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(2
)

819

Other comprehensive income/(loss)

—

—

—

—

22

(1
)

21

Share-based compensation awards^(b)

—

82

9

(27
)

—

—

64

Treasury stock acquired^(c)

—

(300
)

—

—

—

—

(300
)

Employee benefit plan contribution from Pfizer Inc.^(d)

—

—

3

—

—

—

3

Divestitures^(e)

—

—

—

—

2

(8
)

(6
)

Dividends declared

—

—

—

(193
)

—

—

(193
)

Balance, December 31, 2016

\$
5

\$
(421
)

\$

1,024

\$
1,477

\$
(598
)

\$
12

\$
1,499

Net income/(loss)

—

—

—

864

—

(2
)

862

Other comprehensive income

—

—

—

—

93

2

95

Consolidation of a noncontrolling interest^(f)

—

—

—

—

—

18

18

Purchase of shares from noncontrolling interest^(g)

—

—

(29
)

—

—

(14

)

(43

)

Share-based compensation awards^(b)

—

69

15

(16

)

—

—

68

Treasury stock acquired^(c)

—

(500

)

—

—

—

—

(500

)

Employee benefit plan contribution from Pfizer Inc.^(d)

—

—

3

—

—

—

3

Dividends declared

—

—

—

(216
)

—

—

(216
)
Balance, December 31, 2017

\$
5

\$
(852
)

\$
1,013

\$
2,109

\$
(505
)

\$
16

\$
1,786

(a) As of December 31, 2017 and 2016, respectively, there were 486,130,461 and 492,855,297 outstanding shares of common stock and 15,760,782 and 9,035,946 shares of treasury stock. Treasury stock is recognized at the cost to reacquire the shares. For additional information, see Note 15. Stockholders' Equity.

(b) Includes the issuance of shares of Zoetis Inc. common stock and the reacquisition of shares of treasury stock associated with exercises of employee share-based awards. Upon reissuance of treasury stock, differences between the proceeds from reissuance and the cost of the treasury stock that result in gains are recorded in Additional paid-in capital. Losses are recorded in Additional paid-in capital to the extent that they can offset previously recorded gains. If no such credit exists, the differences are recorded in Retained earnings. Also includes the reacquisition of shares of treasury stock associated with the vesting of employee share-based awards to satisfy tax withholding requirements. For additional information, see Note 14. Share-Based Payments and Note 15. Stockholders' Equity.

(c) Reflects the acquisition of treasury shares in connection with the share repurchase program. For additional information, see Note 15. Stockholders' Equity.

(d) Represents contributed capital from Pfizer Inc. associated with service credit continuation for certain Zoetis Inc. employees in Pfizer Inc.'s U.S. qualified defined benefit and U.S. retiree medical plans. See Note 13. Benefit Plans.

(e) Reflects the divestiture of our share of our Taiwan joint venture. See Note 4B. Acquisitions and Divestitures: Divestitures.

(f) Represents the consolidation of a European livestock monitoring company, a variable interest entity of which Zoetis is the primary beneficiary.

(g) Represents the acquisition of the remaining 55 percent noncontrolling interest in Jilin Zoetis Guoyuan Animal Health Co., Ltd., a variable interest entity previously consolidated by Zoetis as the primary beneficiary.

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

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ZOETIS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December		
	31,		
(MILLIONS OF DOLLARS)	2017	2016	2015
Operating Activities			
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
Investing Activities			
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)
Financing Activities			
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 ^(a)	24	25	11
Purchases of treasury stock ^(b)	(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

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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.

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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 ^(c)	29	27	23
Dividends declared, not paid	61	52	47

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

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

(c) 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.

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

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ZOETIS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business Description

Zoetis Inc. (including its subsidiaries, collectively, Zoetis, the company, we, us or our) is a global leader in the discovery, development, manufacture and commercialization of animal health medicines and vaccines, with a focus on both livestock and companion animals. We organize and operate our business in two geographic regions: the United States (U.S.) and International.

We directly market our products in approximately 45 countries across North America, Europe, Africa, Asia, Australia and South America. Our products are sold in more than 100 countries, including developed markets and emerging markets. We have a diversified business, marketing products across eight core species: cattle, swine, poultry, sheep and fish (collectively, livestock) and dogs, cats and horses (collectively, companion animals); and within five major product categories: anti-infectives, vaccines, parasiticides, medicated feed additives and other pharmaceuticals. We were incorporated in Delaware in July 2012 and prior to that the company was a business unit of Pfizer Inc. (Pfizer).

2. Basis of Presentation

The consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). For subsidiaries operating outside the United States, the consolidated financial information is included as of and for the fiscal year ended November 30 for each year presented. All significant intercompany balances and transactions between the legal entities that comprise Zoetis have been eliminated. For those subsidiaries included in these consolidated financial statements where our ownership is less than 100%, including a variable interest entity consolidated by Zoetis as the primary beneficiary, the noncontrolling interests have been shown in equity as Equity attributable to noncontrolling interests.

3. Significant Accounting Policies

Recently Adopted Accounting Standards

In January 2017, the Financial Accounting Standards Board (FASB) issued an accounting standards update which clarifies the definition of a business. Under the new guidance, a set of integrated activities and assets is a business only if it has, at a minimum, an input and substantive process that together significantly contribute to the ability to create outputs. The update also introduces the concept of an initial screening or “Step 1” which requires companies to first determine if substantially all of the fair value of the gross assets acquired is concentrated in a single (or group of similar) identifiable assets. Transactions that pass the Step 1 screening will be considered a business if they contain an input and substantive process and either; (1) an output or (2) an organized workforce with skills critical to the ability to create outputs and inputs that can be utilized to create the outputs. Companies will no longer be required to evaluate whether a market participant could replace any missing inputs or processes, instead focusing on the substance of what was acquired. The provisions of the new standard are effective, on a prospective basis, beginning January 1, 2018, for annual and interim reporting periods and may be adopted early for any transactions not yet reported in issued financial statements. We elected to early adopt the new standard for any new transactions occurring on or after January 1, 2017. In July 2015, the FASB issued an accounting standards update to simplify the measurement of inventory by requiring that inventory be measured at the lower of cost or net realizable value, rather than at the lower of cost or market, with market being defined as either replacement cost, net realizable value or net realizable value less a normal profit margin. We adopted this guidance as of January 1, 2017. This guidance did not have a significant impact on our consolidated financial statements.

In March 2016, the FASB issued an accounting standards update which simplifies the accounting for employee share-based payments. The new standard requires the immediate recognition of all excess tax benefits and deficiencies in the income statement, and requires classification of excess tax benefits as an operating activity as opposed to a financing activity in the statements of cash flows. The standard also clarifies that all cash payments made to taxing authorities on the employees' behalf for shares withheld should be presented as financing activities on the statements of cash flows and provides for a policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur. The provisions of the new standard are effective beginning January 1, 2017, and

early adoption is permitted if all amendments are adopted in the same period. We elected to early adopt the new standard effective January 1, 2016. Excess tax benefits of \$9 million and \$7 million generated during the years ended December 31, 2017, and 2016, respectively, are reflected as a component of Provision for taxes on income as presented in the consolidated statements of income. We have elected to apply the change in cash flow classification for excess tax benefits on a prospective basis. Cash payments made to taxing authorities on the behalf of company employees are reflected as a financing outflow in the consolidated statements of cash flows, consistent with prior years. We continue to include the impact of estimated forfeitures when determining share-based compensation expense.

Recently Issued Accounting Standards

In August 2017, the FASB issued an accounting standards update which amends the hedge accounting recognition and presentation requirements and allows for more hedging strategies to be eligible for hedge accounting. Recognition of periodic hedge effectiveness will no longer be required for cash flow and net investment hedges and companies may elect to perform subsequent hedge effectiveness assessments qualitatively. The update also clarifies that the change in fair value of a derivative must be recorded in the same income statement line item as the earnings effect of the hedged item and introduces additional disclosure requirements including cumulative basis adjustments for fair value hedges and the effect of hedging on individual income statement line items. The provisions of the update are effective beginning January 1, 2019 for interim and annual periods with

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early adoption permitted for any interim period after issuance of the update. We are currently assessing the timing of our adoption as well as the potential impact that the standard will have on our consolidated financial statements. In March 2017, the FASB issued an accounting standards update to simplify and improve the reporting of net periodic pension benefit cost by requiring only present service cost to be presented in the same line item as other current employee compensation costs while remaining components of net periodic benefit cost would be presented within Other (income)/deductions—net outside of operations. We will adopt this guidance as of January 1, 2018, the required effective date, and do not expect that the new standard will have a significant impact on our consolidated financial statements.

In October 2016, the FASB issued an accounting standards update that will require the recognition of the income tax consequences of an intra-entity asset transfer, other than inventory, when the transfer occurs as opposed to when the asset is sold to an outside third party. The provisions of the new standard are effective beginning January 1, 2018, for annual and interim reporting periods. We will adopt this guidance as of January 1, 2018, the required effective date, and do not expect that the new standard will have a significant impact on our consolidated financial statements.

In February 2016, the FASB issued an accounting standards update which requires lessees to recognize most leases on the balance sheet with a corresponding right of use asset. Leases will be classified as financing or operating which will drive the expense recognition pattern. For lessees, the income statement presentation and expense recognition pattern for financing and operating leases is similar to the current model for capital and operating leases, respectively. Companies may elect to exclude short-term leases. The update also requires additional disclosures that will better enable users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. We plan to adopt this guidance as of January 1, 2019, the required effective date, for annual and interim reporting periods. The new standard requires a modified retrospective adoption approach, at the beginning of the earliest comparative period presented in the financial statements. We are currently evaluating the impact that adopting this new guidance will have on our consolidated financial statements.

In May 2014, the FASB issued an accounting standards update that outlines a new, single comprehensive model for companies to use in accounting for revenue arising from contracts with customers. This update supersedes most current revenue recognition guidance under U.S. GAAP. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance includes a five-step model for determining how, when and how much revenue should be recognized. This update also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. We will adopt this guidance as of January 1, 2018, the required effective date, using the modified retrospective transition method. Under the modified retrospective method, the cumulative effect of applying the new standard will be recognized as of the date of initial application with disclosure of results under both the new and prior standards. The new standard will not have a material impact on our consolidated financial statements upon adoption or on an ongoing basis.

Estimates and Assumptions

In preparing the consolidated financial statements, we use certain estimates and assumptions that affect reported amounts and disclosures, including amounts recorded in connection with acquisitions. These estimates and underlying assumptions can impact all elements of our consolidated financial statements. For example, in the consolidated statements of income, estimates are used when accounting for deductions from revenue (such as rebates, sales allowances, product returns and discounts), determining cost of sales, allocating cost in the form of depreciation and amortization, and estimating restructuring charges and the impact of contingencies. On the consolidated balance sheets, estimates are used in determining the valuation and recoverability of assets, such as accounts receivables, inventories, fixed assets, goodwill and other identifiable intangible assets, and estimates are used in determining the reported amounts of liabilities, such as taxes payable, benefit obligations, the impact of contingencies, deductions from revenue and restructuring reserves, all of which also impact the consolidated statements of income.

Our estimates are often based on complex judgments, probabilities and assumptions that we believe to be reasonable but that can be inherently uncertain and unpredictable. If our estimates and assumptions are not representative of actual outcomes, our results could be materially impacted.

As future events and their effects cannot be determined with precision, our estimates and assumptions may prove to be incomplete or inaccurate, or unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions. We are subject to risks and uncertainties that may cause actual results to differ from estimated amounts, such as changes in competition, litigation, legislation and regulations. We regularly evaluate our estimates and assumptions using historical experience and expectations about the future. We adjust our estimates and assumptions when facts and circumstances indicate the need for change. Those changes generally will be reflected in our consolidated financial statements on a prospective basis unless they are required to be treated retrospectively under relevant accounting standards. It is possible that others, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts.

Acquisitions

Our consolidated financial statements include the operations of acquired businesses from the date of acquisition. We account for acquired businesses using the acquisition method of accounting, which requires, among other things, that most assets acquired and liabilities assumed be recognized at their estimated fair values as of the acquisition date and that the fair value of acquired in-process research and development (IPR&D) be recorded on the balance sheet. Transaction costs are expensed as incurred. Any excess of the consideration transferred over the assigned values of the net assets acquired is recorded as goodwill. When we acquire net assets that do not constitute a business as defined in U.S. GAAP, no goodwill is recognized.

Amounts recorded for acquisitions can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions. For information about the risks associated with estimates and assumptions, see Estimates and Assumptions.

Foreign Currency Translation

For most of our international operations, local currencies have been determined to be the functional currencies. We translate functional currency assets and liabilities to their U.S. dollar equivalents at exchange rates in effect at the balance sheet date and we translate functional currency income and expense amounts to their U.S. dollar equivalents at average exchange rates for the period. The U.S. dollar effects that arise from changing translation rates are recorded in Other comprehensive income/(loss), net of tax. The effects of converting non-functional currency assets and liabilities

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into the functional currency are recorded in Other (income)/deductions—net. For operations in highly inflationary economies, we translate monetary items at rates in effect at the balance sheet date, with translation adjustments recorded in Other (income)/deductions—net, and we translate non-monetary items at historical rates.

Revenue, Deductions from Revenue and the Allowance for Doubtful Accounts

We record revenue from product sales when the goods are shipped and title and risk of loss passes to the customer. At the time of sale, we also record estimates for a variety of deductions from revenue, such as rebates, sales allowances, product returns and discounts. Sales deductions are estimated and recorded at the time that related revenue is recorded except for sales incentives, which are estimated and recorded at the time the related revenue is recorded or when the incentive is offered, whichever is later. As applicable, our estimates are generally based on contractual terms or historical experience, adjusted as necessary to reflect our expectations about the future. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from Revenue.

As of December 31, 2017, and 2016, accruals for sales deductions included in Other current liabilities are approximately \$141 million and \$122 million, respectively.

We also record estimates for bad debts. We periodically assess the adequacy of the allowance for doubtful accounts by evaluating the collectability of outstanding receivables based on factors such as past due history, historical and expected collection patterns, the financial condition of our customers, the robust nature of our credit and collection practices and the economic environment.

Amounts recorded for sales deductions and bad debts can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions. For information about the risks associated with estimates and assumptions, see Estimates and Assumptions.

Cost of Sales and Inventories

Inventories are carried at the lower of cost or net realizable value. The cost of finished goods, work-in-process and raw materials is determined using average actual cost. We regularly review our inventories for impairment and adjustments are recorded when necessary.

Selling, General and Administrative Expenses

Selling, general and administrative costs are expensed as incurred. Among other things, these expenses include the internal and external costs of marketing, advertising, and shipping and handling as well as certain costs related to business technology, facilities, legal, finance, human resources, business development, public affairs and procurement, among others.

Advertising expenses relating to production costs are expensed as incurred, and the costs of space in publications are expensed when the related advertising occurs. Advertising and promotion expenses totaled approximately \$154 million in 2017, \$119 million in 2016 and \$106 million in 2015.

Shipping and handling costs totaled approximately \$53 million in 2017, \$51 million in 2016 and \$59 million in 2015.

Research and Development Expenses

Research and development (R&D) costs are expensed as incurred. Research is the effort associated with the discovery of new knowledge that will be useful in developing a new product or in significantly improving an existing product. Development is the implementation of the research findings. Before a compound receives regulatory approval, we record upfront and milestone payments made by us to third parties under licensing arrangements as expense. Upfront payments are recorded when incurred, and milestone payments are recorded when the specific milestone has been achieved. Once a compound receives regulatory approval in a major market, we record any milestone payments in Identifiable intangible assets, less accumulated amortization and, unless the assets are determined to have an indefinite life, we amortize them on a straight-line basis over the remaining agreement term or the expected product life cycle, whichever is shorter.

Amortization of Intangible Assets, Depreciation and Certain Long-Lived Assets

Long-lived assets include:

• Goodwill—goodwill represents the excess of the consideration transferred for an acquired business over the assigned values of its net assets. Goodwill is not amortized.

• Identifiable intangible assets, less accumulated amortization—these acquired assets are recorded at our cost. Identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. Identifiable

intangible assets with indefinite lives that are associated with marketed products are not amortized until a useful life can be determined. Identifiable intangible assets associated with IPR&D projects are not amortized until regulatory approval is obtained. The useful life of an amortizing asset generally is determined by identifying the period in which substantially all of the cash flows are expected to be generated.

Property, plant and equipment, less accumulated depreciation—these assets are recorded at our cost and are increased by the cost of any significant improvements after purchase. Property, plant and equipment assets, other than land and construction-in-progress, are depreciated on a straight-line basis over the estimated useful life of the individual assets. Depreciation begins when the asset is ready for its intended use. For tax purposes, accelerated depreciation methods are used as allowed by tax laws.

Amortization expense related to finite-lived identifiable intangible assets that contribute to our ability to sell, manufacture, research, market and distribute products, compounds and intellectual property are included in Amortization of intangible assets as they benefit multiple business functions. Amortization expense related to intangible assets that are associated with a single function and depreciation of property, plant and equipment are included in Cost of sales, Selling, general and administrative expenses and Research and development expenses, as appropriate.

We review all of our long-lived assets for impairment indicators throughout the year and we perform detailed testing whenever impairment indicators are present. In addition, we perform impairment testing for goodwill and indefinite-lived assets at least annually. When necessary, we record charges for impairments. Specifically:

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For finite-lived identifiable intangible assets, such as developed technology rights, and for other long-lived assets, such as property, plant and equipment, whenever impairment indicators are present, we calculate the undiscounted value of the projected cash flows associated with the asset, or asset group, and compare this estimated amount to the carrying amount. If the carrying amount is found to be greater, we record an impairment loss for the excess of book value over fair value. In addition, in all cases of an impairment review, we re-evaluate the remaining useful lives of the assets and modify them, as appropriate.

For indefinite-lived identifiable intangible assets, such as brands and IPR&D assets, we test for impairment at least annually, or more frequently if impairment indicators exist, by first assessing qualitative factors to determine whether it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying amount. If we conclude it is more likely than not that the fair value is less than the carrying amount, a quantitative test that compares the fair value of the indefinite-lived intangible asset with its carrying value is performed. If the fair value is less than the carrying amount, an impairment loss is recognized. We record an impairment loss, if any, for the excess of book value over fair value. In addition, in all cases of an impairment review other than for IPR&D assets, we re-evaluate whether continuing to characterize the asset as indefinite-lived is appropriate.

For goodwill, we test for impairment on at least an annual basis, or more frequently if impairment indicators exist, either by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, or by performing a quantitative assessment. If we choose to perform a qualitative analysis and conclude it is more likely than not that the fair value of a reporting unit is less than its carrying amount, a quantitative fair value test is performed. We determine the implied fair value of goodwill by subtracting the fair value of all the identifiable net assets other than goodwill from the fair value of the reporting unit and record an impairment loss for the excess, if any, of book value of goodwill over the implied fair value. In 2017, we performed both qualitative and select quantitative impairment assessments as of October 1, 2017, which did not result in the impairment of goodwill associated with any of our reporting units. In 2016, we qualitatively assessed, as of October 2, 2016, whether it is more likely than not that the respective fair values of our reporting units are less than their carrying amounts, including goodwill. Based on that assessment, we determined that this condition does not exist for any of our reporting units and therefore concluded that a quantitative fair value test was not required and no impairments were recorded.

Impairment reviews can involve a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions. For information about the risks associated with estimates and assumptions, see Estimates and Assumptions.

Software Capitalization and Depreciation

We capitalize certain costs incurred in connection with obtaining or developing internal-use software, including payroll and payroll-related costs for employees who are directly associated with the internal-use software project, external direct costs of materials and services and interest costs while developing the software. Capitalized software costs are included in Property, plant and equipment and are amortized using the straight-line method over the estimated useful life of five to ten years. Capitalization of such costs ceases when the project is substantially complete and ready for its intended purpose. Costs incurred during the preliminary project and post-implementation stages, as well as software maintenance and training costs, are expensed in the period in which they are incurred. The company capitalized \$8 million and \$26 million of internal-use software for the years ended December 31, 2017, and 2016, respectively. Depreciation expense for capitalized software was \$21 million in 2017, \$19 million in 2016 and \$14 million in 2015.

Restructuring Charges and Certain Acquisition-Related Costs

We may incur restructuring charges in connection with acquisitions when we implement plans to restructure and integrate the acquired operations or in connection with cost-reduction and productivity initiatives. Included in Restructuring charges and certain acquisition-related costs are all restructuring charges and certain costs associated with acquiring and integrating an acquired business. Transaction costs and integration costs are expensed as incurred. Termination costs are a significant component of restructuring charges and are generally recorded when the actions are probable and estimable.

Amounts recorded for restructuring charges and other associated costs can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions. For information about the risks associated with estimates and assumptions, see Estimates and Assumptions.

Earnings per Share

Basic earnings per share is computed by dividing net income attributable to Zoetis by the weighted-average number of common shares outstanding during the period. Diluted earnings per share adjusts the weighted-average number of common shares outstanding for the potential dilution that could occur if common stock equivalents (stock options, restricted stock units, and performance-vesting restricted stock units) were exercised or converted into common stock, calculated using the treasury stock method.

Cash Equivalents

Cash equivalents include items almost as liquid as cash, such as certificates of deposit and time deposits with maturity periods of three months or less when purchased.

Fair Value

Certain assets and liabilities are required to be measured at fair value, either upon initial recognition or for subsequent accounting or reporting. For example, we use fair value extensively in the initial recognition of net assets acquired in a business combination. Fair value is estimated using an exit price approach, which requires, among other things, that we determine the price that would be received to sell an asset or paid to transfer a liability in an orderly market. The determination of an exit price is considered from the perspective of market participants, considering the highest and best use of assets and, for liabilities, assuming that the risk of non-performance will be the same before and after the transfer.

When estimating fair value, depending on the nature and complexity of the asset or liability, we may use one or all of the following approaches:

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Income approach, which is based on the present value of a future stream of net cash flows.

Market approach, which is based on market prices and other information from market transactions involving identical or comparable assets or liabilities.

Cost approach, which is based on the cost to acquire or construct comparable assets less an allowance for functional and/or economic obsolescence.

These fair value methodologies depend on the following types of inputs:

Quoted prices for identical assets or liabilities in active markets (Level 1 inputs).

Quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active or are directly or indirectly observable (Level 2 inputs).

Unobservable inputs that reflect estimates and assumptions (Level 3 inputs).

A single estimate of fair value can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions. For information about the risks associated with estimates and assumptions, see Estimates and Assumptions.

Accounts Receivable

The recorded amounts of accounts receivable approximate fair value because of their relatively short-term nature. As of December 31, 2017, and 2016, Accounts receivable, less allowance for doubtful accounts, of \$998 million and \$913 million, respectively, includes approximately \$62 million and \$49 million of other receivables, such as trade notes receivable and royalty receivables, among others.

Deferred Tax Assets and Liabilities and Income Tax Contingencies

Deferred tax assets and liabilities are recognized for the expected future tax consequences of differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates and laws. We provide a valuation allowance when we believe that our deferred tax assets are not recoverable based on an assessment of estimated future taxable income that incorporates ongoing, prudent and feasible tax planning strategies.

We account for income tax contingencies using a benefit recognition model. If we consider that a tax position is more likely than not to be sustained upon audit, based solely on the technical merits of the position, we recognize the benefit. We measure the benefit by determining the amount that is greater than 50% likely of being realized upon settlement, presuming that the tax position is examined by the appropriate taxing authority that has full knowledge of all relevant information. Under the benefit recognition model, if the initial assessment fails to result in the recognition of a tax benefit, we regularly monitor our position and subsequently recognize the tax benefit: (i) if there are changes in tax law, analogous case law or there is new information that sufficiently raise the likelihood of prevailing on the technical merits of the position to more likely than not; (ii) if the statute of limitations expires; or (iii) if there is a completion of an audit resulting in a favorable settlement of that tax year with the appropriate agency. We regularly re-evaluate our tax positions based on the results of audits of federal, state and foreign income tax filings, statute of limitations expirations, changes in tax law or receipt of new information that would either increase or decrease the technical merits of a position relative to the “more-likely-than-not” standard. Liabilities associated with uncertain tax positions are classified as current only when we expect to pay cash within the next 12 months. Interest and penalties, if any, are recorded in Provision for taxes on income and are classified on our consolidated balance sheet with the related tax liability.

Amounts recorded for valuation allowances and income tax contingencies can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions. For information about the risks associated with estimates and assumptions, see Estimates and Assumptions.

Benefit Plans

All dedicated benefit plans are pension plans. For our dedicated benefit plans, we recognize the overfunded or underfunded status of defined benefit plans as an asset or liability on the consolidated balance sheets and the obligations generally are measured at the actuarial present value of all benefits attributable to employee service rendered, as provided by the applicable benefit formula. Pension obligations may include assumptions such as long-term rate of return on plan assets, expected employee turnover, participant mortality, and future compensation levels. Plan assets are measured at fair value. Net periodic benefit costs are recognized, as required, into Cost of sales, Selling, general and administrative expenses and Research and development expenses, as appropriate.

Amounts recorded for benefit plans can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions. For information about the risks associated with estimates and assumptions, see Estimates and Assumptions.

Asset Retirement Obligations

We record accruals for the legal obligations associated with the retirement of tangible long-lived assets, including obligations under the doctrine of promissory estoppel and those that are conditioned upon the occurrence of future events. These obligations generally result from the acquisition, construction, development and/or normal operation of long-lived assets. We recognize the fair value of these obligations in the period in which they are incurred by increasing the carrying amount of the related asset. Over time, we recognize expense for the accretion of the liability and for the amortization of the asset.

As of December 31, 2017 and 2016, accruals for asset retirement obligations included in Accrued expenses are \$0.1 million for both periods, and included in Other noncurrent liabilities are \$19 million and \$12 million, respectively. Amounts recorded for asset retirement obligations can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions. For information about the risks associated with estimates and assumptions, see Estimates and Assumptions.

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Legal and Environmental Contingencies

We are subject to numerous contingencies arising in the ordinary course of business, such as product liability and other product-related litigation, commercial litigation, patent litigation, environmental claims and proceedings, government investigations and guarantees and indemnifications. We record accruals for these contingencies to the extent that we conclude that a loss is both probable and reasonably estimable. If some amount within a range of loss appears to be a better estimate than any other amount within the range, we accrue that amount. Alternatively, when no amount within a range of loss appears to be a better estimate than any other amount, we accrue the lowest amount in the range. We record anticipated recoveries under existing insurance contracts when recovery is assured.

Amounts recorded for contingencies can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions. For information about the risks associated with estimates and assumptions, see Estimates and Assumptions.

Share-Based Payments

Our compensation programs can include share-based payment plans. All grants under share-based payment programs are accounted for at fair value and such amounts generally are amortized on a straight-line basis over the vesting term to Cost of sales, Selling, general and administrative expenses, and Research and development expenses, as appropriate. We include the impact of estimated forfeitures when determining share-based compensation expense. Amounts recorded for share-based compensation can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions. For information about the risks associated with estimates and assumptions, see Estimates and Assumptions.

4. Acquisitions and Divestitures

A. Acquisitions

During 2017, Zoetis completed the acquisitions of the remaining 55 percent noncontrolling interest in Jilin Zoetis Guoyuan Animal Health Co., Ltd. (a variable interest entity previously consolidated by Zoetis as the primary beneficiary), an Irish biologic therapeutics company, and a Norwegian fish vaccination company. In addition, we also consolidated a European livestock monitoring company, a variable interest entity of which Zoetis is the primary beneficiary. These transactions did not have a significant impact on our consolidated financial statements.

B. Divestitures

On May 5, 2015, in conjunction with the announcement of our comprehensive operational efficiency program and supply network strategy, we announced our intent to sell or exit 10 manufacturing sites over the long term. For additional information, see Note 5. Restructuring Charges and Other Costs Associated with Acquisitions and Cost-Reduction/Productivity Initiatives.

On November 14, 2017, as part of our supply network strategy, we completed the sale of our manufacturing site in Guarulhos, Brazil to Uniao Quimica (UQ), a Brazilian-based pharmaceutical company. In conjunction with the sale, we also entered into a five-year manufacturing and supply agreement with UQ, commencing upon completion of the sale. We received \$41 million in cash at closing, and an additional \$8 million subsequent to the closing in December 2017. Additionally, we recorded a net pre-tax loss of approximately \$9 million, inclusive of charges of \$5 million recorded during the third quarter of 2017, within Other (income)/deductions—net.

On May 11, 2017, we completed the sale of our manufacturing site in Shenzhen, China. We had previously exited operations at this site during the second quarter of 2015 as part of our operational efficiency program. We received total cash proceeds of approximately \$3 million and recorded a net pre-tax gain of approximately \$2 million within Other (income)/deductions—net.

Additionally, in the second quarter of 2017, we recorded a \$4 million expense within Other (income)/deductions—net related to the prior year sale of the U.S. manufacturing sites noted below.

On April 28, 2016, we completed the sale of our 55 percent ownership share of a Taiwan joint venture, including a manufacturing site in Hsinchu, Taiwan to Yung Shin Pharmaceutical Industrial Co., Ltd., a pharmaceutical company with an animal health business and headquarters in Taiwan, as part of our operational efficiency program. The sale also included a portfolio of products in conjunction with our comprehensive operational efficiency program. These products include medicated feed additives, anti-infective medicines and nutritional premixes for livestock, sold primarily in Taiwan and in international markets. We received \$13 million in cash upon closing.

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On February 17, 2016, we completed the sale of our manufacturing site in Haridwar, India to the India-based pharmaceutical company Zydus Cadila (Cadila Healthcare Ltd.). The agreement also included the sale of a portfolio of our products in conjunction with our comprehensive operational efficiency program. These products included medicated feed additives, anti-infectives, parasiticides, and nutritionals for livestock, sold primarily in India.

On February 12, 2016, we completed the sale of two of our manufacturing sites in the United States: Laurinburg, North Carolina, and Longmont, Colorado to Huvepharma NV (Huvepharma), a European animal health company. Huvepharma also assumed the assets and operations and the lease of our manufacturing and distribution site in Van Buren, Arkansas. The agreement included the sale of a portfolio of products in conjunction with our comprehensive operational efficiency program. These products included medicated feed additives, water soluble therapeutics and nutritionals for livestock sold in the U.S. and international markets.

During 2016, we received total cash proceeds of approximately \$88 million related to the divestitures of our share of our Taiwan joint venture and the India and U.S. manufacturing sites noted above. During the first quarter of 2016, we recognized a net pre-tax gain of approximately \$33 million, partially offset by a net pre-tax loss of approximately \$6 million recognized during the second quarter of 2016. Gains and losses related to divestitures are recorded within Other (income)/deductions— net.

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The divestiture transactions required transitional supply and service agreements, including technology transfers, where necessary and appropriate, as well as other customary ancillary agreements.

5. Restructuring Charges and Other Costs Associated with Acquisitions and Cost-Reduction/Productivity Initiatives

In connection with our cost-reduction/productivity initiatives, we typically incur costs and charges associated with site closings and other facility rationalization actions, workforce reductions and the expansion of shared services, including the development of global systems. In connection with our acquisition activity, we typically incur costs and charges associated with executing the transactions, integrating the acquired operations, which may include expenditures for consulting and the integration of systems and processes, product transfers and restructuring the consolidated company, which may include charges related to employees, assets and activities that will not continue in the consolidated company. All operating functions can be impacted by these actions, including sales and marketing, manufacturing and R&D, as well as functions such as business technology, shared services and corporate operations. During 2015, we launched a comprehensive operational efficiency program, which was incremental to the previously announced supply network strategy. These initiatives have focused on reducing complexity in our product portfolios through the elimination of approximately 5,000 product stock keeping units (SKUs), changing our selling approach in certain markets, reducing our presence in certain countries, and planning to sell or exit 10 manufacturing sites over a long term period. As of December 31, 2017, we divested or exited three U.S. manufacturing sites, four international manufacturing sites, and our 55 percent ownership share of a Taiwan joint venture, inclusive of its related manufacturing site. See Note 4B. Acquisitions and Divestitures: Divestitures for additional information. We are also continuing to optimize our resource allocation and efficiency by reducing resources associated with non-customer facing activities and operating more efficiently as a result of less internal complexity and more standardization of processes. As part of these initiatives, we planned to reduce certain positions through divestitures, normal attrition and involuntary terminations by approximately 2,000 to 2,500, subject to consultations with works councils and unions in certain countries. In 2016, the operations of the Guarulhos, Brazil manufacturing site, including approximately 300 employees, were transferred to us from Pfizer, which increased our range of planned reduction in certain positions to 2,300 to 2,800. Including divestitures, as of December 31, 2017, approximately 2,600 positions have been eliminated. The comprehensive operational efficiency program is substantially complete, however in the fourth quarter of 2017, we expanded the supply network strategy initiative which increases our planned reductions in certain positions by 40. We expect these additional reductions related to our supply network strategy to take place over the next twelve months, and the remainder of the reductions from the initial plan to take place through divestitures over the next several years.

The components of costs incurred in connection with restructuring initiatives, acquisitions and cost-reduction/productivity initiatives are as follows:

(MILLIONS OF DOLLARS)	Year Ended December 31,		
	2017	2016	2015
Restructuring charges/(reversals) and certain acquisition-related costs:			
Integration costs ^(a)	\$6	\$ 3	\$10
Transaction costs ^(b)	—	—	9
Restructuring charges/(reversals) ^{(c)(d)} :			
Employee termination costs/(reversals)	10	(2)	262
Asset impairment charges	—	—	39
Exit costs	3	4	—
Total Restructuring charges and certain acquisition-related costs	\$19	\$ 5	\$320

Integration costs represent external, incremental costs directly related to integrating acquired businesses and

(a) primarily include expenditures for consulting and the integration of systems and processes, as well as product transfer costs.

(b) Transaction costs represent external costs directly related to acquiring businesses and primarily include expenditures for banking, legal, accounting and other similar services.

(c) The restructuring charges for the year ended December 31, 2017, are primarily related to:

a net increase in employee termination costs of \$2 million related to the operational efficiency initiative and supply network strategy;

employee termination costs of \$4 million related to the acquisition of an Irish biologic therapeutics company in the third quarter of 2017, and

employee termination costs of \$4 million in Europe, as a result of initiatives to better align our organizational structure.

The restructuring charges/(reversals) for the years ended December 31, 2016 and 2015 primarily relate to our operational efficiency initiative and supply network strategy.

^(d) The restructuring charges/(reversals) are associated with the following:

For the year ended December 31, 2017, International of \$2 million and Manufacturing/research/corporate of \$11 million.

For the year ended December 31, 2016, U.S. of \$1 million, International of a \$13 million reversal and Manufacturing/research/corporate of \$14 million.

For the year ended December 31, 2015, U.S. of \$31 million, International of \$132 million and Manufacturing/research/corporate of \$138 million.

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Charges/(benefits) related to the operational efficiency initiative and supply network strategy are as follows:

(MILLIONS OF DOLLARS)	Year Ended December 31,		
	2017	2016	2015
Restructuring charges/(reversals) and certain acquisition-related costs:			
Operational efficiency initiative			
Employee termination costs ^(a)	\$1	\$(8)	\$253
Asset impairment	—	—	38
Exit costs	3	5	—
	4	(3)	291
Supply network strategy:			
Employee termination costs	1	6	9
Asset impairment charges	—	—	1
	1	6	10
Total restructuring charges related to the operational efficiency initiative and supply network strategy	5	3	301
Other operational efficiency initiative charges:			
Cost of sales:			
Inventory write-offs	(2)	5	13
Selling, general and administrative expenses:			
Accelerated depreciation	—	1	—
Consulting fees	2	14	40
Research and development expenses:			
Accelerated depreciation	—	—	2
Other (income)/deductions:			
Net loss/(gain) on sale of assets ^(b)	1	(26)	—
Total other operational efficiency initiative charges	1	(6)	55
Other supply network strategy charges:			
Cost of sales:			
Accelerated depreciation	2	6	1
Consulting fees	5	6	16
Inventory write-offs	—	1	—
Other ^(c)	(2)	—	—
Other (income)/deductions—net:			
Net loss on sale of assets ^(d)	9	—	—
Total other supply network strategy charges	14	13	17
Total costs associated with the operational efficiency initiative and supply network strategy	\$20	\$10	\$373

(a) For the year ended December 31, 2016, includes a reduction in employee termination accruals primarily as a result of higher than expected voluntary attrition rates experienced in the first half of 2016.

(b) For the year ended December 31, 2016, represents the net gain on the sale of certain manufacturing sites and products, partially offset by the loss on the sale of our share of our Taiwan joint venture, as part of our operational efficiency initiative.

(c) For the year ended December 31, 2017, represents an adjustment related to discontinuing the depreciation of assets, located at our manufacturing site in Guarulhos, Brazil, that was sold in the fourth quarter of 2017.

(d)

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For the year ended December 31, 2017, represents the net loss related to the sale our manufacturing site in Guarulhos, Brazil.

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The components of, and changes in, our restructuring accruals are as follows:

	Employee Termination Costs	Asset Impairment Charges	Exit Costs	Accrual
(MILLIONS OF DOLLARS)				
Balance, December 31, 2014	18	—	1	19
Provision	262	39	—	301
Utilization and other ^(a)	(59 )	) —	—	(59)
Non-cash activity	—	(39 )	) —	(39)
Balance, December 31, 2015	221	—	1	222
Provision/(benefit)	(2 )	) —	4	2
Utilization and other ^(a)	(129 )	) —	(5)	(134)
Balance, December 31, 2016 ^(b)	\$ 90	\$ —	\$ —	\$ 90
Provision	10	—	3	13
Utilization and other ^(a)	(59 )	) —	(3)	(62)
Balance, December 31, 2017 ^(b)	41	—	—	41

^(a) Includes adjustments for foreign currency translation.

^(b) At December 31, 2017 and 2016, included in Accrued Expenses (\$19 million and \$61 million, respectively) and Other noncurrent liabilities (\$22 million and \$29 million, respectively).

6. Other (Income)/Deductions—Net

The components of Other (income)/deductions—net follow:

	Year Ended December 31,		
(MILLIONS OF DOLLARS)	2017	2016	2015
Royalty-related income ^(a)	\$(12)	\$(30)	\$(24)
Identifiable intangible asset impairment charges ^(b)	—	1	2
Other asset impairment charges ^(c)	—	—	6
Net loss/(gain) on sale of assets ^(d)	11	(26)	—
Certain legal and other matters, net ^(e)	(8 )	) 14	—
Foreign currency loss ^(f)	29	49	13
Foreign currency loss related to Venezuela revaluation ^(g)	—	—	89
Other, net ^(h)	(14 )	) (10)	(5)
Other (income)/deductions—net	\$6	\$(2)	\$81

^(a) Includes an adjustment to our royalty income.

In 2016, the intangible asset impairment charge represents an impairment of finite-lived trademarks related to a

^(b) canine pain management product. In 2015, charges include the impairment of acquired IPR&D assets related to the termination of a canine oncology project.

^(c) For 2015, represents impairment charges related to assets held by our joint venture in Taiwan, which was subsequently sold in 2016. See Note 4B. Acquisitions and Divestitures.

For 2017, primarily represents the net loss related to sales of certain manufacturing sites and products, including our manufacturing site in Guarulhos, Brazil, as part of our operational efficiency initiative and supply network strategy. For 2016, represents the net gain on the sale of certain manufacturing sites and products, partially offset by the loss on the sale of our share of our Taiwan joint venture, as part of our operational efficiency initiative.

^(e) In July 2014 and December 2016, we reached commercial settlements with several large poultry customers in Mexico associated with specific lots of a Zoetis poultry vaccine. Although there have been no quality or efficacy issues with the manufacturing of this vaccine, certain shipments from several lots in Mexico may have experienced an issue in storage with a third party in Mexico that could have impacted their efficacy. We issued a recall of these lots in July 2014 and the product is currently unavailable in Mexico. For 2017, includes income associated with an insurance recovery related to these commercial settlements, as well as a favorable outcome on a patent infringement settlement. For 2016, represents a charge related to the commercial settlement in Mexico for these

products.

- (f) Primarily driven by costs related to hedging and exposures to certain emerging market currencies. For 2016, also includes losses related to the depreciation of the Egyptian pound in the fourth quarter of 2016.
- (g) For additional information, see Note 7. Foreign Currency Loss Related to Venezuela Revaluation. Includes interest income and other miscellaneous income. For 2017, primarily includes a settlement refund and reimbursement of legal fees related to costs incurred by Pharmaq prior to the acquisition in 2015 and income
- (h) associated with certain state business employment tax incentive credits. For 2016, primarily represents income associated with certain state business employment tax incentive credits, as well as interest income. For 2015, includes inventory losses sustained as result of weather damage at storage facilities in Brazil and Australia.

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7. Foreign Currency Loss Related to Venezuela Revaluation

On February 13, 2013, the Venezuelan government devalued its currency from a rate of 4.3 to 6.3 Venezuelan bolivars per U.S. dollar. Our Venezuelan subsidiary's functional currency is the U.S. dollar because of the hyperinflationary status of the Venezuelan economy. In the first quarter of 2014, the Venezuelan government expanded its exchange mechanisms, resulting in three official rates of exchange for the Venezuelan bolivar.

Through the fourth quarter of 2015, we used the CENCOEX official rate of 6.3 to report our Venezuela financial position, results of operations and cash flows. In the fourth quarter of 2015, upon evaluation of evolving economic conditions in Venezuela and our expectation of Venezuela's responses to changes in its economy, continued volatility, and the fact that we have not received any approved payments from Venezuela for transactions at the CENCOEX official rate of 6.3 per U.S. dollar in 2015, we determined that our outstanding Venezuelan bolivar-denominated net monetary assets are no longer expected to be settled at the CENCOEX official rate of 6.3, but rather at the SIMADI rate of 199. On November 30, 2015, we recorded a net remeasurement loss of \$89 million on bolivar-denominated net monetary assets, primarily related to cash deposits in Venezuela, using the SIMADI rate of 199 bolivars to the U.S. dollar, and this rate will be used prospectively. We believe this best represented the estimate of the U.S. dollar amount that would ultimately be collected. Additionally, the company recorded a lower of cost or market adjustment to inventory of \$4 million, and asset impairment charges of \$3 million.

Effective March 10, 2016, the Venezuelan government made the following changes to its foreign currency exchange mechanisms: (i) the three-tier exchange rate system existing in the country changed to a dual system with the elimination of the SICAD rate, (ii) the official CENCOEX rate was replaced with DIPRO and was devalued from 6.3 to 10 Venezuelan bolivars per U.S. dollar, and (iii) the SIMADI rate was replaced with DICOM. As of November 30, 2016, the Venezuelan bolivar to U.S. dollar exchange rates were the DIPRO rate of 10 and the DICOM rate of 663. Beginning in the second quarter of 2016, we use the DICOM rate to report our Venezuela financial position, results of operations and cash flows.

8. Tax Matters

A. Taxes on Income

The income tax provision in the consolidated statements of income includes tax costs and benefits, such as uncertain tax positions, repatriation decisions and audit settlements, among others.

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Act) was enacted which, among other changes, reduces the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. The Tax Act makes broad and complex changes to the U.S. tax code and it will take time to fully analyze the impact of the changes. Based on the information available, and the current interpretation of the Tax Act, the company was able to make a reasonable estimate and recorded a provisional net tax expense related to the one-time mandatory deemed repatriation tax, payable over eight years, partially offset by the remeasurement of the deferred tax assets and liabilities, as of the date of enactment, due to the reduction in the U.S. federal corporate tax rate. Pursuant to the Staff Accounting Bulletin published by the Securities and Exchange Commission on December 22, 2017, addressing the challenges in accounting for the effects of the Tax Act in the period of enactment, companies must report provisional amounts for those specific income tax effects of the Tax Act for which the accounting is incomplete but a reasonable estimate can be determined. Those provisional amounts will be subject to adjustment during a measurement period of up to one year from the enactment date. Pursuant to this guidance, the estimated impact of the Tax Act is based on a preliminary review of the new tax law and projected future financial results and is subject to revision based upon further analysis and interpretation of the Tax Act and to the extent that future results differ from currently available projections.

Our accounting for the following elements of the Tax Act is incomplete. However, we are able to make reasonable estimates and recorded a provisional net tax expense of \$212 million related to the following elements of the Tax Act pursuant to the Staff Accounting Bulletin referred to above:

One-Time Mandatory Deemed Repatriation Tax: As a result of the enactment of the Tax Act, the company will be subject to a one-time mandatory deemed repatriation tax on accumulated non-U.S. earnings. Due to the fact that the non-U.S. subsidiaries are on a fiscal year ending November 30, this tax liability will not become a fixed obligation until 2018. The estimated impact of the Tax Act is based on a preliminary review of the new law and projected future financial results and is subject to revision based upon further analysis and interpretation of the Tax Act and to the extent that future results differ from currently available projections.

Reduction of U.S. Federal Corporate Tax Rate: The Tax Act reduces the corporate tax rate to 21%, effective January 1, 2018. Consequently, we have recorded a decrease related to deferred tax assets and liabilities with a corresponding net adjustment to deferred income tax benefit for the year ended December 31, 2017. Since, as discussed herein, the company has recorded provisional amounts related to certain portions of the Tax Act, any corresponding deferred tax remeasurement is also provisional.

Valuation Allowances: The company must assess whether its valuation allowance analyses are affected by various aspects of the Tax Act (e.g., one-time mandatory deemed repatriation of deferred foreign income, global intangible low-taxed income inclusions, and new categories of foreign tax credits). Since, as discussed herein, the company has recorded provisional amounts related to certain portions of the Tax Act, any corresponding determination of the need for or change in a valuation allowance is also provisional.

Global Intangible Low-Taxed Income (GILTI) Policy Election: The GILTI provisions of the Tax Act do not apply to the company until 2019 and we are still evaluating its impact. The FASB allows companies to adopt an accounting policy to either recognize deferred taxes for GILTI or treat such tax cost as a current-period expense when incurred. We have not yet determined our accounting policy because determining the impact of the GILTI provisions requires analysis of our existing legal entity structure, the reversal of our U.S. GAAP and U.S. tax basis differences in the assets and liabilities of our foreign subsidiaries, and our ability to offset any tax with foreign tax credits. As such, we have not made a policy decision regarding whether to record deferred taxes on GILTI or treat such tax cost as a current-period expense.

On January 11, 2016, the European Commission concluded that the Belgium “excess profits tax scheme” constitutes illegal state aid and ordered the Belgian authorities to recover benefits from taxpayers who are parties to an Excess Profits Ruling. As a result, the 2017 and 2016 effective tax rates

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do not reflect any benefit of the excess profits ruling and does incorporate the Belgium government's recovery of benefits for the periods 2013 through 2015 offset by the remeasurement of the company's deferred tax assets and liabilities using the rates expected to be in place at the time of the reversal and without consideration of implementation of any future operational changes. The 2015 effective tax rate includes the benefit of the incentive tax rulings in Belgium and Singapore.

The components of Income before provision for taxes on income follow:

(MILLIONS OF DOLLARS)	Year Ended		
	December 31,		
	2017	2016	2015
United States	\$897	\$723	\$469
International	628	505	76
Income before provision for taxes on income	\$1,525	\$1,228	\$545

The components of Provision for taxes on income based on the location of the taxing authorities follow:

(MILLIONS OF DOLLARS)	Year Ended		
	December 31,		
	2017	2016	2015
United States:			
Current income taxes:			
Federal	\$384	\$281	\$221
State and local	25	3	19
Deferred income taxes:			
Federal	113	(38)	(63)
State and local	2	11	(15)
Total U.S. tax provision	524	257	162
International:			
Current income taxes	126	179	50
Deferred income taxes	13	(27)	(6)
Total international tax provision	139	152	44
Provision for taxes on income ^{(a)(b)(c)}	\$663	\$409	\$206

^(a) In 2017, the Provision for taxes on income reflects the following:

the change in the jurisdictional mix of earnings, which includes the impact of the location of earnings from (i) operations and (ii) restructuring charges related to the operational efficiency initiative and supply network strategy, as well as repatriation costs. The jurisdictional mix of earnings can vary as a result of repatriation decisions and as a result of operating fluctuations in the normal course of business, the impact of non-deductible items and the extent and location of other income and expense items, such as restructuring charges/(benefits), asset impairments and gains and losses on asset divestitures;

a \$212 million net discrete provisional tax expense recorded in the fourth quarter of 2017, related to the impact of the Tax Act enacted on December 22, 2017, including a one-time mandatory deemed repatriation tax, partially offset by a net tax benefit related to the remeasurement of the deferred tax assets and liabilities, as of the date of enactment, due to the reduction in the U.S. federal corporate tax rate;

U.S. tax benefit related to U.S. Research and Development Tax Credit and the U.S. Domestic Production Activities deduction;

a \$15 million discrete tax benefit recorded in the fourth quarter of 2017 related to the effective settlement of certain issues with U.S. and non-U.S. tax authorities;

a \$9 million discrete tax benefit recorded in 2017 related to the excess tax benefits for share-based payments;

a \$3 million discrete tax benefit recorded in the first quarter of 2017 related to a remeasurement of the company's deferred tax assets and liabilities using the tax rates expected to be in place going forward;

tax expense related to the changes in valuation allowances and the resolution of other tax items; and

tax expense related to changes in uncertain tax positions (see D. Tax Contingencies).

- (b) In 2016, the Provision for taxes on income reflects the following:
- the change in the jurisdictional mix of earnings, which includes the impact of the location of earnings from (i) operations and (ii) restructuring charges related to the operational efficiency initiative and supply network strategy, as well as repatriation costs. The jurisdictional mix of earnings can vary as a result of repatriation decisions and as a result of operating fluctuations in the normal course of business, the impact of non-deductible items and the extent and location of other income and expense items, such as restructuring charges/(benefits), asset impairments and gains and losses on asset divestitures;
 - U.S. tax benefit related to U.S. Research and Development Tax Credit and the U.S. Domestic Production Activities deduction;
 - a \$15 million discrete tax benefit recorded in the fourth quarter of 2016 related to prior period tax adjustments;
 - a \$10 million discrete tax benefit recorded in the first quarter of 2016 related to a remeasurement of deferred taxes as a result of a change in statutory tax rates;
 - a \$7 million discrete tax benefit recorded in 2016 related to the excess tax benefits for share-based payments;
 - a \$2 million discrete tax benefit related to a remeasurement of the company's deferred tax assets and liabilities using the tax rates expected to be in place going forward;
 - a net tax expense of approximately \$35 million mainly recorded in the first half of 2016 related to the impact of the European Commission's negative decision on the excess profits rulings in Belgium. This net charge represents the recovery of prior tax benefits for the periods 2013 through 2015 offset by the remeasurement of the company's deferred tax assets and liabilities using the rates expected to be in place at the time of the reversal and without consideration of implementation of any future operational changes, and does not include any benefits associated with a successful appeal of the decision;

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tax expense related to the changes in valuation allowances and the resolution of other tax items; and

tax expense related to changes in uncertain tax positions (see D. Tax Contingencies).

(c) In 2015, the Provision for taxes on income reflects the following:

the change in the jurisdictional mix of earnings, which includes the impact of the location of earnings from (i) operations and (ii) restructuring charges related to the operational efficiency initiative and supply network strategy, as well as repatriation costs. The jurisdictional mix of earnings can vary as a result of repatriation decisions and as a result of operating fluctuations in the normal course of business, the impact of non-deductible items and the extent and location of other income and expense items, such as restructuring charges/(benefits), asset impairments and gains and losses on asset divestitures;

the tax expense related to the non-deductible revaluation of the net monetary assets in Venezuela to the SIMADI exchange rate recorded in the fourth quarter of 2015;

tax expense related to the changes in valuation allowances and the resolution of other tax items;

tax expense related to changes in uncertain tax positions (see D. Tax Contingencies);

a \$9 million discrete tax benefit recorded in the first quarter of 2015 related to a remeasurement of deferred taxes as a result of a change in tax rates;

a \$6 million discrete tax benefit recorded in the second quarter of 2015 related to prior period tax adjustments; and

U.S. tax benefit related to U.S. Research and Development Tax Credit which was permanently extended on December 18, 2015, and the U.S. Domestic Production Activities deduction.

Tax Rate Reconciliation

The reconciliation of the U.S. statutory income tax rate to our effective tax rate follows:

	Year Ended December 31,		
	2017	2016	2015
	%	%	%
U.S. statutory income tax rate	35.0	35.0	35.0
State and local taxes, net of federal benefits	0.7	0.8	(1.1)
Taxation of non-U.S. operations ^{(a)(b)}	(3.9)	(3.0)	(3.2)
Unrecognized tax benefits and tax settlements and resolution of certain tax positions ^(c)	6.0	0.4	1.8
Impact of the Tax Act ^(d)	7.7	—	—
Venezuela revaluation ^(e)	—	—	5.6
Annulment of Belgium Excess Profit Ruling ^(f)	—	2.9	—
U.S. Research and Development Tax Credit and U.S. Domestic Production Activities deduction ^(g)	(1.3)	(1.4)	(2.8)
Stock-based compensation ^(h)	(0.5)	(0.5)	—
Non-deductible / non-taxable items ⁽ⁱ⁾	0.5	0.2	1.3
All other—net	(0.7)	(1.1)	1.2
Effective tax rate	43.5	33.3	37.8
	%	%	%

(a) The rate impact of taxation of non-U.S. operations was a decrease to our effective tax rate in 2015 through 2017 due to (i) the jurisdictional mix of earnings as tax rates outside the United States are generally lower than the U.S. statutory income tax rate; and (ii) incentive tax rulings in Belgium and Singapore in 2015.

(b) In all years, the impact to the rate due to increases in uncertain tax positions was more than offset by the jurisdictional mix of earnings and other U.S. tax implications of our foreign operations described in the above footnotes.

(c) For a discussion about unrecognized tax benefits and tax settlements and resolution of certain tax positions, see A. Taxes on Income and D. Tax Contingencies.

The rate impact related to the Tax Act was an increase to our effective tax rate in 2017. This provisional net tax charge represents the amount related to the one-time mandatory deemed repatriation tax on the company's

(d) undistributed non-U.S. earnings, partially offset by a net tax benefit related to the remeasurement of the company's deferred tax assets and liabilities, as of the date of enactment, due to the reduction in the U.S. federal corporate tax rate.

- (e) The rate impact related to the non-deductible revaluation of the net monetary assets in Venezuela to the SIMADI exchange rate was an increase to our effective tax rate in 2015.
The rate impact related to the European Commission's negative decision on the excess profits rulings in Belgium was an increase to our effective tax rate in 2016. This net charge represents the recovery of prior tax benefits for the
- (f) periods 2013 through 2015 offset by the remeasurement of the company's deferred tax assets and liabilities using the rates expected to be in place at the time of the reversal and without consideration of implementation of any future operational changes, and does not include any benefits associated with a successful appeal of the decision.
- (g) In all years, the decrease in the rate was due to the benefit associated with the U.S. Research and Development Tax Credit and the U.S. Domestic Production Activities deduction.
- (h) The rate impact related to the excess tax benefits for share-based payments was a decrease to our effective tax rate in 2017 and 2016.
- (i) In all years, non-deductible items include meals and entertainment expenses.

B. Tax Matters Agreement

In connection with the separation from Pfizer in 2013, we entered into a tax matters agreement with Pfizer that governs the parties' respective rights, responsibilities and obligations with respect to tax liabilities and benefits, tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings and other matters regarding taxes.

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In general, under the agreement:

Pfizer will be responsible for any U.S. federal, state, local or foreign income taxes and any U.S. state or local non-income taxes (and any related interest, penalties or audit adjustments and including those taxes attributable to our business) reportable on a consolidated, combined or unitary return that includes Pfizer or any of its subsidiaries (and us and/or any of our subsidiaries) for any periods or portions thereof ending on or prior to December 31, 2012. We will be responsible for the portion of any such taxes for periods or portions thereof beginning on or after January 1, 2013, as would be applicable to us if we filed the relevant tax returns on a standalone basis.

We will be responsible for any U.S. federal, state, local or foreign income taxes and any U.S. state or local non-income taxes (and any related interest, penalties or audit adjustments) that are reportable on returns that include only us and/or any of our subsidiaries, for all tax periods whether before or after the completion of the separation from Pfizer.

Pfizer will be responsible for certain specified foreign taxes directly resulting from certain aspects of the separation from Pfizer.

We will not generally be entitled to receive payment from Pfizer in respect of any of our tax attributes or tax benefits or any reduction of taxes of Pfizer. Neither party's obligations under the agreement will be limited in amount or subject to any cap. The agreement also assigns responsibilities for administrative matters, such as the filing of returns, payment of taxes due, retention of records and conduct of audits, examinations or similar proceedings. In addition, the agreement provides for cooperation and information sharing with respect to tax matters.

Pfizer is primarily responsible for preparing and filing any tax return with respect to the Pfizer affiliated group for U.S. federal income tax purposes and with respect to any consolidated, combined, unitary or similar group for U.S. state or local or foreign income tax purposes or U.S. state or local non-income tax purposes that includes Pfizer or any of its subsidiaries, including those that also include us and/or any of our subsidiaries. We are generally responsible for preparing and filing any tax returns that include only us and/or any of our subsidiaries.

The party responsible for preparing and filing a given tax return will generally have exclusive authority to control tax contests related to any such tax return.

C. Deferred Taxes

Deferred taxes arise as a result of basis differentials between financial statement accounting and tax amounts.

The components of our deferred tax assets and liabilities follow:

	As of	
	December 31,	
	2017	2016
(MILLIONS OF DOLLARS)	Assets	(Liabilities)
Prepaid/deferred items	\$54	\$52
Inventories	8	47
Intangibles	(170)	(203)
Property, plant and equipment	(80)	(101)
Employee benefits	53	63
Restructuring and other charges	4	9
Legal and product liability reserves	14	18
Net operating loss/credit carryforwards	137	94
Unremitted earnings	(148)	—
All other	(2)	(2)
Subtotal	(130)	(23)
Valuation allowance	(170)	(125)
Net deferred tax liability ^{(a)(b)}	\$(300)	\$(148)

^(a) The increase in the total net deferred tax liability from December 31, 2016, to December 31, 2017, is primarily attributable to the provisional liability recorded for the one-time mandatory deemed repatriation tax on the company's undistributed non-U.S. earnings, partially offset by the remeasurement of all U.S. deferred tax assets and

liabilities as of December 22, 2017, based on the provisions of the Tax Act. In addition, the increase in the total net deferred tax liability was also attributable to an increase in valuation allowances representing the amounts determined to be unrecoverable, a decrease in deferred tax assets related to inventory, and employee benefits, partially offset by an increase in deferred tax assets related to net operating loss/credit carryforwards and a decrease in deferred tax liabilities related to intangibles, and property, plant and equipment.

In 2017, included in Noncurrent deferred tax assets (\$80 million) and Noncurrent deferred tax liabilities (\$380 million). In 2016, included in Noncurrent deferred tax assets (\$96 million) and Noncurrent deferred tax liabilities (\$244 million).

We have carryforwards, primarily related to net operating losses, which are available to reduce future foreign and U.S. state income taxes payable with either an indefinite life or expiring at various times from 2018 to 2037.

Valuation allowances are provided when we believe that our deferred tax assets are not recoverable based on an assessment of estimated future taxable income that incorporates ongoing, prudent and feasible tax planning strategies. On the basis of this evaluation, as of December 31, 2017, and December 31, 2016, a valuation allowance of \$170 million and \$125 million, respectively, has been recorded to record only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight may be given to subjective evidence such as projections for growth.

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In general, it is our practice and intention to permanently reinvest the majority of the earnings of the company's non U.S. subsidiaries. As of December 31, 2017, the cumulative amount of such undistributed earnings was approximately \$4.5 billion, for which we have not provided taxes for U.S. state income, foreign withholding and currency gains and losses. As these earnings are intended to be indefinitely reinvested overseas, as of December 31, 2017, we cannot predict the time or manner of a potential repatriation. As such, other than the deferred tax liability associated with the one-time mandatory deemed repatriation tax on such undistributed earnings imposed by the Tax Act, it is not practicable to estimate the amount of any additional deferred tax liabilities associated with the actual repatriation of the unremitted earnings due to the complexity of its hypothetical calculation.

D. Tax Contingencies

We are subject to income tax in many jurisdictions, and a certain degree of estimation is required in recording the assets and liabilities related to income taxes. All of our tax positions are subject to audit by the local taxing authorities in each tax jurisdiction. These tax audits can involve complex issues, interpretations and judgments and the resolution of matters may span multiple years, particularly if subject to negotiation or litigation. Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but our estimates of unrecognized tax benefits and potential tax benefits may not be representative of actual outcomes, and variation from such estimates could materially affect our financial statements in the period of settlement or when the statute of limitations expire. We treat these events as discrete items in the period of resolution.

For a description of our accounting policies associated with accounting for income tax contingencies, see Note 3. Significant Accounting Policies: Deferred Tax Assets and Liabilities and Income Tax Contingencies. For a description of the risks associated with estimates and assumptions, see Note 3. Significant Accounting Policies: Estimates and Assumptions.

Uncertain Tax Positions

As tax law is complex and often subject to varied interpretations, it is uncertain whether some of our tax positions will be sustained upon audit. As of December 31, 2017, 2016 and 2015, we had approximately \$161 million, \$65 million and \$60 million, respectively, in net liabilities associated with uncertain tax positions, excluding associated interest: Tax assets associated with uncertain tax positions primarily represent our estimate of the potential tax benefits in one tax jurisdiction that could result from the payment of income taxes in another tax jurisdiction. These potential benefits generally result from cooperative efforts among taxing authorities, as required by tax treaties to minimize double taxation, commonly referred to as the competent authority process. The recoverability of these assets, which we believe to be more likely than not, is dependent upon the actual payment of taxes in one tax jurisdiction and, in some cases, the successful petition for recovery in another tax jurisdiction. As of December 31, 2017, 2016 and 2015, we had approximately \$3 million, \$3 million and \$1 million, respectively, in assets associated with uncertain tax positions recorded in Other noncurrent assets.

Tax liabilities associated with uncertain tax positions represent unrecognized tax benefits, which arise when the estimated benefit recorded in our financial statements differs from the amounts taken or expected to be taken in a tax return because of the uncertainties described above. These unrecognized tax benefits relate primarily to issues common among multinational corporations. Substantially all of these unrecognized tax benefits, if recognized, would impact our effective income tax rate.

The reconciliation of the beginning and ending amounts of gross unrecognized tax benefits follows:

(MILLIONS OF DOLLARS)	2017	2016	2015
Balance, January 1	\$(68)	\$(61)	\$(54)
Increases based on tax positions taken during a prior period ^{(a)(b)}	(4)	(48)	—
Decreases based on tax positions taken during a prior period ^{(a)(c)}	12	2	6
Increases based on tax positions taken during the current period ^{(a)(d)}	(107)	(9)	(14)
Settlements ^(e)	—	46	—
Lapse in statute of limitations	3	2	1
Balance, December 31 ^(f)	\$(164)	\$(68)	\$(61)

(a) Primarily included in Provision for taxes on income.

(b)

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In 2017, the increases are primarily related to movements on prior year positions, including movements in foreign translation adjustments on prior year positions. In 2016, the increases are primarily related to the impact of the European Commission's negative decision on the excess profits rulings in Belgium. See A. Taxes on Income.

(c) In 2017, the decreases are primarily related to movements on prior year positions and effective settlement of certain issues with U.S. and non-U.S. tax authorities. In 2016, the decreases are primarily related to movements on prior year positions and effective settlement of certain issues with U.S. tax authorities and non-U.S. tax authorities. See A. Taxes on Income.

(d) In 2017, the increases are primarily related to the impact of the newly enacted Tax Act. See A. Taxes on Income.

(e) In 2016, the decreases are due to cash payments related to the impact of the European Commission's negative decision on the excess profits rulings in Belgium. See A. Taxes on Income.

(f) In 2017, included in Noncurrent deferred tax assets (\$3 million) and Other taxes payable (\$161 million). In 2016, included in Noncurrent deferred tax assets (\$3 million) and Other taxes payable (\$65 million). In 2015, included in Noncurrent deferred tax assets (\$6 million) and Other taxes payable (\$55 million).

Interest related to our unrecognized tax benefits is recorded in accordance with the laws of each jurisdiction and is recorded in Provision for taxes on income in our consolidated statements of income. In 2017, we recorded a net interest expense of \$1 million; in 2016, we recorded

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a net interest expense of \$2 million; and in 2015, we recorded a net interest expense of \$1 million. Gross accrued interest totaled \$7 million, \$6 million and \$4 million as of December 31, 2017, 2016 and 2015, respectively, and were included in Other taxes payable. Gross accrued penalties totaled \$4 million, \$4 million and \$3 million as of December 31, 2017, 2016 and 2015, respectively, and were included in Other taxes payable.

Status of Tax Audits and Potential Impact on Accruals for Uncertain Tax Positions

We are subject to taxation in the United States including various states, and foreign jurisdictions. The United States is one of our major tax jurisdictions, and we are currently under audit for tax years 2013 and 2014. For U.S. Federal and state tax purposes, the tax years 2013 through 2017 are open for examination (see B. Tax Matters Agreement for years prior to 2013).

In addition to the open audit years in the United States, we have open audit years in other major foreign tax jurisdictions, such as Canada (2013-2017), Asia-Pacific (2011-2017 primarily reflecting Australia, China and Japan), Europe (2012-2017, primarily reflecting France, Germany, Italy, Spain and the United Kingdom) and Latin America (2005-2017, primarily reflecting Brazil and Mexico).

Any settlements or statute of limitations expirations could result in a significant decrease in our uncertain tax positions. We do not expect that within the next twelve months any of our gross unrecognized tax benefits, exclusive of interest, could significantly decrease as a result of settlements with taxing authorities or the expiration of the statutes of limitations. Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but our estimates of unrecognized tax benefits and potential tax benefits may not be representative of actual outcomes, and any variation from such estimates could materially affect our financial statements in the period of settlement or when the statutes of limitations expire, as we treat these events as discrete items in the period of resolution. Finalizing audits with the relevant taxing authorities can include formal administrative and legal proceedings, and, as a result, it is difficult to estimate the timing and range of possible change related to our uncertain tax positions, and such changes could be significant.

9. Financial Instruments

A. Debt

Credit Facilities

In December 2016, we entered into an amended and restated revolving credit agreement with a syndicate of banks providing for a five-year \$1.0 billion senior unsecured revolving credit facility (the credit facility). In December 2017, the maturity for the amended and restated revolving credit agreement was extended through December 2022. Subject to certain conditions, we have the right to increase the credit facility to up to \$1.5 billion. The credit facility contains a financial covenant requiring us to not exceed a maximum total leverage ratio (the ratio of consolidated net debt as of the end of the period to consolidated Earnings Before Interest, Income Taxes, Depreciation and Amortization (EBITDA) for such period) of 3.50:1. Upon entering into a material acquisition, the maximum total leverage ratio increases to 4.00:1, and extends until the fourth full consecutive fiscal quarter ended immediately following the consummation of a material acquisition. The credit facility also contains a clause which adds back to Adjusted Consolidated EBITDA, any operational efficiency restructuring charge (defined as charges recorded by the company during the period commencing on October 1, 2016 and ending December 31, 2019, related to operational efficiency initiatives), provided that for any twelve-month period such charges added back to Adjusted Consolidated EBITDA shall not exceed \$100 million in the aggregate.

The credit facility also contains a financial covenant requiring that we maintain a minimum interest coverage ratio (the ratio of EBITDA at the end of the period to interest expense for such period) of 3.50:1. In addition, the credit facility contains other customary covenants.

We were in compliance with all financial covenants as of December 31, 2017 and December 31, 2016. There were no amounts drawn under the credit facility as of December 31, 2017 or December 31, 2016.

We have additional lines of credit and other credit arrangements with a group of banks and other financial intermediaries for general corporate purposes. We maintain cash and cash equivalent balances in excess of our outstanding short-term borrowings. As of December 31, 2017, we had access to \$75 million of lines of credit which expire at various times through 2018 and are generally renewed annually. We did not have any borrowings outstanding related to these facilities as of December 31, 2017.

Commercial Paper Program and Other Short-Term Borrowings

In February 2013, we entered into a commercial paper program with a capacity of up to \$1.0 billion. As of December 31, 2017, and 2016, there was no commercial paper outstanding under this program. As of December 31, 2017 and 2016, we did not have any other short-term borrowings outstanding.

Senior Notes and Other Long-Term Debt

On September 12, 2017, we issued \$1.25 billion aggregate principal amount of our senior notes (2017 senior notes), with an original issue discount of \$7 million. These notes are comprised of \$750 million aggregate principal amount of 3.000% senior notes due 2027 and \$500 million aggregate principal amount of 3.950% senior notes due 2047. Net proceeds from this offering were partially used in October 2017 to repay, prior to maturity, the aggregate principal amount of \$750 million, and a make-whole amount and accrued interest of \$4 million, of our 1.875% senior notes due 2018. The remainder of the net proceeds will be used for general corporate purposes.

On November 13, 2015, we issued \$1.25 billion aggregate principal amount of our senior notes (2015 senior notes), with an original issue discount of \$2 million. On January 28, 2013, we issued \$3.65 billion aggregate principal amount of our senior notes (the 2013 senior notes offering) in a private placement, with an original issue discount of \$10 million.

The 2013, 2015 and 2017 senior notes are governed by an indenture and supplemental indenture (collectively, the indenture) between us and Deutsche Bank Trust Company Americas, as trustee. The indenture contains certain covenants, including limitations on our, and certain of our

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subsidiaries' ability to incur liens or engage in sale-leaseback transactions. The indenture also contains restrictions on our ability to consolidate, merge or sell substantially all of our assets. In addition, the indenture contains other customary terms, including certain events of default, upon the occurrence of which the 2013, 2015 and 2017 senior notes may be declared immediately due and payable.

Pursuant to the indenture, we are able to redeem the 2013, 2015 and 2017 senior notes, in whole or in part, at any time by paying a "make whole" premium, plus accrued and unpaid interest to, but excluding, the date of redemption.

Pursuant to our tax matters agreement with Pfizer, we will not be permitted to redeem the 2013 senior notes due 2023 pursuant to this optional redemption provision, except under limited circumstances. Upon the occurrence of a change of control of Zoetis and a downgrade of the 2013, 2015 and 2017 senior notes below an investment grade rating by each of Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, we are, in certain circumstances, required to make an offer to repurchase all of the outstanding 2013, 2015 and 2017 senior notes at a price equal to 101% of the aggregate principal amount of the 2013, 2015 and 2017 senior notes together with accrued and unpaid interest to, but excluding, the date of repurchase.

The components of our long-term debt are as follows:

(MILLIONS OF DOLLARS)	As of December	
	2017	2016
1.875% 2013 senior notes due 2018	—	750
3.450% 2015 senior notes due 2020	500	500
3.250% 2013 senior notes due 2023	1,350	1,350
4.500% 2015 senior notes due 2025	750	750
3.000% 2017 senior notes due 2027	750	—
4.700% 2013 senior notes due 2043	1,150	1,150
3.950% 2017 senior notes due 2047	500	—
	5,000	4,500
Unamortized debt discount / debt issuance costs	(47)	(32)
Less current portion of long-term debt	—	—
Long-term debt, net of discount and issuance costs	\$4,953	\$4,468

The fair value of our long-term debt, including the current portion of long-term debt, was \$5,291 million and \$4,565 million as of December 31, 2017, and December 31, 2016, respectively, and has been determined using a third-party matrix-pricing model that uses significant inputs derived from, or corroborated by, observable market data and Zoetis' credit rating (Level 2 inputs). See Note 3. Significant Accounting Policies— Fair Value.

The principal amount of long-term debt outstanding as of December 31, 2017, matures in the following years:

(MILLIONS OF DOLLARS)	After						Total
	2018	2019	2020	2021	2022	2022	
Maturities	\$	—\$	—\$500	\$	—\$	—\$4,500	\$5,000

Interest Expense

Interest expense, net of capitalized interest, was \$175 million for 2017, \$166 million for 2016 and \$124 million for 2015. Capitalized interest expense was \$4 million for 2017, \$3 million for 2016, and \$4 million for 2015.

B. Derivative Financial Instruments**Foreign Exchange Risk**

A significant portion of our revenue, earnings and net investment in foreign affiliates is exposed to changes in foreign exchange rates. We seek to manage our foreign exchange risk, in part, through operational means, including managing same-currency revenue in relation to same-currency costs and same-currency assets in relation to same-currency liabilities. Depending on market conditions, foreign exchange risk is also managed through the use of derivative financial instruments. These financial instruments serve to protect net income against the impact of the translation into U.S. dollars of certain foreign exchange-denominated transactions. The aggregate notional amount of foreign exchange derivative financial instruments offsetting foreign currency exposures was \$1.4 billion and \$1.2 billion as of December 31, 2017, and December 31, 2016, respectively. The derivative financial instruments primarily offset

exposures in the Australian dollar, Brazilian real, British pound, Canadian dollar, Chinese yuan, euro, and Norwegian krone. The vast majority of the foreign exchange derivative financial instruments mature within 60 days and all mature within 180 days.

All derivative contracts used to manage foreign currency risk are measured at fair value and are reported as assets or liabilities on the consolidated balance sheet. The company has not designated the foreign currency forward-exchange contracts as hedging instruments. We recognize the gains and losses on forward-exchange contracts that are used to offset the same foreign currency assets or liabilities immediately into earnings along with the earnings impact of the items they generally offset. These contracts essentially take the opposite currency position of that reflected in the month-end balance sheet to counterbalance the effect of any currency movement.

Interest Rate Risk

The company may use interest rate swap contracts on certain investing and borrowing transactions to manage its net exposure to interest rates and to reduce its overall cost of borrowing. In anticipation of issuing fixed-rate debt, we may use forward-starting interest rate swaps that are designated as cash flow hedges to hedge against changes in interest rates that could impact expected future issuances of debt. To the extent these hedges of cash

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flows related to anticipated debt are effective, any unrealized gains or losses on the forward-starting interest rate swaps are reported in Accumulated other comprehensive loss and are recognized in income over the life of the future fixed-rate notes. When the company discontinues hedge accounting because it is no longer probable that an anticipated transaction will occur within the originally expected period of execution, or within an additional two-month period thereafter, changes to fair value accumulated in other comprehensive income are recognized immediately in earnings.

During 2017 and 2016, we entered into forward starting interest rate swaps with an aggregate notional value of \$500 million. During the third quarter of 2017, we also entered into treasury lock trades with an aggregate notional value of \$500 million. We designated these swaps and treasury locks (contracts) as cash flow hedges against interest rate exposure related principally to the anticipated future issuance of fixed-rate debt to be used primarily to refinance our 1.875% 2013 senior note due in 2018.

Upon issuance of our 2017 senior notes (see A. Debt: Senior Notes and Other Long-Term Debt), we terminated these contracts and paid \$3 million in cash to the counterparties for settlement. The settlement amount, which represents the fair value of the contracts at the time of termination, was recorded in Accumulated other comprehensive loss, and will be amortized into income over the life of the 2017 senior notes. There was \$0.1 million of ineffectiveness related to the forward swaps through the date of settlement which was immediately recognized as a loss within Interest expense—net of capitalized interest. In addition, in previous years we had entered into various forward-starting interest rate swap contracts that were designated as cash flow hedges and that were terminated upon issuance of fixed-rate notes.

Fair Value of Derivative Instruments

The classification and fair values of derivative instruments are as follows:

(MILLIONS OF DOLLARS)	Balance Sheet Location	Fair Value of Derivatives As of December 31, 2017 2016	
Derivatives Not Designated as Hedging Instruments:			
Foreign currency forward-exchange contracts	Other current assets	\$ 10	\$ 12
Foreign currency forward-exchange contracts	Other current liabilities	(9)	(8)
Total derivatives not designated as hedging instruments		1	4
Derivatives Designated as Hedging Instruments:			
Interest rate swap contracts	Other current assets	—	17
Total derivatives designated as hedging instruments		—	17
Total derivatives		\$ 1	\$ 21

We use a market approach in valuing financial instruments on a recurring basis. Our derivative financial instruments are measured at fair value on a recurring basis using Level 2 inputs in the calculation of fair value. See Note 3.

Significant Accounting Policies— Fair Value.

The amounts of net losses on derivative instruments not designated as hedging instruments, recorded in Other (income)/deductions, are as follows:

(MILLIONS OF DOLLARS)	Year Ended December 31, 2017 2016	
Foreign currency forward-exchange contracts	\$(33)	\$(24)

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These amounts were substantially offset in Other (income)/deductions—net by the effect of changing exchange rates on the underlying foreign currency exposures.

The amounts of unrecognized net gains/(losses) on derivative instruments designated as cash flow hedges, recorded, net of tax, in Other comprehensive income/(loss), are as follows:

	Year Ended	
	December	
	31,	
(MILLIONS OF DOLLARS)	2017	2016
Interest rate swaps	\$(11)	\$ 10

The net amount of deferred gains/(losses) related to derivative instruments designated as cash flow hedges that is expected to be reclassified from Accumulated other comprehensive loss into earnings over the next 12 months is insignificant.

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10. Inventories

The components of inventory follow:

	As of	
	December 31,	
(MILLIONS OF DOLLARS)	2017	2016
Finished goods	\$788	\$799
Work-in-process	484	499
Raw materials and supplies	155	204
Inventories	\$1,427	\$1,502

11. Property, Plant and Equipment

The components of property, plant and equipment follow:

	Useful Lives	As of	
		December 31,	
(MILLIONS OF DOLLARS)	(Years)	2017	2016
Land	—	\$22	\$22
Buildings	33 $\frac{1}{3}$ - 50	934	923
Machinery, equipment and fixtures	3 - 20	1,696	1,582
Construction-in-progress	—	254	212
		2,906	2,739
Less: Accumulated depreciation		1,471	1,358
Property, plant and equipment		\$1,435	\$1,381

Depreciation expense was \$142 million in 2017, \$145 million in 2016 and \$135 million in 2015.

12. Goodwill and Other Intangible Assets

A. Goodwill

The components of, and changes in, the carrying amount of goodwill follow:

(MILLIONS OF DOLLARS)	U.S.	International	Total
Balance, December 31, 2015	\$665	\$ 790	\$1,455
Additions / Adjustments ^(a)	(4)	20	16
Other ^(b)	—	10	10
Balance, December 31, 2016	\$661	\$ 820	\$1,481
Additions / Adjustments ^(a)	10	7	17
Other ^(b)	—	12	12
Balance, December 31, 2017	\$671	\$ 839	\$1,510

For 2017, primarily represents \$9 million related to the acquisition of an Irish biologic therapeutics company in the third quarter of 2017, as well as \$10 million related to the consolidation of a European livestock monitoring company, a variable interest entity of which Zoetis is the primary beneficiary, in the first quarter of 2017, partially offset by a \$2 million reduction to the consolidation of a European livestock monitoring company, in the third quarter of 2017.

For 2016, primarily includes a \$16 million purchase price allocation associated with the acquisition of a veterinary diagnostics business in Denmark and a \$12 million purchase price allocation associated with the acquisition of a livestock business in South America, offset by a \$13 million reduction in the acquisition date fair value of goodwill associated with the acquisition of certain assets of Abbott Animal Health.

^(b) Includes adjustments for foreign currency translation. For 2017, also includes \$3 million related to the sale of our manufacturing site in Guarulhos, Brazil.

The gross goodwill balance was \$2,046 million as of December 31, 2017, and \$2,017 million as of December 31, 2016. Accumulated goodwill impairment losses (generated entirely in fiscal 2002) was \$536 million as of December 31, 2017, and December 31, 2016.

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B. Other Intangible Assets

The components of identifiable intangible assets follow:

	As of December 31, 2017			As of December 31, 2016		
	Gross	Identifiable Intangible Assets, Less Accumulated Amortization	Amount	Gross	Identifiable Intangible Assets, Less Accumulated Amortization	Amount
(MILLIONS OF DOLLARS)						
Finite-lived intangible assets:						
Developed technology rights ^{(a)(b)}	\$1,185	\$ (428)	\$ 757	\$1,064	\$ (342)	\$ 722
Brands	213	(143)	70	213	(132)	81
Trademarks and tradenames	62	(47)	15	62	(44)	18
Other ^(c)	234	(143)	91	222	(130)	92
Total finite-lived intangible assets	1,694	(761)	933	1,561	(648)	913
Indefinite-lived intangible assets:						
Brands	37	—	37	37	—	37
Trademarks and trade names	67	—	67	66	—	66
In-process research and development ^{(b)(d)}	224	—	224	204	—	204
Product rights	8	—	8	8	—	8
Total indefinite-lived intangible assets	336	—	336	315	—	315
Identifiable intangible assets	\$2,030	\$ (761)	\$ 1,269	\$1,876	\$ (648)	\$ 1,228

^(a) Includes the consolidation of a European livestock monitoring company, a variable interest entity of which Zoetis is the primary beneficiary, and intangible assets associated with the purchase of a Norwegian fish vaccination company, both during the first quarter of 2017.

In the first quarter of 2017, certain intangible assets, acquired in 2015 as part of the Pharmaq acquisition, were placed into service. In 2016, includes the acquisition of intangible assets associated with the purchase of a veterinary diagnostics business in Denmark in the third quarter of 2016, the acquisition of intangible assets associated with the purchase of a livestock business in South America in the first quarter of 2016 and an increase in the acquisition date fair value of intangible assets associated with the acquisition of certain assets of Abbott Animal Health, as well as the impact of foreign exchange.

^(c) Includes the acquisition of land use rights in China in the fourth quarter of 2017 and the acquisition of intangible assets associated with the purchase of a veterinary diagnostics business in Denmark in the third quarter of 2016.

^(d) Includes the intangible assets related to the acquisition of an Irish biologic therapeutics company in the third quarter of 2017.

Developed Technology Rights

Developed technology rights represent the amortized cost associated with developed technology, which has been acquired from third parties and which can include the right to develop, use, market, sell and/or offer for sale the product, compounds and intellectual property that we have acquired with respect to products, compounds and/or processes that have been completed. These assets include technologies related to the care and treatment of cattle, swine, poultry, sheep, fish, dogs, cats and horses.

Brands

Brands represent the amortized or unamortized cost associated with product name recognition, as the products themselves do not receive patent protection. The more significant finite-lived brands are Excenel, Lutalyse and Spirovac and the more significant indefinite-lived brands are the Linco family products and Mastitis.

Trademarks and Tradenames

Trademarks and tradenames represent the amortized or unamortized cost associated with legal trademarks and tradenames. The more significant components of indefinite-lived trademarks and tradenames are indefinite-lived trademarks and tradenames acquired from SmithKlineBeecham. The more significant finite-lived trademarks and

tradenames are finite-lived trademarks and tradenames for vaccines acquired from CSL Animal Health.

In-Process Research and Development

IPR&D assets represent R&D assets that have not yet received regulatory approval in a major market. The majority of these IPR&D assets were acquired in connection with our acquisition of Pharmaq.

IPR&D assets are required to be classified as indefinite-lived assets until the successful completion or abandonment of the associated R&D effort. Accordingly, during the development period after the date of acquisition, these assets will not be amortized until approval is obtained in a major market, typically either the United States or the EU, or in a series of other countries, subject to certain specified conditions and management judgment. At that time, we will determine the useful life of the asset, reclassify the asset out of IPR&D and begin amortization. If the associated R&D effort is abandoned, the related IPR&D assets will be written-off, and we will record an impairment charge.

For IPR&D assets, there can be no certainty that these assets ultimately will yield a successful product.

Product Rights

Product rights represent product registration and application rights that were acquired from Pfizer in 2014.

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C. Amortization

The weighted average life of our total finite-lived intangible assets is approximately 11 years. Total amortization expense for finite-lived intangible assets was \$100 million in 2017, \$95 million in 2016, and \$64 million in 2015. The annual amortization expense expected for the years 2018 through 2022 is as follows:

(MILLIONS OF DOLLARS)	2018	2019	2020	2021	2022
Amortization expense	\$100	\$97	\$94	\$93	\$84

D. Impairments

For information about intangible asset impairments, see Note 6. Other (Income)/Deductions—Net.

13. Benefit Plans

Our employees ceased to participate in the Pfizer U.S. qualified defined benefit and U.S. retiree medical plans effective December 31, 2012, and liabilities associated with our employees under these plans were retained by Pfizer. Pfizer continued to credit certain employees' service with Zoetis generally through December 31, 2017 (or termination of employment from Zoetis, if earlier) for certain early retirement benefits with respect to Pfizer's U.S. defined benefit pension and retiree medical plans. In connection with an employee matters agreement between Pfizer and Zoetis, Zoetis is responsible for payment of three-fifths of the total cost of the service credit continuation (approximately \$38 million) for these plans and Pfizer is responsible for the remaining two-fifths of the total cost (approximately \$25 million). The \$25 million capital contribution from Pfizer and corresponding contra-equity account (which is being reduced as the service credit continuation is incurred) is included in Employee benefit plan contribution from Pfizer Inc. in the consolidated statement of equity. The balance in the contra-equity account was approximately \$13 million and \$15 million as of December 31, 2017 and 2016, respectively. The amount of the service cost continuation payment to be paid by Zoetis to Pfizer was determined and fixed based on an actuarial assessment of the value of the grow-in benefits and will be paid in equal installments over a period of 10 years. Pension and postretirement benefit expense associated with the extended service for certain employees in the U.S. plans totaled approximately \$6 million per year in 2017 and 2016.

Pension expense associated with the U.S. and certain significant international locations (inclusive of service cost grow-in benefits discussed above) totaled approximately \$15 million in 2017, \$14 million in 2016, and \$20 million in 2015.

A. International Pension Plans

During 2015, our pension plan in the Philippines was transferred to us from Pfizer. The net pension obligation (approximately \$1 million) and the related accumulated other comprehensive loss (which was less than \$1 million, net of tax) associated with this plan were recorded.

Information about the dedicated pension plans, including the plans transferred to us as part of the separation from Pfizer, is provided in the tables below.

Obligations and Funded Status—Dedicated Plans

The following table provides an analysis of the changes in the benefit obligations, plan assets and funded status of our dedicated pension plans (including those transferred to us):

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	As of and for the Year Ended December 31, 2017 2016	
(MILLIONS OF DOLLARS)		
Change in benefit obligation:		
Projected benefit obligation, beginning	\$ 130	\$ 127
Service cost	7	9
Interest cost	3	3
Plan combinations	(1)	—
Changes in actuarial assumptions and other	(6)	9
Settlements and curtailments ^(a)	(10)	(12)
Benefits paid	(5)	(3)
Net transfer out related to divestitures ^(b)	—	(4)
Adjustments for foreign currency translation	11	1
Benefit obligation, ending	129	130
Change in plan assets:		
Fair value of plan assets, beginning	68	72
Plan combinations	(1)	—
Actual return on plan assets	5	(1)
Company contributions	6	9
Settlements and curtailments ^(a)	(10)	(6)
Divestitures ^(b)	—	(4)
Adjustments for foreign currency translation	5	1
Other—net	(4)	(3)
Fair value of plan assets, ending	69	68
Funded status—Projected benefit obligation in excess of plan assets at end of year	\$(60)	\$(62)

For 2017, reflects the conversion of a defined benefit plan in Norway into a defined contribution plan. For 2016,

^(a) reflects the impact of employee terminations due to our operational efficiency and supply network strategy initiatives.

^(b) For 2016, reflects the impact of the sale of our share of our Taiwan joint venture.

^(c) Included in Other noncurrent liabilities.

Actuarial losses were approximately \$22 million (\$14 million net of tax) at December 31, 2017, and \$31 million (\$23 million net of tax) at December 31, 2016. The actuarial gains and losses primarily represent the cumulative difference between the actuarial assumptions and actual return on plan assets, changes in discount rates and changes in other assumptions used in measuring the benefit obligations. These actuarial gains and losses are recognized in Accumulated other comprehensive income/(loss). The actuarial losses will be amortized into net periodic benefit costs over an average period of 12.9 years.

The estimated net actuarial loss that will be amortized from Accumulated other comprehensive loss into 2018 net periodic benefit cost is approximately \$1 million.

Information related to the funded status of selected plans follows:

	As of December 31, 2017 2016	
(MILLIONS OF DOLLARS)		
Pension plans with an accumulated benefit obligation in excess of plan assets:		
Fair value of plan assets	\$ 58	\$ 49
Accumulated benefit obligation	97	88

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Pension plans with a projected benefit obligation in excess of plan assets:

Fair value of plan assets	67	58
Projected benefit obligation	128	120

Net Periodic Benefit Costs—Dedicated Plans

The following table provides the net periodic benefit cost associated with dedicated pension plans (including those transferred to us):

(MILLIONS OF DOLLARS)	Year Ended		
	December 31,		
	2017	2016	2015
Service cost	\$7	\$ 9	\$ 9
Interest cost	3	3	3
Expected return on plan assets	(3)	(3)	(3)
Amortization of net (gains) / losses	1	1	1
Special termination benefits	—	—	1
Settlement and curtailments (gains) / losses	1	(2)	2
Net periodic benefit cost	\$9	\$ 8	\$ 13

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Actuarial Assumptions—Dedicated Plans

The following table provides the weighted average actuarial assumptions for the dedicated pension plans (including those transferred to us):

(PERCENTAGES)	As of December 31,					
	2017		2016		2015	
Weighted average assumptions used to determine benefit obligations:						
Discount rate	2.2	%	2.1	%	2.6	%
Rate of compensation increase	3.0	%	3.1	%	3.0	%
Weighted average assumptions used to determine net benefit cost for the year ended December 31:						
Discount rate	2.1	%	2.5	%	2.8	%
Expected return on plan assets	3.9	%	4.1	%	4.3	%
Rate of compensation increase	3.2	%	2.9	%	3.6	%

The assumptions above are used to develop the benefit obligations at the end of the year and to develop the net periodic benefit cost for the following year. Therefore, the assumptions used to determine the net periodic benefit cost for each year are established at the end of each previous year, while the assumptions used to determine the benefit obligations are established at each year-end. The net periodic benefit cost and the benefit obligations are based on actuarial assumptions that are reviewed on an annual basis. The assumptions are revised based on an annual evaluation of long-term trends, as well as market conditions that may have an impact on the cost of providing retirement benefits.

Actuarial and other assumptions for pension plans can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions. For a description of the risks associated with estimates and assumptions, see Note 3. Significant Accounting Policies—Estimates and Assumptions.

Plan Assets—Dedicated Plans

The components of plan assets follow:

(MILLIONS OF DOLLARS)	As of	
	December 31,	
	2017	2016
Cash and cash equivalents	\$ 1	\$ 1
Equity securities: Equity commingled funds	26	22
Debt securities: Government bonds	32	27
Other investments	10	18
Total ^(a)	\$ 69	\$ 68

(a) Fair values are determined based on valuation inputs categorized as Level 1, 2 or 3 (see Note 3. Significant Accounting Policies—Fair Value). Investment plan assets are valued using Level 1 or Level 2 inputs.

A single estimate of fair value can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions. For information about the risks associated with estimates and assumptions, see Note 3. Significant Accounting Policies—Estimates and Assumptions.

Specifically, the following methods and assumptions were used to estimate the fair value of our pension assets:

• Equity commingled funds—observable market prices.

• Government bonds and other investments—principally observable market prices.

The long-term target asset allocations and the percentage of the fair value of plans assets for dedicated benefit plans follow:

(PERCENTAGES)	As of December 31,		
	Target allocation		
	percentage	Percentage of Plan Assets	
	2017	2017	2016

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Cash and cash equivalents	0-10%	1.0	%	0.8	%	
Equity securities	0-60%	41.9	%	35.5	%	
Debt securities	0-100%	45.9	%	39.5	%	
Other investments	0-100%	11.2	%	24.2	%	
Total	100	%	100	%	100	%

Zoetis utilizes long-term asset allocation ranges in the management of our plans' invested assets. Long-term return expectations are developed with input from outside investment consultants based on the company's investment strategy, which takes into account historical experience, as well as the impact of portfolio diversification, active portfolio management, and the investment consultant's view of current and future economic and financial market conditions. As market conditions and other factors change, the targets may be adjusted accordingly and actual asset allocations may vary from the target allocations.

The long-term asset allocation ranges reflect the asset class return expectations and tolerance for investment risk within the context of the respective plans' long-term benefit obligations. These ranges are supported by an analysis that incorporates historical and expected returns by asset class, as well

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as volatilities and correlations across asset classes and our liability profile. This analysis, referred to as an asset-liability analysis, also provides an estimate of expected returns on plan assets, as well as a forecast of potential future asset and liability balances.

The investment consultants review investment performance with Zoetis on a quarterly basis in total, as well as by asset class, relative to one or more benchmarks.

Cash Flows—Dedicated Plans

Our plans are generally funded in amounts that are at least sufficient to meet the minimum requirements set forth in applicable employee benefit laws and local tax and other laws.

We expect to contribute approximately \$6 million to our dedicated pension plans in 2018. Benefit payments are expected to be approximately \$3 million for 2018, \$3 million for 2019, \$5 million for 2020, and \$4 million for 2021 and \$6 million for 2022. Benefit payments are expected to be approximately \$32 million in the aggregate for the five years thereafter. These expected benefit payments reflect the future plan benefits subsequent to 2018 projected to be paid from the plans or from the general assets of Zoetis entities under the current actuarial assumptions used for the calculation of the projected benefit obligation and, therefore, actual benefit payments may differ from projected benefit payments.

B. Postretirement Plans

As discussed above, Pfizer continued to credit certain United States employees' service with Zoetis generally through December 31, 2017 (or termination of employment from Zoetis, if earlier), for certain early retirement benefits with respect to Pfizer's U.S. retiree medical plans. Postretirement benefit expense associated with these U.S. retiree medical plans totaled approximately \$4 million per year in 2017, 2016 and 2015 (inclusive of service cost grow-in benefits discussed above). The expected benefit payments for each of the next five years is approximately \$4 million per year. Employees in the United States who meet certain eligibility requirements participate in a supplemental (non-qualified) savings plan sponsored by Zoetis. The cost of the supplemental savings plan was \$7 million and \$4 million in 2017 and 2016, respectively.

C. Defined Contribution Plans

Zoetis has a voluntary defined contribution plan (Zoetis Savings Plan) that allows participation by substantially all U.S. employees. Zoetis matches 100% of employee contributions, up to a maximum of 5% of each employee's eligible compensation. The Zoetis Savings Plan also includes a profit-sharing feature that provides for an additional contribution ranging between 0 and 8 percent of each employee's eligible compensation. All eligible employees receive the profit-sharing contribution regardless of the amount they choose to contribute to the Zoetis Savings Plan. The profit-sharing contribution is a discretionary amount provided by Zoetis and is determined on an annual basis. Employees can direct their contributions and the company's matching and profit-sharing contributions into any of the funds offered. These funds provide participants with a cross section of investing options, including the Zoetis stock fund. The matching and profit-sharing contributions are cash funded.

Employees are permitted to diversify all or any portion of their company matching or profit-sharing contribution. Once the contributions have been paid, Zoetis has no further payment obligations. Contribution expense, associated with the U.S. defined contribution plans, totaled approximately \$38 million in 2017, \$40 million in 2016 and \$43 million in 2015.

14. Share-Based Payments

The Zoetis 2013 Equity and Incentive Plan (Equity Plan) provides long-term incentives to our employees and non-employee directors. The principal types of share-based awards available under the Equity Plan may include, but are not limited to, stock options, restricted stock and restricted stock units (RSUs), deferred stock units (DSUs), performance-vesting restricted stock units (PSUs), and other equity-based or cash-based awards.

Twenty-five million shares of stock were approved and registered with the Securities and Exchange Commission for grants to participants under the Equity Plan. The shares reserved may be used for any type of award under the Equity Plan. At December 31, 2017, the aggregate number of remaining shares available for future grant under the Equity Plan was approximately 13 million shares.

A. Share-Based Compensation Expense

The components of share-based compensation expense follow:

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(MILLIONS OF DOLLARS)	Year Ended		
	December 31,		
	2017	2016	2015
Stock options / stock appreciation rights	\$10	\$ 10	\$ 20
RSUs / DSUs	26	22	21
PSUs	8	5	2
Share-based compensation expense—total ^{(a)(b)}	\$44	\$ 37	\$ 43
Tax benefit for share-based compensation expense	(13)	(10)	(8)
Share-based compensation expense, net of tax	\$31	\$ 27	\$ 35

(a) For each of the years ended December 31, 2017, 2016 and 2015, we capitalized approximately \$1 million of share-based compensation expense to inventory.

(b) Includes additional share-based compensation expense as a result of accelerated vesting of the outstanding stock options and the settlement, on a pro-rata basis, of other equity awards of terminated employees in connection with our operational efficiency initiative and supply network strategy for the years ended December 31, 2016 and 2015, of approximately \$1 million and \$2 million, respectively, which is included in Restructuring charges/(benefits) and certain acquisition-related costs. (See G. Accelerated Vesting of Outstanding Equity Awards). These amounts were de minimis in 2017.

Table of Contents**B. Stock Options**

Stock options represent the right to purchase shares of our common stock within a specified period of time at a specified price. The exercise price for a stock option will be not less than 100% of the fair market value of the common stock on the date of grant. Stock options granted may include those intended to be “incentive stock options” within the meaning of Section 422 of the U.S. Internal Revenue Code of 1986 (the Code).

Stock options are accounted for using a fair-value-based method at the date of grant in the consolidated statement of income. The values determined through this fair-value-based method generally are amortized on a straight-line basis over the vesting term into Cost of sales, Selling, general and administrative expenses, or Research and development expenses, as appropriate.

Eligible employees may receive Zoetis stock option awards. Zoetis stock option awards generally vest after three years of continuous service from the date of grant and have a contractual term of 10 years.

The fair-value-based method for valuing each Zoetis stock option grant on the grant date uses the Black-Scholes-Merton option-pricing model, which incorporates a number of valuation assumptions noted in the following table, shown at their weighted-average values:

	Year Ended December 31,		
	2017	2016	2015
Expected dividend yield ^(a)	0.76 %	0.89 %	0.72 %
Risk-free interest rate ^(b)	2.29 %	1.57 %	1.79 %
Expected stock price volatility ^(c)	23.26%	26.70%	23.92%
Expected term ^(d) (years)	6.5	6.5	6.5

^(a) Determined using a constant dividend yield during the expected term of the Zoetis stock option.

^(b) Determined using the interpolated yield on U.S. Treasury zero-coupon issues.

^(c) Determined using an equal weighting between historical volatility of the Zoetis stock price and implied volatility.

The selection of the blended historical and implied volatility approach was based on our assessment that this calculation of expected volatility is more representative of future stock price trends.

^(d) Determined using expected exercise and post-vesting termination patterns.

The following table provides an analysis of stock option activity for the year ended December 31, 2017:

	Shares	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ^(a) (MILLIONS)
Outstanding, December 31, 2016	5,370,784	\$ 33.23		
Granted	718,278	55.17		
Exercised	(1,151,726)	30.18		
Forfeited	(31,452)	42.05		
Outstanding, December 31, 2017	4,905,884	\$ 37.10	6.8	\$ 171
Exercisable, December 31, 2017	2,742,526	\$ 28.73	5.7	\$ 119

^(a) Market price of underlying Zoetis common stock less exercise price.

As of December 31, 2017, there was approximately \$8 million of unrecognized compensation costs related to nonvested stock options, which will be recognized over an expected remaining weighted-average period of 0.5 years.

The following table summarizes data related to stock option activity:

(MILLIONS OF DOLLARS, EXCEPT PER STOCK OPTION AMOUNTS)	Year Ended/As of December 31,		
	2017	2016	2015
Weighted-average grant date fair value per stock option	\$14.31	\$11.34	\$11.70
Aggregate intrinsic value on exercise	32	23	5
Cash received upon exercise	35	36	9

Tax benefits realized related to exercise 16 15 2
C. Restricted Stock Units (RSUs)

Restricted stock units represent the right to receive a share of our common stock that is subject to a risk of forfeiture until the restrictions lapse at the end of the vesting period subject to the recipient's continued employment. RSUs accrue dividend equivalent units and are paid in shares of our common stock upon vesting (or cash determined by reference to the value of our common stock).

RSUs are accounted for using a fair-value-based method that utilizes the closing price of Zoetis common stock on the date of grant. Zoetis RSUs generally vest after three years of continuous service from the grant date and the values are amortized on a straight-line basis over the vesting term into Cost of sales, Selling, general and administrative expenses, or Research and development expenses, as appropriate.

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The following table provides an analysis of RSU activity for the year ended December 31, 2017:

	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested, December 31, 2016	1,792,988	\$ 39.86
Granted	538,604	55.18
Vested	(600,177)	31.94
Reinvested dividend equivalents	12,310	45.18
Forfeited	(82,225)	45.45
Nonvested, December 31, 2017	1,661,500	\$ 47.45

As of December 31, 2017, there was approximately \$32 million of unrecognized compensation costs related to nonvested RSUs, which will be recognized over an expected remaining weighted-average period of 1.2 years.

D. Deferred Stock Units (DSUs)

Deferred stock units, which are granted to non-employee compensated Directors, represent the right to receive shares of our common stock at a future date. The DSU awards will be automatically settled and paid in shares within 60 days following the Director's separation from service on the Board of Directors.

DSUs are accounted for using a fair-value-based method that utilizes the closing price of Zoetis common stock on the date of grant. DSUs vest immediately as of the grant date and the values are expensed at the time of grant into Selling, general and administrative expenses.

For the years ended December 31, 2017 and 2016, there were no DSUs granted. As of December 31, 2017 and 2016, there were 73,359 and 72,838 DSUs outstanding, respectively, including dividend equivalents.

E. Performance-Vesting Restricted Stock Units (PSUs)

Performance-vesting restricted stock units, which are granted to eligible senior management, represent the right to receive a share of our common stock that is subject to a risk of forfeiture until the restrictions lapse, which include continued employment through the end of the vesting period and the attainment of performance goals. PSUs represent the right to receive shares of our common stock in the future (or cash determined by reference to the value of our common stock).

PSUs are accounted for using a Monte Carlo simulation model. The units underlying the PSUs will be earned and vested over a three-year performance period, based upon the total shareholder return of the company in comparison to the total shareholder return of the companies comprising the S&P 500 index at the start of the performance period, excluding companies that during the performance period are acquired or are no longer publicly traded (Relative TSR). The weighted-average fair value was estimated based on volatility assumptions of Zoetis common stock and an average of peer companies, which were 23.1% and 25.5%, respectively, in 2017, and 23.8% and 25.2%, respectively, in 2016. Depending on the company's Relative TSR performance at the end of the performance period, the recipient may earn between 0% and 200% of the target number of units. Vested units, including dividend equivalent units, are paid in shares of the company's common stock. PSU values are amortized on a straight-line basis over the vesting term into Cost of sales, Selling, general and administrative expenses, or Research and development expenses, as appropriate.

The following table provides an analysis of PSU activity for the year ended December 31, 2017:

	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested, December 31, 2016	289,889	\$ 55.29
Granted	136,964	74.28
Vested	(8,434)	58.15
Reinvested dividend equivalents	2,812	60.26
Forfeited	(12,489)	58.53

Nonvested, December 31, 2017 408,742 \$ 61.53

As of December 31, 2017, there was approximately \$11 million of unrecognized compensation costs related to nonvested PSUs, which will be recognized over an expected remaining weighted-average period of 1.2 years.

F. Other Equity-Based or Cash-Based Awards.

Our Compensation Committee is authorized to grant awards in the form of other equity-based awards or other cash-based awards, as deemed to be consistent with the purposes of the Equity Plan.

G. Accelerated Vesting of Outstanding Equity Awards

As a result of our operational efficiency initiative and supply network strategy, the company accelerated the vesting, and in some cases the settlement on a pro-rata basis, of outstanding RSUs of terminated employees, subject, in each case, to the requirements of Section 409A of the U.S. Internal Revenue Code, the terms of the Equity Plan and the applicable award agreements, and any outstanding deferral elections. Generally, unvested stock

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options previously granted to terminated employees accelerated in full, and employees generally have the ability to exercise the stock options for three months after termination. Zoetis employees who held stock options and were retirement eligible as of their termination date generally have the full term of the stock option to exercise. In addition, outstanding PSUs of terminated employees vested on a pro-rata basis will be settled on or after the third anniversary of the grant date, subject to the achievement of performance goals. The unvested portion of RSUs and PSUs were forfeited.

The accelerated vesting of the outstanding stock options and the settlement, on a pro-rata basis, of other equity awards resulted in the recognition of additional stock-based compensation expense of approximately \$1 million and \$2 million, in the years ended December 31, 2016 and 2015, respectively, which is included in Restructuring charges and certain acquisition-related costs. These amounts were de minimis in 2017.

15. Stockholders' Equity

Zoetis is authorized to issue 6,000,000,000 shares of common stock and 1,000,000,000 shares of preferred stock. In November 2014, the company's Board of Directors authorized a \$500 million share repurchase program. This program was substantially completed as of December 31, 2016. In December 2016, the company's Board of Directors authorized an additional \$1.5 billion share repurchase program. Purchases of Zoetis shares may be made at the discretion of management, depending on market conditions and business needs.

Changes in common shares and treasury stock were as follows:

(MILLIONS OF SHARES)	Common Shares Issued ^(a)	Treasury Stock ^(a)
Balance, December 31, 2014	501.34	0.01
Stock-based compensation ^(b)	0.47	0.06
Defined contribution plan	—	4.34
Balance, December 31, 2015	501.81	4.41
Stock-based compensation ^(b)	0.08	(1.72)
Share repurchase program	—	6.34
Balance, December 31, 2016	501.89	9.04
Stock-based compensation ^(b)	—	(1.55)
Share repurchase program	—	8.28
Balance, December 31, 2017	501.89	15.76

^(a) Shares may not add due to rounding.

Includes the issuance of shares of common stock and, beginning in the first quarter of 2016, the reissuance of shares from treasury stock in connection with the vesting of employee share-based awards. Treasury stock also

^(b) includes the reacquisition of shares associated with the vesting of employee share-based awards to satisfy tax withholding requirements. For additional information regarding share-based compensation, see Note 14.

Share-Based Payments.

Accumulated other comprehensive income/(loss)

Changes, net of tax, in accumulated other comprehensive loss, excluding noncontrolling interest, follow:

	Derivatives	Currency Translation		Benefit Plans	Accumulated Other
		Adjustment	Net Unrealized			Actuarial
(MILLIONS OF DOLLARS)	Net Unrealized (Losses)/Gains	Net Unrealized (Losses)/Gains	Actuarial (Losses)/Gains	Actuarial (Losses)/Gains	Comprehensive (Loss)/Income
Balance, December 31, 2014	\$ —	\$ (336)	\$ (25)	\$ (25)	\$ (361)
Other comprehensive (loss)/gain, net of tax	(2)	(268)	9		(261)
Balance, December 31, 2015	(2)	(604)	(16)		(622)
Other comprehensive gain/(loss), net of tax	10	19	(7)		22
Divestiture of noncontrolling interest ^(a)	—	2	—		2
Balance, December 31, 2016	8	(583)	(23)		(598)

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Other comprehensive gain/(loss), net of tax	(11)	96		8		93					
Balance, December 31, 2017	\$	(3)	\$	(487)	\$	(15)	\$	(505)

(a) Reflects the divestiture of our share of our Taiwan joint venture. See Note 4B. Acquisitions and Divestitures: Divestitures.

(b) Reflects the acquisition of the remaining noncontrolling interest in a variable interest entity previously consolidated by Zoetis as the primary beneficiary. See Note 4B. Acquisitions and Divestitures: Divestitures.

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16. Earnings per Share

The following table presents the calculation of basic and diluted earnings per share:

(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)	Year Ended December 31,		
	2017	2016	2015
Numerator			
Net income before allocation to noncontrolling interests	\$ 862	\$ 819	\$ 339
Less: net loss attributable to noncontrolling interests	(2)	(2)	—
Net income attributable to Zoetis Inc.	\$ 864	\$ 821	\$ 339
Denominator			
Weighted-average common shares outstanding	489.918495.715	499.707	
Common stock equivalents: stock options, RSUs, DSUs and PSUs	3.243	2.510	2.312
Weighted-average common and potential dilutive shares outstanding	493.161498.225	502.019	
Earnings per share attributable to Zoetis Inc. stockholders—basic	\$ 1.76	\$ 1.66	\$ 0.68
Earnings per share attributable to Zoetis Inc. stockholders—diluted	\$ 1.75	\$ 1.65	\$ 0.68

The number of stock options outstanding under the company's Equity Plan that were excluded from the computation of diluted earnings per share, as the effect would have been antidilutive, were approximately 1 million shares as of each year ended December 31, 2017, 2016 and 2015.

17. Commitments and Contingencies

We and certain of our subsidiaries are subject to numerous contingencies arising in the ordinary course of business. For a discussion of our tax contingencies, see Note 8. Tax Matters.

A. Legal Proceedings

Our non-tax contingencies include, among others, the following:

- Product liability and other product-related litigation, which can include injury, consumer, off-label promotion, antitrust and breach of contract claims.
- Commercial and other matters, which can include product-pricing claims and environmental claims and proceedings.
- Patent litigation, which typically involves challenges to the coverage and/or validity of our patents or those of third parties on various products or processes.
- Government investigations, which can involve regulation by national, state and local government agencies in the United States and in other countries.

Certain of these contingencies could result in losses, including damages, fines and/or civil penalties, and/or criminal charges, which could be substantial.

We believe that we have strong defenses in these types of matters, but litigation is inherently unpredictable and excessive verdicts do occur. We do not believe that any of these matters will have a material adverse effect on our financial position. However, we could incur judgments, enter into settlements or revise our expectations regarding the outcome of certain matters, and such developments could have a material adverse effect on our results of operations or cash flows in the period in which the amounts are paid.

We have accrued for losses that are both probable and reasonably estimable. Substantially all of these contingencies are subject to significant uncertainties and, therefore, determining the likelihood of a loss and/or the measurement of any loss can be complex. Consequently, we are unable to estimate the range of reasonably possible loss in excess of amounts accrued. Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but the assessment process relies on estimates and assumptions that may prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions.

Amounts recorded for legal and environmental contingencies can result from a complex series of judgments about future events and uncertainties and can rely on estimates and assumptions.

The principal matters to which we are a party are discussed below. In determining whether a pending matter is significant for financial reporting and disclosure purposes, we consider both quantitative and qualitative factors in order to assess materiality, such as, among other things, the amount of damages and the nature of any other relief

sought in the proceeding, if such damages and other relief are specified; our view of the merits of the claims and of the strength of our defenses; whether the action purports to be a class action and our view of the likelihood that a class will be certified by the court; the jurisdiction in which the proceeding is pending; any experience that we or, to our knowledge, other companies have had in similar proceedings; whether disclosure of the action would be important to a reader of our financial statements, including whether disclosure might change a reader's judgment about our financial statements in light of all of the information about the company that is available to the reader; the potential impact of the proceeding on our reputation; and the extent of public interest in the matter. In addition, with respect to patent matters, we consider, among other things, the financial significance of the product protected by the patent.

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PregSure®

We have in total approximately 266 claims in Europe and New Zealand seeking damages related to calves claimed to have died of Bovine Neonatal Pancytopenia (BNP) on farms where PregSure BVD, a vaccine against Bovine Virus Diarrhea (BVD), was used. BNP is a rare syndrome that first emerged in cattle in Europe in 2006. While some earlier studies of BNP suggested a potential association between the administration of PregSure and the development of BNP, a more recent study concluded there is no causal connection between BNP and PregSure BVD. The cause of BNP is not known.

In 2010, we voluntarily stopped sales of PregSure BVD in Europe, and recalled the product at wholesalers while investigations into possible causes of BNP continued. In 2011, after incidences of BNP were reported in New Zealand, we voluntarily withdrew the marketing authorization for PregSure throughout the world.

We have settled approximately 168 of these claims for amounts that are not material individually or in the aggregate. Investigations into possible causes of BNP continue and these settlements may not be representative of any future claims resolutions.

Ulianopolis, Brazil

In February 2012, the Municipality of Ulianopolis (State of Para, Brazil) filed a complaint against Fort Dodge Saúde Animal Ltda. (FDSAL), a Zoetis entity, and five other large companies alleging that waste sent to a local waste incineration facility for destruction, but that was not ultimately destroyed as the facility lost its operating permit, caused environmental impacts requiring cleanup.

The Municipality is seeking recovery of cleanup costs purportedly related to FDSAL's share of all waste accumulated at the incineration facility awaiting destruction, and compensatory damages to be allocated among the six defendants. We believe we have strong arguments against the claim, including defense strategies against any claim of joint and several liability.

At the request of the Municipal prosecutor, in April 2012, the lawsuit was suspended for one year. Since that time, the prosecutor has initiated investigations into the Municipality's actions in the matter as well as the efforts undertaken by the six defendants to remove and dispose of their individual waste from the incineration facility. On October 3, 2014, the Municipal prosecutor announced that the investigation remained ongoing and outlined the terms of a proposed Term of Reference (a document that establishes the minimum elements to be addressed in the preparation of an Environmental Impact Assessment), under which the companies would be liable to withdraw the waste and remediate the area. On March 5, 2015, we presented our response to the prosecutor's proposed Term of Reference, arguing that the proposed terms were overly general in nature and expressing our interest in discussing alternatives to address the matter. The prosecutor agreed to consider our request to engage a technical consultant to conduct an environmental diagnostic of the contaminated area. On May 29, 2015, we, in conjunction with the other defendant companies, submitted a draft cooperation agreement to the prosecutor, which outlined the proposed terms and conditions for the engagement of a technical consultant to conduct the environmental diagnostic. On August 19, 2016, the parties and the prosecutor agreed to engage the services of a third-party consultant to conduct a limited environmental assessment of the site. The site assessment was conducted during June 2017, and a written report summarizing the results of the assessment was provided to the parties and the prosecutor in November 2017. The report noted that waste is still present on the site and that further environmental assessments are needed before a plan to manage that remaining waste can be prepared. We have not received any further communication from the prosecutor in response to the report.

Lascadoil Contamination in Animal Feed

An investigation by the U.S. Food and Drug Administration (FDA) and the Michigan Department of Agriculture is ongoing to determine how lascadoil, oil for industrial use, made its way into the feed supply of certain turkey and hog feed mills in Michigan. The contaminated feed is believed to have caused the deaths of approximately 50,000 turkeys and the contamination (but not death) of at least 20,000 hogs in August 2014. While it remains an open question as to how the lascadoil made its way into the animal feed, the allegations are that lascadoil intended to be sold for reuse as biofuel was inadvertently sold to producers of soy oil, who in turn, unknowingly sold the contaminated soy oil to fat recycling vendors, who then sold the contaminated soy oil to feed mills for use in animal feed. Indeed, related to the FDA investigation, Shur-Green Farms LLC, a producer of soy oil, recalled certain batches of soy oil allegedly contaminated with lascadoil on October 13, 2014.

During the course of its investigation, the FDA identified the process used to manufacture Zoetis' Avatec® (lasalocid sodium) and Bovatec® (lasalocid sodium) products as one possible source of the lscadoil, since lscadoil contains small amounts of lasalocid, the active ingredient found in both products. Zoetis has historically sold any and all industrial lscadoil byproduct to an environmental company specializing in waste disposal. The environmental company is contractually obligated to incinerate the lscadoil or resell it for use in biofuel. Under the terms of the agreement, the environmental company is expressly prohibited from reselling the lscadoil to be used as a component in food. The FDA inspected the Zoetis site where Avatec and Bovatec are manufactured, and found no evidence that Zoetis was involved in the contamination of the animal feed.

On March 10, 2015, plaintiffs Restaurant Recycling, LLC (Restaurant Recycling) and Superior Feed Ingredients, LLC (Superior), both of whom are in the fat recycling business, filed a complaint in the Seventeenth Circuit Court for the State of Michigan against Shur-Green Farms alleging negligence and breach of warranty claims arising from their purchase of soy oil allegedly contaminated with lscadoil. Plaintiffs resold the allegedly contaminated soy oil to turkey feed mills for use in feed ingredient. Plaintiffs also named Zoetis as a defendant in the complaint alleging that Zoetis failed to properly manufacture its products and breached an implied warranty that the soy oil was fit for use at turkey and hog mills. Zoetis was served with the complaint on June 3, 2015, and we filed our answer, denying all allegations, on July 15, 2015. On August 10, 2015, several of the turkey feed mills filed a joint complaint against Restaurant Recycling, Superior, Shur-Green Farms and others, alleging claims for negligence, misrepresentation, and breach of warranty, arising out of their alleged purchase and use of the contaminated soy oil. The complaint raises only one count against Zoetis for negligence. We filed an answer to the complaint on November 2, 2015, denying the allegation. On May 16, 2016, two additional turkey producers filed a complaint in the Seventeenth Circuit Court for the State of Michigan against the company, Restaurant Recycling, Superior, Shur-Green Farms and others, alleging claims for negligence and breach of warranties. We filed an answer to the complaint on June 20, 2016, denying the allegations. The Court has consolidated all three cases in Michigan for purposes of discovery and disposition. On July 28, 2017, we filed a motion for summary disposition on the grounds that no genuine issues of material fact exist and that Zoetis is entitled to judgment as a matter of law. On October 19, 2017, the Court granted our motion and dismissed all claims against Zoetis. On October 31, 2017, the plaintiffs filed

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motions for reconsideration of the Court's decision granting summary disposition. The Court denied all such motions on December 6, 2017, for the same reasons cited in the Court's original decision. On December 27, 2017, the plaintiffs filed a request with the Michigan Court of Appeals seeking an interlocutory appeal of the lower Court's decision, which we opposed on January 17, 2018. The matter is stayed pending a decision by the Court of Appeals.

Other Matters

The European Commission published a decision on alleged competition law infringements by several human health pharmaceutical companies on June 19, 2013. One of the involved legal entities is Alpharma LLC (previously having the name Zoetis Products LLC). Alpharma LLC's involvement is solely related to its human health activities prior to Pfizer's acquisition of King/Alpharma. Zoetis paid a fine in the amount of Euro 11 million (approximately \$14 million) and was reimbursed in full by Pfizer in accordance with the Global Separation Agreement between Pfizer and Zoetis, which provides that Pfizer is obligated to indemnify Zoetis for any liabilities arising out of claims not related to its animal health assets. We filed an appeal of the decision on September 6, 2013 to the General Court of the European Union. On September 8, 2016, the General Court upheld the decision of the European Commission. On November 25, 2016, we filed an appeal to the Court of Justice of the European Union and are awaiting a ruling.

B. Guarantees and Indemnifications

In the ordinary course of business and in connection with the sale of assets and businesses, we indemnify our counterparties against certain liabilities that may arise in connection with the transaction or related to activities prior to the transaction. These indemnifications typically pertain to environmental, tax, employee and/or product-related matters and patent-infringement claims. If the indemnified party were to make a successful claim pursuant to the terms of the indemnification, we would be required to reimburse the loss. These indemnifications are generally subject to threshold amounts, specified claim periods and other restrictions and limitations. Historically, we have not paid significant amounts under these provisions and, as of December 31, 2017, recorded amounts for the estimated fair value of these indemnifications were not significant.

C. Purchase Commitments

As of December 31, 2017, we have agreements totaling \$442 million to purchase goods and services that are enforceable and legally binding and include amounts relating to contract manufacturing, information technology services and potential milestone payments deemed reasonably likely to occur.

D. Commitments under Operating Leases

We have facilities, vehicles and office equipment under various non-cancellable operating leases with third parties. Total rent expense, net of sublease rental income, was approximately \$27 million in 2017, \$25 million in 2016 and \$26 million in 2015.

Future minimum lease payments under non-cancellable operating leases as of December 31, 2017, follow:

	After						
(MILLIONS OF DOLLARS)	2018	2019	2020	2021	2022	2022	Total
Maturities	\$ 35	\$ 28	\$ 21	\$ 17	\$ 14	\$ 53	\$ 168

18. Segment, Geographic and Other Revenue Information**A. Segment Information**

We manage our operations through two geographic regions. Each operating segment has responsibility for its commercial activities. Within each of these operating segments, we offer a diversified product portfolio, including vaccines, parasiticides, anti-infectives, medicated feed additives and other pharmaceuticals, for both livestock and companion animal customers.

Operating Segments

Our operating segments are the United States and International. Our chief operating decision maker uses the revenue and earnings of the two operating segments, among other factors, for performance evaluation and resource allocation.

Other Costs and Business Activities

Certain costs are not allocated to our operating segment results, such as costs associated with the following:

Other business activities, includes our CSS contract manufacturing results, as well as expenses associated with our dedicated veterinary medicine research and development organization, research alliances, U.S. regulatory affairs and other operations focused on the development of our products. Other R&D-related costs associated with non-U.S.

market and regulatory activities are generally included in the international commercial segment.

Corporate, which is responsible for platform functions such as business technology, facilities, legal, finance, human resources, business development, and communications, among others. These costs also include compensation costs and other miscellaneous operating expenses not charged to our operating segments, as well as interest income and expense.

Certain transactions and events such as (i) Purchase accounting adjustments, where we incur expenses associated with the amortization of fair value adjustments to inventory, intangible assets and property, plant and equipment; (ii) Acquisition-related activities, where we incur costs associated with acquiring and integrating newly acquired businesses, such as transaction costs and integration costs ; and (iii) Certain significant items, which comprise substantive, unusual items that, either as a result of their nature or size, would not be expected to occur as part of our normal business on a regular basis, such as certain costs related to becoming an independent public company, restructuring

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charges and implementation costs associated with our cost-reduction/productivity initiatives that are not associated with an acquisition, certain asset impairment charges, certain legal and commercial settlements and the impact of divestiture-related gains and losses.

Other unallocated includes (i) certain overhead expenses associated with our global manufacturing operations not charged to our operating segments; (ii) certain costs associated with business technology and finance that specifically support our global manufacturing operations; (iii) certain supply chain and global logistics costs; and (iv) procurement costs.

Segment Assets

We manage our assets on a total company basis, not by operating segment. Therefore, our chief operating decision maker does not regularly review any asset information by operating segment and, accordingly, we do not report asset information by operating segment. Total assets were approximately \$8.6 billion and \$7.6 billion at December 31, 2017, and 2016, respectively.

Selected Statement of Income Information

(MILLIONS OF DOLLARS)	Earnings			Depreciation and Amortization ^(a)		
	Year Ended December 31,			Year Ended December 31,		
	2017	2016	2015	2017	2016	2015
U.S.						
Revenue	\$2,620	\$2,447	\$2,328			
Cost of Sales	565	551	551			
Gross Profit	2,055	1,896	1,777			
Gross Margin	78.4 %	77.5 %	76.3 %			
Operating Expenses	421	388	389			
Other (income)/deductions	(3)	—	(2)			
U.S. Earnings	1,637	1,508	1,390	\$29	\$27	\$24
International						
Revenue ^(b)	2,643	2,390	2,386			
Cost of Sales	889	833	873			
Gross Profit	1,754	1,557	1,513			
Gross Margin	66.4 %	65.1 %	63.4 %			
Operating Expenses	515	501	570			
Other (income)/deductions	(1)	2	2			
International Earnings	1,240	1,054	941	44	44	46
Total operating segments	2,877	2,562	2,331	73	71	70
Other business activities	(313)	(309)	(293)	23	25	26
Reconciling Items:						
Corporate	(625)	(684)	(606)	52	45	40
Purchase accounting adjustments	(88)	(99)	(57)	88	84	53
Acquisition-related costs	(10)	(4)	(21)	—	—	—
Certain significant items ^(c)	(25)	(57)	(592)	—	7	6
Other unallocated	(291)	(181)	(217)	6	8	4
Total Earnings ^(d)	\$1,525	\$1,228	\$545	\$242	\$240	\$199

^(a) Certain production facilities are shared. Depreciation and amortization is allocated to the reportable operating segments based on estimates of where the benefits of the related assets are realized.

^(b) Revenue denominated in euros was \$660 million in 2017, \$632 million in 2016, and \$593 million in 2015.

For 2017, certain significant items primarily includes: (i) charges related to our operational efficiency initiative and supply network strategy of \$20 million; (ii) Zoetis stand-up costs of \$3 million; (iii) employee termination costs in Europe of \$4 million; (iv) income related to an insurance recovery from commercial settlements in Mexico
(c) recorded in 2014 and 2016 of \$5 million; and (v) charges of \$3 million associated with changes to our operating model. Stand-up costs include certain nonrecurring costs related to becoming an independent public company, such as new branding (including changes to the manufacturing process for required new packaging), the creation of standalone systems and infrastructure, site separation, and certain legal registration and patent assignment costs. For 2016, certain significant items primarily includes: (i) Zoetis stand-up costs of \$23 million; (ii) charges related to our operational efficiency initiative and supply network strategy of \$10 million; (iii) charges related to a commercial settlement in Mexico of \$14 million; (iv) charges of \$10 million associated with changes to our operating model; (v) a reversal of \$1 million related to other restructuring charges/(reversals) and cost-reduction/productivity initiatives; and (vi) an impairment of finite-lived trademarks of \$1 million related to a canine pain management product.

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For 2015, certain significant items primarily includes: (i) Zoetis stand-up costs of \$118 million; (ii) charges related to our operational efficiency initiative and supply network strategy of \$373 million, (iii) charges of \$93 million of foreign currency losses related to the Venezuela revaluation; (iv) impairment charges of \$3 million related to assets held by our joint venture in Taiwan, classified as assets held for sale in 2015 and subsequently sold in 2016, and an impairment of IPR&D assets related to the termination of a canine oncology project of \$2 million; and (v) charges due to unusual investor-related activities of \$3 million.

^(d) Defined as income before provision for taxes on income.

B. Geographic Information

Revenue exceeded \$100 million in eight countries outside the United States in 2017, 2016, and 2015. The United States was the only country to contribute more than 10% of total revenue in each year.

Property, plant and equipment, less accumulated depreciation, by geographic region follow:

(MILLIONS OF DOLLARS)	As of	
	December 31, 2017	December 31, 2016
U.S.	\$1,047	\$985
International	388	396
Property, plant and equipment, less accumulated depreciation	\$1,435	\$1,381

C. Other Revenue Information**Significant Customers**

We sell our livestock products primarily to veterinarians and livestock producers as well as third-party veterinary distributors, and retail outlets who generally sell the products to livestock producers. We sell our companion animal products primarily to veterinarians who then sell the products to pet owners. Sales to our largest customer, a U.S. veterinary distributor, represented approximately 14%, 13% and 14% of total revenue for 2017, 2016, and 2015, respectively.

Revenue by Species

Species revenue are as follows:

(MILLIONS OF DOLLARS)	Year Ended December 31,		
	2017	2016	2015
Livestock:			
Cattle	\$1,735	\$1,653	\$1,680
Swine	621	602	668
Poultry	479	457	525
Fish	118	90	5
Other	84	79	80
	3,037	2,881	2,958
Companion Animal:			
Horses	151	150	162
Dogs and Cats	2,075	1,806	1,594
	2,226	1,956	1,756
Contract Manufacturing	44	51	51
Total revenue	\$5,307	\$4,888	\$4,765

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Revenue by Major Product Category

Revenue by major product category are as follows:

	Year Ended December 31,		
(MILLIONS OF DOLLARS)	2017	2016	2015
Anti-infectives	\$1,253	\$1,255	\$1,305
Vaccines	1,373	1,245	1,149
Parasiticides	763	659	651
Medicated feed additives	475	500	505
Other pharmaceuticals	1,181	988	910
Other non-pharmaceuticals	218	190	194
Contract manufacturing	44	51	51
Total revenue	\$5,307	\$4,888	\$4,765

19. Selected Quarterly Financial Data (Unaudited)

(MILLIONS OF DOLLARS, EXCEPT PER COMMON SHARE DATA)	FIRST	SECOND	THIRD	FOURTH
2017				
Revenue	\$1,231	\$1,269	\$1,347	\$1,460
Costs and expenses ^(a)	895	924	926	1,018
Restructuring charges/(reversals) and certain acquisition-related costs	(1)	—	8	12
Income before provision for taxes on income	337	345	413	430
Provision for taxes on income ^(b)	98	98	117	350
Net income before allocation to noncontrolling interests	239	247	296	80
Net income/(loss) attributable to noncontrolling interests	1	—	(2)	(1)
Net income attributable to Zoetis	\$238	\$247	\$298	\$81
Earnings per common share--basic	\$0.48	\$0.50	\$0.61	\$0.17
Earnings per common share--diluted	\$0.48	\$0.50	\$0.61	\$0.16
2016				
Revenue	\$1,162	\$1,208	\$1,241	\$1,277
Costs and expenses ^(a)	828	897	904	1,026
Restructuring charges and certain acquisition-related costs	2	(21)	4	20
Income before provision for taxes on income	332	332	333	231
Provision for taxes on income	128	108	96	77
Net income before allocation to noncontrolling interests	204	224	237	154
Net loss attributable to noncontrolling interests	—	—	(2)	—
Net income attributable to Zoetis	\$204	\$224	\$239	\$154
Earnings per common share--basic	\$0.41	\$0.45	\$0.48	\$0.31
Earnings per common share--diluted	\$0.41	\$0.45	\$0.48	\$0.31

^(a) Costs and expenses in the fourth quarter reflect seasonal trends.

^(b) For the fourth quarter of 2017, includes a provisional net tax charge of approximately \$212 million related to the impact of the Tax Act enacted on December 22, 2017. See Note 8. Tax Matters.

Basic and diluted EPS are computed independently for each of the periods presented. Accordingly, the sum of the quarterly EPS amounts may not agree to the total for the year.

Table of ContentsZoetis Inc. and Subsidiaries
Schedule II—Valuation and Qualifying Accounts

(MILLIONS OF DOLLARS)	Balance, Beginning of Period	Additions	Deductions	Balance, End of Period
Year Ended December 31, 2017				
Allowance for doubtful accounts	30	3	(8)	25
Year Ended December 31, 2016				
Allowance for doubtful accounts	\$ 34	\$ 7	\$ (11)	\$ 30
Year Ended December 31, 2015				
Allowance for doubtful accounts	32	9	(7)	34

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Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation as of December 31, 2017, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures are effective at a reasonable level of assurance in alerting them in a timely manner to material information required to be disclosed in our periodic reports filed with the SEC.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined under Rule 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934. Under the supervision and with the participation of management, including the company's Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2017. The effectiveness of our internal control over financial reporting as of December 31, 2017, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its report included herein.

Changes in Internal Controls

During our most recent fiscal quarter, there has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information about our directors is incorporated by reference from the discussion under the heading Item 1-Election of Directors in our 2018 Proxy Statement. Information about compliance with Section 16(a) of the Exchange Act is incorporated by reference from the discussion under the heading Ownership of Our Common Stock in our 2018 Proxy Statement. Information about the Zoetis Code of Conduct governing our employees, including our Chief Executive Officer, Chief Financial Officer Principal Accounting Officer and Controller, and the Code of Business Conduct and Ethics for members of our Board of Directors, is incorporated by reference from the discussions under the headings Corporate Governance at Zoetis in our 2018 Proxy Statement. Information regarding the procedures by which our stockholders may recommend nominees to our Board of Directors is incorporated by reference from the discussion under the heading Corporate Governance at Zoetis in our 2018 Proxy Statement. Information about our Audit Committee, including the members of the Committee, and our Audit Committee financial experts, is incorporated by reference from the discussion under the heading Corporate Governance at Zoetis in our 2018 Proxy Statement.

Executive Officers

Juan Ramón Alaix

Age 66

Chief Executive Officer and Director

Mr. Alaix has served as our Chief Executive Officer and Director since July 2012. From 2006 to 2012, he served as President of Pfizer Animal Health, and was responsible for its overall strategic direction and financial performance. Under his leadership, the company grew to become a \$4.3 billion enterprise in 2012. Mr. Alaix has more than 35 years' experience in finance and management, including 20 years in the pharmaceutical industry. He joined Pfizer in 2003 and held various positions, including Regional President of Central/Southern Europe for Pfizer's pharmaceutical business. Prior to that, Mr. Alaix held various positions with Pharmacia, including as Country President of Spain, from 1998 until Pharmacia's acquisition by Pfizer in 2003. Earlier in his career he served in general management with Rhône-Poulenc Rorer in Spain and Belgium. In 2013, Mr. Alaix completed a two-year term as President of the International Federation for Animal Health ("IFAH"), now known as HealthforAnimals, and he continues to serve as a member of its board and executive committee. HealthforAnimals represents manufacturers of veterinary medicines, vaccines and other animal health products in both developed and emerging markets. A native of Spain, Mr. Alaix received a graduate degree in economics from the Universidad de Madrid.

Glenn David

Age 46

Executive Vice President and Chief Financial Officer

Mr. David has served as our Executive Vice President and Chief Financial Officer since August 2016. With more than 20 years of experience in finance and operations, Mr. David has played a key role in leading the financial operations for Zoetis since its initial public offering in 2013. He served as our Senior Vice President of Finance Operations from 2013 to 2016 and as acting Chief Financial Officer from April 2014 through August 2014. Mr. David joined Pfizer in 1999 and held various financial roles, including Vice President of Global Finance for Pfizer Animal Health and Vice President of Finance for the U.S. Primary Care franchise prior to the Zoetis initial public offering.

Alejandro Bernal

Age 45

Executive Vice President and Group President, Strategy, Commercial and Business Development

Mr. Bernal has served as our Executive Vice President and Group President, Strategy, Commercial and Business Development since May 2015. From October 2012 through April 2015, he served as our Executive Vice President and Area President of the Europe, Africa and Middle East region. He was Area President of the Europe, Africa and Middle East region for Pfizer's animal health business unit from 2010 to 2012. Mr. Bernal joined Pfizer in 2000 and held positions of increasing responsibility, including Area President of the Canada and Latin America region; Regional Director of Southwest and Central Latin America; Division Director for Central America and Colombia; Swine and Poultry Team Leader for Mexico; and Swine Product Manager for Northern Latin America for Pfizer Animal Health. Mr. Bernal has resigned from the company effective February 28, 2018.

Heidi C. Chen

Age 51

Executive Vice President, General Counsel and Corporate Secretary

Ms. Chen has served as our Executive Vice President and General Counsel since October 2012, and as our Corporate Secretary since July 2012. Prior to that, Ms. Chen was Vice President and Chief Counsel of Pfizer Animal Health from 2009 to 2012. Ms. Chen joined Pfizer in 1998 and held various legal and compliance positions of increasing responsibility, including lead counsel for Pfizer's Established Products (generics) business.

Andrew Fenton

Age 54

Executive Vice President and Chief Information Officer

Mr. Fenton has served as our Executive Vice President and Chief Information Officer (CIO) since August 2016, having joined Zoetis as Senior Vice President and CIO in 2014. From November 2013 to September 2014, Andrew was a partner and principal with EY in the Life Sciences practice

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supporting CIO Transformation Services, and from October 2005 to November 2013, he was Senior Vice President and CIO of Warner Chilcott. He has also held senior positions at IBM Global Services and at PricewaterhouseCoopers in the Pharmaceutical Practice.

Catherine A. Knupp

Age 57

Executive Vice President and President of Research and Development

Dr. Knupp has served as our Executive Vice President and President of Research and Development since October 2012. From 2005 to 2012, she served as Vice President of Pfizer's Veterinary Medicine Research and Development business unit. Dr. Knupp joined Pfizer in July 2001 and held various positions, including Vice President of Pfizer's Michigan laboratories for Pharmacokinetics, Dynamics and Metabolism.

Roxanne Lagano

Age 53

Executive Vice President and Chief Human Resources Officer

Ms. Lagano has served as our Executive Vice President and Chief Human Resources Officer since November 2012. Prior to joining Zoetis, Ms. Lagano was senior vice president, Global Compensation, Benefits and Wellness for Pfizer. Ms. Lagano joined Pfizer in 1997 and held various positions, including Senior Vice President, Pfizer Global Compensation, Benefits and Wellness; and Senior Director, Business Transactions, Pfizer Worldwide Human Resources.

Clinton A. Lewis, Jr.

Age 51

Executive Vice President and President of International Operations

Mr. Lewis has served as our Executive Vice President and President, International Operations since May 2015. From October 2012 through April 2015, he served as our Executive Vice President and President of U.S. Operations, and from 2007 to 2012, he was President of U.S. Operations for Pfizer Animal Health. Mr. Lewis joined Pfizer in 1988 and held various positions across sales, marketing and general management, including Senior Vice President of Sales, U.S.; General Manager, Pfizer Caribbean; and General Manager, U.S. Anti-Infectives.

Kristin C. Peck

Age 46

Executive Vice President and President of U.S. Operations

Ms. Peck has served as our Executive Vice President and President, U.S. Operations since May 2015. From October 2012 through April 2015, she served as our Executive Vice President and Group President. Ms. Peck joined Pfizer in 2004 and held various positions, including Executive Vice President, Worldwide Business Development and Innovation; Senior Vice President, Worldwide Business Development, Strategy and Innovation; Vice President, Strategic Planning; Chief of Staff to the Vice Chairman; and Senior Director, Strategic Planning. Ms. Peck also served as a member of Pfizer's Executive Leadership Team.

Roman Trawicki

Age 54

Executive Vice President and President of Global Manufacturing and Supply

Mr. Trawicki has served as our Executive Vice President, Global Manufacturing and Supply since May 2015. He joined Zoetis in January 2015 as President, Global Manufacturing and Supply. From 2009 to 2014, he was GE Healthcare's General Manager of Global Supply Chain for Medical Diagnostics, where he focused on diagnostics, injectable contrast media and nuclear medicines.

Item 11. Executive Compensation.

Information about director compensation is incorporated by reference from the discussion under the heading Corporate Governance at Zoetis in our 2018 Proxy Statement. Information about executive compensation is incorporated by reference from the discussion under the heading Executive Compensation in our 2018 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

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Information required by this item is incorporated by reference from the discussion under the heading Ownership of Our Common Stock in our 2018 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information about certain relationships and transactions with related parties is incorporated by reference from the discussion under the heading Transactions with Related Persons in our 2018 Proxy Statement. Information about director independence is incorporated by reference from the discussion under the heading Corporate Governance at Zoetis-Corporate Governance Principles and Practices-Director Independence in our 2018 Proxy Statement.

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Item 14. Principal Accounting Fees and Services.

Information about the fees for professional services rendered by our independent registered public accounting firm in 2017 and 2016 is incorporated by reference from the discussion under the heading Item 3—Ratification of Appointment of KPMG as our Independent Registered Public Accounting Firm for 2018 in our 2018 Proxy Statement. Our Audit Committee’s policy on pre-approval of audit and permissible non-audit services of our independent registered public accounting firm is incorporated by reference from the discussion under the heading Item 3—Ratification of Appointment of KPMG as our Independent Registered Public Accounting Firm for 2018 in our 2018 Proxy Statement.

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

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

The following entire exhibits are included:

- A. (1) The financial statements and notes to financial statements are filed as part of this report in Item 8. Financial Statements and Supplementary Data.
- (2) The financial statement schedule is listed in the Index to Financial Statements.
- (3) The exhibits are listed in the Index to Exhibits.

Item 16. Form 10-K Summary.

None.

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EXHIBITS

The exhibits listed below and designated with a † are filed with this report. The exhibits listed below and not so designated are incorporated by reference to the documents following the descriptions of the exhibits.

- Exhibit 2.1 Share Purchase Agreement, dated as of November 2, 2015, by and among SalarLux Parent S.à.r.l., Salar Invest AS and Zoetis Inc. (incorporated by reference to Exhibit 2.1 to Zoetis Inc.'s Current Report on Form 8-K filed on November 2, 2015 (File No. 001-35797))
- Exhibit 3.1 Restated Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to Zoetis Inc.'s Quarterly Report on Form 10-Q filed on November 10, 2014 (File No. 001-35797))
- Exhibit 3.2 By-laws of the Registrant, amended and restated as of February 19, 2016 (incorporated by reference to Exhibit 3.2 to Zoetis Inc.'s 2015 Annual Report on Form 10-K filed on February 24, 2016 (File No. 001-35797))
- Exhibit 4.1 Specimen Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Zoetis Inc.'s registration statement on Form S-1 (File No. 333-183254))
- Exhibit 4.2 Indenture, dated as of January 28, 2013, between Zoetis Inc. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Zoetis Inc.'s registration statement on Form S-1 (File No. 333-183254))
- Exhibit 4.3 First Supplemental Indenture, dated as of January 28, 2013, between Zoetis Inc. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.3 of Zoetis Inc.'s registration statement on Form S-1 (File No. 333-183254))
- Exhibit 4.4 Second Supplemental Indenture, dated November 13, 2015, between Zoetis Inc. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.2 to Zoetis Inc.'s Current Report on Form 8-K filed on November 13, 2015 (File No. 001-35797))
- Exhibit 4.5 Third Supplemental Indenture, dated September 12, 2017, between Zoetis Inc. and Deutsche Bank Trust Company Americas, as trustee (incorporated by reference to Exhibit 4.2 to Zoetis Inc.'s Current Report on Form 8-K filed on September 12, 2017 (File No. 001-35797))
- Exhibit 4.6 Form of 3.450% Senior Notes due 2020 (incorporated by reference to Exhibit 4.2 to Zoetis Inc.'s Current Report on Form 8-K filed on November 13, 2015 (File No. 001-35797))
- Exhibit 4.7 Form of 3.250% Senior Notes due 2023 (incorporated by reference to Exhibit 4.3 of Zoetis Inc.'s registration statement on Form S-1 (File No. 333-183254))
- Exhibit 4.8 Form of 4.500% Senior Notes due 2025 (incorporated by reference to Exhibit 4.2 to Zoetis Inc.'s Current Report on Form 8-K filed on November 13, 2015 (File No. 001-35797))
- Exhibit 4.9 Form of 4.700% Senior Notes due 2043 (incorporated by reference to Exhibit 4.3 of Zoetis Inc.'s registration statement on Form S-1 (File No. 333-183254))
- Exhibit 4.10 Form of 3.000% Senior Notes due 2027 (incorporated by reference to Exhibit 4.2 to Zoetis Inc.'s Current Report on Form 8-K

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- filed on September 12, 2017 (File No. 001-35797))
- Exhibit
4.11 Form of 3.950% Senior Notes due 2027 (incorporated by reference to Exhibit 4.2 to Zoetis Inc.'s Current Report on Form 8-K
filed on September 12, 2017 (File No. 001-35797))
- Exhibit
10.1 Global Separation Agreement, dated February 6, 2013, by and between Zoetis Inc. and Pfizer Inc. (incorporated by reference to
Exhibit 10.1 to Zoetis Inc.'s 2012 Annual Report on Form 10-K filed on March 28, 2013 (File No. 001-35797))
- Exhibit
10.2 Transitional Services Agreement, dated February 6, 2013, by and between Zoetis Inc. and Pfizer Inc. (incorporated by reference
to Exhibit 10.2 to Zoetis Inc.'s 2012 Annual Report on Form 10-K filed on March 28, 2013 (File No. 001-35797))
- Exhibit
10.3 Tax Matters Agreement, dated February 6, 2013, by and between Zoetis Inc. and Pfizer Inc. (incorporated
by reference to
Exhibit 10.3 to Zoetis Inc.'s 2012 Annual Report on Form 10-K filed on March 28, 2013 (File No. 001-35797))
- Exhibit
10.4 Research and Development Collaboration and License Agreement, dated February 6, 2013, by and
between Zoetis Inc.
and Pfizer Inc. (incorporated by reference to Exhibit 10.4 to Zoetis Inc.'s 2012 Annual Report on Form
10-K filed on
March 28, 2013 (File No. 001-35797))
- Exhibit
10.5 Employee Matters Agreement (incorporated by reference to Exhibit 10.5 of Zoetis Inc.'s registration
statement on Form S-1
(File No. 333-183254))
- Exhibit
10.6 Pfizer Inc. 2004 Stock Plan, as Amended and Restated (incorporated by reference to Exhibit 10.6 of
Zoetis Inc.'s registration
statement on Form S-1 (File No. 333-183254))*

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<u>Exhibit 10.7</u>	Pfizer Inc. Amended and Restated Nonfunded Supplemental Retirement Plan, together with all material Amendments (incorporated by reference to Exhibit 10.7 of Zoetis Inc.'s registration statement on Form S-1 (File No. 333-183254))*
<u>Exhibit 10.8</u>	Patent and Know-How License Agreement (Zoetis as licensor), dated February 6, 2013, by and between Zoetis Inc. and Pfizer Inc. (incorporated by reference to Exhibit 10.8 to Zoetis Inc.'s 2012 Annual Report on Form 10-K filed on March 28, 2013 (File No. 001-35797))
<u>Exhibit 10.9</u>	Patent and Know-How License Agreement (Pfizer as licensor), dated February 6, 2013, by and between Zoetis Inc. and Pfizer Inc. (incorporated by reference to Exhibit 10.9 to Zoetis Inc.'s 2012 Annual Report on Form 10-K filed on March 28, 2013 (File No. 001-35797))
<u>Exhibit 10.10</u>	Trademark and Copyright License Agreement, dated February 6, 2013, by and between Zoetis Inc. and Pfizer Inc. (incorporated by reference to Exhibit 10.10 to Zoetis Inc.'s 2012 Annual Report on Form 10-K filed on March 28, 2013 (File No. 001-35797))
<u>Exhibit 10.11</u>	Environmental Matters Agreement, dated February 6, 2013, by and between Zoetis Inc. and Pfizer Inc. (incorporated by reference to Exhibit 10.13 to Zoetis Inc.'s 2012 Annual Report on Form 10-K filed on March 28, 2013) (File No. 001-35797))
<u>Exhibit 10.12</u>	Master Manufacturing and Supply Agreement, dated October 1, 2012, by and between Pfizer Inc. and Zoetis Inc. (Pfizer as manufacturer) (incorporated by reference to Exhibit 10.14 of Zoetis Inc.'s registration statement on Form S-1 (File No. 333-183254))
<u>Exhibit 10.13</u>	Registration Rights Agreement, dated February 6, 2013, by and between Zoetis Inc. and Pfizer Inc. (incorporated by reference to Exhibit 10.15 to Zoetis Inc.'s 2012 Annual Report on Form 10-K filed on March 28, 2013 (File No. 001-35797))
<u>Exhibit 10.14</u>	Zoetis Inc. 2013 Equity and Incentive Plan (incorporated by reference to Exhibit 10.16 to Zoetis Inc.'s 2012 Annual Report on Form 10-K filed on March 28, 2013 (File No. 001-35797))*
<u>Exhibit 10.15</u>	Sale of Business Severance Plan (incorporated by reference to Exhibit 10.17 to Zoetis Inc.'s 2012 Annual Report on Form 10-K filed on March 28, 2013 (File No. 001-35797))*
<u>Exhibit 10.16</u>	Revolving Credit Agreement, dated as of December 21, 2016, among Zoetis Inc., the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 of Zoetis Inc.'s Current Report on Form 8-K filed on December 21, 2016 (File No. 001-35797))
<u>Exhibit 10.16.1</u>	Extension Agreement to Revolving Credit Agreement, dated as of December 21, 2017, among Zoetis Inc., the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent †
<u>Exhibit 10.17</u>	Form of Indemnification Agreement for directors and officers (incorporated by reference to Exhibit 10.19 of Zoetis Inc.'s registration statement on Form S-1 (File No. 333-183254))

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- Exhibit 10.18 Registration Rights Agreement, dated as of January 28, 2013, by and among Zoetis Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc., J.P. Morgan Securities LLC and Deutsche Bank Securities Inc., as representatives of the several initial purchasers (incorporated by reference to Exhibit 10.20 of Zoetis Inc.'s registration statement on Form S-1 (File No. 333-183254))
- Exhibit 10.19 Form of Restricted Stock Unit Award agreement (incorporated by reference to Exhibit 10.21 to Zoetis Inc.'s 2012 Annual Report on Form 10-K filed on March 28, 2013 (File No. 001-35797))*
- Exhibit 10.20 Form of Stock Option Award agreement (incorporated by reference to Exhibit 10.22 to Zoetis Inc.'s 2012 Annual Report on Form 10-K filed on March 28, 2013 (File No. 001-35797))*
- Exhibit 10.21 Form of Non-Employee Director Deferred Stock Unit Award agreement (incorporated by reference to Exhibit 10.23 on Form 10-K filed on March 28, 2013 (File No. 001-35797))*
- Exhibit 10.22 Form of Cash Award agreement (incorporated by reference to Exhibit 10.24 to Zoetis Inc.'s 2012 Annual Report on Form 10-K filed on March 28, 2013 (File No. 001-35797))*
- Exhibit 10.23 Form of Performance Restricted Stock Unit Award Agreement, effective as of February 27, 2015 (incorporated by reference to Exhibit 99.1 to Zoetis Inc.'s Current Report on Form 8-K filed on March 4, 2015 (File No. 001-35797))*
- Exhibit 10.24 Form of Restricted Stock Unit Award Agreement, effective as of February 27, 2015 (incorporated by reference to Exhibit 99.2 to Zoetis Inc.'s Current Report on Form 8-K filed on March 4, 2015 (File No. 001-35797))*
- Exhibit 10.25 Form of Stock Option Award Agreement, effective as of February 27, 2015 (incorporated by reference to Exhibit 99.3 to Zoetis Inc.'s Current Report on Form 8-K filed on March 4, 2015 (File No. 001-35797))*
- Exhibit 10.26 Form of Cash Award Agreement, effective as of February 27, 2015 (incorporated by reference to Exhibit 99.4 to

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Exhibit 10.27 Zoetis Inc.'s Current Report on Form 8-K filed on March 4, 2015 (File No. 001-35797))*
 Non-Employee Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to Zoetis Inc.'s
 Current Report on Form 8-K filed on May 7, 2013 (File No. 001-35797))*

Exhibit 10.28 Zoetis Executive Severance Plan (incorporated by reference to Exhibit 10.1 to Zoetis Inc.'s Quarterly
 Report on Form 10-Q
 filed on August 14, 2013 (File No. 001-35797))*

Exhibit 10.29 Zoetis Supplemental Savings Plan, as amended and restated, effective September 15, 2014
 (incorporated by reference to
 Exhibit 10.4 to Zoetis Inc.'s Quarterly Report on Form 10-Q filed on November 10, 2014 (File No. 001-35797))*

Exhibit 10.30 Zoetis Equity Deferral Plan, effective November 1, 2014 (incorporated by reference to Exhibit 10.5 to
 Zoetis Inc.'s
 Quarterly Report on Form 10-Q filed on November 10, 2014 (File No. 001-35797))*

Exhibit 10.31 Letter Agreement, dated as of February 3, 2015, by and among Zoetis and Pershing Square Capital
 Management, L.P.
 and certain affiliates thereof and Sachem Head Capital Management LP and certain affiliates thereof
 (incorporated by
 reference to Exhibit 99.1 to Zoetis Inc.'s Current Report on Form 8-K filed on February 4, 2015 (File
 No. 001-35797))

Exhibit 12 Computation of Ratio of Earnings to Fixed Charges †

Exhibit 21.1 Subsidiaries of the Registrant †

Exhibit 23.1 Consent of KPMG LLP †

Exhibit 24.1 Power of Attorney (included as part of signature page) †

Exhibit 31.1 Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of
 2002 †

Exhibit 31.2 Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
 †

Exhibit 32.1 Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant
 to Section 906 of the
 Sarbanes-Oxley Act of 2002 †

Exhibit 32.2 Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant
 to Section 906 of the
 Sarbanes-Oxley Act of 2002 †

EX-101.INS INSTANCE DOCUMENT

EX-101.SCH SCHEMA DOCUMENT

EX-101.CAL CALCULATION LINKBASE DOCUMENT

EX-101.LAB LABELS LINKBASE DOCUMENT

EX-101.PRE PRESENTATION LINKBASE DOCUMENT

EX-101.DEF DEFINITION LINKBASE DOCUMENT

† Filed herewith

* Management contracts or compensatory plans or arrangements

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 15, 2018

Zoetis Inc.

By: /S/ JUAN RAMÓN ALAIX

Juan Ramón Alaix

Chief Executive Officer and Director

We, the undersigned directors and officers of Zoetis Inc., hereby severally constitute Juan Ramón Alaix and Heidi Chen, and each of them singly, our true and lawful attorneys with full power to them and each of them to sign for us, in our names in the capacities indicated below, any and all amendments to this Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Under the requirements of the Securities Exchange Act of 1934, this report was signed by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Name	Title	Date
/S/ JUAN RAMÓN ALAIX Juan Ramón Alaix	Chief Executive Officer and Director (Principal Executive Officer)	February 15, 2018
/S/ GLENN DAVID Glenn David	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 15, 2018
/S/ MICHAEL B. MCCALLISTER Michael B. McCallister	Chairman and Director	February 15, 2018
/S/ PAUL M. BISARO Paul M. Bisaro	Director	February 15, 2018
/S/ FRANK A. D'AMELIO Frank A. D'Amelio	Director	February 15, 2018
/S/ SANJAY KHOSLA Sanjay Khosla	Director	February 15, 2018
/s/ GREGORY NORDEN Gregory Norden	Director	February 15, 2018
/S/ LOUISE M. PARENT Louise M. Parent	Director	February 15, 2018
/S/ WILLIE M. REED Willie M. Reed	Director	February 15, 2018
/S/ LINDA RHODES Linda Rhodes	Director	February 15, 2018

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/s/ ROBERT W. SCULLY
Robert W. Scully

Director

February 15, 2018

/S/ WILLIAM C. STEERE, JR.
William C. Steere, Jr.

Director

February 15, 2018

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