

# FINAL TRANSCRIPT

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**PFE - Q3 2011 Pfizer Inc Earnings Conference Call**

**Event Date/Time: Nov. 01. 2011 / 2:00PM GMT**

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## CORPORATE PARTICIPANTS

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## CONFERENCE CALL PARTICIPANTS

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## PRESENTATION

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**Operator**

Good day, everyone, and welcome to Pfizer's third quarter 2011 earnings conference call. Today's call is being recorded.

At this time, I would like to turn the call over to Mr. Chuck Triano, Senior Vice President of Investor Relations. Please go ahead, sir.

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**Chuck Triano - Pfizer Inc. - SVP, IR**

Good morning, and thank you for joining us today to review Pfizer's third quarter 2011 performance. I'm joined today by our CEO, Ian Read; Frank D'Amelio, our CFO; Olivier Brandicourt, President and General Manager of Primary Care; Mikael Dolsten, President of Research and Development; Geno Germano, President and General Manager of Specialty Care and Oncology; Amy Schulman, General Counsel and Business Unit Lead for Nutritionals; and David Simmons, President and General Manager of Emerging Markets and Established Products. The slides that will be presented on this call can be viewed on our home page, [pfizer.com](http://pfizer.com), by clicking on the link for Pfizer quarterly corporate performance third quarter 2011, located in the Investor Presentations section in the lower right-hand corner of this page.

Before we start, I would like to remind you that our discussions during this conference call will include forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. The factors that could cause actual results to differ are discussed in Pfizer's 2010 annual report on Form 10-K and in our reports on Forms 10-Q and 8-K. Also, the discussions during this conference call will include certain financial measures that were not prepared in accordance with generally accepted accounting principles. Reconciliation of those non-GAAP financial measures to the most directly comparable GAAP financial measures can be found in Pfizer's current report on Form 8-K dated today, November 1, 2011.

With that, I'll now turn the call over to Ian Read. Ian?

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**Ian Read - Pfizer Inc. - CEO**

Thank you, Chuck. During my remarks this morning, I will briefly recap some highlights from the quarter, provide an update on our capital allocation activities, including where we are with the annual health and nutritional and strategic reviews, comment on some of the continued progress we're seeing in the productivity of our innovative core, and close with a few comments about the external market and political environment we are operating within.

Overall, we delivered a solid financial performance for the quarter, despite a challenging global operating environment and the ongoing impact from LOEs. Given our performance year to date, we have increased our EPS guidance range for the full year. In terms of highlights for the quarter, our emerging markets business had a strong quarter, delivering operational growth of 12%, with solid performance in key countries such as China, Russia, Turkey, and India. While we know these markets will continue to be volatile going forward, our performance this quarter demonstrates the traction we are getting as a result of the investments we are making. We saw strong performance this quarter from Lipitor in the US. We have worked hard to maximize the value of and best position the brand ahead of the LOE. We are well prepared as the November 30, LOE date in the US approaches.

I am pleased with the continued progress of our established products business to penetrate the growing generics market, both in developed markets, as well as within emerging markets. Close to \$1 billion of the \$3.2 billion in total revenue for established products, in both the emerging markets and established products unit, came from emerging markets. Overall, the performance of our established products unit was strong, excluding the impact of LOEs experienced this quarter. I would also note our established products business has stepped in to help address recent drug shortages within the US, particularly in the area of off-patent oncology products.

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In specialty care, our Prevnar franchise continues to do well. While sales performance in the US reflected a tail end of the catch-up opportunity, we saw continued growth in most international markets. The underlying demand for Prevnar remains robust. Animal health, nutrition, and consumer all turned in strong quarters operationally, with animal health growing 15%, nutrition growing 24%, and consumer growing 11% over the same quarter last year. And in Japan, our second-largest market, we generated 19% operational growth Company-wide.

And we continue to see the benefits of our process improvements and cost reduction work this quarter. We are finding new ways of doing business that we believe will further enhance our competitiveness by using fewer resources without compromising our ability to operate. A recent example is the work underway to globally consolidate certain commercial operations, including such activities as market research, data analytics, and training. Frank will take you through the details of the quarter, but I would sum it up as a quarter where we performed well despite significant head winds resulting from LOEs that amounted to approximately \$950 million and the uncertainties created by the economic troubles experienced most visibly in Europe.

Next, I will turn to the activities we have underway to enhance shareholder value. We started the year sharing with you the steps we would take to allocate our capital in ways that enhance shareholder value. This quarter, we took another significant step in delivering on this goal by repurchasing more than \$2 billion of shares. This brings our year-to-date total to \$6.5 billion, and today, we've increased our full year share repurchase projection to between \$7 billion and \$9 billion. Additionally, we began the year with a projection that we would achieve a dividend payout ratio of approximately 40% in about 2 years. We remain committed to that goal.

Regarding the decision to explore strategic alternatives in nutritional and animal health businesses, we are making solid progress in the initial work required to support the form of separation for each that would yield the greatest after-tax return for shareholders. Our planning and preparatory actions remain on track, and we'll be in a position to announce our strategic decision in 2012 for each business, with any separations occurring between July of 2012 and July of 2013. Following the potential separation of these businesses, Pfizer will be a global biopharmaceutical company composed of innovative commercial units that are supported by an efficient R&D organization with an established products business that is well positioned in terms of geography and product portfolio, and which generates strong operating cash flow and a consumer healthcare business that brings a deep knowledge of consumers and pharmacists. Going forward, the innovative core will play a significant role in Pfizer's future, and I believe the steps we are taking to improve our performance here are paying off.

We are seeing good results across each of our biopharmaceutical units in terms of new products that are approved, in registration, or close to filing. In oncology, we launched Xalkori in the US and submitted it for approval in Europe and Japan. We also submitted Axitinib in both the US and Europe. In specialty care, we are pleased with the results we have seen with tofacitinib in the Phase III rheumatoid arthritis program and continue to anticipate accepted filings in the US and Europe and a filing in Japan before the end of this year. Just last week, we received approval in Europe for Prevnar 13 in adults age 50 and older for the prevention of evasive pneumococcal disease, and here in the US, we continue to anticipate a decision early next year. In primary care, the submission for Eliquis for stroke prevention and atrial fibrillation was validated for review in Europe last week, and our partner, Bristol-Myers Squibb, expects to have an accepted filing in the US for this indication by the end of the year.

While these 6 compounds are the near-term drivers of our innovative global commercial units, I am encouraged by the next wave of compounds and additional indications that are emerging behind these in our pipeline. We have a robust combination of new molecular entities that include biologics, small molecules, and large molecules. If successful, they will transition into our commercial units. In oncology, we have 2 Phase III compounds, dacotinib for non-small-cell lung cancer, and inotuzumab for aggressive non-Hodgkin's lymphoma. We also see potential opportunities to further expand Xalkori within the non-small cell cancer segments. We have recently started registration studies for our meningococcal B vaccine, with a pivotal study expected to commence in the near future, pending trial design discussions with the FDA. In Alzheimer's, we continue to progress a Phase III program for bapineuzumab. In the area of immunology, we are advancing our clinical development program for tofacitinib and plan to initiate Phase III trials in ulcerative colitis and a Phase II trial in Crohn's disease in 2012.

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We also have an expanding portfolio of antiinflammatory drugs in Phase II, with novel biological programs in inflammatory bowel disease. And we have a cholesterol reduction compound for hypercholesterolemia that is in Phase II and a combined Phase I, II vaccine for staph aureus. Regarding the assets we've acquired from King, many of the King products are doing well, such as EpiPen, FlectorPatch, and Skelaxin. For Remoxy and Embeda, we are continuing to make progress in the pharmaceutical sciences and manufacturing characterization of those abuse deterrent opioid compounds. Concerning Embeda, we are committed to returning it to the market as soon as the stability issue is resolved. We are actively progressing 3 possible pathways, and we have several key decisions pointing -- sorry, several key decisions during 2012 that will determine the necessary corrective action, as well as the timing for reaching out to regulatory authorities. For Remoxy, there are also several key decision points over the next several months that will determine the timing and nature of our response to the FDA's complete response letter.

Overall, we are making solid progress. I am confident in our ability to further strengthen our midstage pipeline. The work our R&D organization is doing to increase its productivity and share risk is gaining traction. We are spending smartly, eliminating non-productive spending, and instilling a greater ROA mentality, driven by our chief scientific officers. Finally, I want to acknowledge that there exists uncertainty around macroeconomic issues, given the supercommittee deliberations and continuing issues in European economies. Regarding the budget goals of the supercommittee, we believe that the pharmaceutical industry has contributed substantially already, and we anticipate this will be recognized.

In Europe, pricing pressures remain consistent with what we've experienced last quarter. We are seeing mid-single-digit reductions and are assuming this level of impact going forward. In terms of balance sheet assets, we have minimal exposure to Portugal, Italy, Greece, and Ireland. I believe we are positioned as best as we can be, given what we know at this time. We continue to have strong financial flexibility, and we will monitor the situation closely.

In summary, I remain optimistic about the opportunities we have and the pace of change I see within our R&D organization. In particular, the entrepreneurial spirit, the collaboration between commercial units and research, and the genuine can-do attitude I observed when spending time with our colleagues. There is a more tangible sense of urgency, confidence, and commitment that I believe will serve as a foundation to enable Pfizer to deliver meaningful increases in value for our shareholders over time.

Now, I'll turn it over to Frank for additional details on the quarter.

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**Frank D'Amelio - Pfizer Inc. - CFO**

Thanks, Ian. Good day, everyone.

As always, the charts I'm reviewing today are included in our webcast. Now, let's move on to the results. Revenues of about \$17.2 billion increased 7% quarter-over-quarter, which reflects operational growth of \$247 million, or 1%, and the favorable impact of foreign exchange of \$951 million, or 6%. The 1% operational growth includes the addition of King Products, which favorably impacted revenues by \$353 million, or 2%, which was partially offset by the unfavorable impact of the US healthcare reform of \$151 million, or 1%. In addition, we continue to absorb the impact of the loss of exclusivity of several products in certain geographies, which in the third quarter negatively impacted revenues by approximately \$950 million, or 6%. Reported net income and reported diluted EPS were favorably impacted by the \$1.3 billion after-tax gain on the sale of Capsugel in Q3 of '11, the non-recurrence of \$1.5 billion in pre-tax impairment charges, and a \$701 million pre-tax charge for litigation, both occurring in Q3 of 2010, and increased revenue compared with Q3 of 2010. And were unfavorably impacted by the loss of exclusivity of certain products and increased expenses incurred for cost reduction and productivity initiatives.

Third quarter 2011 adjusted cost of sales as a percentage of revenue was 19.3%, compared with 17.8% in the year-ago quarter, due primarily to the negative impact of foreign exchange and a shift in product and business mix. Excluding the impact of foreign exchange on revenue and cost of sales, adjusted cost of sales as a percentage of revenue was 18.7% for the quarter. Adjusted total cost increased 3%. However, excluding the negative impact of foreign exchange, costs related to legacy King operations, healthcare reform, and the Puerto Rico excise tax, adjusted total costs decreased by approximately 5%, primarily

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due to our ongoing cost reduction and productivity initiatives. Adjusted income increased 11% year-over-year due to increased revenues, which reflects the favorable impact of foreign exchange, which was partially offset by loss of exclusivity for certain products and increased cost of sales due to a shift in products and product and business mix. Adjusted diluted EPS increased 15%, which included a \$0.02 benefit from the decline in the number of shares outstanding.

As I previously stated, foreign exchange positively impacted third quarter revenues by \$951 million, or 6%, and negatively impacted adjusted total costs by \$541 million, or 6%. As a result, foreign exchange favorably impacted adjusted diluted EPS by approximately \$0.04. As I mentioned previously, in the third quarter, we experienced total operational growth of 1% driven by growth in the emerging markets, consumer healthcare, animal healthcare, and the nutrition businesses, growth from certain key products, the addition of King Products, and foreign exchange. And again, I want to point out that in the third quarter, we continued to absorb revenue declines as a result of the loss of exclusivity of certain products in several geographies. The impact this quarter was approximately \$950 million.

Third quarter revenues generated from both biopharmaceutical and other businesses in emerging markets increased 21% year-over-year, and biopharmaceutical revenues grew 12% operationally in those markets. It's important to note that over the same period, Brazil, Russia, India, China, Mexico, and Turkey contributed a combined 53% of the overall growth in emerging markets, and revenues from the biopharmaceutical businesses in the BRIC MT markets grew 13% operationally to approximately \$1.1 billion. In addition, year-to-date biopharmaceutical revenues in BRIC MT markets increased 9% operationally to \$3.2 billion. Finally, enterprise-wide revenues generated by sales in emerging markets totaled approximately \$3.4 billion in the third quarter.

Based on year-to-date performance and outlook for the remainder of 2011, we are increasing our adjusted diluted EPS guidance range to \$2.24 to \$2.29 from \$2.16 to \$2.26. In addition, we're narrowing the range of the components of our 2011 financial guidance, including raising the lower end of our revenue guidance. As expected, our cost of sales in the fourth quarter will reflect the impact of the seasonal uptick we typically experience during the quarter and Lipitor's loss of US exclusivity on November 30. In addition, our expected S&A expenses for the remainder of the year will include the impact of increased spending in connection with the launch of Xalkori, pre-launch expenses for anticipated new products, seasonal spending patterns, and the continued spending to support the Lipitor brand, pre and post its loss of exclusivity to maximize its value. Given our continued confidence in our future business performance, we are reaffirming all elements of our 2012 financial targets. I want to point out that we continue to expect our 2012 target range for adjusted operating margin to be in the high 30s to low 40s percentages, and we expect negative impact on our cost of sales due to shifts in product and business mix to be mitigated by the continuing benefits of our productivity and cost reduction initiatives.

Finally, moving on to key take-aways, we delivered solid quarterly financial performance, despite the continuing -- the continued challenging global operating environment and the continued impact from the loss of exclusivity of several key products. Based on our year-to-date performance and outlook for the rest of 2011, we are updating the components of our 2011 financial guidance, including increasing our adjusted diluted EPS guidance. We're continuing to improve the performance of our innovative core, making significant advances in our mid- to late-stage pipeline, and we now anticipate repurchasing \$7 billion to \$9 billion of our shares in 2011. In fact, during the third quarter, we repurchased \$2.1 billion, or 112.9 million shares, and to date, we have repurchased approximately \$6.5 billion, or 331.6 million shares. We have remaining authorization to repurchase up to \$2.5 billion more of our shares under the current Board-approved repurchase program, and we're positioning the business to continue to deliver shareholder value over time.

With that, I'll turn it back to Chuck.

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**Chuck Triano - Pfizer Inc. - SVP, IR**

Thank you, Frank. Operator, at this point, if we could please poll for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions).

Your first question comes from Jami Rubin from Goldman Sachs.

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**Jami Rubin - Goldman Sachs - Analyst**

Thank you for taking my questions. Couple of questions.

First, on Lipitor, Frank or Ian, if you could provide a little bit more color on how you see the 180-day exclusivity period play out for you, specifically, what your intelligence is telling you on Ranbaxy, if Ranbaxy indeed will be on the market on time. And number two, Watson just told that they expected that you would retain about 40% market share. Just wondering if you could provide a little bit of color around that and, is most of that being driven by the mail order business, or is that part retail? Is it a mixture of both? That would be my first question.

My second question relates to capital allocation. \$7 billion to \$9 billion in share repurchases is a huge number, and congratulations. Just was wondering, though, if that is the sort of rate of repurchases that we should now come to expect, given your very strong cash flow going forward. Thanks.

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**Ian Read - Pfizer Inc. - CEO**

So thank you, Jami. On Lipitor, I'm going to ask Frank to answer most the questions, but I would like to point out that we have addressed the Lipitor LOE very seriously. We've put in a lot of, I believe, very good programs to continue to support it, to drive brand loyalty, and negotiating with payors in the distribution channel, and we're trying to build a strong pre and post plan. So I would ask Frank to add some comments and perhaps Olivier.

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**Frank D'Amelio - Pfizer Inc. - CFO**

On the first part of the Lipitor question, Jami, we are assuming that Watson will enter the market upon LOE. We are also assuming that Ranbaxy will enter the market upon LOE, the LOE, obviously, being November 30 of this year. And we assume that 180 days from when Ranbaxy enters the market, there will be multiple players that enter the market as well. So that's the assumption on what we're assuming relative to the 180-day window.

Olivier?

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**Olivier Brandicourt - Pfizer Inc. - President & GM, Primary Care**

Thanks. I can add that we are continuing to promote Lipitor in order to maximize the brand opportunities, as Ian said, both pre and post LOE. You probably have seen in the third quarter we reported Lipitor US at about 13%, and primarily the result of the promotion, which is based on the higher-risk patient targeted DTC Lipitor \$4 co-pay card, which we have launched in December last year, and a new program we launched recently in September called the Lipitor For You program, which includes not only assisted co-pay but also a very targeted program in support of certain patient. So, we also have partnered, to your point, with some customer so that patients can remain or even begin taking branded Lipitor, and we are continuing to explore opportunities to partner with others. So, we're definitely supporting the brand, again, and maximizing the brand, pre and post LOE.

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**Frank D'Amelio - Pfizer Inc. - CFO**

And then on the capital allocation question on the \$7 billion to \$9 billion, let me run some numbers, Jami, and then I'll answer your question. So, year to date now, we have repurchased \$6.5 billion worth of our shares, almost 332 million shares. This past quarter, \$2.1 billion worth of our shares, 112.9 million shares. And we increased our target in terms of repurchases from what was \$5 billion to \$7 billion to \$7 billion to \$9 billion. So that's all the numbers for this year.

Then, what you really asked me about was, what about going forward? And the way I'll answer that question is buybacks have been and will continue to be one of our priorities for capital allocation. But we have other priorities. The dividend is another priority. Bolt-on acquisitions is another priority. Investing in the business is another priority. And how we handle our debt and then, finally, how much cash we repatriate. I don't want to forecast what we're going to do or not do specific to buybacks going forward, because I don't view that as an "and/or." It's an "and," relative to everything else that we do on our capital allocation.

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**Ian Read - Pfizer Inc. - CEO**

With that being said, I think we have track record, especially this year, of showing that we are acutely focused on shareholder value, and we'll take those decisions as the situation evolves to make those decisions in the best interest of the shareholders.

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**Chuck Triano - Pfizer Inc. - SVP, IR**

Thanks. Next question, please, operator?

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**Operator**

Your next question comes from Catherine Arnold from Credit Suisse.

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**Catherine Arnold - Credit Suisse - Analyst**

Thank you very much. Good morning.

I was wondering, just to give some more color on the Lipitor expectations in terms of share retention and contracting, did you have those expectations whenever you originally gave us the 2012 guidance? And then, I wondered if you could give us a little bit more color on the tax rate and if there was repatriation activity that might have also been an explanation for the higher tax rate and how we should extrapolate that in longer term. Thanks.

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**Chuck Triano - Pfizer Inc. - SVP, IR**

Could you do that, Frank?

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**Frank D'Amelio - Pfizer Inc. - CFO**

Yes. So, in terms of the tax rate, maybe the way I'll answer that, Catherine, is, the adjusted rate for the quarter was 30.9%. Last year, it was 30.2%. So, what caused the increase was really a change in the jurisdictional mix of our earnings, which was partially offset by the extension of the R&D tax credit. So that's kind of what happened on a quarter over quarter basis.

In terms of going forward, we forecasted for this year. We reaffirmed our approximately 29%. We did that for next year as well. So at least for the remainder of this year and for next year, assume the tax rate continues to be approximately 25%. Beyond 2012, I think it's just -- it's premature to try to say, given kind of the various financial challenges that are in numerous places in

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the world today and the economical challenges that go along with that. I think 29% for next year, beyond that, I think too soon to tell.

And then you mentioned repatriation. So, maybe let me comment on that, not in terms of anything extraordinary that we did this quarter. It was really a mix of earnings this quarter. But in terms of just repatriation, I want to bump it up a level and really describe it as we think tax reform debate, the debates will continue. We have been and will continue to be proactive in those debates, and Pfizer supports any comprehensive tax reform that will make the US multinationals more competitive internationally. So that's how I would answer the questions, Ian.

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**Ian Read - Pfizer Inc. - CEO**

Thank you. And on Lipitor in the forecast?

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**Frank D'Amelio - Pfizer Inc. - CFO**

Yes, in terms of the forecast, that was all incorporated, factored into our existing 2012 targets.

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**Ian Read - Pfizer Inc. - CEO**

Thank you, Catherine.

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**Chuck Triano - Pfizer Inc. - SVP, IR**

Next question, please, operator.

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**Operator**

Your next question comes from Chris Schott from JPMorgan.

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**Chris Schott - JPMorgan Chase & Co. - Analyst**

Great, thanks very much. First question with regards to crizotinib, can you talk about your expected uptake of ALK testing and what's the launch trajectory you're thinking about for that product? And the second question, not to focus too much on Lipitor, I know we've had a lot of questions on the US, can you just discuss the erosion that you're anticipating when we think about your pretty substantial developed Europe and developed rest of world businesses for Lipitor as we look out to 2012? Thank you.

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**Geno Germano - Pfizer Inc. - President & GM, Specialty Care and Oncology**

Yes, Chris, this is Geno. I'll speak to Xalkori, we just launched in August. We're off to a good start. While it's early in the process, we're excited by the feedback we're getting from clinicians, and we're seeing patients administer the drug on a pretty broad base across cancer centers around the United States. There's significant traffic on our websites, etcetera. So, the early indicators seem to be positive.

In terms of the testing, NCCN guidelines were updated within 2 weeks of the launch of crizotinib, recommending routine testing for ALK. There's about 140 centers, testing centers around the country that have the capability to do ALK testing, and they are

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being converted to the now-FDA-approved test methodology. So, we see the progress moving according to expectations, and it's early. We'll see how things go from here.

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**Ian Read - Pfizer Inc. - CEO**

Olivier, do you want to comment -- thank you, Geno -- do you want to comment on Lipitor, ex US?

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**Olivier Brandicourt - Pfizer Inc. - President & GM, Primary Care**

Yes, sure. So, we achieved about, almost \$600 million in developing Europe revenues, but we're down about 16% operationally. And the main driver of the European revenue decline is in fact the LOE in Spain, which we presented around \$53 million, which was driven by a combination of mandatory price reduction and also to your point, a generic volume erosion. So, the sales erosion in Spain has been much more rapid than previous LOEs in Europe, given the payor pressures in many regions of Spain.

So, we have been able to increase the volume in some countries. However, the revenue decline has also been impacted by other countries in Europe due to mandatory price reductions this year, and I'm thinking about Italy, where we have faced a 20% price reduction in January, and Ireland, which you may know, we faced an average price reduction of 35% also in January. So, again, we are growing in some country by volume. Italy, despite what I just said, actually grew volume by 8%, France and Belgium by 3% and 4%, and other smaller countries. So, that's the summary of the situation.

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**Ian Read - Pfizer Inc. - CEO**

So overall, what I think Olivier is describing is that, in fact, we're taking some hits on Lipitor ahead of the LOE in '11. Overall, we expect the -- we do have pediatric patent extension in the major countries in Europe, so we're not expecting to see the LOE of Lipitor until mid-'12 in the major countries. And Japan has in fact -- the patent has expired, I believe, on Lipitor, although there's been no generic entries. We would expect a generic entry at the back end of '11 in Japan, and would expect the performance in Japan on Lipitor to be similar to what we experienced with our other products in Japan, like Norvasc, when they go LOE, which is certainly a decline, a lot more limited than Europe or any other of the developed markets. Thank you.

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**Chuck Triano - Pfizer Inc. - SVP, IR**

Next question, please, operator.

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**Operator**

Your next question comes from Tim Anderson from Sanford Bernstein.

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**Tim Anderson - Sanford C. Bernstein & Company, Inc. - Analyst**

Hi, couple of questions. The \$1.5 billion in SG&A that you're guiding for the reduction and going from '11 to '12, can you kind of rank order the biggest buckets of savings, or is this the sort of thing where there's no big discrete buckets, but instead, it's a smaller contraction across a very broad base of business functions? And then second question is, when can we expect Pfizer to give guidance that extends beyond 2012?

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**Ian Read - Pfizer Inc. - CEO**

Please, Frank.

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**Frank D'Amelio - Pfizer Inc. - CFO**

All right. So, on the first question, the way I would answer it, Tim, is there's no one big silver bullet on the SI&A. I'm on going to call it a series of numerous items, lots of blocking and tackling that cover multiple areas. Ian mentioned some in his opening remarks, relative to things we're doing to streamline the organization, which will improve our cost structure. We're looking at how we spend advertising dollars and promotion dollars. We're looking at our spend on consultants, travel and living, our systems environment and the various opportunities that we've been generating that we will continue to generate on a going-forward basis. So, there is no one single item. It's a host of items.

The other thing I should just mention in terms of our cost structure is head count. If you look at our head count this past quarter, our head count was 106,500. Beginning of the year, we were at 110,600. At the end of 2009, which was the year after we closed Wyeth, we were at 116,500. So if you go from the end of '09 to where we ended the quarter, we're down over 10,000 people. If you look at when we announced Wyeth in January of 2009, the combined companies had 130,000 people. We said we thought we could reduce the work force by 15% in about 3 years. At the end of this past quarter, we're at 18% in less than 2 years. Just to give you a feel for the rhythm of the numbers and how that drives through our cost structure. So, that's how I would answer that.

In terms of when you can expect guidance beyond 2012, obviously, our next earnings call will be early February. We'll provide an update on 2012. Beyond 2012, quite frankly, our objective is to generate consistent, steady, sustainable earnings growth over time, which we believe will create shareholder value consistently over time. And that's what we're all about doing.

**Ian Read - Pfizer Inc. - CEO**

Thanks, Frank. I would add to this expense issue that we have taken steps in the US with the LO -- upcoming LOE of Lipitor to readjust our field force. And we are also moving to readjust our infrastructure in Europe at a fast pace as we look at the Europe primary care scenario over the next few years. But more to the point, we are creating inside Pfizer a real ownership culture of the expense base, and this decision to move our expenses and get them in line with our revenue is one that the whole EOT has taken on, and I feel very confident we'll be able to manage our expenses appropriately.

**Chuck Triano - Pfizer Inc. - SVP, IR**

Thanks, Ian. Operator, please, next question.

**Operator**

Your next question comes from Gregg Gilbert from Bank of America Merrill Lynch.

**Gregg Gilbert - BofA Merrill Lynch - Analyst**

Thanks. First, another Lipitor US question. Maximizing a brand past LOE to the extent suggested by Watson, and I think supported by your comments today, is somewhat unprecedented, so my question is, is this a bridge to an OTC strategy, or other strategy for which brand, the brand equity matters, or are you simply trying to maximize profits over a 6-month period? And secondly, for Frank, wondering why the factors that allowed you to over achieve 2011 earnings per share don't flow through to a higher outlook for 2012, or should we not read too much into your simply reaffirming 2012 yet? Thanks.



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**Ian Read - Pfizer Inc. - CEO**

So on the, on the -- thanks for the question, Gregg. On the Lipitor, most of the focus is on ensuring the brand has a robust performance in the rest of '11 and the first 180 days of its loss of exclusivity. Clearly, there is an intent at some point to try and have an OTC version of Lipitor on the marketplace. I think the brand Lipitor is strong, and these actions we're taking today are not specifically directed towards strengthening any potential OTC brand in the future.

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**Frank D'Amelio - Pfizer Inc. - CFO**

And then Gregg, in terms of the '11 and '12 EPS numbers, let me run the numbers, and then I'll answer the question. So, we raised the EPS guidance this quarter for the year from \$2.16 to \$2.26 to \$2.24 to \$2.29. Next year, the EPS number is \$2.25 to \$2.35. So, that's earnings growth despite the fact that we have the Lipitor LOE in the US on November 30 of this year. We get the full year effect of that next year.

So, to grow earnings despite that, there's a lot that we're going to be doing next year. It's growth of some of our inline products, growth of new products, growth in emerging markets, growth in our diversified business, significantly lower SI&A and R&D expenses, continuing to leverage our balance sheet as appropriate. So, no, I don't think you all should read anything negative into the 2012 numbers. Quite frankly, I think those 2012 numbers are quite balanced, given what -- given the LOEs that we will continue to have to address on a going-forward basis.

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**Ian Read - Pfizer Inc. - CEO**

Thank you, Frank.

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**Chuck Triano - Pfizer Inc. - SVP, IR**

Next question, please, operator.

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**Operator**

The next question comes from David Risinger from Morgan Stanley.

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**David Risinger - Morgan Stanley - Analyst**

Yes, thanks very much. My questions are for Mikael Dolsten.

First, Mikael, if you could please discuss the meningococcal B vaccine Phase III program. Specifically, there is a 7,500 patient trial in 11- to 25-year-olds that has safety as the primary end point. Could you discuss the safety issues you're scrutinizing? And also, what's your target age population for commercialization? And then, my next question is a little bit broader. Just hoping to get your perspective on the key clinical trial results to focus on in 2012 for Pfizer and what you're most optimistic about seeing. Thank you.

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**Ian Read - Pfizer Inc. - CEO**

Okay, Mikael, if you could take those questions.



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**Mikael Dolsten** - Pfizer Inc. - President, Worldwide Research & Development

Yes, so thank you for your interest in the meningococcal vaccine. We previously have reported that we have a vaccine based on 2 unique structures that we have isolated, and we show it in the Phase II studies, a very good indicator of our ability in the adolescent population. I have previously stated that it looks like it's performing very well when it comes to immunogenicity versus competitor studies in infants using mening B as the target vaccine. We have, as Ian commented in his introduction, started certain studies of the registration package while we are in the final phase of discussing with the FDA concerning the surrogate end point and trial design for the larger pivotal Phase III studies. We remain encouraged about the importance of the mening B vaccine to provide effective prevention for a fatal disease and we think we have a strong data package so far and good plans moving forward.

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**Ian Read** - Pfizer Inc. - CEO

Thank you.

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**Chuck Triano** - Pfizer Inc. - SVP, IR

The second part of the question, is 2012, things we're looking forward to. Next wave.

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**Mikael Dolsten** - Pfizer Inc. - President, Worldwide Research & Development

Yes, speaking about the pipeline, and I think Ian shared with you our enthusiasm for the late registration pipeline and the 6 particular drugs moving forward towards registration or to the market. In one of our 5 core areas, we have a very robust portfolio. And I'll just give you a couple of highlights. Oncology, beyond axitinib, we have first in class inotuzumab for non-Hodgkin's lymphoma with an opportunity to expand in traditional b-cell malignancies. Dacomitinib has been reported previously for proof of concept is now in Phase III, and we have also some very intriguing best in class [Mtopia 3K] drugs, an area which has shown a very interesting efficacy in select breast cancer segments. In immune inflammation, you've heard that we expand tofacitinib into ulcerous colitis, due to encouraging data so far into Phase III studies we're moving now, and also, we'll assess optimal use of tofacitinib in Crohn's in Phase II.

We have also first in class MAdCAM antibody and best in class [IL6] antibodies for IBD and several other programs, which we've also opened into new areas of immune inflammation, such as lupus. CV med, beyond Eliquis and our excitement for a (inaudible) stroke, we have important clinical data for our PCSK9, and we're moving that antibody forward in Phase II. We have received also a good clinical science for unique glucokinase activators and novel PD5 inhibitors for diabetic nephropathy. In the vaccine area, you are aware that beyond mening B we have a Staph Aureus program that we think is industry-leading in its profile, and we have a combined Phase I and II study ongoing. And neuroscience pain, bapineuzumab with our partners is moving forward. We have additional novel entries in the pipeline for PDE2 inhibitor for cognitive impairment and also a base program. And also in the pain area, we are moving a nice compound effort in the nav 1.7 space, which is a high-profile target for the industry.

These are our 5 core areas, but it's a broad pipeline, where exciting assets also in niche areas including wet and dry IMD, and I hope this gave you a kind of perspective of a balanced, robust pipeline coming behind the major programs that Ian introduced you to.

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**Ian Read** - Pfizer Inc. - CEO

Thank you, Mikael. I believe on the mening B, our main focus is on adolescents, which are the carriers in that population, so that's extremely important, and that's a differentiation vis-a-vis Novartis, which is more in pediatric. Thank you.

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**Chuck Triano** - Pfizer Inc. - SVP, IR

Thank you. Next question, operator?

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**Operator**

Your next question comes from Steve Scala from Cowen.

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**Steve Scala** - Cowen and Company - Analyst

Thank you. I have three questions, all related to alliance revenue. First, can you please tell us the months when the Spiriva co-promote ends in key EU markets during 2012 and '13, and in what months in 2014 does it expire in the US and Japan? Secondly, what is the origin of the dispute with Merck Serono over whether Rebif co-promote terminates in 2013 or '15? Is it simply vague language in the contract, or is it something else? Then the third question is, is there any chance to extend the co-promotes for either Spiriva or Enbrel, or should we assume there's no chance of that? Thank you.

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**Ian Read** - Pfizer Inc. - CEO

Olivier, would you like to take the first question?

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**Olivier Brandicourt** - Pfizer Inc. - President & GM, Primary Care

Yes. On the Spiriva question, we have 10 years contract with BI, and determination date, in fact, defers country by country, because it is calculated from the launch date in each country. So what you're going to see is a graduated decline in revenue during the year 10 of the contract for all countries, with no additional revenue beginning in year 11. In Europe we are beginning contract exits in 2012 and '13, and you mentioned the US and Japan, and the contract exit there is actually planned for 2014. And the last countries will exit the contracts in 2016.

And to answer the second part of your question on Spiriva, I think you have to assume that there is no continuation of the contract behind 2016.

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**Ian Read** - Pfizer Inc. - CEO

Thank you, Olivier. Amy, would you like to answer the question on Rebif?

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**Amy Schulman** - Pfizer Inc. - General Counsel & Business Unit Lead, Nutritionals

With respect to Rebif, as you know, Serono filed a lawsuit in Philadelphia contesting the terms of the contract. We were very pleased that the court agreed with our interpretation, and other than that, giving the pendency of the litigation, I don't think we should comment on the contract terms.

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**Ian Read** - Pfizer Inc. - CEO

Thank you. I think that was the Enbrel question. Geno?

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**Geno Germano** - Pfizer Inc. - President & GM, Specialty Care and Oncology

Yes, the Enbrel partnership with Amgen's been a very, very successful partnership, and the term expires in October of 2013. We have no current plans to extend that partnership.

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**Frank D'Amelio** - Pfizer Inc. - CFO

And we have 13 months immediately thereafter where we receive a royalty, although it's obviously less than --

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**Geno Germano** - Pfizer Inc. - President & GM, Specialty Care and Oncology

3-year tail.

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**Frank D'Amelio** - Pfizer Inc. - CFO

3-year tail. 36 months, right.

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**Ian Read** - Pfizer Inc. - CEO

Thank you very much.

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**Chuck Triano** - Pfizer Inc. - SVP, IR

Next question, operator.

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**Operator**

Your next question comes from Tony Butler from Barclays Capital.

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**Tony Butler** - Barclays Capital - Analyst

Good morning, and thanks very much. The questions are two, and they are around Prevnar and animal health. The first is on an international basis, strong quarter-to-quarter growth. Could you comment on tenders which may have been won? And then second, as we think about and try to frame the adult indication next year without the results of the CAPITA trial, how should we think about that adult indication rolling out? Will it be initially slow? And moreover, when CAPITA reads out, even before a label change, would you not assume that the uptake would become very -- relatively quick, because that information would clearly be unique, extraordinarily unique to a pneumococcal vaccine?

And then my second question on animal health is, if you take out the King assets, the US growth would actually be down. Is there something fundamentally in the US with respect to animal health, given the very strong demand ex US? Thanks very much.

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**Ian Read** - Pfizer Inc. - CEO

Geno, could you take the Prevnar, please?

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**Geno Germano** - Pfizer Inc. - President & GM, Specialty Care and Oncology

Sure. On the quarter, strong international results. Actually, we were up 21% for the quarter, and international was up even more. Most of the gain has come from continued penetration of the Japanese market, with Prevnar 7, the Turkey NIP that began this year, and we've initiated distribution in the GAVI countries. We won back 2 key provinces in Canada. We have the South African NIP. Then about, then about 3 or 4 other important NIPs, but it's broadly spread across, really around, across the world.

And then I think the question on Prevnar 13 adult uptake with the approval in Europe, the first step is to secure pricing and to roll out the introduction of the adult indication throughout Europe. We were particularly pleased to see the regulators in Europe recognize the preferable positioning of the 13 valent conjugate vaccine ahead of the use of the use of polysaccharide vaccine, and we think that will be an important part of the labeling and the positioning of the product in European countries. And once the capita trial data are available, assuming they are positive, we think that they will be well recognized in the infectious disease community, and we will work quickly with regulators to incorporate that information into the labels across Europe.

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**Ian Read** - Pfizer Inc. - CEO

And regards animal health, animal health was up, I think you just said 15% operationally. 10% was due to King and 5% was due to legacy Pfizer, and I believe, in fact, the US was not down, but very slightly up when you extract King. So overall, there's no particular reason for any concerns about the business in the US. It continues to be strong and progressing along the lines we expect.

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**Chuck Triano** - Pfizer Inc. - SVP, IR

Thanks, Ian. Next question, please, operator.

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**Operator**

Your next question comes from Seamus Fernandez from Leerink Swann.

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**Seamus Fernandez** - Leerink Swann & Company - Analyst

Thanks very much. You even got my name right. Three quick questions.

Maybe, if you guys can comment on the very strong performance of the nutritionals business. Anything specific to the strong third quarter versus the slower first half? Second, maybe for Ian, and can you just give us how we should think about the restructuring of animal health and nutri, the use of proceeds as you kind of think about it. Historically, you've commented on that as the stock in sort of the rite of first passage, as well as the influence of tax on the strategic decisions there. And then lastly, for Mikael, on bapineuzumab, can you just update us on when we should expect to actually see the first data reported out from the venture with Johnson & Johnson and Delon, and if there is any chance that subgroups such as prodromal patients or early AD patients could be used to allow approval. Thanks a lot.

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**Ian Read** - Pfizer Inc. - CEO

So, the first question was on the --

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**Amy Schulman** - Pfizer Inc. - General Counsel & Business Unit Lead, Nutritionals

Strong nutri performance.

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**Ian Read** - Pfizer Inc. - CEO

Strong nutri performance. If you would like to answer that, please.

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**Amy Schulman** - Pfizer Inc. - General Counsel & Business Unit Lead, Nutritionals

Sure. Thank you. This quarter's performance is indeed a demonstration of the focus and the commitment that our nutritional colleagues have shown around the world. And I think a few things contributed to the very strong operational growth we had. The first is strong performance in some of our key geographies including Africa/Middle East and China, greater demand in the market for some of our premium and super-premium products. We launched Illuma in China, and the reformulated premium gold line. And then throughout the Pfizer nutrition key markets, we had a number of other product launches. So I think the -- those 3 factors really contributed, along with the focus of our work force, on the strong quarter we had.

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**Ian Read** - Pfizer Inc. - CEO

Thank you, Amy. And certainly the management of that BU and the focus of the BU has brought to bear has been instrumental in these very good results. Regarding the disposal and the restructuring, we look at the monetization of both nutritional animal health on an after-tax basis. We need to maximize the after-tax value of that, and the proceeds that we get from that, as you have said, and as I've said before, the case to beat is share repurchase. Clearly, we would like to do, and we look, we continue to look for bolt-on acquisitions of high quality assets that would accelerate top line growth, but those acquisitions have to beat the base case of a buyback of shares and the impact that has on the Company. Thank you.

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**Chuck Triano** - Pfizer Inc. - SVP, IR

Thanks. Operator, next question, please.

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**Operator**

Your next question comes from John Boris from Citi.

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**Ian Read** - Pfizer Inc. - CEO

Before we go to that, actually, we'll answer the question about the bapineuzumab. I apologize, John. Give us a second.

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**Olivier Brandicourt** - Pfizer Inc. - President & GM, Primary Care

Yes, on bapineuzumab there is actually no new news. You may remember last year J&J announced through Janssen and AI North American study would be completed by mid-2012, and there is no change to that schedule. And the 2 international studies, which Pfizer is responsible for, study 3000, 3001 continue to enroll, and we'll be reporting in 2014. Now, regarding specifically the prodromal aspect, we are discussing that within the alliance, but there is nothing to report at this point.

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**Ian Read** - Pfizer Inc. - CEO

Thank you, Olivier. So back to John. Sorry for making you wait, John. Are you on?

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**John Boris** - Citigroup - Analyst

Can you hear me?

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**Ian Read** - Pfizer Inc. - CEO

Yes, we hear you, John.

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**John Boris** - Citigroup - Analyst

Okay, great. Thanks for taking the questions, and again, congratulations on the results.

Ian, when you first had taken over, you had indicated you were going to be spending a lot of time with Mikael Dolsten on R&D productivity. We've seen quite a few press releases come across on that front. Can you maybe just help us understand the progress that you've made to date, what additional things you have to do incrementally to improve productivity and what metrics are you using to grade yourself on whether you're improving that productivity? And then I have a follow-up question for Olivier.

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**Ian Read** - Pfizer Inc. - CEO

Okay. Do you want to give us the Olivier question now, John?

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**John Boris** - Citigroup - Analyst

Sure. Olivier, you articulated that pricing in some of the markets like Italy, Ireland down [20%], down [35%]. In France, in particular, there have certainly been rumblings about price cuts also in the French market. Just any thoughts on what the impact on pricing could be out of that market?

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**Olivier Brandicourt** - Pfizer Inc. - President & GM, Primary Care

I can't answer that question quickly. Given the macroeconomic condition, to your point, you obviously have been experiencing increased pricing pressures in several countries, including the one I just mentioned. So in the past, we have experienced about 2% to 3% annual price decline in Europe, and we are now experiencing a mid single-digit price decline, which we believe we will continue throughout this year and certainly for the foreseeable future. So we continue to monitor the situation very, very closely and I think that's it.

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**Frank D'Amelio** - Pfizer Inc. - CFO

And if I can just add to that, that's the assumption that we've made, not only for the remainder of 2011 in our guidance, but also through the 2012 financial targets, which is mid single-digit pricing pressure continues in developed Europe.

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**Ian Read** - Pfizer Inc. - CEO

John, thank you for the question on research.



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It's one of the, I believe, most important things we have to focus on the next 2 to 3, 4 years. Very happy working with Mikael Dolsten in partnership on this. I'll ask him to make specific comments, but yes, we do have series of metrics that are important that we're measuring. We are measuring the R&D team. We are measuring them with the Board.

I'm excited about our ability to move some of our research into biomedical hubs like Boston, Massachusetts, and Cambridge and La Jolla. I'm excited about the culture change I see in research as we appropriately balance both the pursuit of science and the need to make unstoppable products, not shots on goal, but products we consider unstoppable in the development process. And the culture is one of ownership, and we've in fact moved recently, and this was part of what I was trying to do, we've moved the compensation for the research community away from totally Pfizer, Inc., and 50% of their long-term compensation will now be tied to specific performance metrics inside that organization. So, I think it really brings about a focus inside the research organization that ties the long-term compensation to their productivity in a very specific way. Mikael, do you want to comment on some of the progress we've been making?

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**Mikael Dolsten - Pfizer Inc. - President, Worldwide Research & Development**

Yes. Let me shed further light on this. I think Ian's engagement to spend some of his time with me at the site discuss the intersection of business and product development and science I think has been of instrumental importance in building this new ownership culture and really move Pfizer into a kind of a industry-leading position in addressing the challenges of this industry to drive productivity to a new return of investment level. So let me just set 3 examples of progress, increased pipeline focus. We decided to really put 80% or more of our resources on the 5 core areas that we, where we have experienced the strengths and where we're seeing good balance between commercial and scientific opportunities. And you heard previously, I mentioned some significant advances in our pipeline here.

Differentiated approaches, a second part here. We have been moving our biomedical key expertise into leading hubs. We are now established with a real exciting pain unit in Cambridge UK. We acquired Icagen, a leading ion channel group in North Carolina, and we are bringing that together with Cambridge UK group to 1 really strong group as we move forward, union integration phase. In Massachusetts, Cambridge US, we have now moved our CV med group, and they are growing the pipeline, building the right type of new partnership, and I think that has been a very fast pace of change.

Increased externalization, we have announced a relationship with ICON and Parexel to create a more flexible way of doing R&D. And we'll also have across the business units and R&D expanded our pipeline reach with numerous biotech operations to grow the pre-[fork] and post-fork opportunities. The metrics we are using are obviously some example of increasing value in pipeline the number of new book studies for Phase III submission and approval, but we would also put a lot of emphasis on the quality, not only on the numbers, when it comes to the clinical differentiation, how it translates to strong labor, and how it fulfills customer needs on the market. And I think this new mix of science and business has really moved it forward.

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**Ian Read - Pfizer Inc. - CEO**

Thank you, Mikael.

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**Chuck Triano - Pfizer Inc. - SVP, IR**

And we'll have time for one last question, operator.

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**Operator**

The next question comes from Barbara Ryan from Deutsche Bank.

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**Barbara Ryan - Deutsche Bank - Analyst**

Thank you for taking my questions. I have two. I know you did run through some detail on the emerging markets. And I'm just wondering if you could tell us what your operational and reported growth in China was, and the size of the business. And then I have a second on Lipitor, if you don't mind. Thanks.

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**Ian Read - Pfizer Inc. - CEO**

Okay. David?

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**David Simmons - Pfizer Inc. - President & GM, Emerging Markets and Established Products**

For China, our -- for the quarter, our reported growth was 31%, our operational growth, 26%. On a year-to-date basis, report is 23% for China, growth in the third quarter of 20% year to date. Also adding in on China, we maintained the number 1 rank in the market in China of all multinationals and local Chinese companies, and our growth rate is outpacing the underlying growth. So China's a big anchor point for us in emerging markets, and we're doing very well there.

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**Ian Read - Pfizer Inc. - CEO**

And those gross were actually over price cuts, I believe.

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**David Simmons - Pfizer Inc. - President & GM, Emerging Markets and Established Products**

Yes. We do experience a dynamic environment in emerging markets, quarter on quarter, as you can see in our numbers. This year we have experienced price decreases -- pretty significant price decreases in China, Turkey and some other markets. But as we see it's consistent in these markets, we see volume expansion often when these occur. That certainly was the case in both China and Turkey.

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**Ian Read - Pfizer Inc. - CEO**

Okay, Barbara, your last question on Lipitor? Or did we lose her?

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**Chuck Triano - Pfizer Inc. - SVP, IR**

We may have lost her.

Okay. We can follow up with you off line, Barbara.

That will conclude the call, everybody. Thanks for your time and attention this morning.

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**Operator**

Ladies and gentlemen, thank you for participating in the Pfizer third quarter 2011 earnings conference call. You may now disconnect.

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