

**ZOETIS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)	Year Ended December 31,		
	2017	2016	2015
Revenue	\$ 5,307	\$ 4,888	\$ 4,765
Costs and expenses:			
Cost of sales <sup>(a)</sup>	1,775	1,666	1,738
Selling, general and administrative expenses <sup>(a)</sup>	1,334	1,364	1,532
Research and development expenses <sup>(a)</sup>	382	376	364
Amortization of intangible assets	91	85	61
Restructuring charges and certain acquisition-related costs	19	5	320
Interest expense, net of capitalized interest	175	166	124
Other (income)/deductions—net	6	(2)	81
Income before provision for taxes on income	1,525	1,228	545
Provision for taxes on income	663	409	206
Net income before allocation to noncontrolling interests	862	819	339
Less: Net loss attributable to noncontrolling interests	(2)	(2)	—
Net income attributable to Zoetis	\$ 864	\$ 821	\$ 339
Earnings per share attributable to Zoetis Inc. stockholders:			
Basic	\$ 1.76	\$ 1.66	\$ 0.68
Diluted	\$ 1.75	\$ 1.65	\$ 0.68
Weighted-average common shares outstanding:			
Basic	489.918	495.715	499.707
Diluted	493.161	498.225	502.019
Dividends declared per common share	\$ 0.441	\$ 0.390	\$ 0.344

<sup>(a)</sup> 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, 2017	December 31, 2016
(MILLIONS OF DOLLARS, EXCEPT PER SHARE DATA)		
<b>Assets</b>		
Cash and cash equivalents <sup>(a)</sup>	\$ 1,564	\$ 727
Accounts receivable, less allowance for doubtful accounts of \$25 in 2017 and \$30 in 2016	998	913
Inventories	1,427	1,502
Other current assets	228	248
<b>Total current assets</b>	<b>4,217</b>	<b>3,390</b>
Property, plant and equipment, less accumulated depreciation of \$1,471 in 2017 and \$1,358 in 2016	1,435	1,381
Goodwill	1,510	1,481
Identifiable intangible assets, less accumulated amortization	1,269	1,228
Noncurrent deferred tax assets	80	96
Other noncurrent assets	75	73
<b>Total assets</b>	<b>\$ 8,586</b>	<b>\$ 7,649</b>
<b>Liabilities and Equity</b>		
Accounts payable	\$ 261	\$ 265
Dividends payable	61	52
Accrued expenses	432	464
Accrued compensation and related items	236	224
Income taxes payable	60	71
Other current liabilities	44	41
<b>Total current liabilities</b>	<b>1,094</b>	<b>1,117</b>
Long-term debt, net of discount and issuance costs	4,953	4,468
Noncurrent deferred tax liabilities	380	244
Other taxes payable	172	73
Other noncurrent liabilities	201	248
<b>Total liabilities</b>	<b>6,800</b>	<b>6,150</b>
Commitments and contingencies (Note 17)		
<b>Stockholders' equity:</b>		
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; 486,130,461 and 492,855,297 shares outstanding at December 31, 2017 and 2016, respectively	5	5
Treasury stock, at cost, 15,760,782 and 9,035,946 shares of common stock at December 31, 2017 and 2016, respectively	(852)	(421)
Additional paid-in capital	1,013	1,024
Retained earnings	2,109	1,477
Accumulated other comprehensive loss	(505)	(598)
<b>Total Zoetis Inc. equity</b>	<b>1,770</b>	<b>1,487</b>
Equity attributable to noncontrolling interests	16	12
<b>Total equity</b>	<b>1,786</b>	<b>1,499</b>
<b>Total liabilities and equity</b>	<b>\$ 8,586</b>	<b>\$ 7,649</b>

<sup>(a)</sup> As of December 31, 2017, includes \$6 million of restricted cash.

**ZOETIS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(MILLIONS OF DOLLARS)	Year Ended December 31,		
	2017	2016	2015
<b>Operating Activities</b>			
Net income before allocation to noncontrolling interests	\$ 862	\$ 819	\$ 339
Adjustments to reconcile net income before noncontrolling interests to net cash provided by operating activities:			
Depreciation and amortization expense	242	240	199
Share-based compensation expense	44	37	43
Restructuring	19	5	203
Asset write-offs and asset impairments	3	5	60
Loss/(gain) on sales of assets	11	(26)	—
Provision for losses on inventory	54	105	94
Deferred taxes	127	(55)	(85)
Foreign currency loss related to Venezuela Revaluation, excluding impact on cash	—	—	6
Employee benefit plan contribution from Pfizer Inc.	3	3	3
Other non-cash adjustments	10	19	10
Other changes in assets and liabilities, net of acquisitions and divestitures and transfers with Pfizer Inc.			
Accounts receivable	(50)	15	(58)
Inventories	19	(101)	(262)
Other assets	(16)	(50)	(9)
Accounts payable	(10)	(28)	17
Other liabilities	(57)	(295)	70
Other tax accounts, net	85	20	34
Net cash provided by operating activities	1,346	713	664
<b>Investing Activities</b>			
Capital expenditures	(224)	(216)	(224)
Acquisitions	(82)	(88)	(883)
Net proceeds from sales of assets	37	90	2
Other investing activities	(1)	—	(10)
Net cash used in investing activities	(270)	(214)	(1,115)
<b>Financing Activities</b>			
Decrease in short-term borrowings, net	—	(5)	(2)
Principal payments on long-term debt	(750)	(400)	—
Proceeds from issuance of long-term debt—senior notes, net of discount and fees	1,231	—	1,236
Payment of contingent consideration related to previously acquired assets	(7)	(32)	—
Share-based compensation-related proceeds, net of taxes paid on withholding shares and excess tax benefits <sup>(a)</sup>	24	25	11
Purchases of treasury stock <sup>(b)</sup>	(500)	(300)	(203)
Cash dividends paid	(206)	(188)	(168)
Cash paid to settle Pharmaq debt	—	—	(119)
Acquisition of noncontrolling interest	(43)	—	—
Payment of debt issuance costs	—	(3)	—
Net cash (used in)/provided by financing activities	(251)	(903)	755
Effect of exchange-rate changes on cash and cash equivalents	12	(23)	(32)
Net increase/(decrease) in cash and cash equivalents	837	(427)	272
Cash and cash equivalents at beginning of period	727	1,154	882
Cash and cash equivalents at end of period	\$ 1,564	\$ 727	\$ 1,154

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

## Supplemental cash flow information

Cash paid during the period for:

Income taxes	\$	455	\$	408	\$	224
Interest, net of capitalized interest		167		165		117

Non-cash transactions:

Capital expenditures	\$	5		8		11
Contingent purchase price consideration <sup>(c)</sup>		29		27		23
Dividends declared, not paid		61		52		47

<sup>(a)</sup> Effective 2016, excess tax benefits are reflected within operating activities. See *Note 3. Significant Accounting Policies* for additional information.

<sup>(b)</sup> Reflects the acquisition of treasury shares in connection with the share repurchase program. For additional information, see *Note 15. Stockholders' Equity*.

<sup>(c)</sup> For 2016, relates primarily to the non-cash portion of the acquisition of a livestock business in South America and a veterinary diagnostics business in Denmark. For 2015, relates primarily to the non-cash portion of the acquisition of certain assets of Abbott Animal Health.