oct 1, 2017 | Sep 30, 2018 | Oct 1, 2017 |
| Nine Months Ended | | | | | | |
| Derivative Financial Instruments in Cash Flow Hedge Relationships: | | | | | | |
| Foreign exchange contracts[d] | $— | $(5) | $ 147 | $ (149) | $ (204) | $ 394 |
| Amount excluded from effectiveness testing recognized in earnings based on an amortization approach | — | — | 87 | — | 84 | — |
| Derivative Financial Instruments in Fair Value Hedge Relationships: | | | | | | |
| Interest rate contracts | (715) | 19 | — | — | — | — |
| Hedged item gain/(loss) | 715 | (19) | — | — | — | — |
| Foreign exchange contracts | 5 | (19) | — | — | — | — |
| Hedged item gain/(loss) | (5) | 19 | — | — | — | — |
| Derivative Financial Instruments in Net Investment Hedge Relationships: | | | | | | |
| Foreign exchange contracts | — | — | 191 | — | — | — |
| The portion of gains/(losses) on foreign exchange contracts excluded from the assessment of hedge effectiveness | — | — | 41 | — | 47 | — |
| Non-Derivative Financial Instruments in Net Investment Hedge Relationships: | | | | | | |
| Foreign currency short-term borrowings[e] | — | — | 50 | — | — | — |
| Foreign currency long-term debt[e] | — | — | 111 | (518) | — | — |
| Derivative Financial Instruments Not Designated as Hedges: | | | | | | |
| Foreign exchange contracts | 156 | (112) | — | — | — | — |
| All other net | — | — | 1 | 1 | 1 | — |
| | $156 | $(117) | $ 629 | $ (666) | $ (72) | $ 394 |

(a) OID = Other (income)/deductions—net, included in Other (income)/deductions—net in the condensed consolidated statements of income. COS = Cost of Sales, included in Cost of sales in the condensed consolidated statements of income. OCI = Other comprehensive income/(loss), included in the condensed consolidated statements of comprehensive income.

(b) For the third quarter and first nine months ended October 1, 2017, there was no significant ineffectiveness.

(c) For derivative financial instruments in cash flow hedge relationships, the gains and losses are included in Other comprehensive income/(loss)—Unrealized holding gains/(losses) on derivative financial instruments, net. For derivative financial instruments in net investment hedge relationships and for foreign currency debt designated as hedging instruments, the effective portion is included in Other comprehensive income/(loss)—Foreign currency translation adjustments, net.

(d)

(e) Based on quarter-end foreign exchange rates that are subject to change, we expect to reclassify a pre-tax gain of $120 million within the next 12 months into Cost of sales. The maximum length of time over which we are hedging future foreign exchange cash flow relates to our $1.8 billion U.K. pound debt maturing in 2043.

(e) Short-term borrowings include foreign currency short-term borrowings with carrying values of $1.5 billion as of September 30, 2018, which are used as hedging instruments in net investment hedges. Long-term debt includes foreign currency long-term borrowings with carrying values of $3.2 billion as of September 30, 2018, which are used as hedging instruments in net investment hedges.

The following table provides the total amount of each income and expense line in which the results of fair value or cash flow hedges are recorded:

| (MILLIONS OF DOLLARS) | Three Months Ended September 30, 2018 | Nine Months Ended September 30, 2018 |
|---|---|---|
| Cost of sales | $ 2,694 | $ 8,173 |
| Other (income)/deductions—net | (414) | (1,143) |

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The following table provides the amounts recorded in our condensed consolidated balance sheet related to cumulative basis adjustments for fair value hedges:

| (MILLIONS OF DOLLARS) | Carrying Amount of Hedged Assets/Liabilities September 30, 2018 | Cumulative Amount of Fair Value Hedging Adjustment Gains/(Losses) Included in the Carrying Amount of the Hedged Assets/Liabilities September 30, 2018 |
|---|---|---|
| Short-term investments | $ 156 | $ — |
| Long-term investments | 45 | (1) |
| Short-term borrowings, including current portion of long-term debt | 1,490 | 8 |
| Long-term debt | 9,548 | 407 |

Certain of our derivative instruments are covered by associated credit-support agreements that have credit-risk-related contingent features designed to reduce both counterparties' exposure to risk of defaulting on amounts owed by the other party. As of September 30, 2018, the aggregate fair value of these derivative instruments that are in a net liability position was $545 million, for which we have posted collateral of $535 million in the normal course of business. If there had been a downgrade to below an A rating by S&P or the equivalent rating by Moody's, we would not have been required to post any additional collateral to our counterparties.

As of September 30, 2018, we received cash collateral of $472 million from various counterparties. The collateral primarily supports the approximate fair value of our derivative contracts. With respect to the collateral received, the obligations are reported in Short-term borrowings, including current portion of long-term debt.

G. Credit Risk

On an ongoing basis, we review the creditworthiness of counterparties to our foreign exchange and interest rate agreements and do not expect to incur a significant loss from failure of any counterparties to perform under the agreements. There are no significant concentrations of credit risk related to our financial instruments with any individual counterparty, except for certain significant customers. For additional information as to significant customers, see Notes to Consolidated Financial Statements—Note 18C. Segment, Geographic and Other Revenue Information: Other Revenue Information in Pfizer's 2017 Financial Report. As of September 30, 2018, we had amounts due from a well-diversified, high quality group of banks ($2.1 billion) from around the world. For details about our investments, see Note 7B above.

In general, there is no requirement for collateral from customers. However, derivative financial instruments are executed under credit-support agreements that provide for the ability to request to receive cash collateral, depending on levels of exposure, our credit rating and the credit rating of the counterparty, see Note 7F above.

Note 8. Inventories

The following table provides the components of Inventories:

| (MILLIONS OF DOLLARS) | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Finished goods | $ 2,581 | $ 2,883 |
| Work-in-process | 4,764 | 3,908 |

| | | |
|---|---|---|
| Raw materials and supplies | 839 | 788 |
| Inventories[a] | $ 8,184 | $ 7,578 |
| Noncurrent inventories not included above[b] | $ 576 | $ 683 |

(a) The change from December 31, 2017 reflects increases for certain products to meet targeted levels in the normal course of business, including inventory build for supply recovery, network strategy and new product launches, partially offset by a decrease due to foreign exchange.

(b) Included in Other noncurrent assets. There are no recoverability issues associated with these amounts.

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Note 9. Identifiable Intangible Assets and Goodwill

A. Identifiable Intangible Assets

Balance Sheet Information
The following table provides the components of Identifiable intangible assets:

| | September 30, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| (MILLIONS OF DOLLARS) | Gross Carrying Amount | Accumulated Amortization | Identifiable Intangible Assets, less Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization | Identifiable Intangible Assets, less Accumulated Amortization |
| Finite-lived intangible assets | | | | | | |
| Developed technology rights[(a)] | $92,123 | $ (57,786) | $ 34,337 | $89,550 | $ (54,785) | $ 34,765 |
| Brands | 2,126 | (1,228) | 898 | 2,134 | (1,152) | 982 |
| Licensing agreements and other | 1,938 | (1,160) | 777 | 1,911 | (1,096) | 815 |
| | 96,187 | (60,175) | 36,012 | 93,595 | (57,033) | 36,562 |
| Indefinite-lived intangible assets | | | | | | |
| Brands and other | 6,909 | | 6,909 | 6,929 | | 6,929 |
| IPR&D[(a)] | 2,385 | | 2,385 | 5,249 | | 5,249 |
| | 9,294 | | 9,294 | 12,179 | | 12,179 |
| Identifiable intangible assets[(b)] | $105,481 | $ (60,175) | $ 45,306 | $105,774 | $ (57,033) | $ 48,741 |

(a) The changes in the gross carrying amount of Developed technology rights and IPR&D primarily reflect (i) the transfer of $2.7 billion from IPR&D to Developed technology rights to reflect the approval of Xtandi in the U.S. for the treatment of men with non-metastatic castration-resistant prostate cancer, which is being developed through a collaboration with Astellas, and (ii) $240 million of Developed technology rights recorded in connection with the EU approval of Mylotarg (see Note 7E).

(b) The decrease in Identifiable intangible assets, less accumulated amortization, is primarily due to amortization, partially offset by additions, mainly consisting of $240 million of Developed technology rights recorded in connection with the EU approval of Mylotarg (see Note 7E).

Our identifiable intangible assets are associated with the following, as a percentage of total identifiable intangible assets, less accumulated amortization:

| | September 30, 2018 | | |
|---|---|---|---|
| | IH | EH | WRD |
| Developed technology rights | 70% | 29% | — |
| Brands, finite-lived | 75% | 25% | — |
| Brands, indefinite-lived | 71% | 29% | — |
| IPR&D | 64% | 21% | 15 % |

Amortization

Total amortization expense for finite-lived intangible assets was $1.3 billion for the third quarter of 2018 and $1.2 billion for the third quarter of 2017, and $3.7 billion for the first nine months of 2018 and $3.6 billion for the first nine

months of 2017.

B. Goodwill

The following table provides the components of and changes in the carrying amount of Goodwill:

| (MILLIONS OF DOLLARS) | IH | EH | Total |
|---|---|---|---|
| Balance, December 31, 2017 | $31,141 | $24,811 | $55,952 |
| Other[a] | (178) | (160) | (338) |
| Balance, September 30, 2018 | $30,964 | $24,651 | $55,614 |

[a] Primarily reflects the impact of foreign exchange, as well as the contribution of the allogeneic CAR T developmental program assets and operations to Allogene that constituted a business for accounting purposes (see Note 2B).

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Note 10. Pension and Postretirement Benefit Plans

The following table provides the components of net periodic benefit cost/(credit):

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Pension Plans | | | | | | | |
| | U.S. Qualified[a] | | U.S. Supplemental (Non-Qualified) | | International | | Postretirement Plans | |
| (MILLIONS OF DOLLARS) | Sep 30, 2018 | Oct 1, 2017 | Sep 30, 2018 | Oct 1, 2017 | Sep 30, 2018 | Oct 1, 2017 | Sep 30, 2018 | Oct 1, 2017 |
| Net periodic benefit cost/(credit)[b]: | | | | | | | | |
| Service cost[c] | $— | $67 | $ — | $ 6 | $33 | $44 | $ 10 | $ 10 |
| Interest cost | 149 | 157 | 14 | 13 | 52 | 52 | 18 | 23 |
| Expected return on plan assets | (259) | (248) | — | — | (89) | (87) | (9) | (9) |
| Amortization of: | | | | | | | | |
| Actuarial losses[c] | 30 | 91 | 3 | 12 | 25 | 29 | 2 | 8 |
| Prior service credits | — | — | — | — | (1) | (1) | (45) | (45) |
| Curtailments | 1 | 1 | 1 | — | (4) | (2) | (1) | (3) |
| Settlements | 38 | 30 | 3 | 7 | — | — | — | — |
| | $(40) | $99 | $ 20 | $ 39 | $17 | $35 | $ (26) | $ (17) |

| | Nine Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Pension Plans | | | | | | | |
| | U.S. Qualified[a] | | U.S. Supplemental (Non-Qualified) | | International | | Postretirement Plans | |
| (MILLIONS OF DOLLARS) | Sep 30, 2018 | Oct 1, 2017 | Sep 30, 2018 | Oct 1, 2017 | Sep 30, 2018 | Oct 1, 2017 | Sep 30, 2018 | Oct 1, 2017 |
| Net periodic benefit cost/(credit)[b]: | | | | | | | | |
| Service cost[c] | $— | $202 | $ — | $ 18 | $104 | $127 | $ 29 | $ 32 |
| Interest cost | 450 | 478 | 40 | 41 | 160 | 152 | 54 | 68 |
| Expected return on plan assets | (783) | (759) | — | — | (274) | (256) | (28) | (27) |
| Amortization of: | | | | | | | | |
| Actuarial losses[c] | 90 | 302 | 10 | 37 | 77 | 86 | 5 | 23 |
| Prior service costs/(credits) | 1 | 3 | (1) | (1) | (3) | (3) | (135) | (137) |
| Curtailments | 11 | 10 | 1 | — | (4) | (2) | (15) | (15) |
| Settlements | 84 | 54 | 24 | 32 | — | 3 | — | — |
| | $(147) | $292 | $ 75 | $ 127 | $61 | $106 | $ (89) | $ (57) |

(a) In the second quarter of 2017, we settled the remaining obligation associated with the Hospira U.S. qualified defined benefit pension plan. We purchased a group annuity contract on behalf of the remaining plan participants with a third-party insurance provider. As a result, we were relieved of the $156 million net pension benefit obligation and recorded a pre-tax settlement gain of $41 million, partially offset by the recognition of actuarial losses and prior service costs upon plan settlement of approximately $30 million in Other (income)/deductions—net (see Note 3).

(b) We adopted a new accounting standard on January 1, 2018 that requires the net periodic pension and postretirement benefit costs other than service costs be presented in Other (income)/deductions—net on the

condensed consolidated statements of income. For additional information, see Note 1B and Note 4.

(c) Effective January 1, 2018, we froze two significant defined benefit pension plans to future benefit accruals in the U.S. and U.K. and as a result, service costs for those plans are eliminated. In addition, due to the plan freeze, the average amortization period for the U.S. qualified plans and U.S. supplemental (non-qualified) plans was extended to the expected life expectancy of the plan participants, whereas the average amortization period in prior years utilized the expected future service period of plan participants.

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The following table provides the amounts we contributed, and the amounts we expect to contribute during 2018, to our pension and postretirement plans from our general assets for the periods indicated:

| | Pension Plans | | | |
|---|---|---|---|---|
| (MILLIONS OF DOLLARS) | U.S. Qualified | U.S. Supplemental (Non-Qualified) | International | Postretirement Plans |
| Contributions from our general assets for the nine months ended September 30, 2018 | $500 | $ 118 | $ 174 | $ 108 |
| Expected contributions from our general assets during 2018[(a)] | 500 | 137 | 229 | 149 |

(a) Contributions expected to be made for 2018 are inclusive of amounts contributed during the nine months ended September 30, 2018, including the $500 million voluntary contribution that was made in February 2018 for the U.S. qualified plans, which was considered pre-funding for future anticipated mandatory contributions and is also expected to reduce Pension Benefit Guaranty Corporation variable rate premiums. The U.S. supplemental (non-qualified) pension plan, international pension plan and the postretirement plan contributions from our general assets include direct employer benefit payments.

Note 11. Earnings Per Common Share Attributable to Common Shareholders

The following table provides the detailed calculation of EPS:

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| (IN MILLIONS) | September 30, 2018 | October 1, 2017 | September 30, 2018 | October 1, 2017 |
| EPS Numerator—Basic | | | | |
| Income from continuing operations | $4,111 | $ 2,858 | $11,562 | $ 9,064 |
| Less: Net income attributable to noncontrolling interests | 8 | 18 | 25 | 32 |
| Income from continuing operations attributable to Pfizer Inc. | 4,103 | 2,840 | 11,537 | 9,032 |
| Less: Preferred stock dividends—net of tax | — | — | 1 | 1 |
| Income from continuing operations attributable to Pfizer Inc. common shareholders | 4,103 | 2,839 | 11,536 | 9,032 |
| Discontinued operations—net of tax | 11 | — | 10 | 1 |
| Net income attributable to Pfizer Inc. common shareholders | $4,114 | $ 2,839 | $11,546 | $ 9,033 |
| EPS Numerator—Diluted | | | | |
| Income from continuing operations attributable to Pfizer Inc. common shareholders and assumed conversions | $4,103 | $ 2,840 | $11,537 | $ 9,032 |
| Discontinued operations—net of tax, attributable to Pfizer Inc. common shareholders and assumed conversions | 11 | — | 10 | 1 |
| Net income attributable to Pfizer Inc. common shareholders and assumed conversions | $4,114 | $ 2,840 | $11,546 | $ 9,034 |
| EPS Denominator | | | | |
| Weighted-average number of common shares outstanding—Basic | 5,875 | 5,951 | 5,899 | 5,972 |
| Common-share equivalents: stock options, stock issuable under employee compensation plans, convertible preferred stock and accelerated share repurchase agreements | 112 | 89 | 99 | 85 |
| Weighted-average number of common shares outstanding—Diluted | 5,986 | 6,041 | 5,998 | 6,057 |
| Stock options that had exercise prices greater than the average market price of our common stock issuable under employee compensation plans[(a)] | 5 | 47 | 3 | 47 |

(a)

These common stock equivalents were outstanding for the periods presented, but were not included in the computation of diluted EPS for those periods because their inclusion would have had an anti-dilutive effect.

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Note 12. Contingencies and Certain Commitments

We and certain of our subsidiaries are subject to numerous contingencies arising in the ordinary course of business, including tax and legal contingencies. For a discussion of our tax contingencies, see Note 5C. For a discussion of our legal contingencies, see below.

A. Legal Proceedings

Our legal contingencies include, but are not limited to, the following:

- Patent litigation, which typically involves challenges to the coverage and/or validity of patents on various products, processes or dosage forms. We are the plaintiff in the majority of these actions. An adverse outcome in actions in which we are the plaintiff could result in loss of patent protection for a drug, a significant loss of revenues from that drug or impairment of the value of associated assets.
- Product liability and other product-related litigation, which can include personal injury, consumer, off-label promotion, securities, antitrust and breach of contract claims, among others, often involves highly complex issues relating to medical causation, label warnings and reliance on those warnings, scientific evidence and findings, actual, provable injury and other matters.
- Commercial and other matters, which can include merger-related and product-pricing claims and environmental claims and proceedings, can involve complexities that will vary from matter to matter.
- Government investigations, which often are related to the extensive regulation of pharmaceutical companies by national, state and local government agencies in the U.S. and in other jurisdictions.

Certain of these contingencies could result in losses, including damages, fines and/or civil penalties, which could be substantial, and/or criminal charges.

We believe that our claims and defenses in matters in which we are a defendant are substantial, but litigation is inherently unpredictable and excessive verdicts do occur. We do not believe that any of these matters will have a material adverse effect on our financial position. However, we could incur judgments, enter into settlements or revise our expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on our results of operations in the period in which the amounts are accrued and/or our cash flows in the period in which the amounts are paid.

We have accrued for losses that are both probable and reasonably estimable. Substantially all of our contingencies are subject to significant uncertainties and, therefore, determining the likelihood of a loss and/or the measurement of any loss can be complex. Consequently, we are unable to estimate the range of reasonably possible loss in excess of amounts accrued. Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but the assessment process relies heavily on estimates and assumptions that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions.

Amounts recorded for legal and environmental contingencies result from a complex series of judgments about future events and uncertainties and rely heavily on estimates and assumptions.

The principal pending matters to which we are a party are discussed below. In determining whether a pending matter is a principal matter, we consider both quantitative and qualitative factors in order to assess materiality, such as, among other things, the amount of damages and the nature of any other relief sought in the proceeding, if such damages and other relief are specified; our view of the merits of the claims and of the strength of our defenses;

whether the action purports to be, or is, a class action and, if not certified, our view of the likelihood that a class will be certified by the court; the jurisdiction in which the proceeding is pending; whether related actions have been transferred to multidistrict litigation; any experience that we or, to our knowledge, other companies have had in similar proceedings; whether disclosure of the action would be important to a reader of our financial statements, including whether disclosure might change a reader's judgment about our financial statements in light of all of the information that is available to the reader; the potential impact of the proceeding on our reputation; and the extent of public interest in the matter. In addition, with respect to patent matters in which we are the plaintiff, we consider, among other things, the financial significance of the product protected by the patent(s) at issue. As a result of considering qualitative factors in our determination of principal matters, there are some matters discussed below with respect to which management believes that the likelihood of possible loss in excess of amounts accrued is remote.

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A1. Legal Proceedings—Patent Litigation

Like other pharmaceutical companies, we are involved in numerous suits relating to our patents, including but not limited to, those discussed below. Most of the suits 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 drug manufacturer. Also, counterclaims, as well as various independent actions, have been filed alleging that our assertions of, or attempts to enforce, patent rights with respect to certain products constitute unfair competition and/or violations of antitrust laws. In addition to the challenges to the U.S. patents on a number of our products that are discussed below, patent rights to certain of our products are being challenged in various other jurisdictions. We are also party to patent damages suits in various jurisdictions pursuant to which generic drug manufacturers, payers, governments or other parties are seeking damages from us for allegedly causing delay of generic entry. Additionally, our licensing and collaboration partners face challenges by generic drug manufacturers to patents covering products for which we have licenses or co-promotion rights. We also are often involved in other proceedings, such as inter partes review, post-grant review, re-examination or opposition proceedings, before the U.S. Patent and Trademark Office, the European Patent Office, or other foreign counterparts relating to our intellectual property or the intellectual property rights of others. Also, if one of our patents is found to be invalid by such proceedings, generic or competitive products could be introduced into the market resulting in the erosion of sales of our existing products. For example, several of the patents in our pneumococcal vaccine portfolio were challenged in inter partes review and post-grant review proceedings in the United States. In June 2018, the Patent Trial and Appeal Board ruled on one patent, holding that one claim was valid and that all other claims were invalid. The party challenging that patent has appealed the decision. Challenges to other patents remain pending before the U.S. Patent and Trademark Office. The invalidation of these patents could potentially allow a competitor pneumococcal vaccine into the marketplace. We are also subject to patent litigation pursuant to which one or more third parties seeks damages and/or injunctive relief to compensate for alleged infringement of its patents by our commercial or other activities. For example, our Hospira subsidiaries are involved in patent and patent-related disputes over their attempts to bring generic pharmaceutical and biosimilar products to market. If one of our marketed products is found to infringe valid patent rights of a third party, such third party may be awarded significant damages, or we may be prevented from further sales of that product. Such damages may be enhanced as much as three-fold in the event that we or one of our subsidiaries, like Hospira, is found to have willfully infringed valid patent rights of a third party.

Actions In Which We Are The Plaintiff
Bosulif (bosutinib)
In December 2016, Wyeth LLC, Wyeth Pharmaceuticals Inc., and PF Prism C.V. (collectively, Wyeth) brought a patent-infringement action against Alembic Pharmaceuticals, Ltd, Alembic Pharmaceuticals, Inc. (collectively, Alembic), Sun Pharmaceutical Industries, Inc., and Sun Pharmaceutical Industries Limited (collectively, Sun), in the U.S. District Court for the District of Delaware in connection with abbreviated new drug applications respectively filed with the FDA by Alembic and Sun, each seeking approval to market generic versions of bosutinib. Alembic is challenging patents, which expire in 2026, covering polymorphic forms of bosutinib and methods of treating chronic myelogenous leukemia. Sun is challenging the patent covering polymorphic forms of bosutinib that expires in 2026. In March 2017, Wyeth brought a patent-infringement action against MSN Laboratories Private Limited and MSN Pharmaceuticals, Inc. (collectively, MSN), in the U.S. District Court for the District of Delaware in connection with an abbreviated new drug application filed with the FDA by MSN, seeking approval to market a generic version of bosutinib, and challenging a patent expiring in 2026 covering polymorphic forms of bosutinib. In September 2017, the case against MSN was dismissed. Also, in September 2017, Wyeth brought an additional patent-infringement action against Sun in the U.S. District Court for the District of Delaware asserting the infringement and validity of two other patents challenged by Sun, which expire in 2025 and 2026, respectively, covering compositions of bosutinib and

methods of treating chronic myelogenous leukemia.

EpiPen

In July 2010, King, which we acquired in 2011 and is a wholly-owned subsidiary, brought a patent-infringement action against Sandoz in the U.S. District Court for the District of New Jersey in connection with Sandoz's abbreviated new drug application filed with the FDA seeking approval to market an epinephrine injectable product. Sandoz is challenging patents, which expire in 2025, covering the next-generation autoinjector for use with epinephrine that is sold under the EpiPen brand name.

Precedex Premix

In June 2014, Ben Venue Laboratories, Inc. (Ben Venue) notified our subsidiary, Hospira, that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Hospira's premix version of Precedex and containing allegations that a patent relating to the use of Precedex in an intensive care unit setting, which expires in March 2019, was invalid or not infringed. In August 2014, Hospira and Orion Corporation (co-owner of the patent that is the subject of the lawsuit) filed suit against Ben Venue, Hikma Pharmaceuticals PLC (Hikma), and West-Ward Pharmaceutical Corp. in the U.S. District Court for the District of Delaware asserting the validity and infringement of the patent. In October 2014,

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Eurohealth International Sarl was substituted for Ben Venue and Hikma. In June 2016, this case was settled on terms not material to Pfizer.

In June 2015, Amneal Pharmaceuticals LLC (Amneal) notified Hospira that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Hospira's premix version of Precedex and containing allegations that four patents relating to the Precedex premix formulations and their use, all of which expire in 2032, were invalid or not infringed. In August 2015, Hospira filed suit against Amneal in the U.S. District Court for the District of Delaware asserting the validity and infringement of the patents that are the subject of the lawsuit. In January 2018, the District Court ruled that one of the four patents was valid and infringed, and that the other three patents were invalid. In February and March 2018, respectively, each of Amneal and Hospira appealed the District Court decision to the U.S. Court of Appeals for the Federal Circuit.

In December 2015, Fresenius Kabi USA LLC (Fresenius) notified Hospira that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Hospira's premix version of Precedex and containing allegations that four patents relating to the Precedex premix formulations and their use, all of which expire in 2032, were invalid or not infringed. In January 2016, Hospira filed suit against Fresenius in the U.S. District Court for the Northern District of Illinois asserting the validity and infringement of the patents that are the subject of the lawsuit.

In August 2016, Par Sterile Products, LLC (Par) notified Hospira that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Hospira's premix version of Precedex and containing allegations that four patents relating to the Precedex premix formulations and their use, all of which expire in 2032, were invalid or not infringed. In September 2016, Hospira filed suit against Par in the U.S. District Court for the District of Delaware asserting the validity and infringement of the patents that are the subject of the lawsuit. In December 2016, the case was stayed pending the outcome of Hospira's suit against Amneal (including all appeals).

In December 2017, Gland Pharma Limited (Gland) notified Hospira that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Hospira's premix version of Precedex and containing allegations that six patents relating to the Precedex premix formulations and their use, all of which expire in 2032, were invalid or not infringed. In February 2018, Hospira filed suit against Gland in the U.S. District Court for the District of Delaware asserting the validity and infringement of four patents that are the subject of the lawsuit.

In December 2017, Jiangsu Hengrui Medicine Co., Ltd. (Hengrui) notified Hospira that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Hospira's premix version of Precedex and containing allegations that six patents relating to the Precedex premix formulations and their use, all of which expire in 2032, were invalid or not infringed. In February 2018, Hospira filed suit against Hengrui in the U.S. District Court for the District of Delaware asserting the validity and infringement of four patents that are the subject of the lawsuit.

In February 2018, Baxter Healthcare Corporation (Baxter) filed a declaratory judgment action against Hospira in the U.S. District Court for the District of Delaware seeking a declaration of non-infringement of four patents relating to the Precedex premix formulations and their use. One of the patents included in the action expires in 2019 and the other three patents expire in 2032. In March 2018, Hospira filed a counterclaim for infringement of the patent expiring in 2019.

Xeljanz (tofacitinib)

In February 2017, we brought a patent-infringement action against MicroLabs USA Inc. and MicroLabs Ltd. (collectively, MicroLabs) in the U.S. District Court for the District of Delaware asserting the infringement and validity

of three patents challenged by MicroLabs in its abbreviated new drug application seeking approval to market a generic version of tofacitinib 5 mg tablets. Of the three patents that are the subject of the lawsuit, one covers the active ingredient and expires in December 2025, the second covers an enantiomer of tofacitinib and expires in 2022, and the third covers a polymorphic form of tofacitinib and expires in 2023. Three other patents for Xeljanz expiring in December 2020 have not been challenged by MicroLabs.

Separately, also in February 2017, we brought a patent-infringement action against Sun Pharmaceutical Industries Ltd. in the U.S. District Court for the District of Delaware asserting the infringement and validity of our patent covering a polymorphic form of tofacitinib, expiring in 2023, that was challenged by Sun Pharmaceutical Industries Ltd. in its abbreviated new drug application seeking approval to market a generic version of tofacitinib 11 mg extended release tablets. In November 2017, we brought an additional patent-infringement action against Sun Pharmaceuticals Industries Ltd. in the U.S. District Court for the District of Delaware asserting the infringement and validity of another patent challenged by Sun Pharmaceuticals Industries Ltd, which covers the active ingredient and expires in December 2025.

In March 2017, we brought a patent-infringement action against Zydus Pharmaceuticals (USA) Inc. and Cadila Healthcare Ltd. (collectively, Zydus) in the U.S. District Court for the District of Delaware asserting the infringement and validity of the same

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three patents that are the subject of the action against MicroLabs, which Zydus challenged in its abbreviated new drug application seeking approval to market a generic version of tofacitinib 5 mg tablets.

Also, in March 2017, we brought separate actions in the U.S. District Court for the District of Delaware against Prinston Pharmaceutical Inc., Zhejiang Huahai Pharmaceutical Co., Ltd., Huahai US Inc. and Solco Healthcare US, LLC (collectively, Prinston) and against Breckenridge Pharmaceutical Inc., Pensa Pharma S.A. and Laboratorios Del Dr. Esteve, S.A. (collectively, Breckenridge) on the two patents expiring in 2022 and 2023, respectively, that were challenged by Prinston and Breckenridge in their respective abbreviated new drug applications seeking approval to market generic versions of tofacitinib 5 mg tablets. In October 2017, we brought an additional patent-infringement action against Breckenridge in the U.S. District Court for the District of Delaware asserting the infringement and validity of four additional patents challenged by Breckenridge, three of which expire in December 2020 and one of which expires in December 2025. In March 2018, we brought another patent infringement action against Prinston in the U.S. District Court for the District of Delaware asserting the infringement and validity of an additional patent, which had been subsequently challenged by Prinston and which expires in December 2025. In May 2018, we settled all of our claims against Breckenridge on terms not material to Pfizer.

Xtandi (enzalutamide)

In December 2016, Medivation and Medivation Prostate Therapeutics, Inc. (collectively, the Medivation Group); Astellas Pharma Inc., Astellas US LLC and Astellas Pharma US, Inc. (collectively, Astellas); and The Regents of the University of California filed patent-infringement suits in the U.S. District Court for the District of Delaware against Actavis Laboratories FL, Inc. and Actavis LLC (collectively, Actavis); Zydus; and Apotex Inc. and Apotex Corp. (collectively, Apotex) in connection with those companies' respective abbreviated new drug applications filed with the FDA for approval to market generic versions of enzalutamide. The generic manufacturers are challenging patents, which expire as early as 2026, covering enzalutamide and treatments for prostate cancer. In May 2017, the Medivation Group filed a patent-infringement suit against Roxane Laboratories Inc. (Roxane) in the same court in connection with Roxane's abbreviated new drug application with the FDA for approval to market a generic version of enzalutamide. In June and July 2018, we settled all of our claims against Actavis and Apotex, respectively, on terms not material to Pfizer.

Inlyta (axitinib)

In April 2018, Apotex Inc. notified us that it had filed an abbreviated new drug application with the FDA seeking approval to market a generic version of Inlyta. Apotex Inc. asserts the invalidity and non-infringement of the crystalline form patent for Inlyta that expires in 2030. In May 2018, we filed suit against Apotex Inc. in the U.S. District Court for the District of Delaware, asserting the validity and infringement of the crystalline form patent for Inlyta.

Kerydin (tavaborole)

In September 2018, several generic companies notified us that they had filed abbreviated new drug applications with the FDA seeking approval to market generic versions of Kerydin. The generic companies assert the invalidity and non-infringement of methods of use and formulation patents for tavaborole that expire in 2026 and 2027, including pediatric exclusivity. In October 2018, Anacor, our wholly-owned subsidiary, filed infringement lawsuits against each of the generic filers in the U.S. District Court for the District of Delaware.

Matters Involving Our Collaboration/Licensing Partners

Toviaz (fesoterodine)—Inter-Partes Reviews

In January 2016, Mylan Pharmaceuticals and Mylan Laboratories (collectively, Mylan) filed petitions with the U.S. Patent and Trademark Office requesting inter partes reviews of five of the patents covering fesoterodine, the active ingredient in Toviaz: three composition-of-matter patents and a method-of-use patent that expire in 2019 and a patent covering salts of fesoterodine that expires in 2022. The patents are owned by UCB Pharma GmbH, and we have an

exclusive, worldwide license to market Toviaz from UCB Pharma GmbH. In July 2016, the Patent Trial and Appeal Board agreed to institute inter partes reviews of all five patents. Amerigen Pharmaceuticals Limited (Amerigen), Alembic Pharmaceuticals Limited and Torrent Pharmaceuticals Limited joined the inter partes reviews. In July 2017, the U.S. Patent and Trademark Office issued decisions upholding all five patents. In September 2017, Mylan and Amerigen appealed the U.S. Patent and Trademark Office decisions to the U.S. Court of Appeals for the Federal Circuit. In January 2018, Mylan withdrew its appeal. Amerigen's appeal of the decision upholding the patent covering salts of fesoterodine that expires in 2022 is the only pending appeal.

Eliquis

In February, March, and April 2017, twenty-five generic companies sent BMS Paragraph-IV certification letters informing BMS that they had filed abbreviated new drug applications seeking approval of generic versions of Eliquis, challenging the validity and infringement of one or more of the three patents listed in the Orange Book for Eliquis. The patents currently are set to expire in 2019, 2026, and 2031. Eliquis has been jointly developed and is being commercialized by BMS and Pfizer. In April 2017, BMS and Pfizer filed patent-infringement actions against all generic filers in the U.S. District Court for the District of

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Delaware and the U.S. District Court for the District of West Virginia, asserting that each of the generic companies' proposed products would infringe each of the patent(s) that each generic filer challenged. Some generic filers challenged only the 2031 patent, some challenged both the 2031 and 2026 patent, and one generic company challenged all three patents. We and BMS have settled with certain of the generic companies on terms not material to Pfizer, and we and BMS may settle with other generic companies in the future.

Actions In Which We Are The Defendant

Inflectra (infliximab-dyyb)

In March 2015, Janssen and New York University, together, brought a patent-infringement action in the U.S. District Court for the District of Massachusetts against Hospira, Celltrion Healthcare Co. Ltd. and Celltrion Inc. alleging that infliximab-dyyb, to be marketed by Hospira in the U.S. under the brand name Inflectra, would infringe six patents relating to infliximab, its manufacture and use. Claims with respect to four of the patents were dismissed by the plaintiffs, leaving two patents at issue: the infliximab antibody patent and a patent relating to cell culture media. In January 2018, the antibody patent was declared invalid by the Court of Appeals for the Federal Circuit. In July 2018, the U.S. District Court for the District of Massachusetts granted defendants' motion for summary judgment and ruled that the patent relating to cell culture media was not infringed.

Bavencio (avelumab)

In July 2017, BMS, E.R. Squibb & Sons LLC, Ono Pharmaceutical Co. Ltd., and Tasuku Honjo brought a patent-infringement action in the U.S. District Court for the District of Delaware against Pfizer, Merck KGaA, and EMD Serono, Inc., alleging that Bavencio (avelumab) infringes one patent relating to methods for treating tumors with anti-PD-L1 antibodies, which expires in 2023.

A2. Legal Proceedings—Product Litigation

Like other pharmaceutical companies, we are defendants in numerous cases, including but not limited to those discussed below, related to our pharmaceutical and other products. Plaintiffs in these cases seek damages and other relief on various grounds for alleged personal injury and economic loss.

Asbestos

Between 1967 and 1982, Warner-Lambert owned American Optical Corporation (American Optical), 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 September 30, 2018, approximately 56,880 claims naming American Optical and numerous other defendants were pending in various federal and state courts seeking damages for alleged personal injury from exposure to asbestos and other allegedly hazardous materials. Warner-Lambert was acquired by Pfizer in 2000 and is a wholly-owned subsidiary of Pfizer. Warner-Lambert is actively engaged in the defense of, and will continue to explore various means of resolving, these claims.

Numerous lawsuits are pending against Pfizer in various federal and state courts seeking damages for alleged personal injury from exposure to products allegedly containing asbestos and other allegedly hazardous materials sold by Pfizer and certain of its previously owned subsidiaries.

There also are a small number of lawsuits pending in various federal and state courts seeking damages for alleged exposure to asbestos in facilities owned or formerly owned by Pfizer or its subsidiaries.

Effexor

Beginning in May 2011, actions, including purported class actions, were filed in various federal courts against Wyeth and, in certain of the actions, affiliates of Wyeth and certain other defendants relating to Effexor XR, which is the extended-release formulation of Effexor. The plaintiffs in each of the class actions seek to represent a class consisting of all persons in the U.S. and its territories who directly purchased, indirectly purchased or reimbursed patients for the

purchase of Effexor XR or generic Effexor XR from any of the defendants from June 14, 2008 until the time the defendants' allegedly unlawful conduct ceased. The plaintiffs in all of the actions allege delay in the launch of generic Effexor XR in the U.S. and its territories, in violation of federal antitrust laws and, in certain of the actions, the antitrust, consumer protection and various other laws of certain states, as the result of Wyeth fraudulently obtaining and improperly listing certain patents for Effexor XR in the Orange Book, enforcing certain patents for Effexor XR and entering into a litigation settlement agreement with a generic drug manufacturer with respect to Effexor XR. Each of the plaintiffs seeks treble damages (for itself in the individual actions or on behalf of the putative class in the purported class actions) for alleged price overcharges for Effexor XR or generic Effexor XR in the U.S. and its territories since June 14, 2008. All of these actions have been consolidated in the U.S. District Court for the District of New Jersey.

In October 2014, the District Court dismissed the direct purchaser plaintiffs' claims based on the litigation settlement agreement but declined to dismiss the other direct purchaser plaintiff claims. In January 2015, the District Court entered partial final

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judgments as to all settlement agreement claims, including those asserted by direct purchasers and end-payer plaintiffs, which plaintiffs appealed to the U.S. Court of Appeals for the Third Circuit. In August 2017, the U.S. Court of Appeals for the Third Circuit reversed the District Court's decisions and remanded the claims to the District Court.
Lipitor

- Antitrust Actions

Beginning in November 2011, purported class actions relating to Lipitor were filed in various federal courts against, among others, Pfizer, certain affiliates of Pfizer, and, in most of the actions, Ranbaxy, Inc. (Ranbaxy) and certain affiliates of Ranbaxy. The plaintiffs in these various actions seek to represent nationwide, multi-state or statewide classes consisting of persons or entities who directly purchased, indirectly purchased or reimbursed patients for the purchase of Lipitor (or, in certain of the actions, generic Lipitor) from any of the defendants from March 2010 until the cessation of the defendants' allegedly unlawful conduct (the Class Period). The plaintiffs allege delay in the launch of generic Lipitor, in violation of federal antitrust laws and/or state antitrust, consumer protection and various other laws, resulting from (i) the 2008 agreement pursuant to which Pfizer and Ranbaxy settled certain patent litigation involving Lipitor, and Pfizer granted Ranbaxy a license to sell a generic version of Lipitor in various markets beginning on varying dates, and (ii) in certain of the actions, the procurement and/or enforcement of certain patents for Lipitor. Each of the actions seeks, among other things, treble damages on behalf of the putative class for alleged price overcharges for Lipitor (or, in certain of the actions, generic Lipitor) during the Class Period. In addition, individual actions have been filed against Pfizer, Ranbaxy and certain of their affiliates, among others, that assert claims and seek relief for the plaintiffs that are substantially similar to the claims asserted and the relief sought in the purported class actions described above. These various actions have been consolidated for pre-trial proceedings in a Multi-District Litigation (In re Lipitor Antitrust Litigation MDL-2332) in the U.S. District Court for the District of New Jersey.

In September 2013 and 2014, the District Court dismissed with prejudice the claims by direct purchasers. In October and November 2014, the District Court dismissed with prejudice the claims of all other Multi-District Litigation plaintiffs. All plaintiffs have appealed the District Court's orders dismissing their claims with prejudice to the U.S. Court of Appeals for the Third Circuit. In addition, the direct purchaser class plaintiffs appealed the order denying their motion to amend the judgment and for leave to amend their complaint to the U.S. Court of Appeals for the Third Circuit. In August 2017, the U.S. Court of Appeals for the Third Circuit reversed the District Court's decisions and remanded the claims to the District Court.

Also, in January 2013, the State of West Virginia filed an action in West Virginia state court against Pfizer and Ranbaxy, among others, that asserts claims and seeks relief on behalf of the State of West Virginia and residents of that state that are substantially similar to the claims asserted and the relief sought in the purported class actions described above.

- Personal Injury Actions

A number of individual and multi-plaintiff lawsuits have been filed against us in various federal and state courts alleging that the plaintiffs developed type 2 diabetes purportedly as a result of the ingestion of Lipitor. Plaintiffs seek compensatory and punitive damages.
In February 2014, the federal actions were transferred for consolidated pre-trial proceedings to a Multi-District Litigation (In re Lipitor (Atorvastatin Calcium) Marketing, Sales Practices and Products Liability Litigation (No. II) MDL-2502) in the U.S. District Court for the District of South Carolina. Since 2016, certain cases in the Multi-District Litigation were remanded to certain state courts. In January 2017, the District Court granted our motion for summary judgment, dismissing substantially all of the remaining cases pending in the Multi-District Litigation. In January 2017, the plaintiffs appealed the District Court's decision to the U.S. Court of Appeals for the Fourth Circuit.

In June 2018, the U.S. Court of Appeals for the Fourth Circuit affirmed the District Court's decision.

Viagra

A number of individual and multi-plaintiff lawsuits have been filed against us in various federal and state courts alleging that the plaintiffs developed melanoma and/or the exacerbation of melanoma purportedly as a result of the ingestion of Viagra. Plaintiffs seek compensatory and punitive damages.

In April 2016, the federal actions were transferred for coordinated pre-trial proceedings to a Multi-District Litigation (In Re: Viagra (Sildenafil Citrate) Products Liability Litigation, MDL-2691) in the U.S. District Court for the Northern District of California. In December 2016, federal actions filed against Lilly and filed against both us and Lilly, were transferred for coordinated pre-trial proceedings to the Multi-District Litigation (In re: Viagra (Sildenafil Citrate) and Cialis (Tadalafil) Products Liability Litigation, MDL-2691).

Intravenous Solutions

Beginning in November 2016, purported class actions were filed in the U.S. District Court for the Northern District of Illinois against Hospira, Hospira Worldwide, Inc. and certain other defendants relating to intravenous saline solution. Plaintiffs seek to

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represent a class consisting of all persons and entities in the U.S. who directly purchased intravenous saline solution sold by any of the defendants from January 1, 2013 until the time the defendants' allegedly unlawful conduct ceases. Plaintiffs allege that the defendants' conduct restricts output and artificially fixes, raises, maintains and/or stabilizes the prices of intravenous saline solution sold throughout the U.S. in violation of federal antitrust laws. Plaintiffs seek treble damages (for themselves and on behalf of the putative classes) and an injunction against defendants for alleged price overcharges for intravenous saline solution in the U.S. since January 1, 2013. All of these actions have been consolidated in the U.S. District Court for the Northern District of Illinois. In July 2018, the District Court granted defendants' motions to dismiss the consolidated amended complaint without prejudice. Plaintiffs filed a second amended complaint in September 2018. On February 3, 2017, we completed the sale of our global infusion systems net assets, HIS, which includes intravenous saline solution, to ICU Medical. The litigation is the subject of cross-claims for indemnification by both Pfizer and ICU Medical under the purchase agreement.

Separately, in April 2017, Pfizer, Hospira and two employees of Pfizer received grand jury subpoenas issued by the United States District Court for the Eastern District of Pennsylvania, in connection with an investigation by the U.S. Department of Justice, Antitrust Division. The subpoenas seek documents related to the sale, manufacture, pricing and shortages of intravenous solutions, including saline, as well as communications among industry participants regarding these issues. The Department of Justice investigation is also the subject of cross-claims for indemnification by both Pfizer and ICU Medical under the purchase agreement. In addition, in August 2015, the New York Attorney General issued a subpoena to Hospira for similar information. Hospira has produced records to the New York Attorney General and coordinated with ICU Medical to produce records to the U.S. Department of Justice.

Hormone Therapy Consumer Class Action

A certified consumer class action is pending against Wyeth in the U.S. District Court for the Southern District of California based on the alleged off-label marketing of its hormone therapy products. The case was originally filed in December 2003. The class consists of California consumers who purchased Wyeth's hormone-replacement products between January 1995 and January 2003 and who do not seek personal injury damages therefrom. The class seeks compensatory and punitive damages, including a full refund of the purchase price.

Eliquis

A number of individual and multi-plaintiff lawsuits have been filed against us and BMS in various federal and state courts pursuant to which plaintiffs seek to recover for personal injuries, including wrongful death, due to bleeding allegedly as a result of the ingestion of Eliquis. Plaintiffs seek compensatory and punitive damages.

In February 2017, the federal actions were transferred for coordinated pre-trial proceedings to a Multi-District Litigation (In Re: Eliquis (Apixaban) Products Liability Litigation MDL-2754) in the U.S. District Court for the Southern District of New York. In July 2017, the District Court dismissed substantially all of the actions that were pending in the Multi-District Litigation. In August 2017, certain plaintiffs appealed the District Court's dismissal to the U.S. Court of Appeals for the Second Circuit. Additional cases continue to be transferred to the Multi-District Litigation.

EpiPen

Beginning in February 2017, purported class actions were filed in various federal courts by indirect purchasers of EpiPen against Pfizer, and/or its affiliates King and Meridian, and/or various entities affiliated with Mylan N.V., and Mylan N.V. Chief Executive Officer, Heather Bresch. The plaintiffs in these actions seek to represent U.S. nationwide classes comprising persons or entities who paid for any portion of the end-user purchase price of an EpiPen between 2009 until the cessation of the defendants' allegedly unlawful conduct. In August 2017, a similar lawsuit brought in the U.S. District Court for the District of New Jersey on behalf of a purported class of direct purchaser plaintiffs against Pfizer, King, Meridian and Mylan was voluntarily dismissed without prejudice. Against Pfizer and/or its affiliates, plaintiffs generally allege that Pfizer's and/or its affiliates' settlement of patent litigation regarding EpiPen delayed market entry of generic EpiPen in violation of federal antitrust laws and various state antitrust or consumer protection laws. At least one lawsuit also alleges that Pfizer and/or Mylan N.V. violated the federal Racketeer Influenced and

Corrupt Organizations Act. Plaintiffs also filed various consumer protection and unjust enrichment claims against, and relating to conduct attributable solely to, Mylan Pharmaceuticals regarding EpiPen. Plaintiffs seek treble damages for alleged overcharges for EpiPen since 2009. In August 2017, the actions were consolidated for coordinated pre-trial proceedings in a Multi-District Litigation (In re: EpiPen (Epinephrine Injection, USP) Marketing, Sales Practices and Antitrust Litigation, MDL-2785) in the U.S. District Court for the District of Kansas with other EpiPen-related actions against Mylan N.V. and/or its affiliates to which Pfizer, King and Meridian are not parties.

Nexium 24HR and Protonix

A number of individual and multi-plaintiff lawsuits have been filed against Pfizer, certain of its subsidiaries and/or other pharmaceutical manufacturers in various federal and state courts alleging that the plaintiffs developed kidney-related injuries purportedly as a result of the ingestion of certain proton pump inhibitors. The cases against us involve Nexium 24HR and/or Protonix and seek compensatory and punitive damages and, in some cases, treble damages, restitution or disgorgement. In

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August 2017, the federal actions were ordered transferred for coordinated pre-trial proceedings to a Multi-District Litigation (In re: Proton-Pump Inhibitor Products Liability Litigation (No. II)) in the U.S. District Court for the District of New Jersey.

Docetaxel

- Personal Injury Actions

A number of lawsuits have been filed against Hospira and Pfizer in various federal and state courts alleging that plaintiffs who were treated with Docetaxel developed permanent hair loss. The significant majority of the cases also name other defendants, including the manufacturer of the branded product, Taxotere. Plaintiffs seek compensatory and punitive damages.

In October 2016, the federal cases were transferred for coordinated pre-trial proceedings to a Multi-District Litigation (In re Taxotere (Docetaxel) Products Liability Litigation, MDL-2740) in the U.S. District Court for the Eastern District of Louisiana.

- Mississippi Attorney General Government Investigation

In October 2018, the Attorney General of Mississippi filed a complaint in Mississippi state court against the manufacturer of the branded product and eight other manufacturers including Pfizer and Hospira, alleging, with respect to Pfizer and Hospira, a failure to warn about a risk of permanent hair loss in violation of the Mississippi Consumer Protection Act. The action seeks civil penalties and injunctive relief.

A3. Legal Proceedings—Commercial and Other Matters

Average Wholesale Price Litigation

Pfizer, certain of its subsidiaries and other pharmaceutical manufacturers were sued in various state courts by a number of states alleging that the defendants provided average wholesale price (AWP) information for certain of their products that was higher than the actual average prices at which those products were sold. The AWP is used to determine reimbursement levels under Medicare Part B and Medicaid and in many private-sector insurance policies and medical plans. All but one of those actions have been resolved through settlement, dismissal or final judgment. The plaintiff state, Illinois, in the one remaining action claims that the alleged spread between the AWPs at which purchasers were reimbursed and the actual sale prices was promoted by the defendants as an incentive to purchase certain of their products. The action alleges, among other things, fraud and violation of the state's unfair trade practices and consumer protection statutes and seeks monetary and other relief, including civil penalties and treble damages.

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 Company to form 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 in 2003 and is 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 has defended and/or is defending Pharmacia in connection with various claims and litigation arising out of, or related to, the agricultural business, and has been indemnifying Pharmacia when liability has been imposed or settlement has been reached regarding such claims and litigation.

In connection with its spin-off in 1997, Solutia assumed, and agreed to indemnify Pharmacia for, liabilities related to Former Monsanto's chemical businesses. As the result of its reorganization under Chapter 11 of the U.S. Bankruptcy Code, Solutia's indemnification obligations relating to Former Monsanto's chemical businesses are primarily limited to sites that Solutia has owned or operated. In addition, in connection with its spinoff 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, but not limited to, any such liabilities that Solutia assumed. Solutia's and New Monsanto's assumption of, and agreement to indemnify Pharmacia for, these liabilities apply to pending actions and

any future actions related to Former Monsanto's chemical businesses in which Pharmacia is named as a defendant, including, without limitation, actions asserting environmental claims, including alleged exposure to polychlorinated biphenyls. Solutia and/or New Monsanto are defending Pharmacia in connection with various claims and litigation arising out of, or related to, Former Monsanto's chemical businesses, and have been indemnifying Pharmacia when liability has been imposed or settlement has been reached regarding such claims and litigation.

Environmental Matters

In 2009, we submitted to the U.S. Environmental Protection Agency (EPA) a corrective measures study report with regard to Pharmacia's discontinued industrial chemical facility in North Haven, Connecticut. In September 2010, our corrective measures study report was approved by the EPA, and we commenced construction of the site remedy in late 2011 under an Updated Administrative Order on Consent with the EPA.

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Also, in 2009, we submitted a revised site-wide feasibility study with regard to Wyeth Holdings Corporation's (formerly, American Cynamid Company) discontinued industrial chemical facility in Bound Brook, New Jersey. In July 2011, Wyeth Holdings Corporation finalized an Administrative Settlement Agreement with the EPA and Order on Consent for Removal Action (the 2011 Administrative Settlement Agreement) with the EPA with regard to the Bound Brook facility. In May 2012, we completed construction of an interim remedy to address the discharge of impacted groundwater from that facility to the Raritan River. In September 2012, the EPA issued a final remediation plan for the Bound Brook facility's main plant area, which is generally in accordance with one of the remedies evaluated in our revised site-wide feasibility study. In March 2013, Wyeth Holdings Corporation (now Wyeth Holdings LLC) entered into an Administrative Settlement Agreement and Order on Consent with the EPA to allow us to undertake detailed engineering design of the remedy for the main plant area and to perform a focused feasibility study for two adjacent lagoons. In September 2015, the U.S., on behalf of the EPA, filed a complaint and consent decree with the federal District Court for the District of New Jersey that allows Wyeth Holdings LLC to complete the design and to implement the remedy for the main plant area. In December 2015, the consent decree (which supersedes the 2011 Administrative Settlement Agreement) was entered by the District Court. We have accrued for the estimated costs of the site remedies for the North Haven and Bound Brook facilities. In September 2018, the EPA issued a final remediation plan for the two adjacent lagoons, which is generally in accordance with one of the remedies evaluated in our focused feasibility study.

We are a party to a number of other proceedings brought under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, and other state, local or foreign laws in which the primary relief sought is the cost of past and/or future remediation.

Contracts with Iraqi Ministry of Health

In October 2017, a number of United States service members, civilians, and their families brought a complaint in the Federal District Court for the District of Columbia against a number of pharmaceutical and medical devices companies, including Pfizer and certain of its subsidiaries, alleging that the defendants violated the United States Anti-Terrorism Act. The complaint alleges that the defendants provided funding for terrorist organizations through their sales practices pursuant to pharmaceutical and medical device contracts with the Iraqi Ministry of Health, and seeks monetary relief. In July 2018, the U.S. Department of Justice requested documents related to this matter, which are being provided.

Allergan Complaint for Indemnity

In August 2018, Pfizer was named as a defendant in a third-party complaint for indemnity, along with King Pharmaceuticals LLC, a Pfizer subsidiary (King), filed by Allergan Finance LLC (Allergan) in a Multi-District Litigation (In re National Prescription Opiate Litigation MDL 2804) in the U.S. District Court for the Northern District of Ohio. The lawsuit asserts claims for indemnity related to Kadian, which was owned for a short period by King in 2008, prior to Pfizer's acquisition of King in 2010.

A4. Legal Proceedings—Government Investigations

Like other pharmaceutical companies, we are subject to extensive regulation by government agencies in the U.S., other developed markets and multiple emerging markets in which we operate. As a result, we have interactions with government agencies on an ongoing basis. Criminal charges, and substantial fines and/or civil penalties, as well as limitations on our ability to conduct business in applicable jurisdictions, could result from government investigations. In addition, in a qui tam lawsuit in which the government declines to intervene, the relator may still pursue a suit for the recovery of civil damages and penalties on behalf of the government. Among the investigations by government agencies are the matters discussed below.

Phenytoin Sodium Capsules

In 2012, Pfizer sold the U.K. Marketing Authorisation for phenytoin sodium capsules to a third party, but retained the right to supply the finished product to that third party. In May 2013, the U.K. Competition & Markets Authority (CMA) informed us that it had launched an investigation into the supply of phenytoin sodium capsules in the U.K. market. In August 2015, the CMA issued a Statement of Objections alleging that Pfizer and Pfizer Limited, a U.K. subsidiary, engaged in conduct that violates U.K. and EU antitrust laws. In December 2016, the CMA imposed a £84.2 million fine on Pfizer and Pfizer Limited. Pfizer appealed the CMA decision to The Competition Appeal Tribunal in February 2017. On June 7, 2018, the Competition Appeal Tribunal overturned the CMA decision as well as the associated fine. On June 28, 2018, the CMA sought permission to appeal the Competition Appeal Tribunal's judgment.

Greenstone Investigations

Since July 2017, the U.S. Department of Justice's Antitrust Division has been investigating our Greenstone generics business. We believe this is related to an ongoing antitrust investigation of the generic pharmaceutical industry. The government has been obtaining information from Greenstone. In April 2018, Greenstone received requests for information from the Antitrust Department of the Connecticut Office of the Attorney General. We have been providing information pursuant to these requests.

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Subpoena relating to Manufacturing of Quillivant XR

In October 2018, we received a subpoena from the U.S. Attorney's Office for the Southern District of New York seeking records relating to our relationship with another drug manufacturer and its production and manufacturing of drugs including, but not limited to, Quillivant XR. We will be producing records pursuant to the subpoena.

Intravenous Solutions

See Note 12A2. Legal Proceedings—Product Litigation—Intravenous Solutions above for information regarding government investigations related to sales of intravenous solution products.

Contracts with Iraqi Ministry of Health

See Note 12A3. Legal Proceedings—Commercial and Other Matters—Contracts with Iraqi Ministry of Health above for information regarding U.S. government investigations related to contracts with the Iraqi Ministry of Health.

Docetaxel—Mississippi Attorney General Government Investigation

See Note 12A2. Legal Proceedings—Product Litigation—Docetaxel—Mississippi Attorney General Government Investigation above for information regarding a government investigation related to Docetaxel marketing practices.

A5. Legal Proceedings--Matters Resolved During the First Nine Months of 2018

During 2018, certain matters, including the matters discussed below, were resolved or were the subject of definitive settlement agreements or settlement agreements-in-principle.

Celebrex

Beginning in July 2014, purported class actions were filed in the U.S. District Court for the Eastern District of Virginia against Pfizer and certain subsidiaries of Pfizer relating to Celebrex. The plaintiffs sought to represent U.S. nationwide or multi-state classes consisting of persons or entities who directly purchased from the defendants, or indirectly purchased or reimbursed patients for some or all of the purchase price of, Celebrex or generic Celebrex from May 31, 2014 until the cessation of the defendants' allegedly unlawful conduct. The plaintiffs alleged delay in the launch of generic Celebrex in violation of federal antitrust laws or certain state antitrust, consumer protection and various other laws as a result of Pfizer fraudulently obtaining and improperly listing a patent on Celebrex, engaging in sham litigation and prolonging the impact of sham litigation through settlement activity that further delayed generic entry. Each of the actions sought treble damages on behalf of the putative class for alleged price overcharges for Celebrex since May 31, 2014. In December 2014, the District Court granted the parties' joint motions to consolidate the direct purchaser and end-payer cases, and all such cases were consolidated as of March 2015. In October 2014 and March 2015, we filed motions to dismiss the direct purchasers' and end-payers' amended complaints, respectively. In November 2015, the District Court denied in part and granted in part our motion to dismiss the direct purchasers' amended complaint. In February 2016, the District Court denied in part and granted in part our motion to dismiss the end-payers' amended complaint, and in August 2016, the District Court dismissed substantially all of the end-payers' remaining claims. In February 2017, the District Court dismissed with prejudice all of the end-payers' claims. In March 2017, the end-payers appealed the District Court's order dismissing their claims with prejudice to the U.S. Court of Appeals for the Fourth Circuit. In August 2017, the District Court granted the direct purchasers' motion for class certification. In November 2017, Pfizer and the direct purchasers entered into an agreement to resolve the direct purchasers' class action for $94 million. In April 2018, the court approved the agreement. In November 2017, Pfizer and the end-payers entered into an agreement to resolve the claims of the end-payer plaintiffs on terms not material to Pfizer.

Subpoenas relating to Copayment Assistance Organizations

In December 2015 and July 2016, Pfizer received subpoenas from the U.S. Attorney's Office for the District of Massachusetts requesting documents related to the Patient Access Network Foundation and other 501(c)(3) organizations that provide financial assistance to Medicare patients. In May 2018, Pfizer entered into a civil settlement to resolve the matter. Pfizer paid $23.85 million to the United States, and entered into a five-year Corporate Integrity

Agreement with the Office of the Inspector General of the Department of Health and Human Services.

Civil Investigative Demand relating to Pharmacy Benefit Managers

In March 2016, Pfizer received a Civil Investigative Demand from the U.S. Attorney's Office for the Southern District of New York (SDNY) related to Pfizer's contractual relationships with pharmacy benefit managers with respect to certain pharmaceutical products over the period from January 1, 2006 to the present. We have provided information to the government in response to this Civil Investigative Demand. In July 2018, Pfizer was served with a qui tam complaint that appears to be related to the SDNY investigation. The complaint was unsealed following the government's decision not to intervene in the case.

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B. Guarantees and Indemnifications

In the ordinary course of business and in connection with the sale of assets and businesses and other transactions, we often indemnify our counterparties against certain liabilities that may arise in connection with the transaction or that are related to events and activities prior to or following a transaction. If the indemnified party were to make a successful claim pursuant to the terms of the indemnification, we may be required to reimburse the loss. These indemnifications are generally subject to various restrictions and limitations. Historically, we have not paid significant amounts under these provisions and, as of September 30, 2018, the estimated fair value of these indemnification obligations was not significant.

Pfizer Inc. has also guaranteed the long-term debt of certain companies that it acquired and that now are subsidiaries of Pfizer.

C. Certain Commitments

- Accelerated share repurchase agreement—On March 12, 2018, we entered into an accelerated share repurchase agreement with Citibank to repurchase $4.0 billion of our common stock. Pursuant to the terms of the agreement, on March 14, 2018, we paid $4.0 billion to Citibank and received an initial delivery of approximately 87 million shares of our common stock from Citibank at a price of $36.61 per share, which represented, based on the closing price of our common stock on the NYSE on March 12, 2018, approximately 80% of the notional amount of the accelerated share repurchase agreement. On September 5, 2018, the accelerated share repurchase agreement with Citibank was completed, which, per the terms of the agreement, resulted in Citibank owing us a certain number of shares of Pfizer common stock. Pursuant to the agreement's settlement terms, we received an additional 21 million shares of our common stock from Citibank on September 7, 2018. The average price paid for all of the shares delivered under the accelerated share repurchase agreement was $36.86 per share. The common stock received is included in Treasury stock. This agreement was entered into pursuant to our previously announced share repurchase authorization. After giving effect to the accelerated share repurchase agreement, as well as other share repurchases through September 30, 2018, our remaining share-purchase authorization was approximately $9.2 billion at September 30, 2018.
- Corporate headquarters lease agreement—In April 2018, we entered an agreement to lease space in an office building in the Hudson Yards neighborhood of New York City. We will relocate our global headquarters to this property with occupancy expected beginning in 2022. Our future minimum rental commitment under this 20-year lease is approximately $1.7 billion. In July 2018, we completed the sale of our current headquarters at 219 and 235 East 42nd Street. We also agreed to lease these properties from the buyer while we complete our relocation.

Note 13. Segment, Geographic and Other Revenue Information

A. Segment Information

We manage our commercial operations through two distinct business segments: Pfizer Innovative Health (IH) and Pfizer Essential Health (EH). The IH and EH segments are each led by a single manager. Each operating segment has responsibility for its commercial activities and for certain IPR&D projects for new investigational products and additional indications for in-line products that generally have achieved proof-of-concept. Each business has a geographic footprint across developed and emerging markets. Our chief operating decision maker uses the revenues and earnings of the two operating segments, among other factors, for performance evaluation and resource allocation. We regularly review our segments and the approach used by management for performance evaluation and resource allocation. In July 2018, we announced that we will reorganize our commercial operations effective at the beginning of our 2019 fiscal year. We will organize the company into three businesses: a science-based Innovative Medicines business, which will include all of the current Pfizer Innovative Health medicines and vaccines business units as well as biosimilars and a new hospital business unit for anti-infectives and sterile injectables; an off-patent branded and generic Established Medicines business operating with substantial autonomy within Pfizer; and a Consumer

Healthcare business. We are currently evaluating the impact to our operating segments and other costs and activities based on how the businesses will be managed in 2019.
As described in Note 1A, the February 3, 2017 sale of HIS impacted our results of operations in 2017.

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Operating Segments
Some additional information about our business segments as of September 30, 2018 follows:

IH focuses on developing and commercializing novel, value-creating medicines and vaccines that significantly improve patients' lives, as well as products for consumer healthcare.
Key therapeutic areas include internal medicine, vaccines, oncology, inflammation & immunology, rare disease and consumer healthcare.

Leading brands include:
- Prevnar 13/Prevenar 13
- Xeljanz
- Eliquis
- Lyrica (U.S., Japan and certain other markets)
- Enbrel (outside the U.S. and Canada)
- Ibrance
- Xtandi
- Several OTC consumer healthcare products (e.g., Advil and Centrum)

EH includes legacy brands that have lost or will soon lose market exclusivity in both developed and emerging markets, branded and generic sterile injectable products, biosimilars, and select branded products including anti-infectives. EH also includes an R&D organization, as well as our contract manufacturing business. Through February 2, 2017, EH also included HIS.

Leading brands include:
- Lipitor
- Norvasc
- Lyrica (Europe, Russia, Turkey, Israel and Central Asia countries)
- Celebrex
- Viagra*
- Inflectra/Remsima
- Sulperazon
- Several other sterile injectable products

* Viagra lost exclusivity in the U.S. in December 2017. Beginning in 2018, revenues for Viagra in the U.S. and Canada, which were reported in IH through 2017, are reported in EH (which reported all other Viagra revenues excluding the U.S. and Canada through 2017). Therefore, beginning in 2018, total Viagra worldwide revenues are reported in EH.

The following organizational change impacted our operating segments in 2018:
Effective in the first quarter of 2018, certain costs for Pfizer's StratCO group, which were previously reported in the operating results of our operating segments and Corporate, are reported in Other Unallocated. StratCO costs primarily include headcount costs, vendor costs and data costs largely in support of Pfizer's commercial operations. The majority of the StratCO costs reflect additional amounts that our operating segments would have incurred had each segment operated as a standalone company during the periods presented. The reporting change was made to streamline accountability and speed decision making. In the third quarter of 2017, we reclassified approximately $125 million of costs from IH, approximately $36 million of costs from EH and approximately $19 million of costs from Corporate to Other unallocated costs to conform to the current period presentation. In the first nine months of 2017, we reclassified approximately $344 million of costs from IH, approximately $114 million of costs from EH and approximately $40 million of costs from Corporate to Other unallocated costs to conform to the current period presentation.

Other Costs and Business Activities
Certain pre-tax costs are not allocated to our operating segment results, such as costs associated with the following:

- WRD, which is generally responsible for research projects for our IH business until proof-of-concept is achieved and then for transitioning those projects to the IH segment via the GPD organization for possible clinical and commercial development. R&D spending may include upfront and milestone payments for intellectual property rights. The WRD organization also has responsibility for certain science-based and

other platform-services organizations, which provide technical expertise and other services to the various R&D projects, including EH R&D projects. WRD is also responsible for facilitating all regulatory submissions and interactions with regulatory agencies, including all safety-event activities.

- GPD, which is generally responsible for the clinical development of assets that are in clinical trials for our WRD and Innovative portfolios. GPD also provides technical support and other services to Pfizer R&D projects.
- Corporate, representing platform functions (such as worldwide technology, global real estate operations, legal, finance, human resources, worldwide public affairs, compliance and worldwide procurement), the provision of medical information to healthcare providers, patients and other parties, transparency and disclosure activities, clinical trial results publication, grants for healthcare quality improvement and medical education, and partnerships with global public health and medical associations, as well as certain compensation and other corporate costs, such as interest income and expense, and gains and losses on investments. Effective in the first quarter of 2018, certain costs for StratCO, which were previously reported in the operating results of our operating segments and Corporate, are reported in Other Unallocated. For additional information, see note below on Other unallocated costs.

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- Other unallocated costs, representing overhead expenses associated with our manufacturing and commercial operations that are not directly assessed to an operating segment, as business unit (segment) management does not manage these costs (which include manufacturing variances associated with production). In connection with the StratCO reporting change, in the third quarter of 2017, we reclassified approximately $125 million of costs from IH, approximately $36 million of costs from EH and approximately $19 million of costs from Corporate to Other unallocated costs to conform to the current period presentation. In the first nine months of 2017, we reclassified approximately $344 million of costs from IH, approximately $114 million of costs from EH and approximately $40 million of costs from Corporate to Other unallocated costs to conform to the current period presentation.
- Certain transactions and events such as (i) purchase accounting adjustments, where we incur expenses associated with the amortization of fair value adjustments to inventory, intangible assets and PP&E; (ii) acquisition-related costs, where we incur costs for executing the transaction, integrating the acquired operations and restructuring the combined company; and (iii) certain significant items, representing substantive and/or unusual, and in some cases recurring, items (such as restructuring or legal charges) that are evaluated on an individual basis by management and that, either as a result of their nature or size, would not be expected to occur as part of our normal business on a regular basis. Such items can include, but are not limited to, non-acquisition-related restructuring costs, as well as costs incurred for legal settlements, asset impairments and disposals of assets or businesses, including, as applicable, any associated transition activities.

Segment Assets

We manage our assets on a total company basis, not by operating segment, as many of our operating assets are shared (such as our plant network assets) or commingled (such as accounts receivable, as many of our customers are served by both operating segments). Therefore, our chief operating decision maker does not regularly review any asset information by operating segment and, accordingly, we do not report asset information by operating segment. Total assets were approximately $168 billion as of September 30, 2018 and $172 billion as of December 31, 2017.

Selected Income Statement Information

The following table provides selected income statement information by reportable segment:

| | Three Months Ended | | | |
|---|---|---|---|---|
| | Revenues | | Earnings[a] | |
| (MILLIONS OF DOLLARS) | September 30, 2018 | October 1, 2017 | September 30, 2018 | October 1, 2017 |
| Reportable Segments: | | | | |
| IH[b] | $8,471 | $ 8,118 | $5,388 | $ 5,000 |
| EH[b] | 4,826 | 5,050 | 2,527 | 2,801 |
| Total reportable segments | 13,298 | 13,168 | 7,915 | 7,801 |
| Other business activities[c], [d] | — | — | (736) | (759) |
| Reconciling Items: | | | | |
| Corporate[b], [d] | — | — | (1,337) | (1,363) |
| Purchase accounting adjustments[d] | — | — | (1,309) | (1,154) |
| Acquisition-related costs[d] | — | — | (112) | (155) |
| Certain significant items[e] | — | — | 213 | (449) |
| Other unallocated[b], [d] | — | — | (457) | (335) |
| | $13,298 | $ 13,168 | $4,177 | $ 3,585 |

| | Nine Months Ended | |
|---|---|---|
| | Revenues | Earnings[a] |

| (MILLIONS OF DOLLARS) | Three Months Ended September 30, | | Three Months Ended October 1, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Reportable Segments: | | | | |
| IH[b] | $24,573 | $ 23,204 | $15,419 | $ 14,534 |
| EH[b] | 15,097 | 15,639 | 8,133 | 8,672 |
| Total reportable segments | 39,670 | 38,843 | 23,552 | 23,206 |
| Other business activities[c], [d] | — | — | (2,130) | (2,205) |
| Reconciling Items: | | | | |
| Corporate[b], [d] | — | — | (3,633) | (3,908) |
| Purchase accounting adjustments[d] | — | — | (3,665) | (3,527) |
| Acquisition-related costs[d] | — | — | (221) | (347) |
| Certain significant items[e] | — | — | (8) | (797) |
| Other unallocated[b], [d] | — | — | (1,064) | (1,070) |
| | $39,670 | $ 38,843 | $12,831 | $ 11,351 |

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(a) Income from continuing operations before provision for taxes on income. IH's earnings include dividend income of $91 million and $54 million in the third quarter of 2018 and 2017, respectively, and $226 million and $211 million in the first nine months of 2018 and 2017, respectively, from our investment in ViiV. For additional information, see Note 4.

(b) In connection with the StratCO reporting change, in the third quarter of 2017, we reclassified approximately $125 million of costs from IH, approximately $36 million of costs from EH and approximately $19 million of costs from Corporate to Other unallocated costs to conform to the current period presentation. In the first nine months of 2017, we reclassified approximately $344 million of costs from IH, approximately $114 million of costs from EH and approximately $40 million of costs from Corporate to Other unallocated costs to conform to the current period presentation.

(c) Other business activities includes the costs managed by our WRD and GPD organizations.

(d) For a description, see the "Other Costs and Business Activities" section above.

(e) Certain significant items are substantive and/or unusual, and in some cases recurring, items (such as restructuring or legal charges) that, either as a result of their nature or size, would not be expected to occur as part of our normal business on a regular basis.

For Earnings in the third quarter of 2018, certain significant items includes: (i) restructuring credits and implementation costs associated with our cost-reduction initiatives that are not associated with an acquisition of $35 million, (ii) net charges for certain legal matters of $37 million, (iii) income of $2 million, representing an adjustment to amounts previously recorded to write down the HIS net assets to fair value less costs to sell and (iv) other income of $282 million, which includes, among other things, a non-cash $343 million pre-tax gain in Other (income)/deductions—net associated with our transaction with Bain Capital to create a new biopharmaceutical company, Cerevel, to continue development of a portfolio of clinical and preclinical stage neuroscience assets primarily targeting disorders of the central nervous system. For additional information, see Note 2B, Note 3 and Note 4.

For Earnings in the third quarter of 2017, certain significant items includes: (i) restructuring credits and implementation costs associated with our cost-reduction initiatives that are not associated with an acquisition of $55 million, (ii) charges for certain legal matters of $183 million, (iii) income of $12 million, representing an adjustment to amounts previously recorded to write down the HIS net assets to fair value less costs to sell, (iv) certain asset impairment charges of $127 million, (v) charges for business and legal entity alignment of $16 million and (vi) other charges of $81 million, which includes, among other things, $55 million in inventory losses, overhead costs related to the period in which our Puerto Rico plants were not operational, and incremental costs, all of which resulted from hurricanes in Puerto Rico and are included in Cost of sales. For additional information, see Note 2B, Note 3 and Note 4.

For Earnings in the first nine months of 2018, certain significant items includes: (i) restructuring credits and implementation costs associated with our cost-reduction initiatives that are not associated with an acquisition of $127 million, (ii) net credits for certain legal matters of $70 million, (iii) income of $1 million, representing an adjustment to amounts previously recorded to write down the HIS net assets to fair value less costs to sell, (iv) certain asset impairment charges of $31 million, (v) charges for business and legal entity alignment of $4 million and (vi) other income of $84 million, which includes, among other things, a non-cash $343 million pre-tax gain in Other (income)/deductions—net associated with our transaction with Bain Capital to create a new biopharmaceutical company, Cerevel, to continue development of a portfolio of clinical and preclinical stage neuroscience assets primarily targeting disorders of the central nervous system, a $119 million charge, in the aggregate, in Selling, information and administrative expenses, for a special one-time bonus paid to virtually all Pfizer colleagues, excluding executives, which was one of several actions taken by us after evaluating the expected positive net impact of the December 2017 enactment of the TCJA on us, and a $50 million pre-tax gain in Other (income)/deductions—net as a result of the contribution of our allogeneic chimeric antigen receptor T cell therapy development program assets in connection with our contribution agreement entered into with Allogene. For additional information, see Note 2B, Note 3 and Note 4.

For Earnings in the first nine months of 2017, certain significant items includes: (i) restructuring credits and implementation costs associated with our cost-reduction initiatives that are not associated with an acquisition of $133 million, (ii) charges for certain legal matters of $191 million, (iii) charges of $52 million, representing adjustments to amounts previously recorded to write-down the HIS net assets to fair value less costs to sell, (iv) certain asset impairment charges of $127 million, (v) charges for business and legal entity alignment of $54 million and (v) other charges of $239 million, which include, among other things, $55 million in inventory losses, overhead costs related to the period in which our Puerto Rico plants were not operational, and incremental costs, all of which resulted from hurricanes in Puerto Rico and are included in Cost of sales, and a net loss of $30 million related to the sale of our 40% ownership investment in Teuto, including the extinguishment of a put option for the then remaining 60% ownership interest, which is included in Other (income)/deductions—net. For additional information, see Note 2B, Note 3 and Note 4.

Equity in the net income of investees accounted for by the equity method is not significant for any of our operating segments.

The operating segment information does not purport to represent the revenues, costs and income from continuing operations before provision for taxes on income that each of our operating segments would have recorded had each segment operated as a standalone company during the periods presented.

B. Geographic Information

As described in Note 1A, the February 3, 2017 sale of HIS impacted our results of operations in 2017.

The following table provides revenues by geographic area:

| (MILLIONS OF DOLLARS) | Three Months Ended September 30, 2018 | October 1, 2017 | % Change | Nine Months Ended September 30, 2018 | October 1, 2017 | % Change |
|---|---|---|---|---|---|---|
| U.S. | $6,361 | $ 6,534 | (3) | $18,861 | $ 19,516 | (3) |
| Developed Europe[a] | 2,231 | 2,163 | 3 | 6,657 | 6,309 | 6 |
| Developed Rest of World[b] | 1,640 | 1,632 | 1 | 4,795 | 4,797 | — |
| Emerging Markets[c] | 3,066 | 2,839 | 8 | 9,358 | 8,222 | 14 |
| Revenues | $13,298 | $ 13,168 | 1 | $39,670 | $ 38,843 | 2 |

(a) Developed Europe region includes the following markets: Western Europe, Scandinavian countries and Finland. Revenues denominated in euros were $1.8 billion and $1.7 billion in the third quarter of 2018 and 2017, respectively, and $5.3 billion and $5.0 billion in the first nine months of 2018 and 2017, respectively.

(b) Developed Rest of World region includes the following markets: Japan, Canada, Australia, South Korea and New Zealand.

(c) Emerging Markets region includes, but is not limited to, the following markets: Asia (excluding Japan and South Korea), Latin America, Eastern Europe, Africa, the Middle East, Central Europe and Turkey.

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C. Other Revenue Information

Significant Product Revenues

As described in Note 1A, the February 3, 2017 sale of HIS impacted our results of operations in 2017.

The following table provides detailed revenue information:

| (MILLIONS OF DOLLARS) | | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|---|
| PRODUCT | PRIMARY INDICATIONS OR CLASS | September 30, 2018 | October 1, 2017 | September 30, 2018 | October 1, 2017 |
| TOTAL REVENUES | | $13,298 | $13,168 | $39,670 | $38,843 |
| PFIZER INNOVATIVE HEALTH (IH)[a] | | $8,471 | $8,118 | $24,573 | $23,204 |
| Internal Medicine | | $2,463 | $2,455 | $7,339 | $7,245 |
| Lyrica IH[b] | Epilepsy, post-herpetic neuralgia and diabetic peripheral neuropathy, fibromyalgia, neuropathic pain due to spinal cord injury | 1,132 | 1,150 | 3,398 | 3,382 |
| Eliquis alliance revenues and direct sales | Atrial fibrillation, deep vein thrombosis, pulmonary embolism | 870 | 644 | 2,524 | 1,813 |
| Chantix/Champix | An aid to smoking cessation treatment in adults 18 years of age or older | 261 | 240 | 789 | 727 |
| BMP2 | Development of bone and cartilage | 54 | 79 | 206 | 198 |
| Toviaz | Overactive bladder | 67 | 62 | 197 | 187 |
| Viagra IH[c] | Erectile dysfunction | — | 206 | — | 711 |
| All other Internal Medicine | Various | 79 | 75 | 224 | 228 |
| Vaccines | | $1,845 | $1,649 | $4,708 | $4,385 |
| Prevnar 13/Prevenar 13 | Vaccines for prevention of pneumococcal disease | 1,660 | 1,522 | 4,290 | 4,069 |
| FSME/IMMUN-TicoVac | Tick-borne encephalitis vaccine | 57 | 43 | 162 | 119 |
| Trumenba | Meningococcal Group B vaccine | 61 | 42 | 95 | 79 |
| All other Vaccines | Various | 67 | 43 | 160 | 117 |
| Oncology | | $1,775 | $1,616 | $5,294 | $4,551 |
| Ibrance | Advanced breast cancer | 1,025 | 878 | 2,985 | 2,410 |
| Sutent | Advanced and/or metastatic RCC, adjuvant RCC, refractory GIST (after disease progression on, or intolerance to, imatinib mesylate) and advanced pancreatic neuroendocrine tumor | 248 | 276 | 785 | 805 |
| Xtandi alliance revenues | Castration-resistant prostate cancer | 180 | 150 | 510 | 422 |
| Xalkori | ALK-positive and ROS1-positive advanced NSCLC | 127 | 146 | 417 | 442 |
| Inlyta | Advanced RCC | 71 | 84 | 226 | 256 |
| Bosulif | Philadelphia chromosome–positive chronic myelogenous leukemia | 69 | 57 | 206 | 163 |
| All other Oncology | Various | 55 | 26 | 164 | 54 |
| Inflammation & Immunology (I&I) | | $1,018 | $1,000 | $2,951 | $2,863 |
| Enbrel (Outside the U.S. and Canada) | Rheumatoid arthritis, juvenile idiopathic arthritis, psoriatic arthritis, plaque psoriasis, pediatric | 531 | 613 | 1,589 | 1,818 |

| | | | | | |
|---|---|---|---|---|---|
| | plaque psoriasis, ankylosing spondylitis and nonradiographic axial spondyloarthritis | | | | |
| Xeljanz | Rheumatoid arthritis, psoriatic arthritis, ulcerative colitis | 432 | 348 | 1,221 | 935 |
| Eucrisa | Mild-to-moderate atopic dermatitis (eczema) | 40 | 15 | 104 | 33 |
| All other I&I | Various | 15 | 23 | 37 | 78 |
| Rare Disease | | $531 | $ 569 | $1,651 | $ 1,637 |
| BeneFIX | Hemophilia | 132 | 151 | 420 | 453 |
| Genotropin | Replacement of human growth hormone | 143 | 136 | 416 | 375 |
| Refacto AF/Xyntha | Hemophilia | 117 | 140 | 388 | 409 |
| Somavert | Acromegaly | 64 | 65 | 195 | 182 |
| All other Rare Disease | Various | 74 | 77 | 232 | 218 |
| Consumer Healthcare | | $839 | $ 829 | $2,631 | $ 2,522 |
| PFIZER ESSENTIAL HEALTH (EH)[(d)] | | $4,826 | $ 5,050 | $15,097 | $ 15,639 |
| Legacy Established Products (LEP)[(e)] | | $2,533 | $ 2,681 | $7,865 | $ 7,995 |
| Lipitor | Reduction of LDL cholesterol | 507 | 491 | 1,539 | 1,341 |
| Norvasc | Hypertension | 247 | 226 | 773 | 684 |
| Premarin family | Symptoms of menopause | 204 | 238 | 605 | 711 |
| Xalatan/Xalacom | Glaucoma and ocular hypertension | 76 | 83 | 233 | 241 |
| Effexor | Depression and certain anxiety disorders | 78 | 76 | 228 | 215 |
| Zoloft | Depression and certain anxiety disorders | 72 | 78 | 223 | 215 |
| Zithromax | Bacterial infections | 54 | 61 | 216 | 202 |
| EpiPen | Epinephrine injection used in treatment of life-threatening allergic reactions | 68 | 82 | 215 | 253 |
| Xanax | Anxiety disorders | 52 | 58 | 163 | 164 |
| Sildenafil Citrate | Erectile dysfunction | 1 | — | 72 | — |
| All other LEP | Various | 1,176 | 1,288 | 3,599 | 3,969 |

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| (MILLIONS OF DOLLARS) | | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|---|
| PRODUCT | PRIMARY INDICATIONS OR CLASS | September 30, 2018 | October 1, 2017 | September 30, 2018 | October 1, 2017 |
| Sterile Injectable Pharmaceuticals (SIP)[f] | | $1,239 | $ 1,273 | $3,928 | $ 4,270 |
| Sulperazon | Treatment of infections | 145 | 114 | 464 | 345 |
| Medrol | Steroid anti-inflammatory | 95 | 109 | 318 | 352 |
| Fragmin | Slows blood clotting | 76 | 79 | 221 | 221 |
| Tygacil | Tetracycline class antibiotic | 60 | 60 | 186 | 192 |
| Zosyn/Tazocin | Antibiotic | 55 | 47 | 175 | 124 |
| Precedex | Sedation agent in surgery or intensive care | 47 | 51 | 166 | 182 |
| All other SIP | Various | 761 | 814 | 2,399 | 2,852 |
| Peri-LOE Products[g] | | $698 | $ 794 | $2,208 | $ 2,398 |
| Viagra EH[c] | Erectile dysfunction | 137 | 102 | 509 | 285 |
| Celebrex | Arthritis pain and inflammation, acute pain | 188 | 212 | 494 | 564 |
| Vfend | Fungal infections | 87 | 97 | 294 | 305 |
| Lyrica EH[b] | Epilepsy, neuropathic pain and generalized anxiety disorder | 81 | 134 | 251 | 428 |
| Zyvox | Bacterial infections | 50 | 68 | 184 | 220 |
| Revatio | Pulmonary arterial hypertension | 53 | 58 | 163 | 189 |
| Pristiq | Depression | 52 | 69 | 156 | 230 |
| All other Peri-LOE Products | Various | 49 | 55 | 157 | 176 |
| Biosimilars[h] | Various | $197 | $ 141 | $558 | $ 367 |
| Inflectra/Remsima | Inflammatory diseases | 166 | 112 | 469 | 284 |
| All other Biosimilars | Various | 31 | 28 | 89 | 82 |
| Pfizer CentreOne[i] | | $159 | $ 161 | $539 | $ 514 |
| Hospira Infusion Systems (HIS)[j] | Various | $— | $ — | $— | $ 97 |
| Total Lyrica[b] | Epilepsy, post-herpetic neuralgia and diabetic peripheral neuropathy, fibromyalgia, neuropathic pain due to spinal cord injury | $1,213 | $ 1,285 | $3,649 | $ 3,810 |
| Total Viagra[c] | Erectile dysfunction | $137 | $ 308 | $509 | $ 996 |
| Total Alliance revenues | Various | $977 | $ 741 | $2,820 | $ 2,112 |

(a) The IH business encompasses Internal Medicine, Vaccines, Oncology, Inflammation & Immunology, Rare Disease and Consumer Healthcare.

(b) Lyrica revenues from all of Europe, Russia, Turkey, Israel and Central Asia countries are included in Lyrica EH. All other Lyrica revenues are included in Lyrica IH. Total Lyrica revenues represent the aggregate of worldwide revenues from Lyrica IH and Lyrica EH.

(c) Viagra lost exclusivity in the U.S. in December 2017. Beginning in 2018, revenues for Viagra in the U.S. and Canada, which were reported in IH through 2017, are reported in EH (which reported all other Viagra revenues excluding the U.S. and Canada through 2017). Therefore, beginning in 2018, total Viagra revenues are reported in EH. Total Viagra revenues in 2017 represent the aggregate of worldwide revenues from Viagra IH and Viagra EH.

(d) The EH business encompasses Legacy Established Products, Sterile Injectable Pharmaceuticals, Peri-LOE Products, Biosimilars, Pfizer CentreOne and HIS (through February 2, 2017).

(e)

Legacy Established Products primarily include products that have lost patent protection (excluding Sterile Injectable Pharmaceuticals and Peri-LOE Products). In the fourth quarter of 2017, we sold our equity share in Hisun Pfizer. As a result, effective in the first quarter of 2018, Hisun Pfizer-related revenues, previously reported in emerging markets within All Other LEP and All Other SIP, are reported in emerging markets within Pfizer CentreOne.

(f) Sterile Injectable Pharmaceuticals includes branded and generic injectables (excluding Peri-LOE Products). In the fourth quarter of 2017, we sold our equity share in Hisun Pfizer. As a result, effective in the first quarter of 2018, Hisun Pfizer-related revenues, previously reported in emerging markets within All Other LEP and All Other SIP, are reported in emerging markets within Pfizer CentreOne.

(g) Peri-LOE Products includes products that have recently lost or are anticipated to soon lose patent protection. These products primarily include: Lyrica in Europe, Russia, Turkey, Israel and Central Asia; worldwide revenues for Celebrex, Pristiq, Zyvox, Vfend, Revatio and Inspra; and beginning in 2018, Viagra revenues for all countries (and Viagra revenues for all countries other than the U.S. and Canada in 2017, see note (c) above).

(h) Biosimilars includes Inflectra/Remsima (biosimilar infliximab) in the U.S. and certain international markets, Nivestim (biosimilar filgrastim) in certain European, Asian and Africa/Middle Eastern markets and in the U.S. and Retacrit (biosimilar epoetin zeta) in certain European and Africa/Middle Eastern markets.

(i) Pfizer CentreOne includes revenues from our contract manufacturing and active pharmaceutical ingredient sales operation, including sterile injectables contract manufacturing, and revenues related to our manufacturing and supply agreements, including with Zoetis Inc. In the fourth quarter of 2017, we sold our equity share in Hisun Pfizer. As a result, effective in the first quarter of 2018, Hisun Pfizer-related revenues, previously reported in emerging markets within All Other LEP and All Other SIP, are reported in emerging markets within Pfizer CentreOne.

(j) HIS (through February 2, 2017) includes Medication Management Systems products composed of infusion pumps and related software and services, as well as IV Infusion Products, including large volume IV solutions and their associated administration sets.

REVIEW REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Pfizer Inc.:

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated balance sheet of Pfizer Inc. and Subsidiary companies (the Company) as of September 30, 2018, the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2018 and October 1, 2017, the related condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2018 and October 1, 2017 and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2017, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the year then ended (not presented herein); and in our report dated February 22, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2017 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This consolidated interim financial information is the responsibility of the Company’s management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ KPMG LLP
New York, New York
November 8, 2018

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

See the Glossary of Defined Terms at the beginning of this Quarterly Report on Form 10-Q for terms used throughout this MD&A. Our MD&A is provided in addition to the accompanying condensed consolidated financial statements and footnotes to assist readers in understanding Pfizer's results of operations, financial condition and cash flows. The MD&A is organized as follows:

| | |
|---|---|
| Overview of Our Performance, Operating Environment, Strategy and Outlook<br>This section provides information about the following: Our Business; our performance during the third quarter and first nine months of 2018 and 2017; Our Operating Environment; The Global Economic Environment; Our Strategy; Our Business Development Initiatives, such as acquisitions, dispositions, licensing and collaborations; and Our Financial Guidance for 2018. | Beginning on page 57 |
| Significant Accounting Policies and Application of Critical Accounting Estimates and Assumptions<br>This section discusses updates to our 2017 Financial Report | Beginning on page 71 |

| | |
|---|---|
| disclosures for those accounting policies and estimates that we consider important in understanding our consolidated financial statements. For additional discussion of our accounting policies, see Notes to Consolidated Financial Statements—Note 1. Basis of Presentation and Significant Accounting Policies. | |
| Analysis of the Condensed Consolidated Statements of Income<br>This section includes the following sub-sections: | Beginning on page 72 |
| _ Revenues by Segment and Geography<br>This sub-section provides an overview of revenues by segment and geography as well as revenue deductions | Beginning on page 72 |
| _ Revenues - Selected Product Discussion<br>This sub-section provides an overview of several of our biopharmaceutical products. | Beginning on page 76 |
| | Beginning on page 82 |

| | |
|---|---|
| discussion of changes in certain components of other comprehensive income. | |
| Analysis of the Condensed Consolidated Balance Sheets<br>This section provides a discussion of changes in certain balance sheet accounts. | Beginning on page 102 |
| Analysis of the Condensed Consolidated Statements of Cash Flows<br>This section provides an analysis of our cash flows for the first nine months of 2018 and 2017. | Beginning on page 104 |
| Analysis of Financial Condition, Liquidity and Capital Resources<br>This section provides an analysis of selected measures of our liquidity and of our capital resources as of September 30, 2018 and December 31, 2017, as well as a discussion of our outstanding debt and other commitments that existed as of September 30, 2018 and December 31, 2017. Included in | Beginning on page 105 |

| | |
|---|---|
| the discussion of outstanding debt is a discussion of the amount of financial capacity available to help fund Pfizer's future activities. | |
| New Accounting Standards<br>This section discusses accounting standards that we have recently adopted, as well as those that recently have been issued, but not yet adopted. | Beginning on page 109 |
| Forward-Looking Information and Factors That May Affect Future Results<br>This section provides a description of the risks and uncertainties that could cause actual results to differ materially from those discussed in forward-looking statements presented in this MD&A. Also included in this section is a discussion of legal proceedings and contingencies. | Beginning on page 111 |

Certain amounts in our MD&A may not add due to rounding. All percentages have been calculated using unrounded amounts.

The following table provides the components of the condensed consolidated statements of income:

| (MILLIONS OF DOLLARS, EXCEPT PER COMMON SHARE DATA) | Three Months Ended September 30, 2018 | October 1, 2017 | % Change | Nine Months Ended September 30, 2018 | October 1, 2017 | % Change |
|---|---|---|---|---|---|---|
| Revenues | $13,298 | $13,168 | 1 | $39,670 | $38,843 | 2 |
| Cost of sales[a] | 2,694 | 2,844 | (5) | 8,173 | 7,972 | 3 |
| % of revenues | 20.3% | 21.6% | | 20.6% | 20.5% | |
| Selling, informational and administrative expenses[a] | 3,494 | 3,504 | — | 10,448 | 10,249 | 2 |
| % of revenues | 26.3% | 26.6% | | 26.3% | 26.4% | |
| Research and development expenses[a] | 2,008 | 1,865 | 8 | 5,549 | 5,367 | 3 |
| % of revenues | 15.1% | 14.2% | | 14.0% | 13.8% | |
| Amortization of intangible assets | 1,253 | 1,177 | 6 | 3,640 | 3,571 | 2 |
| % of revenues | 9.4% | 8.9% | | 9.2% | 9.2% | |
| Restructuring charges and certain acquisition-related costs | 85 | 114 | (26) | 172 | 267 | (36) |
| % of revenues | 0.6% | 0.9% | | 0.4% | 0.7% | |
| Other (income)/deductions—net | (414) | 79 | * | (1,143) | 65 | * |
| Income from continuing operations before provision for taxes on income | 4,177 | 3,585 | 17 | 12,831 | 11,351 | |