

ZOETIS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

| (MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA) | Year Ended December 31, | | |
|--|-------------------------|----------|----------|
| | 2018 | 2017 | 2016 |
| Revenue | \$ 5,825 | \$ 5,307 | \$ 4,888 |
| Costs and expenses: | | | |
| Cost of sales ^(a) | 1,911 | 1,775 | 1,666 |
| Selling, general and administrative expenses ^(a) | 1,484 | 1,334 | 1,364 |
| Research and development expenses ^(a) | 432 | 382 | 376 |
| Amortization of intangible assets | 117 | 91 | 85 |
| Restructuring charges and certain acquisition-related costs | 68 | 19 | 5 |
| Interest expense, net of capitalized interest | 206 | 175 | 166 |
| Other (income)/deductions—net | (83) | 6 | (2) |
| Income before provision for taxes on income | 1,690 | 1,525 | 1,228 |
| Provision for taxes on income | 266 | 663 | 409 |
| Net income before allocation to noncontrolling interests | 1,424 | 862 | 819 |
| Less: Net loss attributable to noncontrolling interests | (4) | (2) | (2) |
| Net income attributable to Zoetis | \$ 1,428 | \$ 864 | \$ 821 |
| Earnings per share attributable to Zoetis Inc. stockholders: | | | |
| Basic | \$ 2.96 | \$ 1.76 | \$ 1.66 |
| Diluted | \$ 2.93 | \$ 1.75 | \$ 1.65 |
| Weighted-average common shares outstanding: | | | |
| Basic | 483.063 | 489.918 | 495.715 |
| Diluted | 486.898 | 493.161 | 498.225 |
| Dividends declared per common share | \$ 0.542 | \$ 0.441 | \$ 0.390 |

^(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

| | December 31, 2018 | December 31, 2017 |
|---|----------------------|----------------------|
| (MILLIONS OF DOLLARS, EXCEPT PER SHARE DATA) | | |
| <u>Assets</u> | | |
| Cash and cash equivalents ^(a) | \$ 1,602 | \$ 1,564 |
| Short-term investments | 99 | — |
| Accounts receivable, less allowance for doubtful accounts of \$24 in 2018 and \$25 in 2017 | 1,036 | 998 |
| Inventories | 1,391 | 1,427 |
| Other current assets | 271 | 228 |
| Total current assets | 4,399 | 4,217 |
| Property, plant and equipment, less accumulated depreciation of \$1,599 in 2018 and \$1,471 in 2017 | 1,658 | 1,435 |
| Goodwill | 2,519 | 1,510 |
| Identifiable intangible assets, less accumulated amortization | 2,046 | 1,269 |
| Noncurrent deferred tax assets | 61 | 80 |
| Other noncurrent assets | 94 | 75 |
| Total assets | \$ 10,777 | \$ 8,586 |
| <u>Liabilities and Equity</u> | | |
| Short-term borrowings | \$ 9 | \$ — |
| Accounts payable | 313 | 261 |
| Dividends payable | 79 | 61 |
| Accrued expenses | 487 | 432 |
| Accrued compensation and related items | 266 | 236 |
| Income taxes payable | 35 | 60 |
| Other current liabilities | 34 | 44 |
| Total current liabilities | 1,223 | 1,094 |
| Long-term debt, net of discount and issuance costs | 6,443 | 4,953 |
| Noncurrent deferred tax liabilities | 474 | 380 |
| Other taxes payable | 265 | 172 |
| Other noncurrent liabilities | 187 | 201 |
| Total liabilities | 8,592 | 6,800 |
| Commitments and contingencies (Note 17) | | |
| <u>Stockholders' equity:</u> | | |
| Preferred stock, \$0.01 par value; 1,000,000,000 authorized, none issued | — | — |
| Common stock, \$0.01 par value; 6,000,000,000 authorized, 501,891,243 and 501,891,243 shares issued; 479,562,326 and 486,130,461 shares outstanding at December 31, 2018 and 2017, respectively | 5 | 5 |
| Treasury stock, at cost, 22,328,917 and 15,760,782 shares of common stock at December 31, 2018 and 2017, respectively | (1,487) | (852) |
| Additional paid-in capital | 1,026 | 1,013 |
| Retained earnings | 3,270 | 2,109 |
| Accumulated other comprehensive loss | (629) | (505) |
| Total Zoetis Inc. equity | 2,185 | 1,770 |
| Equity attributable to noncontrolling interests | — | 16 |
| Total equity | 2,185 | 1,786 |
| Total liabilities and equity | \$ 10,777 | \$ 8,586 |

^(a) As of December 31, 2018, and December 31, 2017, includes \$5 million and \$6 million, respectively, of restricted cash.

ZOETIS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| (MILLIONS OF DOLLARS) | Year Ended December 31, | | |
|---|-------------------------|----------|--------|
| | 2018 | 2017 | 2016 |
| Operating Activities | | | |
| Net income before allocation to noncontrolling interests | \$ 1,424 | \$ 862 | \$ 819 |
| Adjustments to reconcile net income before noncontrolling interests to net cash provided by operating activities: | | | |
| Depreciation and amortization expense | 308 | 242 | 240 |
| Share-based compensation expense | 53 | 44 | 37 |
| Asset write-offs and asset impairments | 4 | 3 | 5 |
| Net (gain)/loss on sales of assets | (42) | 11 | (26) |
| Provision for losses on inventory | 54 | 54 | 105 |
| Deferred taxes ^(a) | (112) | 127 | (55) |
| Employee benefit plan contribution from Pfizer Inc. | 3 | 3 | 3 |
| Other non-cash adjustments | (14) | 10 | 19 |
| Other changes in assets and liabilities, net of acquisitions and divestitures | | | |
| Accounts receivable | (67) | (50) | 15 |
| Inventories | 61 | 19 | (101) |
| Other assets | (42) | (16) | (50) |
| Accounts payable | 37 | (10) | (28) |
| Other liabilities | 56 | (38) | (290) |
| Other tax accounts, net | 67 | 85 | 20 |
| Net cash provided by operating activities | 1,790 | 1,346 | 713 |
| Investing Activities | | | |
| Capital expenditures | (338) | (224) | (216) |
| Acquisition of Abaxis, net of cash acquired | (1,884) | — | — |
| Other acquisitions | (114) | (82) | (88) |
| Net proceeds from sales of assets | 56 | 37 | 90 |
| Proceeds from maturities and redemptions of investments | 28 | — | — |
| Other investing activities | (7) | (1) | — |
| Net cash used in investing activities | (2,259) | (270) | (214) |
| Financing Activities | | | |
| Increase/(decrease) in short-term borrowings, net | 8 | — | (5) |
| Principal payments on long-term debt | — | (750) | (400) |
| 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 | (12) | (7) | (32) |
| Share-based compensation-related proceeds, net of taxes paid on withholding shares and excess tax benefits | 19 | 24 | 25 |
| Purchases of treasury stock | (698) | (500) | (300) |
| Cash dividends paid | (243) | (206) | (188) |
| Acquisition of a noncontrolling interest | (26) | (43) | — |
| Payment of debt issuance costs | — | — | (3) |
| Net cash provided by/(used in) financing activities | 533 | (251) | (903) |
| Effect of exchange-rate changes on cash and cash equivalents | (26) | 12 | (23) |
| Net increase/(decrease) in cash and cash equivalents | 38 | 837 | (427) |
| Cash and cash equivalents at beginning of period | 1,564 | 727 | 1,154 |
| Cash and cash equivalents at end of period | \$ 1,602 | \$ 1,564 | \$ 727 |

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