



MANUFACTURING & SUPPLY CHAIN

HIGHLIGHTS

Conducted onsite quality audits of close to 400 potential and existing suppliers across the world during 2008.

Assessed the EHS and labor performance of 389 new or existing supplier facilities through onsite inspections during the last five years.

Provided 43 training sessions on improving EHS performance at 25 different facilities which were attended by 530 supplier colleagues throughout 2008.

PGM is establishing a competitive “make or buy” supply network. We expect to increase outsourced manufacturing of products from approximately 17 percent to 30 percent over the next three years. Key considerations for outsourcing decisions include the ability to supply, capacity flexibility, cost competitiveness, and technology, while assuring supply chain integrity/reliability, product quality, and regulatory compliance. Any potential supplier is evaluated on its ability to produce material in a manner that is fully compliant with all regulatory requirements.

Global Contract Manufacturing and Supply Chain Procurement

Global Contract Manufacturing (GCM) is part of PGM, responsible for managing approximately 150 contract manufacturers (CM) around the world. The GCM team is organized geographically with teams based in Brazil, Belgium, Singapore and the U.S. These teams are regarded as “virtual” sites and manage all aspects of CM performance in their respective regions. GCM leads a well-defined vendor selection process that includes due diligence inspections by Quality Operations and Environment, Health and Safety teams, as well as financial and legal evaluations. Negotiations on product supply terms and conditions result in formalized Supply and Quality agreements. Once a CM becomes a supplier to Pfizer, GCM engages in a

Pfizer Global Manufacturing (PGM) supplies products to Pfizer’s businesses. PGM is being transformed into a global strategic supply network, consisting of major plants located in Belgium, France, Germany, Ireland, Japan, Puerto Rico and the U.S. By the end of 2008, we had reduced our internal network of plants over a five-year period from 93 to 46. In 2008, as part of our Plant Network Strategy productivity initiative, eight plants were sold or closed in Canada, Germany, Italy, Sweden, Puerto Rico and the U.S. We plan to continue reducing our internal network of plants worldwide to 41 by 2010. It should be noted that often facilities are divested to other companies with an agreement to supply Pfizer for several years. This allows the acquiring company to develop additional business to make the plant sustainable. We never make these decisions lightly, realizing how difficult they are for our colleagues and their families who are impacted. However, we believe that the cumulative benefit to Pfizer will be a more focused, streamlined and competitive manufacturing operation.

comprehensive oversight process, driven by risk assessments that focus on compliance with quality and environmental standards, product supply, and cost management. As the level of outsourcing increases, GCM is expanding the scope of due diligence and oversight activities with a focus on business continuity and supply chain reliability.

Pfizer’s Worldwide Procurement organization supports our commitment to assure quality and safety in the manufacture of our human and animal health products by engaging only with suppliers who share our high standards for business and personal ethics. Our procurement professionals regularly engage with suppliers to reinforce Pfizer’s expectations in all operational business areas. This collaboration leads to improvement projects with significant performance benefits, such as reduced packaging and transportation costs, and elimination of undesirable chemicals through process improvements.

Operational Excellence

At Pfizer, we highly value our culture of innovation and continuous improvement. We continue to make progress with our Technology and Innovation strategy of reducing costs by \$5 billion over 10 years. Through this process, Pfizer continues to improve manufacturing processes for pharmaceutical active ingredients that not only reduce costs, but are also environmentally friendly, significantly reducing the amounts of organic solvents required.

The application of Lean Six Sigma principles assures that capable and efficient work processes are used to manufacture and deliver consistently high quality products to our customers. Pfizer has trained over 95 percent of colleagues worldwide in basic problem solving, which has resulted in over 8,000 improvement projects across the world in the last five years. Significant improvements to our key products have delivered a 40 percent reduction in both the time to make and ship the product as well as allowing a reduction in inventory.

Quality Operations

As a large global company, Pfizer manufactures products in many countries and markets them in over 150 countries. Our plants are routinely inspected by many regulatory agencies for conformance with regulations. In 2008, we hosted more than 75 regulatory inspections and have not received a single critical observation. With regards to global suppliers of raw materials and products, we conducted onsite quality audits of close to 400 potential and existing suppliers across the world during 2008. Suppliers who do not meet Pfizer's quality requirements are not permitted to enter or remain in the supply chain until they are able to fulfill the requirements. In limited cases, Pfizer has located experienced quality professionals onsite who provide day-to-day support for a set period of time.

Pfizer uses innovative technology to protect the supply chain. The use of sophisticated analytical and tracking tools has been critical in identifying not only counterfeit products but also their sources. Pfizer works closely with government agencies to remove counterfeits from the supply chain thus benefiting the patient population. For more information on preventing counterfeiting, please see the *Patient Safety* section of this report.

Assessment and Improvement of EHS and Labor Practices at Key Suppliers

Pfizer is committed to using suppliers that demonstrate acceptable performance in both EHS and labor practices. Assessments help Pfizer manage business continuity, liability and reputation risks, while ensuring supply decisions align with company values. EHS and labor assessments are conducted for all new suppliers that meet certain criteria. Repeat evaluations are conducted periodically once a supply agreement is implemented. Pfizer's onsite assessment of EHS and labor practices focuses on suppliers providing materials and services specific to the pharmaceutical industry, notably research and development, production of active pharmaceutical ingredients

and finished-dosage-form medicinal products. To safeguard against potential business interruption, we have included key outsourced logistics centers into the assessment program. Currently, suppliers who provide basic commodity raw materials and services are not within the scope of the assessment program. Based on our interactions with our peer companies, we believe that ours is among the most comprehensive and sophisticated programs of its type in the research-based pharmaceutical industry.

Pfizer is a signatory to the Pharmaceutical Supply Chain Initiative, also known as PSCI—a group of pharmaceutical companies who share the goal of helping their suppliers to achieve better environmental, health and safety performance while improving labor standards. Pfizer expects its key suppliers to implement PSCI's Pharmaceutical Industry Principles for Responsible Supply Chain Management, which are available at www.pharmaceuticalsupplychain.org.

The need to complete an onsite assessment is driven by several factors and includes location, type and scale of manufacturing, product hazard characteristics, and supply criticality. Suppliers are assessed against Pfizer's EHS and Labor "Supplier Expectations" which are based on Pfizer's internal standards. Suppliers are assessed as either acceptable, requiring improvement or significantly below expected standards.

During 2008 a total of 97 onsite assessments of supplier facilities were completed with a further 18 visits to closely monitor performance and verify closure of improvement items.

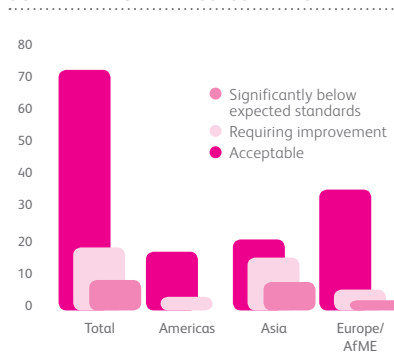
During the last five years of the assessment program more than 400 new or existing supplier facilities have been reviewed through onsite inspection. Of those facilities, 41 were identified as requiring improvement with 32 falling significantly below expected standards. At the end of 2008, Pfizer had supply relationships with 20 facilities that require improvement and a further six that are significantly below expected standards. Facilities requiring improvement are visited frequently to monitor corrective action plans and, depending on risks identified, are also a focus of Pfizer's coaching and capacity building programs. Efforts to improve facilities falling significantly below standards are also completed, as well as development of exit strategies to alternate suppliers. In 2008, a total of eight facilities improved their rating from requiring improvement to acceptable; however, two facilities unfortunately saw a rating drop from "requiring improvement" to "falling significantly below expected standards."

Pfizer has been notified or made aware of EHS incidents within the supply chain. In the majority of cases, Pfizer reviews incident investigations to understand root causes and corrective actions. Where possible, Pfizer EHS colleagues visit the supplier facilities for an onsite evaluation to verify investigations and to provide guidance when needed (this was not always possible for significant events where regulator restrictions took priority).

Coaching and Training Our Suppliers

Pfizer allocates resources to helping suppliers improve EHS performance and began providing training on a formal basis in 2006 to key suppliers in China and expanded in 2007 to cover India. In 2008, training focused again in India and China; however, coaching was also provided to suppliers in Latin America and Europe. A total of 43 training sessions were completed at 25 different facilities and attended by 530 supplier colleagues throughout the year. In India and China, training was delivered at supplier facilities and focused on process safety and industrial hygiene.

SUPPLIER FACILITY ASSESSMENTS



Feedback from suppliers regarding Pfizer's training programs has been excellent and has improved over time. The actual benefit of the training in the longer term is improved performance resulting in safer working conditions for employees and less risk for Pfizer. After three years of coaching in specific technical areas in China and India, we are now seeing better supplier performance through improved knowledge, management systems and capital investment. Unfortunately this has not been seen in all companies that attended the training, with two demonstrating a decrease in performance. Additional steps are being developed for these suppliers.

Increasing Supplier Diversity

The objective of our Supplier Diversity program is to build a supplier base that reflects the changing demographics of the consumer marketplace while helping Pfizer increase market share and shareholder value. In order to do this, we have implemented the following four-part strategy:

- Create opportunities through our sourcing process to increase our spending with minority and women-owned businesses.
- Align with advocacy organizations, such as the National Minority Supplier Development Council and the Women's Business Enterprise National Council (WBENC).
- Launch Supplier Diversity programs globally, starting in the U.K., Canada and South Africa.

Pfizer has been named a Top Corporation for Women-Owned Businesses by the WBENC, which marks the fifth consecutive year that Pfizer has won this prestigious award.

STAKEHOLDER COMMENTARY

“Corporate responsibility at Pfizer must be the work of every department on every day, and is what has attracted Aurobindo most as being one of the latest entrants into the Pfizer family of stakeholders.

Pfizer has not only selected us as one of the stakeholders this year, but really proved it to us by collaborating and working with our teams in supply chain. Pfizer performed an audit to determine supply chain capability, and diagnosed certain deficiencies giving us 2.5 points on a scale of 4 and suggested Advanced Planning Scheduling (APS) and Vendor Management Interface. These inputs have been taken very positively by Aurobindo and are now reaping benefits. With the implementation of the above inputs, we should be moving to a 3+ on a scale of 4. Aurobindo is keen to understand “technology and innovation strategy” for manufacturing facilities to reduce costs. Right first time strategy, green purchasing and responsible contracting are the strategies equally innovative. We will certainly look at Pfizer results in the months to come to learn and adopt wherever we can!”

MR. RAMAPRASAD REDDY
CHAIRMAN, AUROBINDO

LOOKING FORWARD

Pfizer is continuously evaluating opportunities for improving management and oversight of the supply chain. Pfizer has commissioned a panel of external experts to evaluate Quality and EHS systems for managing outsourced manufacturing operations. The objective of the panel is to assure that Pfizer has strong controls allowing continued development and maintenance of relationships with third party suppliers capable of consistently delivering acceptable product quality and appropriately managing environmental, health and safety performance. Pfizer will adjust systems and controls as necessary following the expert panel recommendations which are expected later in 2009.