

ZOETIS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

| (MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA) | Year Ended December 31, | | |
|--|-------------------------|----------|----------|
| | 2019 | 2018 | 2017 |
| Revenue | \$ 6,260 | \$ 5,825 | \$ 5,307 |
| Costs and expenses: | | | |
| Cost of sales ^(a) | 1,992 | 1,911 | 1,775 |
| Selling, general and administrative expenses ^(a) | 1,638 | 1,484 | 1,334 |
| Research and development expenses ^(a) | 457 | 432 | 382 |
| Amortization of intangible assets | 155 | 117 | 91 |
| Restructuring charges and certain acquisition-related costs | 51 | 68 | 19 |
| Interest expense, net of capitalized interest | 223 | 206 | 175 |
| Other (income)/deductions—net | (57) | (83) | 6 |
| Income before provision for taxes on income | 1,801 | 1,690 | 1,525 |
| Provision for taxes on income | 301 | 266 | 663 |
| Net income before allocation to noncontrolling interests | 1,500 | 1,424 | 862 |
| Less: Net loss attributable to noncontrolling interests | — | (4) | (2) |
| Net income attributable to Zoetis | \$ 1,500 | \$ 1,428 | \$ 864 |
| Earnings per share attributable to Zoetis Inc. stockholders: | | | |
| Basic | \$ 3.14 | \$ 2.96 | \$ 1.76 |
| Diluted | \$ 3.11 | \$ 2.93 | \$ 1.75 |
| Weighted-average common shares outstanding: | | | |
| Basic | 478.128 | 483.063 | 489.918 |
| Diluted | 481.787 | 486.898 | 493.161 |
| Dividends declared per common share | \$ 0.692 | \$ 0.542 | \$ 0.441 |

^(a) Exclusive of amortization of intangible assets, except as disclosed in *Note 3. Significant Accounting Policies—Amortization of Intangible Assets, Depreciation and Certain Long-Lived Assets*.

ZOETIS INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| (MILLIONS OF DOLLARS, EXCEPT PER SHARE DATA) | December 31, 2019 | December 31, 2018 |
|---|----------------------|----------------------|
| Assets | | |
| Cash and cash equivalents ^(a) | \$ 1,934 | \$ 1,602 |
| Short-term investments | — | 99 |
| Accounts receivable, less allowance for doubtful accounts of \$21 in 2019 and \$24 in 2018 | 1,086 | 1,036 |
| Inventories | 1,410 | 1,391 |
| Other current assets | 318 | 271 |
| Total current assets | 4,748 | 4,399 |
| Property, plant and equipment, less accumulated depreciation of \$1,737 in 2019 and \$1,599 in 2018 | 1,940 | 1,658 |
| Operating lease right of use assets | 189 | — |
| Goodwill | 2,592 | 2,519 |
| Identifiable intangible assets, less accumulated amortization | 1,890 | 2,046 |
| Noncurrent deferred tax assets | 88 | 61 |
| Other noncurrent assets | 98 | 94 |
| Total assets | \$ 11,545 | \$ 10,777 |
| Liabilities and Equity | | |
| Short-term borrowings | \$ — | \$ 9 |
| Current portion of long-term debt | 500 | — |
| Accounts payable | 301 | 313 |
| Dividends payable | 95 | 79 |
| Accrued expenses | 543 | 487 |
| Accrued compensation and related items | 276 | 266 |
| Income taxes payable | 36 | 35 |
| Other current liabilities | 55 | 34 |
| Total current liabilities | 1,806 | 1,223 |
| Long-term debt, net of discount and issuance costs | 5,947 | 6,443 |
| Noncurrent deferred tax liabilities | 434 | 474 |
| Operating lease liabilities | 164 | — |
| Other taxes payable | 257 | 265 |
| Other noncurrent liabilities | 229 | 187 |
| Total liabilities | 8,837 | 8,592 |
| Commitments and contingencies (Note 18) | | |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value: 6,000,000,000 authorized, 501,891,243 and 501,891,243 shares issued; 475,528,210 and 479,562,326 shares outstanding at December 31, 2019 and 2018, respectively | 5 | 5 |
| Treasury stock, at cost, 26,363,033 and 22,328,917 shares of common stock at December 31, 2019 and 2018, respectively | (2,042) | (1,487) |
| Additional paid-in capital | 1,044 | 1,026 |
| Retained earnings | 4,427 | 3,270 |
| Accumulated other comprehensive loss | (726) | (629) |
| Total equity | 2,708 | 2,185 |
| Total liabilities and equity | \$ 11,545 | \$ 10,777 |

^(a) As of December 31, 2019 and December 31, 2018, includes \$2 million and \$5 million, respectively, of restricted cash.

ZOETIS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| (MILLIONS OF DOLLARS) | Year Ended December 31, | | |
|---|-------------------------|----------|----------|
| | 2019 | 2018 | 2017 |
| Operating Activities | | | |
| Net income before allocation to noncontrolling interests | \$ 1,500 | \$ 1,424 | \$ 862 |
| Adjustments to reconcile net income before noncontrolling interests to net cash provided by operating activities: | | | |
| Depreciation and amortization expense | 412 | 308 | 242 |
| Share-based compensation expense | 67 | 53 | 44 |
| Asset write-offs and asset impairments | 7 | 4 | 3 |
| Net (gain)/loss on sales of assets | (20) | (42) | 11 |
| Provision for losses on inventory | 68 | 54 | 54 |
| Deferred taxes ^(a) | (79) | (112) | 127 |
| Employee benefit plan contribution from Pfizer Inc. | 3 | 3 | 3 |
| Other non-cash adjustments | (12) | (14) | 10 |
| Other changes in assets and liabilities, net of acquisitions and divestitures | | | |
| Accounts receivable | (69) | (67) | (50) |
| Inventories | (104) | 61 | 19 |
| Other assets | (51) | (42) | (16) |
| Accounts payable | (10) | 37 | (10) |
| Other liabilities | 91 | 56 | (38) |
| Other tax accounts, net | (8) | 67 | 85 |
| Net cash provided by operating activities | 1,795 | 1,790 | 1,346 |
| Investing Activities | | | |
| Capital expenditures | (460) | (338) | (224) |
| Acquisition of Abaxis, net of cash acquired | — | (1,884) | — |
| Other acquisitions | (195) | (114) | (82) |
| Proceeds from maturities and redemptions of investments | 101 | 28 | — |
| Net proceeds on swaps designated as net investment hedges | 37 | — | — |
| Net proceeds from sales of assets | 21 | 56 | 37 |
| Other investing activities | (8) | (7) | (1) |
| Net cash used in investing activities | (504) | (2,259) | (270) |
| Financing Activities | | | |
| (Decrease)/increase in short-term borrowings, net | (9) | 8 | — |
| Principal payments on long-term debt | — | — | (750) |
| Proceeds from issuance of long-term debt—senior notes, net of discount and fees | — | 1,485 | 1,231 |
| Payment of contingent consideration related to previously acquired assets | (9) | (12) | (7) |
| Share-based compensation-related proceeds, net of taxes paid on withholding shares and excess tax benefits | 7 | 19 | 24 |
| Purchases of treasury stock | (626) | (698) | (500) |
| Cash dividends paid | (314) | (243) | (206) |
| Acquisition of a noncontrolling interest | — | (26) | (43) |
| Net cash (used in)/provided by financing activities | (951) | 533 | (251) |
| Effect of exchange-rate changes on cash and cash equivalents | (8) | (26) | 12 |
| Net increase in cash and cash equivalents | 332 | 38 | 837 |
| Cash and cash equivalents at beginning of period | 1,602 | 1,564 | 727 |
| Cash and cash equivalents at end of period | \$ 1,934 | \$ 1,602 | \$ 1,564 |

Supplemental cash flow information

Cash paid during the period for:

| | | | |
|---|--------|--------|--------|
| Income taxes | \$ 418 | \$ 336 | \$ 455 |
| Interest, net of capitalized interest | 247 | 190 | 167 |
| Non-cash transactions: | | | |
| Capital expenditures | \$ 7 | \$ 7 | \$ 5 |
| Contingent purchase price consideration | 23 | — | 29 |
| Dividends declared, not paid | 95 | 79 | 61 |

^(a) For 2018, reflects the reclassification of the one-time deemed repatriation tax from *Noncurrent deferred tax liabilities* to *Income taxes payable* and *Other taxes payable* to properly reflect the liability, which became a fixed obligation in 2018, payable over eight years.