
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2018

or

**TRANSITION REPORT PURSUANT TO SECTION 13
OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

☐ **For the transition period from _____ to _____**

Commission File Number: 001-35797

Zoetis Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

46-0696167

(I.R.S. Employer Identification No.)

10 Sylvan Way, Parsippany, New Jersey

(Address of principal executive offices)

07054

(Zip Code)

(973) 822-7000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ **Accelerated filer** ☐ **Non-accelerated filer** ☐ **Smaller reporting company** ☐ **Emerging growth company** ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

At July 27, 2018, there were 481,823,803 shares of common stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

ZOETIS INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,	July 2,	June 30,	July 2,
(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)	2018	2017	2018	2017
Revenue	\$ 1,415	\$ 1,269	\$ 2,781	\$ 2,500
Costs and expenses:				
Cost of sales	447	440	894	883
Selling, general and administrative expenses	359	336	697	645
Research and development expenses	102	86	199	176
Amortization of intangible assets	23	23	46	45
Restructuring charges/(reversals) and certain acquisition-related costs	5	—	7	(1)
Interest expense, net of capitalized interest	46	41	93	82
Other (income)/deductions—net	(4)	(2)	(9)	(12)
Income before provision for taxes on income	437	345	854	682
Provision for taxes on income	55	98	122	196
Net income before allocation to noncontrolling interests	382	247	732	486
Less: Net (loss)/income attributable to noncontrolling interests	(2)	—	(4)	1
Net income attributable to Zoetis Inc.	\$ 384	\$ 247	\$ 736	\$ 485
Earnings per share attributable to Zoetis Inc. stockholders:				
Basic	\$ 0.79	\$ 0.50	\$ 1.52	\$ 0.99
Diluted	\$ 0.79	\$ 0.50	\$ 1.51	\$ 0.98
Weighted-average common shares outstanding:				
Basic	483.8	490.8	484.8	491.6
Diluted	487.5	494.0	488.6	494.6
Dividends declared per common share	\$ 0.126	\$ 0.105	\$ 0.252	\$ 0.210

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
(MILLIONS OF DOLLARS)				
Net income before allocation to noncontrolling interests	\$ 382	\$ 247	\$ 732	\$ 486
Other comprehensive (loss)/income, net of taxes and reclassification adjustments:				
Unrealized losses on derivatives, net ^(a)	—	(1)	—	(1)
Foreign currency translation adjustments, net	(115)	12	(38)	56
Benefit plans: Actuarial (losses)/gains, net ^(a)	—	(1)	—	1
Total other comprehensive (loss)/income, net of tax	(115)	10	(38)	56
Comprehensive income before allocation to noncontrolling interests	267	257	694	542
Less: Comprehensive (loss)/income attributable to noncontrolling interests	(3)	—	(4)	1
Comprehensive income attributable to Zoetis Inc.	\$ 270	\$ 257	\$ 698	\$ 541

^(a) Presented net of reclassification adjustments and tax impacts, which are not significant in any period presented. Reclassification adjustments related to benefit plans are generally reclassified, as part of net periodic pension cost, into *Other (income)/deductions*, beginning in the first quarter of 2018, and into *Cost of sales, Selling, general and administrative expenses*, and/or *Research and development expenses*, as appropriate, for periods prior to 2018, in the condensed consolidated statements of income.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2018	December 31, 2017
(MILLIONS OF DOLLARS, EXCEPT SHARE AND PER SHARE DATA)	(Unaudited)	
Assets		
Cash and cash equivalents ^(a)	\$ 1,558	\$ 1,564
Accounts receivable, less allowance for doubtful accounts of \$24 in 2018 and \$25 in 2017	973	998
Inventories	1,420	1,427
Other current assets	288	228
Total current assets	4,239	4,217
Property, plant and equipment, less accumulated depreciation of \$1,522 in 2018 and \$1,471 in 2017	1,470	1,435
Goodwill	1,514	1,510
Identifiable intangible assets, less accumulated amortization	1,225	1,269
Noncurrent deferred tax assets	80	80
Other noncurrent assets	75	75
Total assets	\$ 8,603	\$ 8,586
Liabilities and Equity		
Accounts payable	230	261
Dividends payable	61	61
Accrued expenses	434	432
Accrued compensation and related items	160	236
Income taxes payable	53	60
Other current liabilities	29	44
Total current liabilities	967	1,094
Long-term debt, net of discount and issuance costs	4,955	4,953
Noncurrent deferred tax liabilities	229	380
Other taxes payable	266	172
Other noncurrent liabilities	204	201
Total liabilities	6,621	6,800
Commitments and contingencies (Note 16)		
Stockholders' equity:		
Preferred stock, \$0.01 par value: 1,000,000,000 authorized, none issued	—	—
Common stock, \$0.01 par value: 6,000,000,000 authorized; 501,891,243 and 501,891,243 shares issued; 482,290,154 and 486,130,461 shares outstanding at June 30, 2018, and December 31, 2017, respectively	5	5
Treasury stock, at cost, 19,601,089 and 15,760,782 shares of common stock at June 30, 2018, and December 31, 2017, respectively	(1,215)	(852)
Additional paid-in capital	1,001	1,013
Retained earnings	2,722	2,109
Accumulated other comprehensive loss	(543)	(505)
Total Zoetis Inc. equity	1,970	1,770
Equity attributable to noncontrolling interests	12	16
Total equity	1,982	1,786
Total liabilities and equity	\$ 8,603	\$ 8,586

^(a) As of June 30, 2018, and December 31, 2017, includes \$5 million and \$6 million, respectively, of restricted cash.

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(UNAUDITED)

	Zoetis						Equity	
	Common	Treasury	Additional	Retained	Accumulated	Attributable to	Total	
(MILLIONS OF DOLLARS)	Stock ^(a)	Stock ^(a)	Paid-in Capital	Earnings	Other Comprehensive Loss	Noncontrolling Interests	Equity	
Balance, December 31, 2016	\$ 5	\$ (421)	\$ 1,024	\$ 1,477	\$ (598)	\$ 12	\$ 1,499	
<u>Six months ended July 2, 2017</u>								
Net income	—	—	—	485	—	1	486	
Other comprehensive income	—	—	—	—	56	—	56	
Consolidation of a noncontrolling interest ^(b)	—	—	—	—	—	18	18	
Share-based compensation awards ^(c)	—	56	(1)	(16)	—	—	39	
Treasury stock acquired ^(d)	—	(250)	—	—	—	—	(250)	
Employee benefit plan contribution from Pfizer Inc. ^(e)	—	—	1	—	—	—	1	
Dividends declared	—	—	—	(103)	—	—	(103)	
Balance, July 2, 2017	\$ 5	\$ (615)	\$ 1,024	\$ 1,843	\$ (542)	\$ 31	\$ 1,746	
Balance, December 31, 2017	\$ 5	\$ (852)	\$ 1,013	\$ 2,109	\$ (505)	\$ 16	\$ 1,786	
<u>Six months ended June 30, 2018</u>								
Net income/(loss)	—	—	—	736	—	(4)	732	
Other comprehensive income	—	—	—	—	(38)	—	(38)	
Share-based compensation awards ^(c)	—	42	(13)	(1)	—	—	28	
Treasury stock acquired ^(d)	—	(405)	—	—	—	—	(405)	
Employee benefit plan contribution from Pfizer Inc. ^(e)	—	—	1	—	—	—	1	
Dividends declared	—	—	—	(122)	—	—	(122)	
Balance, June 30, 2018	\$ 5	\$ (1,215)	\$ 1,001	\$ 2,722	\$ (543)	\$ 12	\$ 1,982	

^(a) As of June 30, 2018, and July 2, 2017, there were 482,290,154 and 489,659,511 outstanding shares of common stock, respectively, and 19,601,089 and 12,231,732 shares of treasury stock, respectively. Treasury stock is recognized at the cost to reacquire the shares. For additional information, see *Note 14. Stockholders' Equity*.

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

^(c) Includes the issuance of shares of Zoetis Inc. common stock and the reissuance of treasury stock in connection with the vesting 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 13. Share-Based Payments* and *Note 14. Stockholders' Equity*.

^(d) Reflects the acquisition of treasury shares in connection with the share repurchase program. For additional information, see *Note 14. Stockholders' Equity*.

^(e) 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 12. Benefit Plans*.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended	
	June 30, 2018	July 2, 2017
(MILLIONS OF DOLLARS)		
Operating Activities		
Net income before allocation to noncontrolling interests	\$ 732	\$ 486
Adjustments to reconcile net income before noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization expense	123	121
Share-based compensation expense	22	22
Restructuring	7	(1)
Asset write-offs and asset impairments	7	—
Net loss on sale of assets	—	2
Provision for losses on inventory	25	40
Deferred taxes ^(a)	(155)	13
Employee benefit plan contribution from Pfizer Inc.	1	1
Other non-cash adjustments	4	—
Other changes in assets and liabilities, net of acquisitions and divestitures		
Accounts receivable	(9)	(41)
Inventories	(23)	(46)
Other assets	(63)	(106)
Accounts payable	(28)	(66)
Other liabilities	(75)	(147)
Other tax accounts, net ^(a)	88	21
Net cash provided by operating activities	656	299
Investing Activities		
Purchases of property, plant and equipment	(126)	(93)
Acquisitions	—	(3)
Net proceeds from sales of assets	8	1
Other investing activities	(3)	7
Net cash used in investing activities	(121)	(88)
Financing Activities		
Issuance of commercial paper	—	100
Payment of contingent consideration related to previously acquired assets	(12)	(5)
Share-based compensation-related proceeds, net of taxes paid on withholding shares	6	18
Purchases of treasury stock	(405)	(250)
Cash dividends paid	(122)	(103)
Net cash used in financing activities	(533)	(240)
Effect of exchange-rate changes on cash and cash equivalents	(8)	7
Net increase/(decrease) in cash and cash equivalents	(6)	(22)
Cash and cash equivalents at beginning of period	1,564	727
Cash and cash equivalents at end of period	\$ 1,558	\$ 705
Supplemental cash flow information		
Cash paid during the period for:		
Income taxes	\$ 221	\$ 256
Interest, net of capitalized interest	96	82
Non-cash transactions:		
Purchases of property, plant and equipment	3	3
Dividends declared, not paid	61	52

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

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization

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: vaccines, anti-infectives, parasiticides, medicated feed additives and other pharmaceuticals.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared following the requirements of the Securities and Exchange Commission (SEC) for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America (U.S. GAAP) can be condensed or omitted. Balance sheet amounts and operating results for subsidiaries operating outside the United States are as of and for the six-month periods ended May 31, 2018, and May 28, 2017.

Prior to fiscal 2018, the company followed a 13-week quarterly accounting cycle for each of the first three fiscal quarters. The company's fiscal year ends on December 31 for our operations in the United States and on November 30 for subsidiaries operating outside the United States. Beginning in fiscal 2018, the company's first three fiscal quarters will end on the last day of March, June and September in the United States and the last day of February, May and August for subsidiaries operating outside the United States. There is no change to the company's fiscal year-end dates. We did not adjust our results of operations for periods prior to 2018 as the impact was not material.

Revenue, expenses, assets and liabilities can vary during each quarter of the year. Therefore, the results and trends in these interim financial statements may not be representative of those for the full year.

We are responsible for the unaudited condensed consolidated financial statements included in this Form 10-Q. The condensed consolidated financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of our financial position and operating results. The information included in this interim report should be read in conjunction with the financial statements and accompanying notes included in our 2017 Annual Report on Form 10-K.

3. Accounting Standards

Recently Adopted Accounting Standards

In March 2018, the Financial Accounting Standards Board (FASB) issued an accounting standards update to align existing guidance on accounting for income taxes, pursuant to guidance provided by a Staff Accounting Bulletin published by the SEC on December 22, 2017. The update addresses the challenges in accounting for the effects of the Tax Cuts and Jobs Act (the Tax Act), enacted on December 22, 2017, in the period of enactment and required companies to 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. Provisional amounts will be subject to adjustment during a measurement period of up to one year from the enactment date. For additional information, see *Note 8. Income Taxes*.

In August 2017, the FASB issued an accounting standards update which amends the hedge accounting recognition and presentation requirements and is intended to better align hedge accounting with companies' risk management strategies. The standard eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires that the entire change in fair value of a hedging instrument be presented in the same income statement line item as the respective hedged item. The standard also modifies certain disclosure requirements. The provisions of the update are effective beginning January 1, 2019 for interim and annual periods with early adoption permitted for any interim period after issuance of the update. We elected to early adopt this guidance as of April 1, 2018. There were no hedging contracts in effect as of the date of adoption.

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 adopted this guidance as of January 1, 2018, the required effective date. The new standard did not have a significant impact on our consolidated financial statements.

In October 2016, the FASB issued an accounting standards update that requires 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. We adopted this

guidance as of January 1, 2018, the required effective date. The new standard did not have a significant impact 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. 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. We adopted this guidance as of January 1, 2018, the required effective date, using the modified retrospective adoption method. Prior period amounts have not been adjusted and continue to be reported in accordance with our historic accounting policies. Application of the standard using the modified retrospective method did not require an adjustment to opening retained earnings. For additional information, see *Note 4. Revenue*.

Recently Issued Accounting Standards

In February 2018, the FASB issued an accounting standards update which permits companies to reclassify from accumulated other comprehensive income to retained earnings stranded tax effects resulting from the new federal corporate income tax rate. In the period of adoption, a company may choose to either apply the amendments retrospectively to each period in which the effect of the change in federal income tax rate is recognized or to apply the amendments in that reporting period. The provisions of the update are effective beginning January 1, 2019 for interim and annual periods, with early adoption permitted for any interim period after issuance of the update. We are currently assessing the timing of our adoption 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 have selected a lease accounting system which we are in the process of implementing, while continuing to evaluate our lease contracts, accounting policy elections, and the impact of adoption on our consolidated financial statements. While we do not expect adoption of the standard to have a significant impact on our consolidated statements of income, the impact on the assets and liabilities within our consolidated balance sheet may be material.

4. Revenue

A. Revenue from Product Sales

We offer a diversified portfolio of products which allows us to capitalize on local and regional customer needs. Generally, our products are promoted to veterinarians and livestock producers by our sales organization which includes sales representatives and technical and veterinary operations specialists, and then sold directly by us or through distributors. The depth of our product portfolio enables us to address the varying needs of customers in different species and geographies. Many of our top selling product lines are distributed across both of our operating segments, leveraging our R&D operations and manufacturing and supply chain network.

Over the course of our history, we have focused on developing a diverse portfolio of animal health products, including medicines and vaccines, complemented by biodevices, diagnostics, and genetics. We refer to a single product in all brands, or its dosage forms for all species, as a product line. We have approximately 300 comprehensive product lines, including products for both livestock and companion animals across each of our major product categories.

Our major product categories are:

- **vaccines:** biological preparations that help prevent diseases of the respiratory, gastrointestinal and reproductive tracts or induce a specific immune response;
- **anti-infectives:** products that prevent, kill or slow the growth of bacteria, fungi or protozoa;
- **other pharmaceutical products:** allergy and dermatology, pain and sedation, antiemetic, reproductive, and oncology products;
- **parasiticides:** products that prevent or eliminate external and internal parasites such as fleas, ticks and worms; and
- **medicated feed additives:** products added to animal feed that provide medicines to livestock.

Our remaining revenue is derived from other non-pharmaceutical product categories, such as nutritionals and agribusiness, as well as products and services in complementary areas, including biodevices, diagnostics and genetics.

Our livestock products primarily help prevent or treat diseases and conditions to enable the cost-effective production of safe, high-quality animal protein. Human population growth and increasing standards of living are important long-term growth drivers for our livestock products in three major ways. First, population growth and increasing standards of living drive increased demand for improved nutrition, particularly animal protein. Second, population growth leads to increased natural resource constraints driving a need for enhanced productivity. Finally, as standards of living improve, there is increased focus on food quality and safety.

Our companion animal products help extend and improve the quality of life for pets; increase convenience and compliance for pet owners; and help veterinarians improve the quality of their care and the efficiency of their businesses. Growth in the companion animal medicines

and vaccines sector is driven by economic development, related increases in disposable income and increases in pet ownership and spending on pet care. Companion animals are also living longer, receiving increased medical treatment and benefiting from advances in animal health medicines and vaccines.

The following tables present our revenue disaggregated by geographic area, species, and major product category.

Revenue by geographic area

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30,	July 2,	June 30,	July 2,
	2018	2017	2018	2017
United States	\$ 677	\$ 623	\$ 1,311	\$ 1,228
Australia	51	43	99	83
Brazil	68	73	138	139
Canada	56	49	96	83
China	60	45	124	97
France	30	26	63	55
Germany	38	33	76	61
Italy	26	21	53	43
Japan	39	36	80	70
Mexico	26	21	50	39
Spain	30	23	55	43
United Kingdom	36	26	88	69
Other developed markets	89	76	168	144
Other emerging markets	179	162	364	323
	1,405	1,257	2,765	2,477
Contract Manufacturing	10	12	16	23
Total Revenue	\$ 1,415	\$ 1,269	\$ 2,781	\$ 2,500

Revenue by major species

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30,	July 2,	June 30,	July 2,
	2018	2017	2018	2017
U.S.				
Livestock	\$ 271	\$ 269	\$ 563	\$ 551
Companion Animal	406	354	748	677
	677	623	1,311	1,228
International				
Livestock	463	420	941	841
Companion Animal	265	214	513	408
	728	634	1,454	1,249
Contract Manufacturing	10	12	16	23
Total Revenue	\$ 1,415	\$ 1,269	\$ 2,781	\$ 2,500

Revenue by species

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
Livestock:				
Cattle	\$ 396	\$ 382	\$ 812	\$ 768
Swine	165	148	340	308
Poultry	129	122	265	238
Fish	24	19	46	40
Other	20	18	41	38
	734	689	1,504	1,392
Companion Animal:				
Dogs and Cats	630	533	1,179	1,015
Horses	41	35	82	70
	671	568	1,261	1,085
Contract Manufacturing	10	12	16	23
Total Revenue	\$ 1,415	\$ 1,269	\$ 2,781	\$ 2,500

Revenue by major product category

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
Vaccines	\$ 371	\$ 324	\$ 727	\$ 643
Anti-infectives	286	278	583	546
Other pharmaceuticals	337	282	656	554
Parasiticides	245	206	436	390
Medicated feed additives	114	121	251	244
Other non-pharmaceuticals	52	46	112	100
	1,405	1,257	2,765	2,477
Contract Manufacturing	10	12	16	23
Total Revenue	\$ 1,415	\$ 1,269	\$ 2,781	\$ 2,500

B. Revenue Accounting Policy

Below are the significant accounting policies updated as of January 1, 2018 as a result of the adoption of the new revenue recognition guidance. For additional information, see *Note 3. Accounting Standards*.

We recognize revenue from product sales when control of the goods has transferred to the customer, which is typically once the goods have shipped and the customer has assumed title. Revenue reflects the total consideration to which we expect to be entitled (i.e. the transaction price), in exchange for products sold, after considering various types of variable consideration including rebates, sales allowances, product returns and discounts.

Variable consideration is estimated and recorded at the time that related revenue is recognized. Our estimates reflect the amount by which we expect variable consideration to impact revenue recognized and are generally based on contractual terms or historical experience, adjusted as necessary to reflect our expectations about the future. Our customer payment terms generally range from 60 to 90 days.

Estimates of variable consideration utilize a complex series of judgments and assumptions to determine the amount by which we expect revenue to be reduced, for example;

- for sales returns, we perform calculations in each market that incorporate the following, as appropriate: local returns policies and practices; historic returns as a percentage of revenue; estimated shelf life by product; an estimate of the amount of time between shipment and return or lag time; and any other factors that could impact the estimate of future returns, product recalls, discontinuation of products or a changing competitive environment; and
- for revenue incentives, we use our historical experience with similar incentives programs to estimate the impact of such programs on revenue for the current period.

Although the amounts recorded for these revenue deductions are dependent on estimates and assumptions, historically our adjustments to actual results have not been material. The sensitivity of our estimates can vary by program, type of customer and geographic location.

A deferral of revenue may be required in the event that we have not satisfied all customer obligations for which we have been compensated. The transaction price is allocated to the individual performance obligations on the basis of relative stand-alone selling price, which is typically based on actual sales prices. Revenue associated with unsatisfied performance obligations are contract liabilities, is recorded within *Other current liabilities*, and is recognized once control of the underlying products has transferred to the customer. Contract liabilities reflected within *Other current liabilities* as of the adoption date and subsequently recognized as revenue during the first six months of 2018 were approximately \$2 million. Contract liabilities as of June 30, 2018 were approximately \$3 million.

We do not disclose the transaction price allocated to unsatisfied performance obligations related to contracts with an original expected duration of one year or less, or for contracts for which we recognize revenue in line with our right to invoice the customer. Estimated future revenue expected to be generated from long-term contracts with unsatisfied performance obligations as of June 30, 2018 are not material.

Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from *Revenue*. Shipping and handling costs incurred after control of the purchased product has transferred to the customer are accounted for as a fulfillment cost, within *Selling, general and administrative expenses*.

5. Divestitures

On May 11, 2017, we completed the sale of our manufacturing site in Shenzhou, 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 February 12, 2016 sale of two of our manufacturing sites in the United States: Laurinburg, North Carolina, and Longmonth, Colorado to Huvepharma NV (Huvepharma), a European animal health company.

6. 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 research and development (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 focused on reducing complexity in our product portfolios, changing our selling approach in certain markets, reducing our presence in certain countries, and exiting manufacturing sites over a long term period. We have also continued 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. The comprehensive operational efficiency program was substantially completed as of December 31, 2017. We expect to complete the supply network strategy over the next several years.

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
(MILLIONS OF DOLLARS)				
Restructuring charges/(reversals) and certain acquisition-related costs:				
Integration costs ^(a)	\$ —	\$ 2	\$ 1	\$ 2
Restructuring charges/(reversals) ^{(b)(c)} :				
Employee termination costs/(reversals)	4	(3)	5	(4)
Exit costs	1	1	1	1
Total Restructuring charges/(reversals) and certain acquisition-related costs	\$ 5	\$ —	\$ 7	\$ (1)

^(a) Integration costs represent external, incremental costs directly related to integrating acquired businesses and primarily include expenditures for consulting and the integration of systems and processes, as well as product transfer costs.

^(b) The restructuring charges for the three months ended June 30, 2018, are primarily related to:

- employee termination costs of \$3 million in Europe as a result of initiatives to better align our organizational structure, and
- employee termination costs of \$1 million and exit costs of \$1 million as a result of our operational efficiency initiative and supply network strategy.

The restructuring charges for the six months ended June 30, 2018, are primarily related to:

- employee termination costs of \$3 million in Europe as a result of initiatives to better align our organizational structure, and
- employee termination costs of \$2 million and exit costs of \$1 million as a result of our operational efficiency initiative and supply network strategy.

The restructuring charges/(reversals) for the three and six months ended July 2, 2017, primarily relate to our operational efficiency initiative and supply network strategy.

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

- For the three months ended June 30, 2018, International of \$4 million and Manufacturing/research/corporate of \$1 million.
- For the six months ended June 30, 2018, International of \$4 million and Manufacturing/research/corporate of \$2 million.
- For the three months ended July 2, 2017, U.S. of (\$1 million), International of \$1 million and Manufacturing/research/corporate of (\$2 million).
- For the six months ended July 2, 2017, International of (\$1 million) and Manufacturing/research/corporate of (\$2 million).

Charges related to the operational efficiency initiative and supply network strategy are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
Restructuring charges/(reversals) and certain acquisition-related costs:				
Operational efficiency initiative				
Employee termination costs	\$ 1	\$ 2	\$ 1	\$ 1
Exit costs	—	1	—	1
	1	3	1	2
Supply network strategy:				
Employee termination costs	—	(5)	1	(5)
Exit costs	1	—	1	—
	1	(5)	2	(5)
Total restructuring charges/(reversals) related to the operational efficiency initiative and supply network strategy	2	(2)	3	(3)
Other operational efficiency initiative charges				
Selling, general and administrative expenses:				
Consulting fees	—	1	—	1
Other (income)/deductions—net:				
Net (gain)/loss on sale of assets	—	2	—	2
Total other operational efficiency initiative charges	—	3	—	3
Other supply network strategy charges				
Cost of sales:				
Accelerated depreciation	—	1	—	2
Consulting fees	2	—	3	2
Total other supply network strategy charges	2	1	3	4
Total charges associated with the operational efficiency initiative and supply network strategy	\$ 4	\$ 2	\$ 6	\$ 4

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

(MILLIONS OF DOLLARS)	Employee Termination Costs	Exit Costs	Accrual
Balance, December 31, 2017 ^(a)	\$ 41	\$ —	\$ 41
Provision	5	1	6
Utilization and other ^(b)	(12)	(1)	(13)
Balance, June 30, 2018 ^(a)	\$ 34	\$ —	\$ 34

(a) At June 30, 2018, and December 31, 2017, included in Accrued expenses (\$12 million and \$19 million, respectively) and Other noncurrent liabilities (\$22 million and \$22 million, respectively).

(b) Includes adjustments for foreign currency translation.

7. Other (Income)/Deductions—Net

The components of *Other (income)/deductions—net* are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
Royalty-related income	\$ (6)	\$ (5)	\$ (13)	\$ (12)
Net loss/(gain) on sale of assets ^(a)	—	2	—	2
Certain legal and other matters, net ^(b)	—	(4)	—	(4)
Foreign currency loss ^(c)	9	8	17	10
Other, net ^(d)	(7)	(3)	(13)	(8)
<i>Other (income)/deductions—net</i>	\$ (4)	\$ (2)	\$ (9)	\$ (12)

^(a) For the three and six months ended July 2, 2017, represents the net loss related to sales of certain manufacturing sites and products as part of our operational efficiency initiative.

^(b) For the three and six months ended July 2, 2017, represents income associated with an insurance recovery related to commercial settlements in Mexico recorded in 2014 and 2016.

^(c) Primarily driven by costs related to hedging and exposures to certain emerging market currencies.

^(d) Includes interest income and other miscellaneous income. For the three and six months ended June 30, 2018, primarily includes interest income. For the six months ended July 2, 2017, also includes a settlement refund and reimbursement of legal fees related to costs incurred by Pharmaq prior to the acquisition in 2015.

8. Income Taxes

A. Taxes on Income

On December 22, 2017, the Tax Act was enacted which, among other changes, reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. The Tax Act made 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 at that time, and the current interpretation of the Tax Act, for the year ended December 31, 2017 the company was able to make a reasonable estimate and recorded an initial provisional net tax expense of \$212 million 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 SEC 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 (measurement-period adjustment). Pursuant to this guidance, the estimated impact of the Tax Act was 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, in 2018 we were able to further refine our initial reasonable estimate and adjusted the initial provisional net tax expense of \$212 million. We recorded the following measurement-period adjustments of \$33 million and \$35 million net tax benefit during the three and six months ended June 30, 2018, respectively:

- **One-Time Mandatory Deemed Repatriation Tax:** The one-time mandatory deemed repatriation tax is imposed on certain previously untaxed accumulated and current earnings and profits (E&P) of our foreign subsidiaries. We were able to reasonably estimate the one-time mandatory deemed repatriation tax and recorded an initial provisional tax obligation, with a corresponding adjustment to income tax expense for the year ended December 31, 2017. We are continuing to gather additional information to more precisely compute the amount of the one-time mandatory deemed repatriation tax, and our accounting for this item is not yet complete due to the fact that the non-U.S. subsidiaries are on a fiscal year ending November 30, and this tax liability will not become a fixed obligation until November 30, 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. However, on the basis of revised computations that were calculated during the reporting period, we recognized a measurement-period adjustment of \$33 million and \$35 million for the three and six months ended June 30, 2018, respectively, as a decrease to the one-time mandatory deemed repatriation tax obligation, with a corresponding adjustment to income tax benefit during the period. The effect of the measurement-period adjustment to the three and six months ended June 30, 2018 effective tax rate was a reduction to the rate of approximately 7.5% and 4.1%, respectively. In addition, we reclassified the one-time mandatory deemed repatriation tax from *Noncurrent deferred tax liabilities* to *Income taxes payable* and *Other taxes payable*. We expect to complete our accounting within the prescribed measurement period.
- **Reduction of U.S. Federal Corporate Tax Rate:** The Tax Act reduced the corporate tax rate to 21%, effective January 1, 2018. Consequently, we 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. We have not made any measurement-period adjustments related to this item during the first half of 2018. Since the company has recorded provisional amounts related to certain portions of the Tax Act, any corresponding deferred tax remeasurement is also provisional. However, we are continuing to gather additional information to complete our accounting for this item and expect to be completed within the prescribed measurement period.

- **Valuation Allowances:** The company must assess whether its valuation allowance analyses are affected by the 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). We have not made any measurement-period adjustments related to this item during the first half of 2018. Since 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. However, we are continuing to gather additional information to complete our accounting for this item and expect to be completed within the prescribed measurement period.
- **Global Intangible Low-Taxed Income (GILTI) Policy Election:** The GILTI provisions of the Tax Act do not apply to the company until 2019, due to the fact that the non-U.S. subsidiaries are on a fiscal year ending November 30, 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 whether to record deferred taxes on GILTI or treat such tax cost as a current-period expense.

The effective tax rate was 12.6% for the three months ended June 30, 2018, compared with 28.4% for the three months ended July 2, 2017. The lower effective tax rate for the three months ended June 30, 2018, was primarily attributable to:

- the reduction of the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018, pursuant to the Tax Act;
- a \$33 million net discrete tax benefit recorded in the second quarter of 2018, associated with a measurement-period adjustment related to the provisional one-time mandatory deemed repatriation tax on the company's undistributed non-U.S. earnings pursuant to the Tax Act enacted on December 22, 2017;
- changes in the jurisdictional mix of earnings, which includes the impact of the location of earnings from operations and repatriation costs. The jurisdictional mix of earnings can vary as a result of repatriation decisions and operating fluctuations in the normal course of business and the impact of non-deductible items; and
- a \$1 million and \$2 million discrete tax benefit recorded in the second quarter of 2018 and 2017, respectively, related to the excess tax benefits for share-based payments.

The effective tax rate was 14.3% for the six months ended June 30, 2018, compared with 28.7% for the six months ended July 2, 2017. The lower effective tax rate for the six months ended June 30, 2018, was primarily attributable to:

- the reduction of the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018, pursuant to the Tax Act;
- a \$35 million net discrete tax benefit recorded in the first half of 2018, associated with a measurement-period adjustment related to the provisional one-time mandatory deemed repatriation tax on the company's undistributed non-U.S. earnings pursuant to the Tax Act enacted on December 22, 2017;
- changes in the jurisdictional mix of earnings, which includes the impact of the location of earnings from operations and repatriation costs. The jurisdictional mix of earnings can vary as a result of repatriation decisions and operating fluctuations in the normal course of business and the impact of non-deductible items;
- an \$8 million and \$7 million discrete tax benefit recorded in the first half of 2018 and 2017, respectively, related to the excess tax benefits for share-based payments; and
- an \$8 million and \$3 million discrete tax benefit recorded in the first half of 2018 and 2017, respectively, related to a remeasurement of deferred taxes as a result of a change in non-U.S. statutory tax rates.

B. Deferred Taxes

As of June 30, 2018, the total net deferred income tax liability of \$149 million is included in *Noncurrent deferred tax assets* (\$80 million) and *Noncurrent deferred tax liabilities* (\$229 million).

As of December 31, 2017, the total net deferred income tax liability of \$300 million is included in *Noncurrent deferred tax assets* (\$80 million) and *Noncurrent deferred tax liabilities* (\$380 million).

The change in *Noncurrent deferred tax liabilities* was primarily due to the reclassification of the one-time mandatory deemed repatriation tax from *Noncurrent deferred tax liabilities* to *Income taxes payable* and *Other taxes payable* to properly reflect the liability, which became a fixed obligation in 2018, payable over eight years.

C. Tax Contingencies

As of June 30, 2018, the tax liabilities associated with uncertain tax positions of \$182 million (exclusive of interest and penalties related to uncertain tax positions of \$11 million) are included in *Noncurrent deferred tax assets* (\$4 million) and *Other taxes payable* (\$178 million).

As of December 31, 2017, the tax liabilities associated with uncertain tax positions of \$164 million (exclusive of interest and penalties related to uncertain tax positions of \$11 million) are included in *Noncurrent deferred tax assets* (\$3 million) and *Other taxes payable* (\$161 million).

Our tax liabilities for uncertain tax positions relate primarily to issues common among multinational corporations. Any settlements or statute of limitations expirations could result in a significant decrease in our uncertain tax positions. Substantially all of these unrecognized tax benefits, if recognized, would impact our effective income tax rate. We do not expect that within the next twelve months any of our uncertain tax positions 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 uncertain tax positions 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 changes 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 to 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 June 30, 2018, and December 31, 2017. There were no amounts drawn under the credit facility as of June 30, 2018, or December 31, 2017.

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 June 30, 2018, we had access to \$61 million of lines of credit which expire at various times throughout 2018 and 2019 and are generally renewed annually. We did not have any borrowings outstanding related to these facilities as of June 30, 2018, and 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 June 30, 2018, and December 31, 2017, there was no commercial paper outstanding under this program. As of June 30, 2018, and December 31, 2017, 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 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 us 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)	June 30, 2018	December 31, 2017
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	750
4.700% 2013 senior notes due 2043	1,150	1,150
3.950% 2017 senior notes due 2047	500	500
	5,000	5,000
Unamortized debt discount / debt issuance costs	(45)	(47)
<i>Long-term debt, net of discount and issuance costs</i>	<i>\$ 4,955</i>	<i>\$ 4,953</i>

The fair value of our long-term debt was \$4,994 million and \$5,291 million as of June 30, 2018, and December 31, 2017, 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).

The principal amount of long-term debt outstanding, as of June 30, 2018, matures in the following years:

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

Interest Expense

Interest expense, net of capitalized interest, was \$46 million and \$93 million, for the three and six months ended June 30, 2018, respectively, and \$41 million and \$82 million, for the three and six months ended July 2, 2017, respectively. Capitalized interest expense was \$2 million and \$4 million for the three and six months ended June 30, 2018, respectively, and \$1 million and \$2 million for the three and six months ended July 2, 2017, respectively.

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 various derivative financial instruments. These derivative financial instruments serve to manage the exposure of our net investment in certain foreign operations to changes in foreign exchange rates and protect net income against the impact of translation into U.S. dollars of certain foreign exchange-denominated transactions.

All derivative financial instruments used to manage foreign currency risk are measured at fair value and are reported as assets or liabilities on the condensed consolidated balance sheet. The derivative financial instruments primarily offset exposures in the Australian dollar, Brazilian real, British pound, Canadian dollar, Chinese renminbi, euro, and Norwegian krone. Changes in fair value are reported in earnings or in *Accumulated other comprehensive income/(loss)*, depending on the nature and purpose of the financial instrument, as follows:

- For foreign exchange contracts not designated 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.
- For cross-currency interest rate swaps, which are designated as a hedge against our net investment in foreign operations, changes in the fair value are deferred as a component of cumulative translation adjustment within *Accumulated other comprehensive loss* and reclassified into earnings when the foreign investment is sold or substantially liquidated. Gains and losses excluded from the assessment of hedge effectiveness are recognized in earnings (*Interest expense—net of capitalized interest*). The impact of the periodic exchange of interest payments is reflected within the operating section of our *condensed consolidated statement of cash flows*.

The aggregate notional amount of foreign exchange derivative financial instruments offsetting foreign currency exposures was \$1.3 billion and \$1.4 billion, as of June 30, 2018, and December 31, 2017, respectively. The vast majority of the foreign exchange derivative financial instruments mature within 60 days and all mature within 270 days. The aggregate notional amount of cross-currency interest rate swap contracts was 225 million euro as of June 30, 2018, with a term of up to seven years. We did not have any cross-currency interest rate swap contracts as of December 31, 2017.

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. Unrealized gains or losses on the forward-starting interest rate swaps are reported in *Accumulated other comprehensive loss* and are recognized in earnings 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. There were no outstanding interest rate swap contracts as of both June 30, 2018, and December 31, 2017.

Fair Value of Derivative Instruments

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

		Fair Value of Derivatives	
(MILLIONS OF DOLLARS)	Balance Sheet Location	June 30, 2018	December 31, 2017
Derivatives Not Designated as Hedging Instruments			
Foreign currency forward-exchange contracts	Other current assets	\$ 20	\$ 10
Foreign currency forward-exchange contracts	Other current liabilities	(8)	(9)
Total derivatives not designated as hedging instruments		\$ 12	\$ 1
Derivatives Designated as Hedging Instruments:			
Cross-currency interest rate swap contracts	Other non-current assets	\$ 1	\$ —
Total derivatives designated as hedging instruments		1	—
Total derivatives		\$ 13	\$ 1

The company's cross-currency interest rate swaps are subject to master netting arrangements to mitigate credit risk by permitting net settlement of transactions with the same counterparty. We may also enter into collateral security arrangements with certain of our counterparties to exchange cash collateral when the net fair value of certain derivative instruments fluctuates from contractually established thresholds. At June 30, 2018, there was no collateral posted related to our derivatives.

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.

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

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
Foreign currency forward-exchange contracts	\$ 10	\$ 7	\$ —	\$ (22)

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 cross-currency interest rate swap contracts, recorded, net of tax, in *Accumulated other comprehensive income/(loss)*, are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
Cross-currency interest rate swap contracts	\$ 1	\$ —	\$ 1	\$ —

Gains/(losses) on cross-currency interest rate swap contracts, recognized within *Interest expense, net of capitalized interest*, are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
Cross-currency interest rate swap contracts	\$ 1	\$ —	\$ 1	\$ —

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.

10. Inventories

The components of inventory are as follows:

(MILLIONS OF DOLLARS)		June 30, 2018		December 31, 2017
Finished goods	\$	768	\$	788
Work-in-process		492		484
Raw materials and supplies		160		155
<i>Inventories</i>	\$	1,420	\$	1,427

11. Goodwill and Other Intangible Assets

A. Goodwill

The components of, and changes in, the carrying amount of goodwill are as follows:

(MILLIONS OF DOLLARS)		U.S.		International		Total
Balance, December 31, 2017	\$	671	\$	839	\$	1,510
Other ^(a)		—		4		4
Balance, June 30, 2018	\$	671	\$	843	\$	1,514

^(a) Includes adjustments for foreign currency translation.

The gross goodwill balance was \$2,050 million and \$2,046 million as of June 30, 2018, and December 31, 2017, respectively. Accumulated goodwill impairment losses were \$536 million as of June 30, 2018, and December 31, 2017.

B. Other Intangible Assets

The components of identifiable intangible assets are as follows:

	As of June 30, 2018			As of December 31, 2017		
	Gross		Identifiable	Gross		Identifiable
	Carrying	Accumulated	Intangible Assets	Carrying	Accumulated	Intangible Assets
(MILLIONS OF DOLLARS)	Amount	Amortization	Less Accumulated	Amount	Amortization	Less Accumulated
			Amortization			Amortization
Finite-lived intangible assets:						
Developed technology rights	\$ 1,187	\$ (465)	\$ 722	\$ 1,185	\$ (428)	\$ 757
Brands	213	(149)	64	213	(143)	70
Trademarks and trade names	62	(48)	14	62	(47)	15
Other	237	(147)	90	234	(143)	91
Total finite-lived intangible assets	1,699	(809)	890	1,694	(761)	933
Indefinite-lived intangible assets:						
Brands	37	—	37	37	—	37
Trademarks and trade names	67	—	67	67	—	67
In-process research and development	224	—	224	224	—	224
Product rights	7	—	7	8	—	8
Total indefinite-lived intangible assets	335	—	335	336	—	336
Identifiable intangible assets	\$ 2,034	\$ (809)	\$ 1,225	\$ 2,030	\$ (761)	\$ 1,269

C. Amortization

Amortization expense related to finite-lived acquired intangible assets that contribute to our ability to sell, manufacture, research, market and distribute products, compounds and intellectual property is included in *Amortization of intangible assets* as it benefits multiple business functions. Amortization expense related to finite-lived acquired intangible assets that are associated with a single function is included in *Cost of sales, Selling, general and administrative expenses* or *Research and development expenses*, as appropriate. Total amortization expense for finite-lived intangible assets was \$26 million and \$51 million for each of the three and six months ended June 30, 2018, respectively, and \$24 million and \$49 million for each of the three and six months ended July 2, 2017.

12. Benefit Plans

Our employees ceased to participate in the Pfizer, Inc. U.S. qualified defined benefit plans and the U.S. retiree medical plan 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 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. Pension and postretirement benefit expense associated with the extended service for certain employees in the U.S. plans totaled approximately \$1 million for each of the three month periods ended June 30, 2018, and July 2, 2017, and \$3 million for each of the six month periods ended June 30, 2018, and July 2, 2017.

The following table provides the net periodic benefit cost associated with our international defined benefit pension plans:

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30,	July 2,	June 30,	July 2,
	2018	2017	2018	2017
Service cost	\$ 2	\$ 1	\$ 4	\$ 3
Interest cost	—	—	1	1
Expected return on plan assets	—	—	(1)	(1)
Amortization of net actuarial loss	—	1	—	1
Curtailment and settlement loss	—	—	—	1
Net periodic benefit cost	\$ 2	\$ 2	\$ 4	\$ 5

Total company contributions to the international pension plans were \$1 million and \$3 million for the three and six months ended June 30, 2018, respectively, and \$1 million and \$4 million for the three and six months ended July 2, 2017, respectively. We expect to contribute a total of approximately \$6 million to these plans in 2018.

13. Share-Based Payments

The company may grant a variety of share-based payments under the Zoetis 2013 Equity and Incentive Plan (the Equity Plan) 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.

The components of share-based compensation expense are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
Stock options / stock appreciation rights	\$ 3	\$ 2	\$ 5	\$ 5
RSUs / DSUs	6	7	13	13
PSUs	2	2	4	4
Share-based compensation expense—total ^(a)	\$ 11	\$ 11	\$ 22	\$ 22

^(a) For the three and six months ended June 30, 2018, and July 2, 2017, amounts capitalized to inventory were insignificant.

During the six months ended June 30, 2018, the company granted 538,820 stock options with a weighted-average exercise price of \$73.32 per stock option and a weighted-average fair value of \$20.30 per stock option. 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. The weighted-average fair value was estimated based on the following assumptions: risk-free interest rate of 2.74%; expected dividend yield of 0.69%; expected stock price volatility of 23.61%; and expected term of 6.5 years. In general, stock options vest after three years of continuous service and 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.

During the six months ended June 30, 2018, the company granted 431,615 RSUs with a weighted-average grant date fair value of \$73.31 per RSU. RSUs are accounted for using a fair-value-based method that utilizes the closing price of Zoetis common stock on the date of grant. In general, RSUs vest after three years of continuous service from the grant date and the values 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.

During the six months ended June 30, 2018, the company granted 109,574 PSUs with a weighted-average grant date fair value of \$100.34 per PSU. 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 (Relative TSR). The weighted-average fair value was estimated based on volatility assumptions of Zoetis common stock and an average of the S&P 500 companies, which were 21.9% and 25.1%, respectively. 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 are settled 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.

14. Stockholders' Equity

Zoetis is authorized to issue 6 billion shares of common stock and 1 billion shares of preferred stock.

In December 2016, the company's Board of Directors authorized a \$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. As of June 30, 2018, there was approximately \$595 million remaining under this authorization.

Changes in common shares and treasury stock were as follows:

(MILLIONS)	Common Shares Issued ^(a)	Treasury Stock ^(a)
Balance, December 31, 2016	501.89	9.04
Share-based compensation ^(b)	—	(1.25)
Share repurchase program	—	4.45
Balance, July 2, 2017	501.89	12.23
Balance, December 31, 2017	501.89	15.76
Share-based compensation ^(b)	—	(1.11)
Share repurchase program	—	4.95
Balance, June 30, 2018	501.89	19.60

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

^(b) Includes the reissuance of shares from treasury stock in connection with the vesting of employee share-based awards, and 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 13. Share-Based Payments*.

Changes, net of tax, in accumulated other comprehensive loss, excluding noncontrolling interests, are as follows:

(MILLIONS OF DOLLARS)	Currency Translation				Accumulated Other Comprehensive Loss
	Derivatives	Adjustment	Benefit Plans		
	Net Unrealized Gains/(Losses)	Net Unrealized Gains/(Losses)	Actuarial Gains/(Losses)		
Balance, December 31, 2016	\$ 8	\$ (583)	\$ (23)	\$	(598)
Other comprehensive (loss)/income, net of tax	(1)	56	1		56
Balance, July 2, 2017	\$ 7	\$ (527)	\$ (22)	\$	(542)
Balance, December 31, 2017	\$ (3)	\$ (487)	\$ (15)	\$	(505)
Other comprehensive loss, net of tax	—	(38)	—		(38)
Balance, June 30, 2018	\$ (3)	\$ (525)	\$ (15)	\$	(543)

15. 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)	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
Numerator				
Net income before allocation to noncontrolling interests	\$ 382	\$ 247	\$ 732	\$ 486
Less: Net (loss)/income attributable to noncontrolling interests	(2)	—	(4)	1
Net income attributable to Zoetis Inc.	\$ 384	\$ 247	\$ 736	\$ 485
Denominator				
Weighted-average common shares outstanding	483.8	490.8	484.8	491.6
Common stock equivalents: stock options, RSUs, PSUs and DSUs	3.7	3.2	3.8	3.0
Weighted-average common and potential dilutive shares outstanding	487.5	494.0	488.6	494.6
Earnings per share attributable to Zoetis Inc. stockholders—basic	\$ 0.79	\$ 0.50	\$ 1.52	\$ 0.99
Earnings per share attributable to Zoetis Inc. stockholders—diluted	\$ 0.79	\$ 0.50	\$ 1.51	\$ 0.98

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 de minimis for the six months ended June 30, 2018, and approximately 1 million for the three months ended June 30, 2018, and each of the three and six months ended July 2, 2017.

16. 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. Income Taxes*.

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.

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 lascadoil, since lascadoil contains small amounts of lasalocid, the active ingredient found in both products. Zoetis has historically sold any and all industrial lascadoil byproduct to an environmental company specializing in waste disposal. The environmental company is contractually obligated to incinerate the lascadoil or resell it for use in biofuel. Under the terms of the agreement, the environmental company is expressly prohibited from reselling the lascadoil 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 lascadoil. 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 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 appeal of the lower Court's decision, which we opposed on January 17, 2018. On July 5, 2018, the Court of Appeals denied the plaintiffs' applications for leave to appeal. The case has been remanded to the lower Court, where it will proceed without Zoetis. The plaintiffs may attempt to seek a full appeal after the final adjudication of the case before the lower Court.

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 companies is Alpharma LLC, a legal entity that was transferred to Zoetis as part of the separation from Pfizer. Alpharma LLC's involvement is solely related to certain discontinued human health activities that occurred prior to Pfizer's acquisition of King/Alpharma. As a result of the decision, a fine in the amount of euro 11 million (approximately \$14 million) was imposed on Alpharma. Under the Global Separation Agreement between Pfizer and Zoetis, Pfizer is obligated to indemnify Zoetis for any liabilities arising out of claims not related to its animal health assets, meaning that Pfizer ultimately bears the costs of the penalties in connection with the Commission's decision. Working with Pfizer, we filed an appeal of the decision on September 6, 2013, to the General Court of the European Union, and on September 17, 2013, Pfizer released payment of euro 11 million to the Commission to cover the fine. 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 June 30, 2018, recorded amounts for the estimated fair value of these indemnifications were not significant.

17. Segment Information

Operating Segments

We manage our operations through two geographic operating segments: the United States and International. 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. Our chief operating decision maker uses the revenue and earnings of the two operating segments, among other factors, for performance evaluation and resource allocation.

In the first quarter of 2018, the company realigned certain management responsibilities. These changes did not impact the determination of our operating segments, however they resulted in the reallocation of certain costs between segments. These changes primarily include the following: (i) R&D costs related to our aquaculture business which were previously reported in *Other business activities* are now reported in the international commercial segment results, and (ii) certain other miscellaneous costs which were previously reported in *Corporate* are now reported in the international commercial segment results.

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 Client Supply Services (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 our aquaculture business and 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, certain procurement 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 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) certain 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.

Selected Statement of Income Information

	Earnings		Depreciation and Amortization ^(a)	
	Three Months Ended		Three Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
(MILLIONS OF DOLLARS)				
U.S.				
Revenue	\$ 677	\$ 623		
Cost of sales	140	134		
Gross profit	537	489		
Gross margin	79.3%	78.5%		
Operating expenses	116	113		
Other (income)/deductions	—	—		
U.S. Earnings	421	376	\$ 8	\$ 7
International				
Revenue ^(b)	728	634		
Cost of sales	229	219		
Gross profit	499	415		
Gross margin	68.5%	65.5%		
Operating expenses	147	126		
Other (income)/deductions	2	2		
International Earnings	350	287	12	11
Total operating segments	771	663	20	18
Other business activities	(82)	(73)	6	6
Reconciling Items:				
Corporate	(139)	(151)	14	13
Purchase accounting adjustments	(23)	(21)	22	21
Acquisition-related costs	—	(2)	—	—
Certain significant items ^(c)	(7)	1	—	—
Other unallocated	(83)	(72)	1	1
Total Earnings^(d)	\$ 437	\$ 345	\$ 63	\$ 59

	Earnings		Depreciation and Amortization ^(a)	
	Six months ended		Six months ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
(MILLIONS OF DOLLARS)				
U.S.				
Revenue	\$ 1,311	\$ 1,228		
Cost of sales	280	271		
Gross profit	1,031	957		
Gross margin	78.6%	77.9%		
Operating expenses	212	209		
Other (income)/deductions	—	—		
U.S. Earnings	819	748	\$ 16	\$ 14
International				
Revenue ^(b)	1,454	1,249		
Cost of sales	463	432		
Gross profit	991	817		
Gross margin	68.2%	65.4%		
Operating expenses	280	240		
Other (income)/deductions	3	(1)		
International Earnings	708	578	23	22
Total operating segments	1,527	1,326	39	36
Other business activities	(163)	(147)	11	12
Reconciling Items:				
Corporate	(292)	(294)	27	25
Purchase accounting adjustments	(46)	(43)	45	43
Acquisition-related costs	(1)	(2)	—	—
Certain significant items ^(c)	(10)	(3)	—	2
Other unallocated	(161)	(155)	1	3
Total Earnings^(d)	\$ 854	\$ 682	\$ 123	\$ 121

^(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 \$191 million and \$375 million for the three and six months ended June 30, 2018, respectively, and \$155 million and \$303 million for the three and six months ended July 2, 2017, respectively.

^(c) For the three months ended June 30, 2018, *Certain significant items* primarily includes: (i) employee termination costs of \$1 million, related to our operational efficiency initiative, (ii) consulting fees of \$2 million, and exit costs of \$1 million, related to our supply network strategy, and (iii) employee termination costs of \$3 million in Europe as a result of initiatives to better align our organizational structure.

For the three months ended July 2, 2017, *Certain significant items* primarily includes: (i) a reversal of previously accrued employee termination costs of \$3 million, exit costs of \$1 million, accelerated depreciation of \$1 million, consulting fees of \$1 million, and a net loss on sales of certain manufacturing sites and products of \$2 million related to our operational efficiency initiative and supply network strategy, (ii) charges of \$1 million associated with changes to our operating model, and (iii) income of \$4 million related to an insurance recovery from commercial settlements in Mexico recorded in 2014 and 2016.

For the six months ended June 30, 2018, *Certain significant items* primarily includes: (i) employee termination costs of \$1 million, related to our operational efficiency initiative, (ii) consulting fees of \$3 million, employee termination costs of \$1 million, and exit costs of \$1 million, related to our supply network strategy, (iii) employee termination costs of \$3 million in Europe as a result of initiatives to better align our organizational structure, and (iv) a charge of \$1 million related to the implementation of new accounting guidance as a result of the enactment of the Tax Act.

For the six months ended July 2, 2017, *Certain significant items* primarily includes: (i) a reversal of previously accrued employee termination costs of \$4 million, exit costs of \$1 million, accelerated depreciation charges of \$2 million, consulting fees of \$3 million, and a net loss related to sales of certain manufacturing sites and products of \$2 million, related to our operational efficiency initiative and supply network strategy, (ii) charges of \$3 million associated with changes to our operating model, and (iii) income of \$4 million related to an insurance recovery from commercial settlements in Mexico recorded in 2014 and 2016.

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

18. Subsequent Events

Credit Facilities and Commercial Paper Program

On July 27, 2018, we entered into a new revolving credit agreement (the Credit Agreement) with a syndicate of banks, providing for a 364-day \$500 million senior unsecured revolving credit facility. Subject to certain conditions, we will have the right to, as of the date on which the revolving credit facility would otherwise terminate, convert all or a portion of outstanding revolving loans under the Credit Agreement into term loans with a one-year maturity. Additionally, the Credit Agreement requires us to prepay any borrowings thereunder with the net cash proceeds of any issuance of senior unsecured notes by us or any of our subsidiaries. The Credit Agreement contains financial covenants requiring us to not exceed a maximum total leverage ratio of 3.50:1 and to maintain a minimum interest coverage ratio of 3.50:1. In addition, the Credit Agreement contains other customary covenants.

In July 2018, in anticipation of the closing of the previously-announced acquisition of Abaxis, Inc., in order to finance a portion of the cash consideration for the acquisition, we borrowed funds of \$500 million under the Credit Agreement and issued commercial paper of \$500 million under our existing commercial paper program.

Acquisition of Abaxis, Inc.

On July 31, 2018, we completed the acquisition of Abaxis, Inc., a California corporation, a leader in the development, manufacture and marketing of diagnostic instruments for veterinary point-of-care services, for \$83 per share in cash, or approximately \$2 billion in aggregate. The acquisition enhances our presence in veterinary diagnostics. The final allocation of the purchase price amongst assets, liabilities and goodwill is subject to final valuation.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Zoetis, Inc.:

Results of Review of Interim Financial Information

We have reviewed the condensed consolidated balance sheet of Zoetis, Inc. and subsidiaries (the Company) as of June 30, 2018, the related condensed consolidated statements of income, comprehensive income, for the three-month and six-month periods ended June 30, 2018 and July 2, 2017, the related condensed consolidated statements of equity and cash flows for the six-month periods ended June 30, 2018 and July 2, 2017, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2017, and the related consolidated statements of income, comprehensive income, equity, and cash flows for the year then ended (not presented herein); and in our report dated February 15, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

This consolidated interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ KPMG LLP
Short Hills, New Jersey
August 2, 2018

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview of our business

We are 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. For more than 60 years we have been committed to enhancing the health of animals and bringing solutions to our customers who raise and care for them.

We manage our operations through two geographic operating segments: the United States (U.S.) and International. Within each of these operating segments, we offer a diversified product portfolio for both livestock and companion animal customers in order to capitalize on local and regional trends and customer needs. See Notes to Condensed Consolidated Financial Statements— *Note 17. Segment Information*.

We directly market our products to veterinarians and livestock producers located in approximately 45 countries across North America, Europe, Africa, Asia, Australia and South America, and are a market leader in nearly all of the major regions in which we operate. Through our efforts to establish an early and direct presence in many emerging markets, such as Brazil, China and Mexico, we believe we are one of the largest animal health medicines and vaccines businesses as measured by revenue across emerging markets as a whole. In markets where we do not have a direct commercial presence, we generally contract with distributors that provide logistics and sales and marketing support for our products.

We believe our investments in one of the industry's largest sales organizations, including our extensive network of technical and veterinary operations specialists, our high-quality manufacturing and reliability of supply, and our long track record of developing products that meet customer needs, have led to enduring and valued relationships with our customers. Our research and development (R&D) efforts enable us to deliver innovative products to address unmet needs and evolve our product lines so they remain relevant for our customers. Additionally, our management team's focus on improving operational and cost efficiencies increases the likelihood of achieving our core growth strategies and enhancing long-term value for our shareholders.

A summary of our 2018 performance compared with the comparable 2017 period follows:

(MILLIONS OF DOLLARS)	Three Months Ended		% Change		
	June 30, 2018	July 2, 2017	Related to		
			Total	Foreign Exchange	Operational ^(a)
Revenue	\$ 1,415	\$ 1,269	12	3	9
Net income attributable to Zoetis	384	247	55	7	48
Adjusted net income ^(a)	375	261	44	7	37

(MILLIONS OF DOLLARS)	Six Months Ended		% Change		
	June 30, 2018	July 2, 2017	Related to		
			Total	Foreign Exchange	Operational ^(a)
Revenue	\$ 2,781	\$ 2,500	11	3	8
Net income attributable to Zoetis	736	485	52	8	44
Adjusted net income ^(a)	740	522	42	6	36

^(a) Operational growth and adjusted net income are non-GAAP financial measures. See the *Non-GAAP financial measures* section of this Management's Discussion and Analysis (MD&A) for more information.

Our operating environment

For a description of our operating environment, including factors which could materially affect our business, financial condition, or future results, see "Our Operating Environment" in the MD&A of our 2017 Annual Report on Form 10-K. Set forth below are updates to certain of the factors disclosed in our 2017 Form 10-K.

Quarterly Variability of Financial Results

Our quarterly financial results are subject to variability related to a number of factors including but not limited to: weather patterns, herd management decisions, economic conditions, regulatory actions, competitive dynamics, disease outbreaks, product and geographic mix, timing of price increases and timing of investment decisions.

Disease outbreaks

Sales of our livestock products could be adversely affected by the outbreak of disease carried by animals. Outbreaks of disease may reduce regional or global sales of particular animal-derived food products or result in reduced exports of such products, either due to heightened export restrictions or import prohibitions, which may reduce demand for our products. Also, the outbreak of any highly contagious disease near our main production sites could require us to immediately halt production of our products at such sites or force us to incur substantial expenses in procuring raw materials or products elsewhere. At the same time, sales of products that treat specific disease outbreaks may increase.

Foreign exchange rates

Significant portions of our revenue and costs are exposed to changes in foreign exchange rates. Our products are sold in more than 100 countries and, as a result, our revenue is influenced by changes in foreign exchange rates. For the six months ended June 30, 2018, approximately 50% of our revenue was denominated in foreign currencies. 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. As we operate in multiple foreign currencies, including the Australian dollar, Brazilian real, Canadian dollar, Chinese yuan, euro, U.K. pound and other currencies, changes in those currencies relative to the U.S. dollar will impact our revenue, cost of goods and expenses, and consequently, net income. Exchange rate fluctuations may also have an impact beyond our reported financial results and directly impact operations. These fluctuations may affect the ability to buy and sell our goods and services between markets impacted by significant exchange rate variances. For the six months ended June 30, 2018, approximately 50% of our total revenue was in U.S. dollars. Our year-over-year revenue growth was favorably impacted by approximately 3% from changes in foreign currency values relative to the U.S. dollar.

Non-GAAP financial measures

We report information in accordance with U.S. generally accepted accounting principles (GAAP). Management also measures performance using non-GAAP financial measures that may exclude certain amounts from the most directly comparable GAAP measure. Despite the importance of these measures to management in goal setting and performance measurement, non-GAAP financial measures have no standardized meaning prescribed by U.S. GAAP and, therefore, have limits in their usefulness to investors and may not be comparable to the calculation of similar measures of other companies. We present certain identified non-GAAP measures solely to provide investors with useful information to more fully understand how management assesses performance.

Operational Growth

We believe that it is important to not only understand overall revenue and earnings growth, but also “operational growth.” Operational growth is a non-GAAP financial measure defined as revenue or earnings growth excluding the impact of foreign exchange. This measure provides information on the change in revenue and earnings as if foreign currency exchange rates had not changed between the current and prior periods to facilitate a period-to-period comparison. We believe this non-GAAP measure provides a useful comparison to previous periods for the company and investors, but should not be viewed as a substitute for U.S. GAAP reported growth.

Adjusted Net Income and Adjusted Earnings Per Share

Adjusted net income and the corresponding adjusted earnings per share (EPS) are non-GAAP financial measures of performance used by management. We believe these financial measures are useful supplemental information to investors when considered together with our U.S. GAAP financial measures. We report adjusted net income to portray the results of our major operations, and the discovery, development, manufacture and commercialization of our products, prior to considering certain income statement elements. We define adjusted net income and adjusted EPS as net income attributable to Zoetis and EPS before the impact of purchase accounting adjustments, acquisition-related costs and certain significant items.

We recognize that, as an internal measure of performance, the adjusted net income and adjusted EPS measures have limitations, and we do not restrict our performance management process solely to these metrics. A limitation of the adjusted net income and adjusted EPS measures is that they provide a view of our operations without including all events during a period, such as the effects of an acquisition or amortization of purchased intangibles, and do not provide a comparable view of our performance to other companies. The adjusted net income and adjusted EPS measures are not, and should not be viewed as, a substitute for U.S. GAAP reported net income attributable to Zoetis and reported EPS. See the *Adjusted Net Income* section below for more information.

Analysis of the condensed consolidated statements of income

The following discussion and analysis of our statements of income should be read along with our condensed consolidated financial statements and the notes thereto included elsewhere in *Part I—Item 1* of this Quarterly Report on Form 10-Q.

(MILLIONS OF DOLLARS)	Three Months Ended			Six Months Ended		
	June 30, 2018	July 2, 2017	% Change	June 30, 2018	July 2, 2017	% Change
Revenue	\$ 1,415	\$ 1,269	12	\$ 2,781	\$ 2,500	11
Costs and expenses:						
Cost of sales ^(a)	447	440	2	894	883	1
% of revenue	31.6%	34.7%		32.1%	35.3%	
Selling, general and administrative expenses ^(a)	359	336	7	697	645	8
% of revenue	25%	26%		25%	26%	
Research and development expenses ^(a)	102	86	19	199	176	13
% of revenue	7%	7%		7%	7%	
Amortization of intangible assets ^(a)	23	23	—	46	45	2
Restructuring charges/(reversals) and certain acquisition-related costs	5	—	*	7	(1)	*
Interest expense, net of capitalized interest	46	41	12	93	82	13
Other (income)/deductions—net	(4)	(2)	100	(9)	(12)	(25)
Income before provision for taxes on income	437	345	27	854	682	25
% of revenue	31%	27%		31%	27%	
Provision for taxes on income	55	98	(44)	122	196	(38)
Effective tax rate	12.6%	28.4%		14.3%	28.7%	
Net income before allocation to noncontrolling interests	382	247	55	732	486	51
Less: Net income attributable to noncontrolling interests	(2)	—	—	(4)	1	*
Net income attributable to Zoetis	\$ 384	\$ 247	55	\$ 736	\$ 485	52
% of revenue	27%	19%		26%	19%	

* Calculation not meaningful.

Certain amounts and percentages may reflect rounding adjustments.

^(a) Amortization expense related to finite-lived acquired intangible assets that contribute to our ability to sell, manufacture, research, market and distribute products, compounds and intellectual property is included in *Amortization of intangible assets* as these intangible assets benefit multiple business functions. Amortization expense related to finite-lived acquired intangible assets that are associated with a single function is included in *Cost of sales*, *Selling, general and administrative expenses* or *Research and development expenses*, as appropriate.

Revenue

Three months ended June 30, 2018 vs. three months ended July 2, 2017

Total revenue increased by \$146 million, or 12%, in the three months ended June 30, 2018, compared with the three months ended July 2, 2017, an increase of \$116 million, or 9%, on an operational basis. Operational revenue growth was comprised primarily of the following:

- increased volume from in-line products of approximately 5%, including 2% from our key dermatology products;
- volume growth from new products of approximately 3%; and
- price growth of approximately 1%.

Foreign exchange increased reported revenue growth by approximately 3%.

Six months ended June 30, 2018 vs. six months ended July 2, 2017

Total revenue increased by \$281 million, or 11%, in the six months ended June 30, 2018, compared with the six months ended July 2, 2017, an increase of \$204 million, or 8%, on an operational basis. Operational revenue growth was comprised primarily of the following:

- increased volume from in-line products of approximately 5%, including 3% from our key dermatology products;
- volume growth from new products of approximately 2%; and
- price growth of approximately 1%.

Foreign exchange increased reported revenue growth by approximately 3%.

Costs and Expenses

Cost of sales

(MILLIONS OF DOLLARS)	Three Months Ended			Six Months Ended		
	June 30,	July 2,	%	June 30,	July 2,	%
	2018	2017	Change	2018	2017	Change
Cost of sales	\$ 447	\$ 440	2	\$ 894	\$ 883	1
% of revenue	31.6%	34.7%		32.1%	35.3%	

Certain amounts and percentages may reflect rounding adjustments.

Three months ended June 30, 2018 vs. three months ended July 2, 2017

Cost of sales as a percentage of revenue decreased from 34.7% to 31.6% in the three months ended June 30, 2018, compared with the three months ended July 2, 2017, primarily as a result of:

- continued cost improvements and efficiencies in our manufacturing network; and
- favorable foreign exchange.

Six months ended June 30, 2018 vs. six months ended July 2, 2017

Cost of sales as a percentage of revenue decreased from 35.3% to 32.1% in the six months ended June 30, 2018, compared with the six months ended July 2, 2017, primarily as a result of:

- continued cost improvements and efficiencies in our manufacturing network; and
- favorable foreign exchange.

Selling, general and administrative expenses

(MILLIONS OF DOLLARS)	Three Months Ended			Six Months Ended		
	June 30,	July 2,	%	June 30,	July 2,	%
	2018	2017	Change	2018	2017	Change
Selling, general and administrative expenses	\$ 359	\$ 336	7	\$ 697	\$ 645	8
% of revenue	25%	26%		25%	26%	

Certain amounts and percentages may reflect rounding adjustments.

Three months ended June 30, 2018 vs. three months ended July 2, 2017

Selling, general & administrative (SG&A) expenses increased by \$23 million, or 7%, in the three months ended June 30, 2018, compared with the three months ended July 2, 2017, primarily as a result of:

- an increase in certain compensation-related expenses;
- unfavorable foreign exchange; and
- higher distribution expenses associated with higher sales volumes.

Six months ended June 30, 2018 vs. six months ended July 2, 2017

Selling, general & administrative (SG&A) expenses increased by \$52 million, or 8%, in the six months ended June 30, 2018, compared with the six months ended July 2, 2017, primarily as a result of:

- an increase in certain compensation-related expenses;
- unfavorable foreign exchange;
- higher professional services and consulting charges;
- higher advertising and promotional spending associated with new products; and
- higher distribution expenses associated with higher sales volumes.

Research and development expenses

(MILLIONS OF DOLLARS)	Three Months Ended			Six Months Ended		
	June 30,	July 2,	%	June 30,	July 2,	%
	2018	2017	Change	2018	2017	Change
Research and development expenses	\$ 102	\$ 86	19	\$ 199	\$ 176	13
% of revenue	7%	7%		7%	7%	

Certain amounts and percentages may reflect rounding adjustments.

Three months ended June 30, 2018 vs. three months ended July 2, 2017

R&D expenses increased by \$16 million, or 19%, in the three months ended June 30, 2018, compared with the three months ended July 2, 2017, primarily as a result of:

- increased headcount and other spending driven by project investments;
- unfavorable foreign exchange;
- an increase in certain compensation-related expenses; and
- the inclusion of the Irish biologic therapeutics business acquired in 2017.

Six months ended June 30, 2018 vs. six months ended July 2, 2017

R&D expenses increased by \$23 million, or 13%, in the six months ended June 30, 2018, compared with the six months ended July 2, 2017, primarily as a result of:

- increased headcount driven by project investments;
- unfavorable foreign exchange;
- an increase in certain compensation-related expenses; and
- the inclusion of the Irish biologic therapeutics business acquired in 2017.

Amortization of intangible assets

(MILLIONS OF DOLLARS)	Three Months Ended			Six Months Ended		
	June 30, 2018	July 2, 2017	% Change	June 30, 2018	July 2, 2017	% Change
Amortization of intangible assets	\$ 23	\$ 23	—	\$ 46	\$ 45	2

Certain amounts and percentages may reflect rounding adjustments.

Three months ended June 30, 2018 vs. three months ended July 2, 2017

Amortization of intangible assets was flat in the three months ended June 30, 2018, compared with the three months ended July 2, 2017.

Six months ended June 30, 2018 vs. six months ended July 2, 2017

Amortization of intangible assets increased by \$1 million, or 2%, in the six months ended June 30, 2018, compared with the six months ended July 2, 2017.

Restructuring charges/(reversals) and certain acquisition-related costs

(MILLIONS OF DOLLARS)	Three Months Ended			Six Months Ended		
	June 30, 2018	July 2, 2017	% Change	June 30, 2018	July 2, 2017	% Change
Restructuring charges/(reversals) and certain acquisition-related costs	\$ 5	\$ —	*	\$ 7	\$ (1)	*

* Calculation not meaningful.

Certain amounts and percentages may reflect rounding adjustments.

During 2015, we launched a comprehensive operational efficiency program, which was incremental to the previously announced supply network strategy. These initiatives focused on reducing complexity in our product portfolios, changing our selling approach in certain markets, reducing our presence in certain countries, and exiting manufacturing sites over a long term period. We have also continued 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. The comprehensive operational efficiency program was substantially completed as of December 31, 2017. We expect to complete the supply network strategy over the next several years.

Our acquisition-related costs primarily relate to restructuring charges for employees, assets and activities that will not continue in the future, as well as integration costs. The majority of these net restructuring charges are related to termination costs, but we also exited a number of distributor and other contracts and performed certain facility rationalization efforts. Our integration costs are generally comprised of consulting costs related to the integration of systems and processes, as well as product transfer costs.

For additional information regarding restructuring charges and acquisition-related costs, see Notes to Condensed Consolidated Financial Statements—*Note 6. Restructuring Charges and Other Costs Associated with Acquisitions and Cost-Reduction/Productivity Initiatives.*

Three months ended June 30, 2018 vs. three months ended July 2, 2017

The change in restructuring charges and certain acquisition-related costs from \$0 million in the three months ended July 2, 2017, to \$5 million in the three months ended June 30, 2018, is primarily due to charges in the three months ended June 30, 2018, related to employee termination costs in Europe as a result of initiatives to better align our organizational structure, employee termination costs and exit costs as a result of our operational efficiency initiative and supply network strategy, and integration costs.

Six months ended June 30, 2018 vs. six months ended July 2, 2017

The change in restructuring charges and certain acquisition-related costs from a \$1 million reversal in the six months ended July 2, 2017, to \$7 million in the six months ended June 30, 2018, is primarily due to charges in the six months ended June 30, 2018, related to employee termination costs in Europe as a result of initiatives to better align our organizational structure, employee termination costs and exit costs as a result of our operational efficiency initiative and supply network strategy, and an increase in integration costs.

Interest expense, net of capitalized interest

(MILLIONS OF DOLLARS)	Three Months Ended			Six Months Ended		
	June 30, 2018	July 2, 2017	% Change	June 30, 2018	July 2, 2017	% Change
Interest expense, net of capitalized interest	\$ 46	\$ 41	12	\$ 93	\$ 82	13

Certain amounts and percentages may reflect rounding adjustments.

Three months ended June 30, 2018 vs. three months ended July 2, 2017

Interest expense, net of capitalized interest, increased by \$5 million, or 12% in the three months ended June 30, 2018, compared with the three months ended July 2, 2017, as a result of the issuance of \$1.25 billion aggregate principal amount of our senior notes in September 2017.

Six months ended June 30, 2018 vs. six months ended July 2, 2017

Interest expense, net of capitalized interest, increased by \$11 million, or 13% in the six months ended June 30, 2018, compared with the six months ended July 2, 2017, as a result of the issuance of \$1.25 billion aggregate principal amount of our senior notes in September 2017.

Other (income)/deductions—net

(MILLIONS OF DOLLARS)	Three Months Ended			Six Months Ended		
	June 30, 2018	July 2, 2017	% Change	June 30, 2018	July 2, 2017	% Change
Other (income)/deductions—net	\$ (4)	\$ (2)	100	\$ (9)	\$ (12)	(25)

Certain amounts and percentages may reflect rounding adjustments.

Three months ended June 30, 2018 vs. three months ended July 2, 2017

The change in *Other (income)/deductions—net* from income of \$2 million in the three months ended July 2, 2017, to income of \$4 million in the three months ended June 30, 2018, is primarily a result of:

- higher interest income in the three months ended June 30, 2018 due to higher cash balances, and
- a net loss of \$2 million in the three months ended July 2, 2017, related to divestitures as part of our operational efficiency initiative, partially offset by:
 - income of \$4 million in the three months ended July 2, 2017, related to an insurance recovery from commercial settlements in Mexico recorded in 2014 and 2016.

Six months ended June 30, 2018 vs. six months ended July 2, 2017

The change in *Other (income)/deductions—net* from income of \$12 million in the six months ended July 2, 2017, to income of \$9 million in the six months ended June 30, 2018, is primarily a result of:

- higher foreign currency losses in the six months ended June 30, 2018, primarily driven by costs related to hedging and exposures to certain emerging market currencies, and
- income of \$4 million in the six months ended July 2, 2017, related to an insurance recovery from commercial settlements in Mexico recorded in 2014 and 2016,

partially offset by:

- higher interest income in the six months ended June 30, 2018 due to higher cash balances.

Provision for taxes on income

(MILLIONS OF DOLLARS)	Three Months Ended			Six Months Ended		
	June 30, 2018	July 2, 2017	% Change	June 30, 2018	July 2, 2017	% Change
Provision for taxes on income	\$ 55	\$ 98	(44)	\$ 122	\$ 196	(38)
Effective tax rate	12.6%	28.4%		14.3%	28.7%	

Certain amounts and percentages may reflect rounding adjustments.

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Act) was enacted which, among other changes, reduced the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018. The Tax Act made 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 at that time, and the current interpretation of the Tax Act, for the year ended December 31, 2017 the company was able to make a reasonable estimate and recorded an initial provisional net tax expense of \$212 million 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 (measurement-period adjustment). Pursuant to this guidance, the estimated impact of the Tax Act was 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.

In 2018, we were able to further refine our initial reasonable estimate and adjusted the initial provisional net tax expense of \$212 million. On the basis of revised computations that were calculated during the reporting period, we recognized a measurement-period adjustment of \$33 million and \$35 million for the three and six months ended June 30, 2018, respectively, as a decrease to the one-time mandatory deemed repatriation tax obligation, with a corresponding adjustment to income tax benefit during the period.

Three months ended June 30, 2018 vs. three months ended July 2, 2017

The effective tax rate was 12.6% for the three months ended June 30, 2018, compared with 28.4% for the three months ended July 2, 2017. The lower effective tax rate for the three months ended June 30, 2018, was primarily attributable to:

- the reduction of the U.S. federal corporate income tax rate, from 35% to 21%, effective January 1, 2018, pursuant to the Tax Act;
- a \$33 million net discrete tax benefit recorded in the second quarter of 2018, associated with a measurement-period adjustment related to the provisional one-time mandatory deemed repatriation tax on the company's undistributed non-U.S. earnings pursuant to the Tax Act enacted on December 22, 2017;
- changes in the jurisdictional mix of earnings, which includes the impact of the location of earnings from operations and repatriation costs. The jurisdictional mix of earnings can vary as a result of repatriation decisions and operating fluctuations in the normal course of business and the impact of non-deductible items; and
- a \$1 million and \$2 million discrete tax benefit recorded in the second quarter of 2018 and 2017, respectively, related to the excess tax benefits for share-based payments.

Six months ended June 30, 2018 vs. six months ended July 2, 2017

The effective tax rate was 14.3% for the six months ended June 30, 2018, compared with 28.7% for the six months ended July 2, 2017. The lower effective tax rate for the six months ended June 30, 2018, was primarily attributable to:

- the reduction of the U.S. federal corporate income tax rate, from 35% to 21%, effective January 1, 2018, pursuant to the Tax Act;
- a \$35 million net discrete tax benefit recorded in the first half of 2018, associated with a measurement-period adjustment related to the provisional one-time mandatory deemed repatriation tax on the company's undistributed non-U.S. earnings pursuant to the Tax Act enacted on December 22, 2017;
- changes in the jurisdictional mix of earnings, which includes the impact of the location of earnings from operations and repatriation costs. The jurisdictional mix of earnings can vary as a result of repatriation decisions and operating fluctuations in the normal course of business and the impact of non-deductible items;
- an \$8 million and \$7 million discrete tax benefit recorded in the first half of 2018 and 2017, respectively, related to the excess tax benefits for share-based payments; and
- an \$8 million and \$3 million discrete tax benefit recorded in the first half of 2018 and 2017, respectively, related to a remeasurement of deferred taxes as a result of a change in non-U.S. statutory tax rates.

Operating Segment Results

In the first quarter of 2018, the company realigned certain management responsibilities. These changes did not impact the determination of our operating segments, however they resulted in the reallocation of certain costs between segments. These changes primarily include the following: i) R&D costs related to our aquaculture business which were previously reported in *Other business activities* are now reported in the international commercial segment results, and ii) certain other miscellaneous costs which were previously reported in *Corporate* are now reported in the international commercial segment results.

On a global basis, the mix of revenue between livestock and companion animal products was as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		% Change		
	June 30, 2018	July 2, 2017	Total	Related to	
				Foreign Exchange	Operational
U.S.					
Livestock	\$ 271	\$ 269	1	—	1
Companion animal	406	354	15	—	15
	677	623	9	—	9
International					
Livestock	463	420	10	4	6
Companion animal	265	214	24	7	17
	728	634	15	5	10
Total					
Livestock	734	689	7	3	4
Companion animal	671	568	18	2	16
Contract manufacturing	10	12	(17)	(3)	(14)
	\$ 1,415	\$ 1,269	12	3	9

Certain amounts and percentages may reflect rounding adjustments.

(MILLIONS OF DOLLARS)	Six Months Ended		% Change		
	June 30, 2018	July 2, 2017	Total	Related to	
				Foreign Exchange	Operational
U.S.					
Livestock	\$ 563	\$ 551	2	—	2
Companion animal	748	677	10	—	10
	1,311	1,228	7	—	7
International					
Livestock	941	841	12	5	7
Companion animal	513	408	26	8	18
	1,454	1,249	16	6	10
Total					
Livestock	1,504	1,392	8	3	5
Companion animal	1,261	1,085	16	3	13
Contract manufacturing	16	23	(30)	5	(35)
	\$ 2,781	\$ 2,500	11	3	8

Certain amounts and percentages may reflect rounding adjustments.

Earnings by segment and the operational and foreign exchange changes versus the comparable prior year period were as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		% Change		
	June 30, 2018	July 2, 2017	Total	Related to	
				Foreign Exchange	Operational
<u>U.S.</u>					
Revenue	\$ 677	\$ 623	9	—	9
Cost of Sales	140	134	4	—	4
Gross Profit	537	489	10	—	10
Gross Margin	79.3%	78.5%			
Operating Expenses	116	113	3	—	3
Other (income)/deductions	—	—	—	—	—
U.S. Earnings	421	376	12	—	12
<u>International</u>					
Revenue	728	634	15	5	10
Cost of Sales	229	219	5	4	1
Gross Profit	499	415	20	5	15
Gross Margin	68.5%	65.5%			
Operating Expenses	147	126	17	5	12
Other (income)/deductions	2	2	—	(44)	44
International Earnings	350	287	22	6	16
Total operating segments	771	663	16	2	14
Other business activities	(82)	(73)	12		
Reconciling Items:					
Corporate	(139)	(151)	(8)		
Purchase accounting adjustments	(23)	(21)	10		
Acquisition-related costs	—	(2)	(100)		
Certain significant items	(7)	1	*		
Other unallocated	(83)	(72)	15		
Income before provision for taxes on income	\$ 437	\$ 345	27		

* Calculation not meaningful.

Certain amounts and percentages may reflect rounding adjustments.

(MILLIONS OF DOLLARS)	Six Months Ended		% Change		
			Total	Related to	
	June 30, 2018	July 2, 2017			Foreign Exchange
<u>U.S.</u>					
Revenue	\$ 1,311	\$ 1,228	7	—	7
Cost of Sales	280	271	3	—	3
Gross Profit	1,031	957	8	—	8
Gross Margin	78.6%	77.9%			
Operating Expenses	212	209	1	—	1
Other (income)/deductions	—	—	—	—	—
U.S. Earnings	819	748	9	—	9
<u>International</u>					
Revenue	1,454	1,249	16	6	10
Cost of Sales	463	432	7	4	3
Gross Profit	991	817	21	7	14
Gross Margin	68.2%	65.4%			
Operating Expenses	280	240	17	7	10
Other (income)/deductions	3	(1)	*	*	*
International Earnings	708	578	22	7	15
Total operating segments	1,527	1,326	15	3	12
Other business activities	(163)	(147)	11		
Reconciling Items:					
Corporate	(292)	(294)	(1)		
Purchase accounting adjustments	(46)	(43)	7		
Acquisition-related costs	(1)	(2)	(50)		
Certain significant items	(10)	(3)	*		
Other unallocated	(161)	(155)	4		
Income before provision for taxes on income	\$ 854	\$ 682	25		

* Calculation not meaningful.

Certain amounts and percentages may reflect rounding adjustments.

Three months ended June 30, 2018 vs. three months ended July 2, 2017

U.S. operating segment

U.S. segment revenue increased by \$54 million, or 9%, in the three months ended June 30, 2018, compared with the three months ended July 2, 2017, reflecting growth of approximately \$52 million in companion animal products and approximately \$2 million in livestock products.

- Companion animal revenue growth was driven primarily by increased sales of the dermatology portfolio, as well as new products including Simparica®. Growth was tempered by lower sales of certain in-line products due to anticipated competition.
- Livestock revenue increased primarily due to higher sales of poultry and swine products, offset by declines in the cattle business. For poultry, growth was driven by increased sales of medicated feed additive products. Swine growth was primarily due to new vaccine products. Cattle sales declined due to lower sales of medicated feed additive products.

U.S. segment earnings increased by \$45 million, or 12%, in the three months ended June 30, 2018, compared with the three months ended July 2, 2017, primarily due to revenue growth and improved gross margins.

International operating segment

International segment revenue increased by \$94 million, or 15%, in the three months ended June 30, 2018, compared with the three months ended July 2, 2017. Operational revenue increased by \$64 million, or 10%, driven by growth of approximately \$37 million in companion animal products and growth of approximately \$27 million in livestock products.

- Companion animal revenue growth resulted primarily from increased sales across multiple international markets of the dermatology portfolio, and new products including Simparica®, as well as growth in vaccines in China.

- Livestock growth was driven primarily by strong performance in the cattle and swine portfolios, partially offset by the national trucking industry strike in Brazil. Cattle growth reflected increases in biological and anti-infective products and swine growth was primarily due to new vaccine products.

Additionally, segment revenue was favorably impacted by foreign exchange, which increased revenue by approximately \$30 million, or 5%, primarily driven by the appreciation of the euro, U.K. pound, Chinese renminbi, and Canadian dollar, partially offset by depreciation in the Brazilian Real.

International segment earnings increased by \$63 million, or 22%, in the three months ended June 30, 2018, compared with the three months ended July 2, 2017. Operational earnings growth was \$45 million, or 16%, primarily due to higher revenue and improved gross margin, partially offset by higher operating expenses.

Six months ended June 30, 2018 vs. six months ended July 2, 2017

U.S. operating segment

U.S. segment revenue increased by \$83 million, or 7%, in the six months ended June 30, 2018, compared with the six months ended July 2, 2017, reflecting growth of approximately \$71 million in companion animal products and growth of approximately \$12 million in livestock products.

- Companion animal revenue growth was driven primarily by increased sales of the dermatology portfolio, as well as new products. Growth was tempered by lower sales of certain in-line products due to anticipated competition.
- Livestock revenue increased primarily due to higher sales of poultry, swine and cattle. For poultry, growth was driven by increased sales of medicated feed additive products. Swine growth was primarily due to new vaccine products. Growth of cattle products was driven by favorable market conditions in the beef market, including higher feedlot placements and variable weather conditions, which drove higher disease risk and incidence in the first quarter partially offset by declines in medicated feed additive products and unfavorable market conditions in dairy.

U.S. segment earnings increased by \$71 million, or 9%, in the six months ended June 30, 2018, compared with the six months ended July 2, 2017, primarily due to revenue growth and improved gross margins.

International operating segment

International segment revenue increased by \$205 million, or 16%, in the six months ended June 30, 2018, compared with the six months ended July 2, 2017. Operational revenue increased by \$128 million, or 10%, driven by growth of approximately \$73 million in companion animal products and growth of approximately \$55 million in livestock products.

- Companion animal revenue growth resulted primarily from increased sales across multiple international markets of the dermatology portfolio, and new products including Simparica[®], as well as growth in vaccines in China.
- Livestock growth was driven primarily by strong performance in cattle, poultry and swine products, partially offset by the national trucking industry strike in Brazil. Growth in cattle was due to anti-infective and biological products. Growth in poultry products was driven by increased sales of medicated feed additives. Swine growth was primarily due to new vaccine products.

Additionally, segment revenue was favorably impacted by foreign exchange, which increased revenue by approximately \$77 million, or 6%, primarily driven by the appreciation of the euro, U.K. pound, Chinese renminbi, and Canadian dollar, partially offset by depreciation in the Brazilian Real.

International segment earnings increased by \$130 million, or 22%, in the six months ended June 30, 2018, compared with the six months ended July 2, 2017. Operational earnings growth was \$88 million, or 15%, primarily due to higher revenue and improved gross margin, partially offset by higher operating expenses.

Other business activities

Other business activities includes our Client Supply Services (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 respective regional segment.

Three months ended June 30, 2018 vs. three months ended July 2, 2017

Other business activities net loss increased by \$9 million, or 12%, in the three months ended June 30, 2018, compared with the three months ended July 2, 2017, reflecting an increase in R&D project investments, compensation-related costs, unfavorable foreign exchange, and the inclusion of the Irish biologic therapeutics business acquired in 2017.

Six months ended June 30, 2018 vs. six months ended July 2, 2017

Other business activities net loss increased by \$16 million, or 11%, in the six months ended June 30, 2018, compared with the six months ended July 2, 2017, reflecting an increase in R&D project investments, compensation-related costs, unfavorable foreign exchange, and the inclusion of the Irish biologic therapeutics business acquired in 2017.

Reconciling items

Reconciling items include certain costs that are not allocated to our operating segments results, such as costs associated with the following:

- **Corporate**, which includes certain costs associated with business technology, facilities, legal, finance, human resources, business development and communications, among others. These costs also include certain compensation costs, certain procurement costs, and other miscellaneous operating expenses that are not charged to our operating segments, as well as interest income and expense;
- Certain transactions and events such as (i) **Purchase accounting adjustments**, which includes expenses associated with the amortization of fair value adjustments to inventory, intangible assets, and property, plant and equipment; (ii) **Acquisition-related activities**, which includes costs for acquisition and integration; and (iii) **Certain significant items**, which includes non-acquisition-related restructuring charges, certain asset impairment charges, stand-up costs, certain legal and commercial settlements, and costs associated with cost reduction/productivity initiatives; and
- **Other unallocated**, which 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) certain procurement costs.

Three months ended June 30, 2018 vs. three months ended July 2, 2017

Corporate expenses decreased by \$12 million, or 8%, in the three months ended June 30, 2018, compared with the three months ended July 2, 2017, primarily due to favorable foreign exchange.

Other unallocated expenses increased by \$11 million, or 15%, in the three months ended June 30, 2018, compared with the three months ended July 2, 2017, primarily due to the unfavorable impact of foreign exchange.

Six months ended June 30, 2018 vs. six months ended July 2, 2017

Corporate expenses decreased by \$2 million, or 1%, in the six months ended June 30, 2018, compared with the six months ended July 2, 2017, primarily due to favorable foreign exchange partially offset by an increase in certain compensation costs not allocated to our operating segments.

Other unallocated expenses increased by \$6 million, or 4%, in the six months ended June 30, 2018, compared with the six months ended July 2, 2017, primarily due to the unfavorable impact of foreign exchange partially offset by continued cost improvements and efficiencies in our manufacturing network, and lower global manufacturing and supply costs.

See Notes to Condensed Consolidated Financial Statements—*Note 17. Segment Information* for further information.

Adjusted net income

General description of adjusted net income (a non-GAAP financial measure)

Adjusted net income is an alternative view of performance used by management, and we believe that investors' understanding of our performance is enhanced by disclosing this performance measure. The adjusted net income measure is an important internal measurement for us. Additionally, we measure our overall performance on this basis in conjunction with other performance metrics. The following are examples of how the adjusted net income measure is utilized:

- senior management receives a monthly analysis of our operating results that is prepared on an adjusted net income basis;
- our annual budgets are prepared on an adjusted net income basis; and
- other goal setting and performance measurements.

Purchase accounting adjustments

Adjusted net income is calculated prior to considering certain significant purchase accounting impacts that result from business combinations and net asset acquisitions. These impacts, primarily associated with the acquisition of the Pharmaq business (acquired in November 2015), certain assets of Abbott Animal Health (acquired in February 2015), King Animal Health (KAH) (acquired in 2011), Fort Dodge Animal Health (FDAH) (acquired in 2009), and Pharmacia Animal Health business (acquired in 2003), include amortization related to the increase in fair value of the acquired finite-lived intangible assets and depreciation related to the increase/decrease to fair value of the acquired fixed assets. Therefore, the adjusted net income measure includes the revenue earned upon the sale of the acquired products without considering the aforementioned significant charges.

While certain purchase accounting adjustments can occur through 20 or more years, this presentation provides an alternative view of our performance that is used by management to internally assess business performance. We believe the elimination of amortization attributable to

acquired intangible assets provides management and investors an alternative view of our business results by providing a degree of parity to internally developed intangible assets for which R&D costs previously have been expensed.

A completely accurate comparison of internally developed intangible assets and acquired intangible assets cannot be achieved through adjusted net income. These components of adjusted net income are derived solely from the impact of the items listed above. We have not factored in the impact of any other differences in experience that might have occurred if we had discovered and developed those intangible assets on our own, and this approach does not intend to be representative of the results that would have occurred in those circumstances. For example, our R&D costs in total, and in the periods presented, may have been different; our speed to commercialization and resulting revenue, if any, may have been different; or our costs to manufacture may have been different. In addition, our marketing efforts may have been received differently by our customers. As such, in total, there can be no assurance that our adjusted net income amounts would have been the same as presented had we discovered and developed the acquired intangible assets.

Acquisition-related costs

Adjusted net income is calculated prior to considering transaction and integration costs associated with significant business combinations or net asset acquisitions because these costs are unique to each transaction and represent costs that were incurred to acquire and integrate certain businesses as a result of the acquisition decision. We have made no adjustments for the resulting synergies.

We believe that viewing income prior to considering these charges provides investors with a useful additional perspective because the significant costs incurred in a business combination result primarily from the need to eliminate duplicate assets, activities or employees—a natural result of acquiring a fully integrated set of activities. For this reason, we believe that the costs incurred to convert disparate systems, to close duplicative facilities or to eliminate duplicate positions (for example, in the context of a business combination) can be viewed differently from those costs incurred in the ordinary course of business.

The integration costs associated with a business combination may occur over several years, with the more significant impacts generally ending within three years of the transaction. Because of the need for certain external approvals for some actions, the span of time needed to achieve certain restructuring and integration activities can be lengthy. For example, due to the regulated nature of the animal health medicines and vaccines business, the closure of excess facilities can take several years, as all manufacturing changes are subject to extensive validation and testing and must be approved by the FDA and/or other regulatory authorities.

Certain significant items

Adjusted net income is calculated prior to considering certain significant items. Certain significant items represent substantive, unusual items that are evaluated on an individual basis. Such evaluation considers both the quantitative and the qualitative aspect of their unusual nature. Unusual, in this context, may represent items that are not part of our ongoing business; items that, either as a result of their nature or size, we would not expect to occur as part of our normal business on a regular basis; items that would be nonrecurring; or items that relate to products that we no longer sell. While not all-inclusive, examples of items that could be included as certain significant items would be costs related to becoming an independent public company; a major non-acquisition-related restructuring charge and associated implementation costs for a program that is specific in nature with a defined term, such as those related to our non-acquisition-related cost-reduction and productivity initiatives; amounts related to disposals of products or facilities that do not qualify as discontinued operations as defined by U.S. GAAP; certain intangible asset impairments; adjustments related to the resolution of certain tax positions; significant currency devaluation; the impact of adopting certain significant, event-driven tax legislation; or charges related to legal matters. See Notes to Condensed Consolidated Financial Statements—*Note 16. Commitments and Contingencies*. Our normal, ongoing defense costs or settlements of and accruals on legal matters made in the normal course of our business would not be considered certain significant items.

Reconciliation

A reconciliation of net income attributable to Zoetis, as reported under U.S. GAAP, to adjusted net income follows:

(MILLIONS OF DOLLARS)	Three Months Ended			Six Months Ended		
	June 30, 2018	July 2, 2017	% Change	June 30, 2018	July 2, 2017	% Change
GAAP reported net income attributable to Zoetis	\$ 384	\$ 247	55	\$ 736	\$ 485	52
Purchase accounting adjustments—net of tax	19	15	27	31	34	(9)
Acquisition-related costs—net of tax	—	1	(100)	1	1	—
Certain significant items—net of tax	(28)	(2)	*	(28)	2	*
Non-GAAP adjusted net income ^(a)	\$ 375	\$ 261	44	\$ 740	\$ 522	42

*Calculation not meaningful.

Certain amounts and percentages may reflect rounding adjustments.

^(a) The effective tax rate on adjusted pretax income is 20.1% and 28.9% for the three months ended June 30, 2018, and July 2, 2017, respectively. The lower effective tax rate for the three months ended June 30, 2018, compared with the three months ended July 2, 2017, was primarily attributable to (i) the reduction of the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018, pursuant to the Tax Act, (ii) changes in the jurisdictional mix of earnings, which includes the impact of the location of earnings as well as repatriation costs, and (iii) a \$1 million and \$2 million discrete tax benefit recorded in the second quarter of 2018 and 2017, respectively, related to the excess tax benefits for share-based payments.

The effective tax rate on adjusted pretax income is 19.2% and 28.4% for the six months ended June 30, 2018, and July 2, 2017, respectively. The lower effective tax rate for the six months ended June 30, 2018, compared with the six months ended July 2, 2017, was primarily attributable to (i) the reduction of

the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018, pursuant to the Tax Act, (ii) changes in the jurisdictional mix of earnings, which includes the impact of the location of earnings as well as repatriation costs, (iii) an \$8 million and \$7 million discrete tax benefit recorded in the first half of 2018 and 2017, respectively, related to the excess tax benefits for share-based payments, and (iv) a \$3 million discrete tax benefit recorded in the first half of 2018 related to a remeasurement of deferred taxes as a result of a change in non-U.S. statutory tax rates.

A reconciliation of reported diluted earnings per share (EPS), as reported under U.S. GAAP, to non-GAAP adjusted diluted EPS follows:

	Three Months Ended			Six Months Ended		
	June 30, 2018	July 2, 2017	% Change	June 30, 2018	July 2, 2017	% Change
Earnings per share—diluted ^(a) :						
GAAP reported EPS attributable to Zoetis—diluted	\$ 0.79	\$ 0.50	58	\$ 1.51	\$ 0.98	54
Purchase accounting adjustments—net of tax	0.04	0.03	33	0.06	0.07	(14)
Acquisition-related costs—net of tax	—	—	—	—	—	—
Certain significant items—net of tax	(0.06)	—	—	(0.06)	0.01	*
Non-GAAP adjusted EPS—diluted	\$ 0.77	\$ 0.53	45	\$ 1.51	\$ 1.06	42

* Calculation not meaningful.

Certain amounts and percentages may reflect rounding adjustments.

^(a) Diluted earnings per share was computed using the weighted-average common shares outstanding during the period plus the common stock equivalents related to stock options, restricted stock units, performance-vesting restricted stock units and deferred stock units.

Adjusted net income includes the following charges for each of the periods presented:

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
Interest expense, net of capitalized interest	\$ 46	\$ 41	\$ 93	\$ 82
Interest income	8	3	14	5
Income taxes	94	106	175	207
Depreciation	37	33	70	67
Amortization	4	5	8	9

Adjusted net income, as shown above, excludes the following items:

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
Purchase accounting adjustments:				
Amortization and depreciation ^(a)	\$ 21	\$ 20	\$ 42	\$ 40
Cost of sales ^(b)	2	1	4	3
Total purchase accounting adjustments—pre-tax	23	21	46	43
Income taxes ^(c)	4	6	15	9
Total purchase accounting adjustments—net of tax	19	15	31	34
Acquisition-related costs:				
Integration costs	—	2	1	2
Total acquisition-related costs—pre-tax	—	2	1	2
Income taxes ^(c)	—	1	—	1
Total acquisition-related costs—net of tax	—	1	1	1
Certain significant items:				
Operational efficiency initiative ^(d)	1	6	1	5
Supply network strategy ^(e)	3	(4)	5	(1)
Other restructuring charges and cost-reduction/productivity initiatives	3	—	3	—
Other ^(f)	—	(3)	1	(1)
Total certain significant items—pre-tax	7	(1)	10	3
Income taxes ^(c)	35	1	38	1
Total certain significant items—net of tax	(28)	(2)	(28)	2
Total purchase accounting adjustments, acquisition-related costs, and certain significant items—net of tax	\$ (9)	\$ 14	\$ 4	\$ 37

Certain amounts may reflect rounding adjustments.

- (a) Amortization and depreciation expenses related to *Purchase accounting adjustments* with respect to identifiable intangible assets and property, plant and equipment.
- (b) Amortization and depreciation expense.
- (c) Income taxes include the tax effect of the associated pre-tax amounts, calculated by determining the jurisdictional location of the pre-tax amounts and applying that jurisdiction's applicable tax rate.
- Income taxes in *Purchase accounting adjustments* for the six months ended June 30, 2018, also includes a tax benefit related to the remeasurement of deferred taxes as a result of a change in non-U.S. statutory tax rates.
- Income taxes in *Purchase accounting adjustments* for the three and six months ended July 2, 2017, also includes a tax benefit related to the remeasurement of deferred taxes as a result of a change in tax rates and a net tax benefit and charge, respectively, related to prior period tax adjustments.
- Income taxes in *Certain significant items* for the three and six months ended June 30, 2018, includes a net tax benefit related to a measurement-period adjustment to the provisional one-time mandatory deemed repatriation tax on the company's undistributed non-U.S. earnings, pursuant to the Tax Act enacted on December 22, 2017.
- Income taxes in *Certain significant items* for the six months ended July 2, 2017, also includes a net charge related to 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.
- (d) For the three and six months ended June 30, 2018, represents employee termination costs of \$1 million.
- For the three months ended July 2, 2017, represents employee termination costs of \$2 million, exit costs of \$1 million, consulting fees of \$1 million, and a net loss related to sales of certain manufacturing sites and products of \$2 million. For the six months ended July 2, 2017, represents employee termination costs of \$1 million, exit costs of \$1 million, consulting fees of \$1 million, and a net loss related to sales of certain manufacturing sites and products of \$2 million.
- (e) For the three months ended June 30, 2018, primarily represents consulting fees of \$2 million and exit costs of \$1 million. For the six months ended June 30, 2018, primarily represents consulting fees of \$3 million, employee termination costs of \$1 million and exit costs of \$1 million.
- For the three months ended July 2, 2017, represents accelerated depreciation of \$1 million, and a reversal of previously accrued employee termination costs of \$5 million. For the six months ended July 2, 2017, represents accelerated depreciation of \$2 million, consulting fees of \$2 million, and a reversal of previously accrued employee termination costs of \$5 million.
- (f) For the three and six months ended June 30, 2018, represents employee termination costs in Europe as a result of initiatives to better align our organizational structure.
- For the three months ended July 2, 2017, represents costs associated with changes to our operating model of \$1 million, and income of \$4 million related to an insurance recovery from commercial settlements in Mexico recorded in 2014 and 2016. For the six months ended July 2, 2017, represents costs associated with changes to our operating model of \$3 million, and income of \$4 million related to an insurance recovery from commercial settlements in Mexico recorded in 2014 and 2016.

The classification of the above items excluded from adjusted net income are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30, 2018	July 2, 2017	June 30, 2018	July 2, 2017
Cost of sales:				
Purchase accounting adjustments	\$ 2	\$ 1	\$ 4	\$ 3
Accelerated depreciation	—	1	—	2
Consulting fees	2	—	3	2
Other	—	1	—	1
<i>Total Cost of sales</i>	4	3	7	8
Selling, general & administrative expenses:				
Purchase accounting adjustments	2	2	3	3
Consulting fees	—	1	—	1
Other	—	—	1	2
<i>Total Selling, general & administrative expenses</i>	2	3	4	6
Research & development expenses:				
Purchase accounting adjustments	—	—	1	1
<i>Total Research & development expenses</i>	—	—	1	1
Amortization of intangible assets:				
Purchase accounting adjustments	19	18	38	36
<i>Total Amortization of intangible assets</i>	19	18	38	36
Restructuring (reversals)/ charges and certain acquisition-related costs:				
Integration costs	—	2	1	2
Employee termination costs	4	(3)	5	(4)
Exit costs	1	1	1	1
<i>Total Restructuring (reversals)/ charges and certain acquisition-related costs</i>	5	—	7	(1)
Other (income)/deductions—net:				
Net loss/(gain) on sale of assets	—	2	—	2
Other	—	(4)	—	(4)
<i>Total Other (income)/deductions—net</i>	—	(2)	—	(2)
Provision for taxes on income	39	8	53	11
Total purchase accounting adjustments, acquisition-related costs, and certain significant items—net of tax	\$ (9)	\$ 14	\$ 4	\$ 37

Certain amounts may reflect rounding adjustments.

Analysis of the condensed consolidated statements of comprehensive income

Substantially all changes in other comprehensive income for the periods presented are related to foreign currency translation adjustments. These changes result from the strengthening or weakening of the U.S. dollar as compared to the currencies in the countries in which we do business. The gains and losses associated with these changes are deferred on the balance sheet in *Accumulated other comprehensive loss* until realized.

Analysis of the condensed consolidated balance sheets

June 30, 2018 vs. December 31, 2017

For a discussion about the changes in *Cash and cash equivalents*, *Short-term borrowings*, and *Long-term debt, net of discount and issuance costs*, see “Analysis of financial condition, liquidity and capital resources” below.

Accounts receivable, less allowance for doubtful accounts decreased as a result of the timing of customer collections.

Other current assets increased primarily as a result of the timing of income tax payments, adjustments to the accrual for the income tax provision for the first half of 2018, and higher receivables due to value-added tax for our international markets.

The net changes in *Deferred tax assets*, *Deferred tax liabilities*, *Income taxes payable* and *Other taxes payable* primarily reflect adjustments to the accrual for the income tax provision for the first half of 2018, as well as the impact of the remeasurement of deferred taxes as a result of a change in tax rates. See Notes to Condensed Consolidated Financial Statements— *Note 8. Income Taxes*.

Accounts payable decreased as a result of the timing of payments.

Accrued compensation and related items decreased primarily due to payment of 2017 annual bonuses to eligible employees and 2017 employee savings plan contributions, partially offset by the pro rata accrual of similar items for 2018.

Other current liabilities decreased primarily as a result of payments of contingent purchase price consideration associated with prior acquisitions.

For an analysis of the changes in *Total Equity*, see the Condensed Consolidated Statements of Equity and Notes to Condensed Consolidated Financial Statements— *Note 14. Stockholders' Equity*.

Analysis of the condensed consolidated statements of cash flows

(MILLIONS OF DOLLARS)	Six Months Ended		% Change
	June 30, 2018	July 2, 2017	
Net cash provided by (used in):			
Operating activities	\$ 656	\$ 299	*
Investing activities	(121)	(88)	38
Financing activities	(533)	(240)	*
Effect of exchange-rate changes on cash and cash equivalents	(8)	7	*
Net increase (decrease) in cash and cash equivalents	\$ (6)	\$ (22)	(73)

*Calculation not meaningful.

Certain amounts and percentages may reflect rounding adjustments.

Operating activities

Six months ended June 30, 2018 vs. six months ended July 2, 2017

Net cash provided by operating activities was \$656 million for the six months ended June 30, 2018, compared with net cash provided by operating activities of \$299 million for the six months ended July 2, 2017. The increase in operating cash flows was primarily attributable to higher income before allocation to noncontrolling interests and the timing of receipts and payments in the ordinary course of business.

Investing activities

Six months ended June 30, 2018 vs. six months ended July 2, 2017

Our net cash used in investing activities was \$121 million for the six months ended June 30, 2018, compared with net cash used in investing activities of \$88 million for the six months ended July 2, 2017. The net cash used in investing activities for 2018 was due primarily to purchases of property, plant and equipment, partially offset by proceeds from the 2017 sale of our manufacturing site in Guarulhos, Brazil. The net cash used in investing activities for 2017 was due primarily to purchases of property, plant and equipment, and the acquisition of a Norwegian fish vaccination company.

Financing activities

Six months ended June 30, 2018 vs. six months ended July 2, 2017

Our net cash used in financing activities was \$533 million for the six months ended June 30, 2018, compared with net cash used in financing activities of \$240 million for the six months ended July 2, 2017. The net cash used in financing activities for 2018 was primarily attributable to the purchase of treasury shares and the payment of dividends. The net cash used in financing activities for 2017 was due primarily to the purchase of treasury shares and the payment of dividends, partially offset by the issuance of commercial paper.

Analysis of financial condition, liquidity and capital resources

While we believe our cash and cash equivalents on hand, our operating cash flows and our existing financing arrangements will be sufficient to support our future cash needs, this may be subject to the environment in which we operate. Risks to our meeting future funding requirements include global economic conditions described in the following paragraph.

Global financial markets may be impacted by macroeconomic, business and financial volatility. As markets change, we will continue to monitor our liquidity position, but there can be no assurance that a challenging economic environment or an economic downturn will not impact our liquidity or our ability to obtain future financing.

Selected measures of liquidity and capital resources

Certain relevant measures of our liquidity and capital resources follow:

(MILLIONS OF DOLLARS)	June 30, 2018	December 31, 2017
Cash and cash equivalents	\$ 1,558	\$ 1,564
Accounts receivable, net ^(a)	973	998
Long-term debt	4,955	4,953
Working capital	3,272	3,123
Ratio of current assets to current liabilities	4.38:1	3.85:1

^(a) Accounts receivable are usually collected over a period of 60 to 90 days. For the six months ended June 30, 2018, compared with December 31, 2017, the number of days that accounts receivables are outstanding remained approximately the same. We regularly monitor our accounts receivable for collectability, particularly in markets where economic conditions remain uncertain. We believe that our allowance for doubtful accounts is appropriate. Our assessment is based on such factors as past due aging, historical and expected collection patterns, the financial condition of our customers, the robust nature of our credit and collection practices and the economic environment.

For additional information about the sources and uses of our funds, see the *Analysis of the condensed consolidated balance sheets* and *Analysis of the condensed consolidated statements of cash flows* sections of this MD&A.

Credit facility and other lines of credit

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 to 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 June 30, 2018 and December 31, 2017. There were no amounts drawn under the credit facility as of June 30, 2018 or December 31, 2017.

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 June 30, 2018, we had access to \$61 million of lines of credit which expire at various times throughout 2018 and 2019 and are generally renewed annually. We did not have any borrowings outstanding related to these facilities as of June 30, 2018 and December 31, 2017.

Domestic and international short-term funds

Many of our operations are conducted outside the United States. The amount of funds held in the United States will fluctuate due to the timing of receipts and payments in the ordinary course of business and due to other reasons, such as business development activities. As part of our ongoing liquidity assessments, we regularly monitor the mix of U.S. and international cash flows (both inflows and outflows). Repatriation of overseas funds can result in additional U.S. state income taxes, foreign withholding taxes and currency gains and losses. We recorded U.S. deferred tax liabilities associated with the one-time mandatory deemed repatriation tax imposed by the Tax Act to the extent amounts earned overseas are expected to be indefinitely reinvested outside the United States, no accrual for foreign withholding taxes and currency gains and losses is provided.

Global economic conditions

The challenging economic environment has not had, nor do we anticipate that it will have, a significant impact on our liquidity. Due to our operating cash flows, financial assets, access to capital markets and available lines of credit and revolving credit agreements, we continue to believe that we have the ability to meet our liquidity needs for the foreseeable future. As markets change, we continue to monitor our liquidity position. There can be no assurance that a challenging economic environment or a further economic downturn would not impact our ability to obtain financing in the future.

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 (2013 senior notes) 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 subsidiaries' ability to incur liens or engage in sale lease-back 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 (if not cured or waived), 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 of any series, 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 us 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, including current portion of long-term debt, follow:

Description	Principal Amount	Interest Rate	Terms
2015 Senior Note due 2020	\$500 million	3.450%	Interest due semi annually, not subject to amortization, aggregate principal due on November 13, 2020
2013 Senior Note due 2023	\$1,350 million	3.250%	Interest due semi annually, not subject to amortization, aggregate principal due on February 1, 2023
2015 Senior Note due 2025	\$750 million	4.500%	Interest due semi annually, not subject to amortization, aggregate principal due on November 13, 2025
2017 Senior Note due 2027	\$750 million	3.000%	Interest due semi annually, not subject to amortization, aggregate principal due on September 12, 2027
2013 Senior Note due 2043	\$1,150 million	4.700%	Interest due semi annually, not subject to amortization, aggregate principal due on February 1, 2043
2017 Senior Note due 2047	\$500 million	3.950%	Interest due semi annually, not subject to amortization, aggregate principal due on September 12, 2047

Credit Ratings

Two major corporate debt-rating organizations, Moody's and S&P, assign ratings to our short-term and long-term debt. A security rating is not a recommendation to buy, sell or hold securities and the rating is subject to revision or withdrawal at any time by the rating organization. Each rating should be evaluated independently of any other rating.

The following table provides the current ratings assigned by these rating agencies to our commercial paper and senior unsecured non-credit-enhanced long-term debt:

Name of Rating Agency	Commercial			Date of Last Action
	Paper	Long-term Debt		
	Rating	Rating	Outlook	
Moody's	P-2	Baa1	Stable	August 2017
S&P	A-2	BBB	Stable	December 2016

Share Repurchase Program

In December 2016, the company's Board of Directors authorized a \$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. Share repurchases may be executed through various means, including open market or privately negotiated transactions. During the first half of 2018, approximately 5 million shares were repurchased. As of June 30, 2018, there was approximately \$595 million remaining under this authorization.

Off-balance sheet arrangements

In the ordinary course of business and in connection with the sale of assets and businesses, we may indemnify our counterparties against certain liabilities that may arise in connection with a transaction or that are related to activities prior to a 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 June 30, 2018, or December 31, 2017, recorded amounts for the estimated fair value of these indemnifications are not significant.

New accounting standards

Recently Issued Accounting Standards Not Adopted as of June 30, 2018.

In February 2018, the FASB issued an accounting standards update which permits companies to reclassify from accumulated other comprehensive income to retained earnings stranded tax effects resulting from the new federal corporate income tax rate. In the period of adoption, a company may choose to either apply the amendments retrospectively to each period in which the effect of the change in federal income tax rate is recognized or to apply the amendments in that reporting period. The provisions of the update are effective beginning January 1, 2019 for interim and annual periods, with early adoption permitted for any interim period after issuance of the update. We are currently assessing the timing of our adoption 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 have selected a lease accounting system which we are in the process of implementing, while continuing to evaluate our lease contracts, accounting policy elections, and the impact of adoption on our consolidated financial statements. While we do not expect adoption of the standard to have a significant impact on our consolidated statements of income, the impact on the assets and liabilities within our consolidated balance sheet may be material.

Forward-looking statements and factors that may affect future results

This report contains “forward-looking” statements. We generally identify forward-looking statements by using words such as “anticipate,” “estimate,” “could,” “expect,” “intend,” “project,” “plan,” “predict,” “believe,” “seek,” “continue,” “outlook,” “objective,” “target,” “may,” “might,” “will,” “should,” “can have,” “likely” or the negative version of these words or comparable words or by using future dates in connection with any discussion of future performance, actions or events.

In particular, forward-looking statements include statements relating to our 2018 financial guidance, future actions, business plans or prospects, prospective products, product approvals or products under development, product supply disruptions, R&D costs, timing and likelihood of success, future operating or financial performance, future results of current and anticipated products and services, strategies, sales efforts, expenses, production efficiencies, production margins, integration of acquired businesses, interest rates, tax rates, changes in tax regimes and laws, foreign exchange rates, growth in emerging markets, the outcome of contingencies, such as legal proceedings, plans related to share repurchases and dividends, our agreements with Pfizer, government regulation and financial results. These statements are not guarantees of future performance, actions or events. Forward-looking statements are subject to risks and uncertainties, many of which are beyond our control, and are based on potentially inaccurate assumptions. Among the factors that could cause actual results to differ materially from past results and future plans and projected future results are the following:

- emerging restrictions and bans on the use of antibacterials in food-producing animals;
- perceived adverse effects on human health linked to the consumption of food derived from animals that utilize our products;
- unanticipated safety, quality or efficacy concerns about or issues related to our products;
- increased regulation or decreased governmental support relating to the raising, processing or consumption of food-producing animals;
- fluctuations in foreign exchange rates and potential currency controls;
- changes in tax laws and regulations;
- legal factors, including product liability claims, antitrust litigation and governmental investigations, tax disputes, environmental concerns, commercial disputes and patent disputes with branded and generic competitors, any of which could preclude commercialization of products or negatively affect the profitability of existing products;
- failure to protect our intellectual property rights or to operate our business without infringing the intellectual property rights of others;
- an outbreak of infectious disease carried by animals;
- consolidation of our customers and distributors negatively affecting the pricing of our products;
- adverse weather conditions and the availability of natural resources;
- adverse global economic conditions;
- failure of our R&D, acquisition and licensing efforts to generate new products;
- the possible impact of competing products, including generic alternatives, on our products and our ability to compete against such products;
- quarterly fluctuations in demand and costs;

- governmental laws and regulations affecting domestic and foreign operations, including without limitation, tax obligations and changes affecting the tax treatment by the United States of income earned outside the United States that may result from pending and possible future proposals; and
- governmental laws and regulations affecting our interactions with veterinary healthcare providers.

However, there may also be other risks that we are unable to predict at this time. These risks or uncertainties may cause actual results to differ materially from those contemplated by a forward-looking statement. You should not put undue reliance on forward-looking statements. Forward-looking statements speak only as of the date on which they are made. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law or by the rules and regulations of the SEC. You are advised, however, to consult any further disclosures we make on related subjects in our Form 10-Q and 8-K reports and our other filings with the SEC. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the above to be a complete discussion of all potential risks or uncertainties.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

A significant portion of our revenue and costs are exposed to changes in foreign exchange rates. In addition, our outstanding borrowings may be subject to risk from changes in interest rates and foreign exchange rates. The overall objective of our financial risk management program is to seek to minimize the impact of foreign exchange rate movements and interest rate movements on our earnings. We manage these financial exposures through operational means and by using certain financial instruments. These practices may change as economic conditions change.

Foreign exchange risk

Our primary net foreign currency translation exposures are the Australian dollar, Brazilian real, Canadian dollar, Chinese renminbi, euro, and U.K. pound. 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.

Foreign exchange risk is also managed through the use of foreign currency forward-exchange contracts. These contracts are used to offset the potential earnings effects from mostly intercompany short-term foreign currency assets and liabilities that arise from operations.

Our financial instrument holdings at June 30, 2018, were analyzed to determine their sensitivity to foreign exchange rate changes. The fair values of these instruments were determined using Level 2 inputs. The sensitivity analysis of changes in the fair value of all foreign currency forward-exchange contracts at June 30, 2018, indicates that if the U.S. dollar were to appreciate against all other currencies by 10%, the fair value of these contracts would increase by \$22 million, and if the U.S. dollar were to weaken against all other currencies by 10%, the fair value of these contracts would decrease by \$29 million. For additional details, see Notes to Condensed Consolidated Financial Statements— *Note 9B. Financial Instruments: Derivative Financial Instruments— Foreign Exchange Risk*.

Interest rate risk

Our outstanding debt balances are predominantly fixed rate debt. While changes in interest rates will have no impact on the interest we pay on our fixed rate debt, interest on our commercial paper and revolving credit facility will be exposed to interest rate fluctuations. At June 30, 2018, there were no commercial paper borrowings outstanding and no outstanding principal balance under our revolving credit facility. See Notes to Condensed Consolidated Financial Statements— *Note 9B. Financial Instruments: Derivative Financial Instruments— Interest Rate Risk*.

Item 4. 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 June 30, 2018, 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.

Changes in Internal Control over Financial Reporting

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.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this Item is incorporated herein by reference to Notes to Condensed Consolidated Financial Statements—*Note 16. Commitments and Contingencies* in *Part I—Item 1*, of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in the "Our Operating Environment" and "Forward-Looking Statements and Factors That May Affect Future Results" sections of the MD&A and in Part I, Item 1A. "Risk Factors," of our 2017 Annual Report on Form 10-K, which could materially affect our business, financial condition, or future results and which are incorporated by reference herein. Set forth below are updates to certain of the risk factors disclosed in our 2017 Annual Report on Form 10-K.

Risks related to our business and industry

Modification of foreign trade policy by the U.S. or foreign countries or the imposition of tariffs on U.S. or foreign goods may harm our business.

Changes in U.S. laws, agreements and policies governing foreign trade in the territories and countries where our customers do business could negatively impact such customers' businesses and adversely affect our operating results. A number of our customers, particularly U.S.-based livestock producers, benefit from free trade agreements such as the North American Free Trade Agreement (NAFTA). The current President of the United States has initiated negotiations with Canada and Mexico aimed at re-negotiating the terms of NAFTA. Changes to international trade agreements or policies could harm our customers, and as a result, negatively impact our financial condition and results of operations.

Additionally, in March 2018, the United States announced tariffs on certain foreign goods imported into the U.S. In response, some foreign governments, including China, have instituted or are considering instituting tariffs on certain U.S. goods. While the scope and duration of these and any future tariffs remains uncertain, tariffs imposed by the U.S. or foreign governments on our products or the active pharmaceutical ingredients or other components thereof could negatively impact our financial condition and results of operations.

Risks related to tax matters

The Company could be subject to changes in its tax rates, the adoption of new U.S. or foreign tax legislation or exposure to additional tax liabilities.

The multinational nature of our business subjects us to taxation in the United States and numerous foreign jurisdictions. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. The company's future effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation.

For example, the European Commission opened formal investigations to examine whether decisions by the tax authorities in certain European countries, including Belgium, comply with European Union rules on state aid. In the case of Belgium, the European Commission concluded on January 11, 2016, that the excess profits ruling violates the European Union's state aid rules.

In addition, on June 20, 2016, the Member States of the European Union adopted the anti-tax-avoidance directive proposed on January 28, 2016, which is designed to provide uniform implementation of Base Erosion and Profits Shifting measures and other minimum taxation standards across Member States. The Member States are required to implement all components of the directive by January 1, 2020. Once enacted by the Member States, the results of the directive could have an impact on our effective tax rate. In October 2016, the European Union also introduced a proposal to impose a uniform set of rules on taxing corporate profits, known as the Common Consolidated Corporate Tax Base. This proposal is still under consideration and may have an impact to our effective tax rate.

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act (the Tax Act) effective January 1, 2018. Some notable provisions of the Tax Act include a reduction of the corporate income tax rate from 35% to 21%, and a change from a worldwide system with deferral to a territorial tax system, which includes a one-time mandatory deemed repatriation tax, payable over eight years, on certain undistributed earnings of non-U.S. subsidiaries. As of December 31, 2017, the cumulative amount of non-U.S. undistributed earnings was approximately \$4.5 billion, which includes an allocation of non-U.S. undistributed earnings as a result of the separation from Pfizer on June 24, 2013. 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. The company is currently in the process of evaluating the full impact of this new legislation on its consolidated financial statements, and in the fourth quarter of 2017 recorded a provisional net charge of \$212 million related to the one-time mandatory deemed repatriation tax, 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. A measurement-period adjustment was recorded in the first half of 2018 as a decrease to income tax expense of \$35 million. At this time, we are properly reflecting the provision for taxes on income using all current enacted global tax laws in every jurisdiction in which we operate.

On March 29, 2017, United Kingdom (UK) Prime Minister Theresa May formally notified the European Council of the UK's intention to withdraw from the European Union, commonly referred to as "Brexit", under Article 50 of the Treaty of Lisbon. The notice begins the two-year negotiation period to establish the withdrawal terms. If no agreement is reached after two years, the UK's separation still becomes effective, unless the remaining European Union members unanimously agree to an extension. At this time, the impact of Brexit to our effective tax rate is uncertain.

In addition, our effective tax rate is subject to potential risks that various taxing authorities may challenge the pricing of our cross-border arrangements and subject us to additional tax, adversely impacting our effective tax rate and our tax liability. The company is also subject to the examination of its tax returns and other tax matters by the Internal Revenue Service and other tax authorities and governmental bodies. The company regularly assesses the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for taxes. There can be no assurance as to the outcome of these examinations. If the company's effective tax rates were to increase, particularly in the United States or other material foreign jurisdictions, or if the ultimate determination of the company's taxes owed is for an amount in excess of amounts previously accrued, the company's operating results, cash flows and financial condition could be adversely affected.

Risks related to our indebtedness

We have substantial indebtedness.

We have a significant amount of indebtedness, which could materially adversely affect our operating results, financial condition and liquidity. As of June 30, 2018, we had approximately \$5.0 billion of total unsecured indebtedness outstanding. In addition, we currently have agreements for a five-year revolving credit facility with a capacity of up to \$1.0 billion, a 364-day revolving credit facility with a capacity of up to \$0.5 billion and a commercial paper program with a capacity of up to \$1.0 billion. As of August 2, 2018, we have \$0.5 billion drawn under the 364-day revolving credit facility and have issued \$0.5 billion of commercial paper under our commercial paper program in connection with the closing of our acquisition of Abaxis, Inc. We may also incur additional indebtedness under these arrangements in the future.

We may incur substantial additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our high level of debt could intensify. Specifically, our high level of debt could have important consequences, including:

- making it more difficult for us to satisfy our obligations with respect to our debt;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, business development or other general corporate requirements, including dividends;
- increasing our vulnerability to general adverse economic and industry conditions;
- exposing us to the risk of increased interest rates as certain of our borrowings are and may in the future be at variable rates of interest;
- limiting our flexibility in planning for and reacting to changes in the animal health industry;
- placing us at a competitive disadvantage to other, less leveraged competitors;
- impacting our effective tax rate; and
- increasing our cost of borrowing.

In addition, the instruments governing our indebtedness contain restrictive covenants that will limit our ability to engage in activities that may be in our long-term best interest. For example, each of our credit facilities contains a financial covenant requiring us to not exceed a maximum total leverage ratio and covenants that, among other things, limit or restrict our and our subsidiaries' ability, subject to certain exceptions, to incur liens, merge, consolidate or sell, transfer or lease assets, transact with affiliates and incur priority indebtedness. Our failure to comply with such covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all our debt.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information with respect to the shares of the company's common stock repurchased during the quarter ended June 30, 2018:

	Issuer Purchases of Equity Securities			
	Total Number of Shares Purchased ^(a)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs ^(b)	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
April 1 - April 30, 2018	929,873	\$83.29	930,201	\$732,487,712
May 1 - May 31, 2018	848,044	\$83.10	847,118	\$662,075,844
June 1 - June 30, 2018	776,783	\$86.15	776,381	\$595,180,803
	<u>2,554,700</u>	<u>\$84.10</u>	<u>2,553,700</u>	<u>\$595,180,803</u>

^(a) The company repurchased 1,000 shares during the three-month period ended June 30, 2018, that were not part of the publicly announced share repurchase authorization. These shares were reacquired from employees to satisfy tax withholding requirements on the vesting of restricted shares from equity-based awards.

^(b) In December 2016, the company's Board of Directors authorized the repurchase of up to \$1.5 billion of our outstanding common stock.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

Exhibit 3.1	Restated Certificate of Incorporation of the Registrant, effective as of May 13, 2014 (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 10.1	364-Day Revolving Credit Agreement, dated as of July 27, 2018, among Zoetis Inc., the lenders party thereto and Barclays Bank PLC, as administrative agent
Exhibit 12	Computation of Ratio of Earnings to Fixed Charges
Exhibit 15	Accountants' Acknowledgment
Exhibit 31.1	Chief Executive Officer–Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302
Exhibit 31.2	Chief Financial Officer–Certification pursuant to Sarbanes-Oxley Act of 2002 Section 302
Exhibit 32.1	Chief Executive Officer–Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906
Exhibit 32.2	Chief Financial Officer–Certification pursuant to Sarbanes-Oxley Act of 2002 Section 906
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

SIGNATURES

Pursuant to the requirements 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.

Zoetis Inc.

August 2, 2018

By: /S/ JUAN RAMÓN ALAIX
 Juan Ramón Alaix
 Chief Executive Officer and Director

August 2, 2018

By: /S/ GLENN DAVID
 Glenn David
 Executive Vice President and
 Chief Financial Officer

U.S. \$500,000,000

364-DAY REVOLVING CREDIT AGREEMENT

dated as of July 27, 2018,

among

ZOETIS INC.,

THE LENDERS FROM TIME TO TIME PARTY HERETO

and

BARCLAYS BANK PLC,
as Administrative Agent

BANK OF AMERICA, N.A.,
CITIBANK, N.A.,
JPMORGAN CHASE BANK, N.A.

and
MUFG BANK, LTD.,
as Syndication Agents

BARCLAYS BANK PLC,
CITIBANK, N.A.,
JPMORGAN CHASE BANK, N.A.,
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
and
MUFG BANK, LTD.,
as Joint Lead Arrangers and Joint Bookrunners

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364-DAY REVOLVING CREDIT AGREEMENT

364-DAY REVOLVING CREDIT AGREEMENT dated as of July 27, 2018 among ZOETIS INC., a Delaware corporation (the “**Borrower**”), the lenders (the “**Initial Lenders**”) listed on the signature pages hereof and the Lenders (as hereinafter defined) becoming party hereto after the date hereof and BARCLAYS BANK PLC (“**Barclays**”), as administrative agent (in such capacity, together with its successors in such capacity, the “**Administrative Agent**”) for the Lenders.

The parties hereto hereby agree as follows:

ARTICLE 1 DEFINITIONS AND ACCOUNTING MATTERS

Section 1.01 *Certain Defined Terms.* As used herein, the following terms shall have the following meanings (all terms defined in this Article 1 or in other provisions of this Agreement in the singular to have the same meanings when in the plural and *vice versa*):

“**Additional Costs**” shall have the meaning assigned to that term in Section 2.16(a).

“**Adjusted Consolidated EBITDA**” shall mean, for any period, Consolidated Net Income for such period plus (a) without duplication and to the extent deducted in determining such Consolidated Net Income, the sum of (i) Consolidated Interest Expense for such period, (ii) Consolidated income tax expense for such period, (iii) all amounts attributable to depreciation and amortization for such period, (iv) any other non-cash charges for such period, (v) any loss for such period of any joint venture accounted for on the equity method (except to the extent the Borrower or a Subsidiary actually made an investment in such joint venture during such period to offset such loss), and (vi) any Operational Efficiency Restructuring Charges incurred during the period commencing on October 1, 2016 and ending on December 31, 2019; *provided* that for any twelve-month period Operational Efficiency Restructuring Charges added back to Adjusted Consolidated EBITDA pursuant to this clause (vi) shall not exceed \$100,000,000 in the aggregate and *minus* (b) without duplication and to the extent included in determining such Consolidated Net Income, any income of any such joint venture for such period, except to the extent that dividends or other distributions were actually paid by such joint venture to the Borrower or a Subsidiary during such period and *minus* (c) any cash expenditures actually made during such period with respect to any non-cash items added back in computing Adjusted Consolidated EBITDA for any prior period pursuant to clause (a)(iv) above, all determined on a consolidated basis in accordance with GAAP. For the purposes of calculating the Leverage Ratio as of the end of any period, if during such period the applicable Person or any of its Subsidiaries shall have consummated a Specified Transaction (as defined below), Adjusted Consolidated EBITDA for such period shall be calculated after giving pro forma effect thereto as if such Specified Transaction occurred on the first day of such period. For purposes hereof, “**Specified Transaction**” means any transaction or series of related transactions occurring after the date of this Agreement, resulting in (a) the acquisition or disposition of all or substantially all of the assets of a Person, or of any business or division of a Person, (b) the acquisition or disposition of in excess of 50% of the Equity Interests of any Person or (c) a merger or

consolidation or any other combination with another Person (other than the Borrower or any of its Subsidiaries).

“Administrative Agent” shall have the meaning assigned to that term in the introduction hereto. The Administrative Agent may perform any of its obligations hereunder through such Affiliates or branches thereof as it shall from time to time designate by notice to the Borrower and the Lenders for the purpose of performing any of its obligations hereunder or under the Loan Documents, and the term **“Administrative Agent”** shall include such branches or Affiliates.

“Administrative Agent’s Account” shall mean the account of the Administrative Agent most recently designated by it as such account by notice to the Lenders and the Borrower.

“Administrative Questionnaire” shall mean an Administrative Questionnaire in a form supplied by the Administrative Agent.

“Affiliate” shall mean, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person. For purposes of this definition, the term **“control”** (including the terms **“controlling”**, **“controlled by”** and **“under common control with”**) of a Person means the possession, direct or indirect, of the power to vote 20% or more of the Voting Stock of such Person or to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

“Agreement” shall mean this 364-Day Revolving Credit Agreement, as amended, restated, supplemented, extended or otherwise modified from time to time.

“Anti-Corruption Laws” means the United States Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder and the Bribery Act 2010 of the United Kingdom, as amended.

“Applicable Lending Office” shall mean, with respect to each Lender, such Lender’s Domestic Lending Office in the case of a Base Rate Loan and such Lender’s Eurodollar Lending Office in the case of a Eurodollar Rate Loan.

“Applicable Percentage” shall mean, with respect to any Lender, the percentage of the total Commitments represented by such Lender’s Commitment; *provided* that in the case of Section 2.19 when a Defaulting Lender shall exist, **“Applicable Percentage”** shall mean the percentage of the total Commitments (disregarding any Defaulting Lender’s Commitment) represented by such Lender’s Commitment. If the Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Commitments most recently in effect, giving effect to any assignments and to any Lender’s status as a Defaulting Lender at the time of determination.

“Assignment and Acceptance” shall mean an instrument in substantially the form of Exhibit A hereto.

“Availability Period” shall mean the period from the Closing Date until the Commitment Termination Date.

“**Bail-In Action**” shall mean the exercise of any Write-Down and Conversion Powers by the applicable EEA Resolution Authority in respect of any liability of an EEA Financial Institution.

“**Bail-In Legislation**” shall mean, with respect to any EEA Member Country implementing Article 55 of Directive 2014/59/EU of the European Parliament and of the Council of the European Union, the implementing law for such EEA Member Country from time to time which is described in the EU Bail-In Legislation Schedule.

“**Bankruptcy Code**” shall mean the United States Bankruptcy Code of 1978, as amended from time to time.

“**Barclays**” shall have the meaning assigned to that term in the introduction hereto.

“**Barclays Parties**” shall have the meaning assigned to that term in Section 9.02(b)(v).

“**Base Rate**” shall mean, for any day, a rate per annum equal to the greatest of (a) the Prime Rate on such day, (b) the NYFRB Rate in effect on such day plus $\frac{1}{2}$ of 1.00% and (c) the Eurodollar Rate for Loans denominated in U.S. Dollars for a one-month Interest Period beginning on such day (or if such day is not a Business Day, the immediately preceding Business Day) *plus* 1.00%. Any change in the Base Rate due to a change in the Prime Rate, the NYFRB Rate or the Eurodollar Rate shall be effective from and including the effective date of such change in the Prime Rate, the NYFRB Rate or the Eurodollar Rate, respectively.

“**Base Rate Loan**” shall mean a Loan that bears interest as provided in Section 2.10(a)(i).

“**Base Rate Margin**” shall mean, on any date, the rate per annum set forth under the caption “Base Rate Margin” for such date determined in accordance with the Pricing Grid.

“**Benefit Plan**” means any of (a) an “employee benefit plan” (as defined in ERISA) that is subject to Title I of ERISA, (b) a “plan” as defined in Section 4975 of the Code or (c) any Person whose assets include (for purposes of ERISA Section 3(42) or otherwise for purposes of Title I of ERISA or Section 4975 of the Code) the assets of any such “employee benefit plan” or “plan”.

“**Board of Directors**” shall mean the board of directors of the Borrower.

“**Board of Governors**” shall mean the Board of Governors of the Federal Reserve System of the United States of America.

“**Borrower**” shall have the meaning assigned to that term in the introduction hereto.

“**Borrower SEC Documents**” shall mean all registration statements, prospectuses, forms, reports, definitive proxy statements, schedules, exhibits, statements and documents filed by the Borrower under the Securities Act or the Exchange Act, as the case may be, and publicly available on the website of the SEC at www.sec.gov, together with all certifications required pursuant to the Sarbanes-Oxley Act.

“Borrowing” shall mean (a) Revolving Loans of the same Type, Converted or continued on the same date and, in the case of Eurodollar Rate Loans, as to which a single Interest Period is in effect or (b) from and after the Term Loan Conversion Date, any Revolving Loans converted into Term Loans pursuant to Section 2.21 of the same Type, made, Converted or continued on the same date and, in the case of Eurodollar Rate Loans, as to which a single Interest Period is in effect.

“Business Day” shall mean (a) any day other than a day on which commercial banks are authorized by Law or required to remain closed in New York City and (b) if such day relates to any Eurodollar Rate Loan, that is also a day on which dealings in U.S. Dollar deposits are carried out in the London interbank market.

“Capital Lease” shall mean a lease of (or other agreement conveying the right to use) real and/or personal property which obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP (including Statement of Financial Accounting Standards No. 13 of the Financial Accounting Standards Board).

“Capital Lease Obligations” shall mean, as to any Person, the obligations of such Person to pay rent or other amounts under a Capital Lease and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP (including Statement of Financial Accounting Standards No. 13 of the Financial Accounting Standards Board); *provided* that any obligations that would not be accounted for as Capital Lease Obligations under GAAP as in effect on December 21, 2016 shall not be included in Capital Lease Obligations after December 21, 2016 due to any changes in GAAP or interpretations thereunder or otherwise.

“Cash Equivalents” shall mean:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of issuance thereof;

(b) investments in commercial paper maturing within 270 days from the date of issuance thereof and having, at such date of acquisition, the highest credit rating obtainable from S&P or from Moody’s;

(c) investments in certificates of deposit, banker’s acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, the Administrative Agent or any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof that has a combined capital and surplus and undivided profits of not less than \$500,000,000 and that issues (or the parent of which issues) commercial paper rated at least “Prime 1” (or the then equivalent grade) by Moody’s or “A 1” (or the then equivalent grade) by S&P;

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria of clause (c) above;

(e) investments in “money market funds” within the meaning of Rule 2a-7 of the Investment Company Act of 1940, as amended, substantially all of whose assets are invested in investments of the type described in clauses (a) through (d) above; and

(f) other short-term investments utilized by foreign subsidiaries in accordance with normal investment practices for cash management in investments of a type analogous to the foregoing.

“**Change of Control**” shall mean (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Exchange Act and the rules of the SEC thereunder as in effect on the date hereof), of Equity Interests representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests of the Borrower; *provided, however*, that a transaction will not be deemed to involve a Change of Control if (i) the Borrower becomes a direct or indirect wholly owned subsidiary of a holding company and (ii) (A) the holders of the voting stock of such holding company immediately following that transaction are substantially the same as the holders of the Borrower’s voting stock immediately prior to that transaction or (B) such transaction does not involve the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Exchange Act and the rules of the SEC thereunder as in effect on the date hereof), of Equity Interests representing more than 50% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests of such holding company; (b) occupation of a majority of the seats (other than vacant seats) on the Board of Directors by Persons who were neither (i) members of the Board of Directors on the Closing Date, nor (ii) nominated by the Board of Directors, nor (iii) appointed by directors so nominated; or (c) any “change of control” (or any comparable term) shall occur under any agreement or instrument relating to any Debt in excess of the Requisite Amount.

“**Closing Date**” shall have the meaning set forth in Section 3.01.

“**Code**” shall mean the Internal Revenue Code of 1986.

“**Commitment**” shall mean, with respect to each Lender, the commitment of such Lender to make Revolving Loans hereunder, expressed as an amount representing the maximum aggregate amount of such Lender’s Revolving Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.07 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.06. The initial amount of each Lender’s Commitment is set forth on Schedule 2.01, or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Commitment, as applicable. The initial aggregate amount of the Lenders’ Commitments is \$500,000,000.

“**Commitment Termination Date**” shall mean the earlier of (a) July 26, 2019 and (b) the date of termination in whole of the Commitments pursuant to Section 2.07(b) or Article 7.

“Communications” shall have the meaning assigned to that term in Section 9.02(b)(i).

“Consolidated” shall mean, with respect to any Person, the consolidation of accounts of such Person and its Subsidiaries in accordance with GAAP.

“Consolidated Net Debt” means at any date all Debt of the Borrower and its Subsidiaries at such date, less the amount of unrestricted cash and Cash Equivalents of the Borrower and its Subsidiaries at such date, all determined on a Consolidated basis.

“Consolidated Net Income” for any period means the net income of the Borrower and its Subsidiaries on a Consolidated basis for such period taken as a single accounting period determined in accordance with GAAP but excluding in any event:

- (a) any gains or losses on the sale or other disposition of investments or fixed or capital assets out of the ordinary course of business, and any taxes on such excluded gains and any tax deductions or credits on account of any such excluded losses;
- (b) net earnings and losses of any Subsidiary accrued prior to the date it became a Subsidiary;
- (c) net earnings and losses of any corporation or other entity (other than a Subsidiary), substantially all the assets of which have been acquired in any manner by the Borrower or any Subsidiary, realized by such corporation or other entity prior to the date of such acquisition;
- (d) net earnings and losses of any corporation or other entity (other than a Subsidiary) with which the Borrower or any Subsidiary shall have consolidated or which shall have merged into or with the Borrower or any Subsidiary prior to the date of such consolidation or merger;
- (e) any gains or losses resulting from the termination of any Plan, and any taxes on such excluded gains and any tax deductions or credits on account of any such excluded losses; and
- (f) any other net extraordinary gain or net extraordinary loss.

“Consolidated Net Tangible Assets” shall mean the total amount of assets (less applicable reserves and other properly deductible items) after deducting (a) all current liabilities (excluding the amount of those which are by their terms extendable or renewable at the option of the obligor to a date more than 12 months after the date as of which the amount is being determined) and (b) all goodwill, tradenames, trademarks, patents, unamortized debt discount and expense and other like intangible assets, all as set forth on the most recent balance sheet of the Borrower and its Consolidated Subsidiaries and determined in accordance with GAAP.

“Constituent Documents” shall mean, with respect to any Person, (a) the articles of incorporation, certificate of incorporation, constitution or certificate of formation (or the equivalent organizational documents) of such Person, (b) the by-laws or operating agreement (or the equivalent governing documents) of such Person and (c) any document setting forth the manner of election or duties of the directors or managing members of such Person (if any) and

the designation, amount or relative rights, limitations and preferences of any class or series of such Person's Equity Interests.

"Consummation Date" shall have the meaning assigned to such term in the definition of "Material Acquisition".

"Convert", "Conversion" and "Converted" shall each refer to a conversion of Loans of one Type into Loans of the other Type pursuant to Sections 2.11, 2.12 or 2.17.

"Credit Extension" shall have the meaning set forth in Section 3.02.

"Debt" of any Person shall mean the sum of the following (without duplication): (a) all obligations of such Person for borrowed money, under Repurchase Agreements, Disqualified Stock or evidenced by bonds, debentures, notes or other similar instruments (other than any such obligations to the extent that such obligations result from the requirement to return collateral posted to such Person by a counterparty pursuant to a Hedging Contract); (b) all obligations of such Person to pay the deferred purchase price of property, assets or services, except trade accounts payable arising in the ordinary course of business; (c) all Capital Lease Obligations of such Person; (d) all Debt of others secured by a Lien on any property or asset of such Person, whether or not such Debt is assumed by such Person; (e) all Debt of others Guaranteed by such Person; and (f) all reimbursement obligations or other obligations (other than contingent obligations) with respect to bankers' acceptances or letters of credit or similar instruments created or issued at the request of such Person.

"Default" shall mean any Event of Default or any event that with notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Defaulting Lender" shall mean any Lender, as reasonably determined by the Administrative Agent, that has (a) failed, within two Business Days of the date required to be funded or paid, to (i) fund all or any portion of its Loans or (ii) pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder, unless, in the case of clause (i) above, such Lender notifies the Administrative Agent and the Borrower in writing that such failure is the result of such Lender's reasonable determination that a condition precedent to funding (specifically identified and including the particular default, if any) has not been satisfied, (b) notified the Borrower, the Administrative Agent or any Lender in writing that it does not intend to comply with any of its funding obligations under this Agreement or has made a public statement to the effect that it does not intend to comply with its funding obligations under this Agreement or generally under other agreements in which it has committed to extend credit (unless such writing or public statement relates to such Lender's obligation to fund a Loan hereunder and states that such position is based on such Lender's reasonable determination that a condition precedent to funding (which condition precedent, together with any applicable default, shall be specifically identified in such writing or public statement) cannot be satisfied), (c) failed, within three Business Days after written request by the Administrative Agent, to confirm that it will comply with the terms of this Agreement relating to its funding obligations; *provided* that any such Lender shall cease to be a Defaulting Lender under this clause (c) upon receipt of such confirmation by the Administrative Agent, or (d) (i) been, or has a parent that has been, adjudicated as, or determined by any Governmental Authority having

regulatory authority over such Person or its assets to be, insolvent or (ii) become (or has a parent company that has become) the subject of (A) a bankruptcy or insolvency proceeding or (B) a Bail-In Action, or has had a receiver, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian, appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment; *provided* that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any Equity Interest in such Lender or a parent company thereof by a Governmental Authority or an instrumentality thereof or the exercise of control over such Lender or parent company by a Governmental Authority or instrumentality thereof so long as such ownership interest does not result in or provide such Lender with immunity from the jurisdiction of courts within the United States or from the enforcement of judgments or writs of attachment on its assets or permit such Lender (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made with such Lender.

“Dispose” shall refer to the sale, transfer, license, lease or other disposition (including any sale and lease-back transaction) of any property or assets by any Person (or the granting of any option or other right to do any of the foregoing), including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith; *provided* that the term “Dispose” shall not include any loss of or damage to, or any condemnation or other taking of, any property or assets.

“Disqualified Stock” shall mean with respect to any Person, any Equity Interest that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is exchangeable for Debt of such Person, or is redeemable at the option of the holder thereof, in whole or in part, on or prior to the date that is five years after the Maturity Date.

“Domestic Lending Office” shall mean, with respect to any Lender, the office of such Lender specified as its “Domestic Lending Office” in its Administrative Questionnaire, or such other office of such Lender as such Lender may from time to time notify the Borrower and the Administrative Agent.

“EEA Financial Institution” shall mean (a) any credit institution or investment firm established in any EEA Member Country which is subject to the supervision of an EEA Resolution Authority, (b) any entity established in an EEA Member Country which is a parent of an institution described in clause (a) of this definition or (c) any financial institution established in an EEA Member Country which is a subsidiary of an institution described in clauses (a) or (b) of this definition and is subject to consolidated supervision with its parent.

“EEA Member Country” shall mean any of the member states of the European Union, Iceland, Liechtenstein and Norway.

“EEA Resolution Authority” shall mean any public administrative authority or any Person entrusted with public administrative authority of any EEA Member Country (including any delegee) having responsibility for the resolution of any EEA Financial Institution.

“Eligible Assignee” shall mean (a) a Lender; (b) a commercial bank organized under the Laws of the United States, or any State thereof, and having total assets in excess of \$10,000,000,000; (c) a commercial bank organized under the Laws of any other country that is a member of the Organization for Economic Cooperation and Development or has concluded special lending arrangements with the International Monetary Fund associated with its General Arrangements to Borrow, or a political subdivision of any such country, and having total assets in excess of \$10,000,000,000 or its equivalent in the relevant foreign currency, so long as such bank is acting through a branch or agency located in the country in which it is organized or another country that is described in this clause (c); (d) the central bank of any country that is a member of the Organization for Economic Cooperation and Development; and (e) any other Person approved by the Administrative Agent and, unless an Event of Default shall have occurred and be continuing, the Borrower, such approval not to be unreasonably withheld or delayed; *provided* that none of the Borrower, any Affiliate of the Borrower or a natural person shall qualify as an Eligible Assignee.

“Environmental Laws” means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the protection of environment, preservation or reclamation of natural resources, or the management, release or threatened release of any Hazardous Material.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interests” shall mean shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such equity interest.

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, and the regulations promulgated and rulings issued thereunder.

“ERISA Affiliate” shall mean any Person that for purposes of Title IV of ERISA is a member of the Borrower’s controlled group, or under common control with the Borrower, within the meaning of Section 414 of the Code. For the avoidance of doubt, when any provision of this Agreement relates to a past event or period of time, the term “ERISA Affiliate” includes any Person who was, as to the time of such past event or period of time, an ERISA Affiliate within the meaning of the preceding sentence.

“ERISA Event” shall mean (a) the occurrence with respect to a Plan of a reportable event, within the meaning of Section 4043 of ERISA, unless the 30-day notice requirement with

respect thereto has been waived by the Pension Benefit Guaranty Corporation (or any successor) (“**PBGC**”); (b) the application for a minimum funding waiver with respect to a Plan; (c) the provision by the administrator of any Plan of a notice of intent to terminate such Plan, pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (d) the cessation of operations at a facility of the Borrower or any of its ERISA Affiliates in the circumstances described in Section 4062(e) of ERISA; (e) the withdrawal by the Borrower or any of its ERISA Affiliates from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (f) the conditions set forth in Section 430(e) of the Code or Section 303(k)(1)(A) and (B) of ERISA to the creation of a lien upon property or assets or rights to property or assets of the Borrower or any of its ERISA Affiliates for failure to make a required payment to a Plan are satisfied; (g) the termination of a Plan by the PBGC pursuant to Section 4042 of ERISA, or the occurrence of any event or condition described in Section 4042 of ERISA that constitutes grounds for the termination of, or the appointment of a trustee to administer, a Plan; (h) any failure by any Plan to satisfy the minimum funding standards, within the meaning of Sections 412 or 430 of the Code or Section 302 of ERISA, whether or not waived; (i) the determination that any Plan is or is expected to be in “at-risk” status, within the meaning of Section 430 of the Code or Section 303 of ERISA or (j) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of liability with respect to the withdrawal or partial withdrawal from a Multiemployer Plan or a determination that a Multiemployer Plan is, or is expected to be “insolvent” (within the meaning of Section 4245 of ERISA) or in “endangered” or “critical” status (within the meaning of Section 432 of the Code or Section 305 of ERISA).

“**EU Bail-In Legislation Schedule**” means the EU Bail-In Legislation Schedule published by the Loan Market Association (or any successor Person), as in effect from time to time.

“**Eurodollar Lending Office**” shall mean, with respect to any Lender, the office of such Lender specified as its “Eurodollar Lending Office” in its Administrative Questionnaire (or, if no such office is specified, its Domestic Lending Office), or such other office of such Lender as such Lender may from time to time notify the Borrower and the Administrative Agent.

“**Eurodollar Margin**” shall mean, on any date, the rate per annum set forth under the caption “**Eurodollar Margin**” for such date determined in accordance with the Pricing Grid.

“**Eurodollar Rate**” shall mean, for any Eurodollar Rate Loan for any Interest Period or any determination of the Base Rate pursuant to clause (c) of the definition thereof, the London interbank offered rate as administered by ICE Benchmark Administration (or any other Person that takes over the administration of such rate for a period equal in length to such interest period as displayed on pages LIBOR01 or LIBOR02 of the Reuters screen that displays such rate (or, in the event such rate does not appear on a Reuters page or screen, on any successor or substitute page on such screen that displays such rate, or on the appropriate page of such other information service that publishes such rate from time to time as selected by the Administrative Agent in its reasonable discretion; in each case the “**LIBO Screen Rate**”) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such interest period; *provided*

that if the LIBO Screen Rate shall be less than 0%, such rate shall be deemed to be 0% for the purposes of this Agreement; *provided, further*, that if the LIBO Screen Rate shall not be available at such time for such interest period (an “**Impacted Interest Period**”) then the Eurocurrency Rate shall be the Interpolated Rate; *provided* that if any Interpolated Rate shall be less than 0%, such rate shall be deemed to be 0% for purposes of this Agreement.

“**Eurodollar Rate Loan**” shall mean a Loan that bears interest as provided in Section 2.10(a)(ii).

“**Events of Default**” shall have the meaning assigned to that term in Article 7.

“**Exchange Act**” shall mean the Securities Exchange Act of 1934, as amended.

“**Excluded Taxes**” shall mean, with respect to the Administrative Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder or under any other Loan Document, (a) Taxes imposed on (or measured by) its net income by the United States of America (including any political subdivision thereof) or by any other jurisdiction (including any political subdivision of any thereof) under the Laws of which such recipient is organized, in which its principal office is located or in which it conducts any business (other than solely on account of the execution and performance of or the receipt of any payment under this Agreement or any other Loan Document) or, in the case of any Lender, in which its Applicable Lending Office is located, (b) any branch profits Taxes imposed by the United States of America or any comparable Tax imposed by any foreign jurisdiction, (c) (other than an assignee pursuant to a demand by the Borrower under Sections 2.20 or 9.06(c)), any withholding Tax, except withholding Taxes imposed as a result of a change in Law occurring after the time such recipient becomes a party to this Agreement or designates a new Applicable Lending Office, (d) any U.S. withholding Tax that is attributable to such recipient’s failure to furnish documentation described in Section 2.18(f), and (e) any Taxes imposed by FATCA.

“**Facility Fee Rate**” shall mean, on any date, the rate per annum set forth under the caption “Facility Fee Rate” for such date determined in accordance with the Pricing Grid.

“**FATCA**” shall mean Sections 1471 through 1474 of the Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b)(1) of the Code.

“**Federal Funds Effective Rate**” shall mean, for any day, the rate calculated by the NYFRB based on such day’s federal funds transactions by depository institutions (as determined in such manner as the NYFRB shall set forth on its public website from time to time) and published on the next succeeding Business Day by the NYFRB as the federal funds effective rate; *provided* that if the Federal Funds Effective Rate determined in accordance with the foregoing would otherwise be less than 0%, such rate shall be deemed to be 0% for purposes of this Agreement.

“Financial Officer” shall mean (a) the Controller of the Borrower, (b) the Chief Financial Officer of the Borrower, (c) the Treasurer of the Borrower or (d) any officer of the Borrower who succeeds to all or substantially all of the responsibilities of an officer identified in clause (a), (b) or (c) above.

“Fitch” shall mean Fitch Ratings Inc., and any successor to its rating agency business.

“Foreign Lender” shall mean any Lender that is organized under the Laws of a jurisdiction other than the United States of America. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“GAAP” shall mean generally accepted accounting principles in the United States of America.

“Governmental Approval” means any written permit, license, variance, certification, consent, no-action letter, clearance, exemption or other approval granted by a Governmental Authority.

“Governmental Authority” shall mean the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government including any supra-national bodies (such as the European Union or the European Central Bank).

“Guarantee” of any Person shall mean any obligation of such Person directly guaranteeing any Debt of any other Person or otherwise providing for the payment of any Debt of any Person, *provided* that the term “Guarantee” shall not include endorsements for collection or deposits in the ordinary course of business. The term “Guarantee” used as a verb has a correlative meaning.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all substances, wastes or other pollutants listed, defined, regulated or classified as hazardous or toxic, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated as such pursuant to any Environmental Law.

“Hedging Contracts” shall mean all interest rate contracts, foreign exchange contracts, currency swap or option agreements, forward contracts, commodity swap, purchase or option agreements, other commodity price hedging arrangements and all other similar agreements or arrangements designed to mitigate the risks of any Person arising from fluctuations in interest rates, currency values or commodity prices.

“Impacted Interest Period” shall have the meaning assigned to it in the definition of “Eurodollar Rate”.

“Indemnified Taxes” shall mean Taxes other than Excluded Taxes.

“Indemnitee” shall have the meaning assigned to that term in Section 9.04(c).

“Initial Financial Statements” shall mean the (a) audited Consolidated balance sheet of the Borrower and the related audited Consolidated statements of income, shareholders’ equity and cash flows and the related footnotes as of and for the year ended December 31, 2017 and (b) the unaudited condensed Consolidated balance sheet of the Borrower and the related unaudited condensed Consolidated statements of income and cash flows and related footnotes for the fiscal quarter ended March 31, 2018.

“Initial Lenders” shall have the meaning assigned to that term in the introduction hereto.

“Intercompany Debt” means (i) with respect to any Subsidiary, Debt of such Subsidiary to the Borrower or to another Subsidiary and (ii) with respect to the Borrower, Debt of the Borrower to a Subsidiary.

“Interest Expense” for any period means all interest and all amortization of debt discount and expense (including, without limitation, all commissions, fees and other charges owed with respect to letters of credit and bankers’ acceptances) on any particular Debt (including, without limitation, payment-in-kind, zero coupon and other like Securities) for which such calculations are being made.

“Interest Coverage Ratio” shall mean, for any period, the ratio of Adjusted Consolidated EBITDA for such period to the Consolidated Interest Expense of the Borrower and its Subsidiaries for such period.

“Interest Period” shall mean, for each Eurodollar Rate Loan comprising part of the same Borrowing, the period commencing on the date of such Eurodollar Rate Loan (or the date of the Conversion of any Base Rate Loan into such Eurodollar Rate Loan) and ending on the last day of the period selected by the Borrower pursuant to the provisions contained herein and, thereafter, with respect to Eurodollar Rate Loans, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to the provisions contained herein. The duration of each such Interest Period for each Eurodollar Rate Loan comprising part of the same Borrowing shall be one, two, three or six months, or if available as determined by all Lenders, twelve months or any other period agreed upon by the Administrative Agent, each of the Lenders and the Borrower, in each case as the Borrower may select, upon notice received by the Administrative Agent not later than 11:00 a.m. (New York City time) on the third Business Day prior to the first day of such Interest Period. Notwithstanding the foregoing:

(i) if any Interest Period would otherwise commence before and end after the Commitment Termination Date, such Interest Period shall end on the Commitment Termination Date;

(ii) each Interest Period that would otherwise end on a day that is not a Business Day shall end on the next succeeding Business Day (or, if such next succeeding Business Day falls in the next succeeding calendar month, on the next preceding Business Day);

(iii) each Interest Period that commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month; and

(iv) Interest Periods commencing on the same date for Eurodollar Rate Loans comprising part of the same Borrowing shall be of the same duration.

“Interpolated Rate” shall mean, at any time, for any Interest Period, the rate per annum determined by the Administrative Agent (which determination shall be conclusive and binding absent manifest error) to be equal to the rate that results from interpolating on a linear basis between: (a) the LIBO Screen Rate for the longest period for which the LIBO Screen Rate is available for U.S. Dollars) that is shorter than the Impacted Interest Period and (b) the LIBO Screen Rate for the shortest period (for which that LIBO Screen Rate is available for U.S. Dollars) that exceeds the Impacted Interest Period, in each case, at such time.

“Joint Lead Arrangers” shall mean the Persons so identified on the cover page hereof, in such capacity (or, with respect to Merrill Lynch, Pierce, Fenner & Smith Incorporated, any other registered broker-dealer wholly-owned by Bank of America Corporation to which all or substantially all of Bank of America Corporation’s or any of its subsidiaries’ investment banking, commercial lending services or related businesses may be transferred following the date of this Agreement).

“Law” shall mean any federal, state, local, national or supranational or foreign law (including common law), statute, ordinance, rule, regulation, Order, code ruling, decree, arbitration award, agency requirement, license or permit of any Governmental Authority.

“Lenders” shall mean (i) the Initial Lenders and (ii) each Eligible Assignee that shall become a party hereto pursuant to Section 9.06(a), other than any Person that shall have ceased to be a Lender hereunder pursuant to Section 9.06.

“Leverage Ratio” shall mean, for any period of four consecutive fiscal quarters, the ratio of Consolidated Net Debt as of the last day of such period to Adjusted Consolidated EBITDA for such period.

“LIBO Screen Rate” shall have the meaning assigned to such term in the definition of “Eurodollar Rate”.

“Lien” shall mean, with respect to any property or asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such property or asset.

“Loan” shall mean a loan by a Lender to the Borrower pursuant to this Agreement.

“Loan Documents” shall mean, collectively, this Agreement and the Notes.

“Material Acquisition” means any acquisition or series of acquisitions consummated within a six-month period, if the aggregate amount of consideration (such consideration (a) excluding amounts attributable to the issuance of capital stock of the Borrower and (b) including,

for the avoidance of doubt, any indebtedness satisfied or defeased at the closing of such acquisition by payment thereof, directly or indirectly, by the Borrower or its Subsidiaries or assumed in connection with such acquisition) for such acquisition or series of acquisitions is at least \$500,000,000 and the Borrower has designated such transaction or series of transactions as a “Material Acquisition” by written notice in substantially the form of Exhibit C hereto (a “**Material Acquisition Notice**”) to the Administrative Agent; *provided* that such Material Acquisition Notice shall be irrevocable and the applicable Material Acquisition Notice must be submitted no earlier than the date on which such acquisition (or, for a series of acquisitions, the date on which the last acquisition in such series) is consummated (such date of consummation, the “**Consummation Date**”) and no later than the date that is 90 days after the Consummation Date; *provided, further* that concurrent with the delivery of the Material Acquisition Notice, the Borrower shall deliver to the Administrative Agent a certification signed by an officer of the Borrower certifying the Borrower will be pro forma compliance with the financial covenants set forth in Section 6.05.

“**Material Acquisition Notice**” shall have the meaning assigned to such term in the definition of “Material Acquisition”.

“**Material Adverse Change**” shall mean any material adverse change in any of (a) the business, financial position or results of operations of the Borrower and its Subsidiaries taken as a whole, (b) the ability of the Borrower to perform any of its material obligations under this Agreement or the other Loan Documents or (c) the rights of or benefits available to the Lenders or the Administrative Agent under this Agreement or any other Loan Document.

“**Material Adverse Effect**” shall mean an effect that results in or causes, or could reasonably be expected to result in or cause, a Material Adverse Change.

“**Material Subsidiary**” shall mean any Subsidiary (a) for which the Consolidated gross revenues for the four fiscal quarter period ending on the last day of the most recently ended fiscal quarter of the Borrower for which financial statements have been delivered pursuant to clauses (a) or (b), as applicable, of Section 5.01 (or prior to such delivery, as of December 31, 2017) exceed 5.00% of the Consolidated gross revenues of the Borrower for such period, in each case determined in accordance with GAAP, or (b) for which the Consolidated total assets (after intercompany eliminations) as of the last day of the most recently ended fiscal quarter of the Borrower for which financial statements have been delivered pursuant to clauses (a) or (b), as applicable, of Section 5.01 (or prior to such delivery, as of December 31, 2017) exceed 5.00% of the Consolidated total assets of the Borrower as of such date, in each case determined in accordance with GAAP.

“**Maturity Date**” means the Commitment Termination Date, unless a Term Loan Election has been made and the Term Loan Conversion Date has occurred, in which case “Maturity Date” means the first anniversary of the Commitment Termination Date, *provided* that if such date shall not be a Business Day, the Maturity Date shall be the immediately preceding Business Day.

“**Moody’s**” shall mean Moody’s Investors Service, Inc., and any successor to its rating agency business.

“**Multiemployer Plan**” shall mean a multiemployer plan, as defined in Section 3(37) or Section 4001(a)(3) of ERISA, as applicable, in respect of which the Borrower or any ERISA Affiliate could have any obligation or liability, contingent or otherwise.

“**Multiple Employer Plan**” shall mean a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of the Borrower or any ERISA Affiliate and at least one Person other than the Borrower and the ERISA Affiliates or (b) was so maintained and in respect of which the Borrower or any ERISA Affiliate could have liability under Section 4064 or 4069 of ERISA in the event such plan has been or were to be terminated.

“**Net Cash Proceeds**” shall mean, with respect to the incurrence of Debt, the excess, if any, of (i) cash actually received by the Borrower or any of its Subsidiaries in connection with such incurrence net of all taxes over (ii) the underwriting discounts, fees, commissions, and expenses incurred by the Borrower or any of its Subsidiaries in connection with such incurrence (including, without limitation, legal fees and expenses).

“**Note**” shall mean a promissory note of the Borrower payable to any Lender and its registered assigns, in substantially the form of Exhibit B hereto, evidencing the aggregate indebtedness of the Borrower to such Lender resulting from one or more Loans made by such Lender.

“**NYFRB**” means the Federal Reserve Bank of New York.

“**NYFRB Rate**” shall mean, for any day, the greater of (a) the Federal Funds Effective Rate in effect on such day and (b) the Overnight Bank Funding Rate in effect on such day (or for any day that is not a Business Day, for the immediately preceding Business Day); *provided* that if none of such rates are published for any day that is a Business Day, the term “NYFRB Rate” means the rate for a federal funds transaction quoted at 11:00 a.m. on such day received by the Administrative Agent from a federal funds broker of recognized standing selected by it; *provided, further*, that if any of the aforesaid rates shall be less than 0%, such rate shall be deemed to be 0% for purposes of this Agreement.

“**Obligations**” shall mean the Loans and all other amounts, obligations, covenants and duties owing by the Borrower to the Administrative Agent, any Lender, any Affiliate of any of them or any Indemnitee, of every type and description (whether by reason of an extension of credit, payment of any draft drawn or other payment thereunder, loan, guaranty, indemnification or otherwise), present or future, arising under this Agreement or any other Loan Document, whether direct or indirect (including those acquired by assignment), absolute or contingent, due or to become due, now existing or hereafter arising and however acquired and whether or not evidenced by any note, guaranty or other instrument or for the payment of money, including all fees, interest, charges, expenses, attorneys’ fees and disbursements and other sums chargeable to the Borrower under this Agreement and any other Loan Document (including any such sums accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding).

“**Operational Efficiency Restructuring Charges**” means non-recurring costs, charges or expenses related to the Borrower and/or its Subsidiaries’ operational efficiency and plant

network rationalization initiatives, including, without limitation, costs, charges or expenses related to facility closures, facility consolidations, retention, severance, system establishment costs, contract termination commitments and future lease commitments.

“Order” shall mean any order, judgment or injunction.

“Other Taxes” shall mean any and all present or future stamp or documentary Taxes or any other excise or property Taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, the Loan Documents that are imposed by any Governmental Authority in a jurisdiction in which the Borrower is incorporated, organized, managed and controlled or otherwise has a connection.

“Overnight Bank Funding Rate” shall mean, for any day, the rate comprised of both overnight federal funds and overnight Eurodollar Rate borrowings by U.S.-managed banking offices of depository institutions (as such composite rate shall be determined by the NYFRB as set forth on its public website from time to time) and published on the next succeeding Business Day by the NYFRB as an overnight bank funding rate (from and after such date as the NYFRB shall commence to publish such composite rate).

“Participant” shall have the meaning assigned to that term in Section 9.06(f).

“Participant Register” shall have the meaning assigned to that term in Section 9.06(f).

“PATRIOT Act” shall mean the USA PATRIOT Act of 2001 (31 U.S.C. 5318 et seq.).

“PBGC” shall have the meaning assigned to that term in the definition of ERISA Event.

“Permitted Liens” shall mean: (a) Liens imposed by Law for Taxes that are not yet due or are being contested in compliance with Section 5.04; (b) carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s and other like Liens imposed by Law, arising in the ordinary course of business and securing obligations that are not overdue by more than 30 days (or if more than 30 days overdue, are unfiled and no other action has been taken to enforce such Liens) or are being contested in compliance with Section 5.04; (c) pledges and deposits made in the ordinary course of business (i) in compliance with workers’ compensation, unemployment insurance and other social security Laws or regulations or (ii) securing liability for reimbursement or indemnification obligations of (including obligations in respect of letters of credit or bank guarantees for the benefit of) insurance carriers providing property, casualty or liability insurance to the Borrower or any Subsidiary; (d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature (including those to secure health, safety and environmental obligations), in each case in the ordinary course of business; (e) judgment Liens in respect of judgments that do not constitute an Event of Default under Section 7.01(e); (f) easements, zoning restrictions, rights of way and similar encumbrances on real property imposed by Law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Borrower and its Subsidiaries; (g) Liens (i) of a collection bank on the items in the course of collection, (ii) attaching to trading accounts or brokerage accounts incurred in the

ordinary course of business, (iii) in favor of a banking or other financial institution arising as a matter of Law encumbering deposits or other funds maintained with a financial institution (including the right of set off) or which are customary in the banking industry, (iv) attaching to other prepayments, deposits or earnest money in the ordinary course of business and (v) attaching to cash collateral posted pursuant to a Hedging Contract, or a letter of credit agreement, entered into in the ordinary course of business; (h) Liens on insurance policies and the proceeds thereof securing the financing of the premiums with respect thereto; (i) Liens on specific items of inventory or other goods and the proceeds thereof securing such Person's obligations in respect of documentary letters of credit or banker's acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or goods; (j) interest or title of a lessor, lessee, sublessor or sublessee under any lease or sublease permitted hereunder (other than any Capital Lease) and any interest or title of a licensor, licensee, sublicensor or sublicensee under any license or sublicense permitted hereunder; (k) Liens solely on any cash earnest money deposits, escrow arrangements or similar arrangements made by the Borrower or any Subsidiary in connection with any letter of intent or purchase agreement permitted hereunder; (l) purported Liens evidenced by the filing of precautionary Uniform Commercial Code financing statements (or any similar precautionary filings) relating solely to operating leases of personal property entered into in the ordinary course of business; (m) Liens in favor of customs and revenue authorities arising as a matter of Law to secure payment of customs duties in connection with importation of goods; and (n) any zoning or similar Law or right reserved to or vested in any Governmental Authority to control or regulate the use of any real property.

"Permitted Refinancing" shall mean any extension, refinancing, renewal, replacement or defeasement of any Debt that (a) does not exceed the principal amount of such Debt (plus all accrued interest thereon and the amount of all Taxes, fees, costs, expenses and premiums incurred in connection therewith), (b) has a weighted average maturity and final maturity (measured as of the date of such extension, refinancing, renewal, replacement or defeasance) that is no earlier than the earlier of (x) the Commitment Termination Date and (y) the original weighted average maturity and final maturity of such Debt and (c) is not secured by any Lien other than a Lien securing such Debt and does not represent Debt of any Person except a Person obligated in respect of such Debt.

"Permitted Securitization Financing" means any sale or sales of any accounts receivable, general intangibles, chattel paper or other financial assets and related rights and assets of the Borrower and/or any of its Subsidiaries, and financing secured by the assets so sold, including, without limitation, any revolving purchase(s) of such assets (a "Securitization Financing"); *provided* that (a) all such sales are made at fair market value (as determined in good faith by the Borrower) and (b) such financing shall be non-recourse (except for customary representations, warranties, covenants and indemnities made in connection with such facilities) to the Borrower or any Subsidiary (other than a special purpose Subsidiary with no assets other than the financial assets which are the basis for such financing).

"Person" shall mean an individual, a corporation, a company, a voluntary association, a partnership, a trust, a joint venture, a limited liability company, an unincorporated organization, or a government or any agency, instrumentality or political subdivision thereof.

“Plan” shall mean a Single Employer Plan, a Multiple Employer Plan or a Multiemployer Plan.

“Platform” shall have the meaning assigned to that term in Section 9.02(b)(ii).

“Pricing Grid” shall mean the Pricing Grid based on the Borrower’s Ratings attached as Annex I hereto.

“Prime Rate” shall mean the rate of interest last quoted by The Wall Street Journal as the “Prime Rate” in the U.S. or, if The Wall Street Journal ceases to quote such rate, the highest per annum interest rate published by the Federal Reserve Board in Federal Reserve Statistical Release H.15 (519) (Selected Interest Rates) as the “bank prime loan” rate or, if such rate is no longer quoted therein, any similar rate quoted therein (as determined by the Administrative Agent) or any similar release by the Federal Reserve Board (as determined by the Administrative Agent). Each change in the Prime Rate shall be effective from and including the date such change is publicly announced or quoted as being effective.

“PTE” means a prohibited transaction class exemption issued by the U.S. Department of Labor, as any such exemption may be amended from time to time.

“Quarterly Date” shall mean the last day of each March, June, September and December in each year, the first of which shall be the first such day after the date hereof; *provided* that, if any such day is not a Business Day, then such Quarterly Date shall be the next preceding Business Day.

“Rating Agencies” shall mean Moody’s and S&P.

“Ratings” shall mean, at any time, the public ratings of the Borrower’s senior unsecured non-credit enhanced long-term debt by Moody’s and S&P at such time.

“Register” shall have the meaning assigned to that term in Section 9.06(e).

“Regulations D, U and X” shall mean, respectively, Regulations D, U and X of the Board of Governors (or any successor), as the same may be amended or supplemented from time to time.

“Regulatory Change” shall mean any change after the date of this Agreement in United States Federal, state or foreign Law or regulations (including Regulation D) or the adoption or making after such date of any interpretations, directives or requests applying to a class of banks, including the Administrative Agent or any Lender, of or under any United States Federal, state or foreign Law or regulations (whether or not having the force of Law) by any court or governmental or monetary authority charged with the interpretation or administration thereof; *provided* that, notwithstanding anything herein to the contrary, (a) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (b) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor similar authority) or the United States or foreign regulatory authorities, in each case

pursuant to Basel III, shall in each case be deemed to be a “Regulatory Change”, regardless of the date enacted, adopted, promulgated or issued.

“**Related Party**” shall mean, with respect to any specified Person, such Person’s Affiliates and the respective partners, directors, officers, employees, members, trustees, agents and sub-agents of such Person and such Person’s Affiliates.

“**Repurchase Agreement**” shall mean an agreement by the Borrower or any Subsidiary to sell securities to another Person coupled with an agreement to purchase such securities from such Person at a specified price on a later date.

“**Required Lenders**” shall mean, subject to Section 2.19, at any time, Lenders having Revolving Credit Exposures and unused Commitments representing more than 50% of the sum of the total Revolving Credit Exposures and unused Commitments at such time or, from and after the Term Loan Conversion Date, Lenders holding Loans representing more than 50% of the aggregate outstanding principal amount of the Loans at such time (exclusive in each case of the Commitment(s), Revolving Credit Exposure(s) and Loan(s), as applicable, of Defaulting Lenders).

“**Requisite Amount**” shall have the meaning assigned to that term in Section 7.01(e).

“**Reserve Requirement**” shall mean, for any Interest Period for any Eurodollar Rate Loan, the average maximum rate at which reserves (including any marginal, supplemental or emergency reserves) are required to be maintained during such Interest Period under Regulation D by member banks of the Federal Reserve System in New York City with deposits exceeding \$1,000,000,000 against “Eurocurrency Liabilities” (as such term is used in Regulation D). Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by such member banks by reason of any Regulatory Change against (a) any category of liabilities that includes deposits by reference to which the Eurodollar Rate is to be determined or (b) any category of extensions of credit or other assets that includes Eurodollar Rate Loans.

“**Revolving Credit Exposure**” shall mean, with respect to any Lender at any time, the sum of the aggregate outstanding principal amount of such Lender’s Revolving Loans at such time.

“**Revolving Loan**” shall mean a Loan made pursuant to Section 2.01.

“**S&P**” shall mean Standard & Poor’s Rating Services, a Standard & Poor’s Financial Services LLC business, and any successor to its rating agency business.

“**Sanctioned Country**” shall mean, at any time, a country, a region or territory which is itself the subject or target of any Sanctions (at the time of this Agreement, Crimea, Cuba, Iran, North Korea and Syria).

“**Sanctioned Person**” shall mean, at any time, (a) any Person listed in any Sanctions related list of designated Persons maintained by the Office of Foreign Assets Control of the U.S. Department of the Treasury, the U.S. Department of State, the United Nations Security Council,

the European Union, or Her Majesty's Treasury of the United Kingdom, or (b) any Person operating, organized or resident in a Sanctioned Country or (c) any Person owned or controlled by any such Person or Persons described in the foregoing clauses (a) or (b).

"Sanctions" means all economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by (a) the U.S. government, including those administered by the Office of Foreign Assets Control of the U.S. Department of the Treasury or the U.S. Department of State, or (b) the United Nations Security Council, the European Union or Her Majesty's Treasury of the United Kingdom.

"Sarbanes-Oxley Act" shall mean the Sarbanes-Oxley Act of 2002.

"SEC" shall mean the United States Securities and Exchange Commission.

"Secured Debt" shall mean any Debt under any Repurchase Agreement and (ii) any other Debt the obligations with respect to which are secured by a Lien.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Securitization Financing" is defined in the definition of "Permitted Securitization Financing".

"Securitization Financing Amount" means at any time and with respect to any Securitization Financing, the aggregate principal amount of Debt of the Borrower and its Subsidiaries outstanding at such time, or, if such financing is not treated as indebtedness of the Borrower and its Subsidiaries under GAAP at such time, the principal-equivalent amount (whether in the form of unrecovered purchase price or the like or otherwise) of financing provided thereunder at such time.

"Single Employer Plan" shall mean a single-employer plan, as defined in Section 3(41) or Section 4001(a)(15) of ERISA, as applicable, that (a) is maintained for employees of the Borrower or any ERISA Affiliate and no Person other than the Borrower and the ERISA Affiliates or (b) was so maintained and in respect of which the Borrower or any ERISA Affiliate could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"Specified Debt Incurrence" shall mean the incurrence of Debt for borrowed money in the form of senior unsecured notes issued by the Borrower or any of its Subsidiaries to third parties.

"Specified Transaction" shall have the meaning assigned to such term in the definition of "Adjusted Consolidated EBITDA".

"Subsidiary" shall mean, with respect to any Person, any corporation, partnership, limited liability company or other business entity of which at least a majority of the outstanding shares of Voting Stock is at the time directly or indirectly owned or controlled by such Person or one or more of the Subsidiaries of such Person. Unless the context shall otherwise require, "Subsidiary" refers to a Subsidiary of the Borrower.

“**Taxes**” shall mean any and all present or future taxes, levies, imposts, duties, deductions, charges, liabilities or withholdings (including interest, fines, penalties or additions to tax) imposed by any Governmental Authority.

“**Term Loan**” means a Revolving Loan converted into a term loan under Section 2.21.

“**Term Loan Conversion Date**” has the meaning assigned to it in Section 2.21.

“**Term Loan Election**” has the meaning assigned to it in Section 2.21.

“**Type**”, when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Eurodollar Rate or the Base Rate.

“**United States**” shall have the meaning assigned to that term in Section 7701 of the Code.

“**U.S. Dollars**” and “**\$**” shall mean the lawful money of the United States of America.

“**Voting Stock**” shall mean Equity Interests of any Person having ordinary power to vote in the election of members of the board of directors, managers, trustees or other controlling Persons, of such Person (irrespective of whether, at the time, Equity Interests of any other class or classes of such entity shall have or might have voting power by reason of the happening of a contingency).

“**Withholding Agent**” shall mean the Borrower and the Administrative Agent, as the case may be.

“**Write-Down and Conversion Powers**” shall mean, with respect to any EEA Resolution Authority, the write-down and conversion powers of such EEA Resolution Authority from time to time under the Bail-In Legislation for the applicable EEA Member Country, which write-down and conversion powers are described in the EU Bail-In Legislation Schedule.

Section 1.02 *Accounting Terms and Determinations*. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all determinations with respect to accounting matters hereunder shall be made, and all financial statements and certificates and reports as to financial matters required to be furnished to the Administrative Agent or any Lender hereunder shall be prepared, in accordance with GAAP as in effect from time to time, applied on a basis consistent with the audited Consolidated financial statements of the Borrower for the Borrower’s fiscal year ended December 31, 2017 (except for changes concurred with by the Borrower’s independent public accountants); *provided* that terms of an accounting or financial nature used herein shall be construed, and computations of amounts and ratios referred to herein shall be made without giving effect to any change to or modification of GAAP which would require the capitalization of leases (whether or not existing on the Closing Date) that would be characterized as “operating leases” under GAAP as in effect on December 21, 2016.

Section 1.03 *Computation of Time Periods.* In this Agreement in the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each mean “to but excluding”.

Section 1.04 *Terms Generally.* The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein (including this Agreement) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns (subject to any restrictions on assignment set forth herein) and, in the case of any Governmental Authority, any other Governmental Authority that shall have succeeded to any or all functions thereof, (c) any definition of or reference to any statute, rule or regulation shall be construed as referring thereto as from time to time amended, supplemented or otherwise modified (including by succession of comparable successor Laws), (d) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof and (e) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require.

ARTICLE 2 AMOUNTS AND TERMS OF THE LOANS

Section 2.01 *Commitments.* Subject to the terms and conditions set forth herein, each Lender agrees to make loans to the Borrower from time to time during the Availability Period; *provided that*, immediately after each such Loan is made, the amount of each Lender’s Revolving Credit Exposure shall not exceed such Lender’s Commitment. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans.

Section 2.02 *Loans and Borrowings.* (a) Each Revolving Loan shall be made as part of a Borrowing consisting of Revolving Loans made by the Lenders ratably in accordance with their respective Commitments. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; *provided that* the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender’s failure to make Loans as required.

(b) Subject to Section 2.17, each Revolving Borrowing shall be comprised entirely of Base Rate Loans or Eurodollar Rate Loans as the Borrower may request in accordance herewith. Each Lender at its option may make any Eurodollar Rate Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; *provided that* any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) At the time that any Revolving Borrowing is made, such Borrowing shall be in an aggregate amount that is not less than \$5,000,000 and an integral multiple of \$1,000,000; *provided* that a Base Rate Revolving Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Commitments. Borrowings of more than one Type may be outstanding at the same time; *provided* that there shall not at any time be more than a total of ten Eurodollar Rate Borrowings outstanding.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date (unless a Term Loan Election has occurred but the Term Loan Conversion Date has not yet occurred).

Section 2.03 *Requests for Revolving Borrowings.* To request a Revolving Borrowing, the Borrower shall notify the Administrative Agent of such request (a) in the case of a Eurodollar Rate Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing (or, in the case of the first Borrowing hereunder, not later than 11:00 a.m., New York City time, two Business Days before the date of such Borrowing), or (a) in the case of a Base Rate Borrowing, not later than 1:00 p.m., New York City time, on the date of the proposed Borrowing. Each such Borrowing Request shall be irrevocable and shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount of the requested Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) whether such Borrowing is to be a Base Rate Borrowing or a Eurodollar Rate Borrowing;
- (iv) in the case of a Eurodollar Rate Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term “Interest Period”; and
- (v) the location and number of the Borrower’s account to which funds are to be disbursed.

If no election as to the Type of Revolving Borrowing is specified, then the requested Revolving Borrowing shall be a Base Rate Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Rate Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month’s duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender’s Loan to be made as part of the requested Borrowing.

Section 2.04 [Reserved].

Section 2.05 [Reserved].

Section 2.06 *Funding of Borrowings.* (a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof not later than 1:00 p.m. (New York City time), in funds immediately available in New York City, to the account of the Administrative Agent most recently designated for such purpose by notice to the Lenders.

(b) The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower designated by the Borrower in the applicable Borrowing Request.

(c) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at the Federal Funds Effective Rate.

Section 2.07 *Changes of Commitments.* (a) *Termination on the Maturity Date.* Unless theretofore reduced to such amount pursuant to Section 2.07(b) or Section 2.07(c), the Commitments of the Lenders shall automatically be reduced to zero on the close of banking business on the Commitment Termination Date.

(b) *Optional Ratable Termination or Reduction.* The Borrower shall have the right, at any time or from time to time, upon at least three Business Days' notice to the Administrative Agent, to terminate in whole or reduce ratably in part the unused portions of the respective Commitments of the Lenders, *provided* that (i) each partial reduction shall be in the minimum amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof and (i) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of Loans in accordance herewith, the aggregate Revolving Credit Exposure would exceed the aggregate amount of the Commitments; *provided, further* that a notice of termination of the Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, indentures or similar agreements or other transactions (including the occurrence of a Change of Control) in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. The aggregate amount of the Commitments, once reduced as provided in this Section 2.07(b), may not be reinstated.

(c) *Mandatory Ratable Termination or Reduction.* Subject to Section 2.07(d) below, the Commitments shall be automatically and permanently reduced in an amount equal to 100% of the Net Cash Proceeds actually received by the Borrower or any of its Subsidiaries from any Specified Debt Incurrence.

(d) *Application of Mandatory Commitment Reductions.* Any Net Cash Proceeds contemplated to be applied to reduce the Commitments pursuant to Section 2.07(c) above shall first be applied to prepay the outstanding Loans, if any, pursuant to Section 2.13(b) until the amount of Loans outstanding is \$0, and any remaining amounts shall be applied to reduce the Commitments pursuant to Section 2.07(c). The Borrower shall promptly (and no later than three (3) Business Days after receipt thereof) notify the Administrative Agent of the receipt by the Borrower or any of its Subsidiaries' receipt of Net Cash Proceeds subject to this Section 2.07(d), and such notice shall be accompanied by a reasonably detailed calculations of the applicable Net Cash Proceeds. Each reduction of the Commitments shall be made ratably among the Lenders in accordance with their respective Commitments.

Section 2.08 *Fees.* (a) *Facility Fee.* The Borrower agrees to pay to the Administrative Agent for the account of each Lender a facility fee on the daily average amount of such Lender's Commitment (whether used or unused), for each day during the period from the Closing Date until the Commitment Termination Date at a rate per annum equal to the Facility Fee Rate. The accrued facility fee shall be payable in arrears on each Quarterly Date and, without duplication, on the Commitment Termination Date. If for any reason any Revolving Credit Exposure remains outstanding on or after the Commitment Termination Date, the facility fee shall accrue from the Termination Date until the date on which no Revolving Credit Exposure remains outstanding, on the aggregate amount of Revolving Credit Exposure from time to time outstanding, payable on demand.

(b) *Administrative Agent's Fee.* The Borrower shall pay to the Administrative Agent for its own account such fees as may from time to time be agreed in writing by and between the Borrower and the Administrative Agent.

(c) *General.* All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent for distribution, in the case of facility fees and upfront fees, to the Lenders. Fees paid shall not be refundable under any circumstances.

Section 2.09 *Repayment of Loans; Evidence of Debt.*

(a) Subject to Section 2.21, the Borrower hereby promises to pay to the Administrative Agent for account of each Lender the full principal amount of each Revolving Loan made by such Lender to the Borrower, and each Revolving Loan shall mature, on the Commitment Termination Date.

(b) Any Lender may request, upon reasonable notice to the Borrower in writing, that Loans made by it be evidenced by a Note. In such event, the Borrower shall prepare, execute and deliver to such Lender a Note.

Section 2.10 *Interest on Loans.* (a) *Scheduled Interest.* The Borrower shall pay interest on the unpaid principal amount of each Loan owing to each Lender from the date of such Loan until such principal amount shall be paid in full, at the following rates per annum:

(i) *Base Rate Loans.* During such periods as such Loan is a Base Rate Loan, a rate per annum equal to the sum of (x) the Base Rate *plus* (y) the Base Rate Margin in

effect from time to time, payable in arrears on each Quarterly Date during such periods and, without duplication, on the date such Base Rate Loan shall be Converted or paid in full.

(ii) *Eurodollar Rate Loans.* During such periods as such Loan is a Eurodollar Rate Loan, a rate per annum equal at all times during each Interest Period for such Loan to the sum of (x) the Eurodollar Rate for such Interest Period for such Loan *plus* (y) the Eurodollar Margin in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and, without duplication, on the date such Eurodollar Rate Loan shall be Converted or paid in full.

(b) *Default Interest.* Upon the occurrence and during the continuance of any default in the payment of any amount due and payable hereunder, the Borrower shall pay interest on such overdue amount from the date such amount shall have become due until such amount shall be paid in full, payable in arrears on demand and on the date such amount shall be paid in full, at a rate per annum equal at all times to 2.00% per annum above the rate per annum required to be paid on Base Rate Loans pursuant to clause (a)(i) above.

Section 2.11 *Interest Rate Determination.* (a) The Administrative Agent shall give prompt notice to the Borrower and the Lenders of the applicable interest rate determined by the Administrative Agent for purposes of Section 2.10(a)(ii). Each determination by the Administrative Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(b) If, with respect to any Eurodollar Rate Loans, the Required Lenders notify the Administrative Agent that the Eurodollar Rate for any Interest Period for such Loans will not adequately reflect the cost to such Required Lenders of making, funding or maintaining their respective Eurodollar Rate Loans for such Interest Period, the Administrative Agent shall forthwith so notify the Borrower and the Lenders, whereupon (i) each such Loan will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Loan, and (ii) the obligation of the Lenders to make, or to Convert Loans into, such Loans shall be suspended until the Administrative Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist (as determined by the Required Lenders), which notice shall be given promptly after such circumstances cease to exist (as determined by the Required Lenders).

(c) If the Borrower shall fail to select the duration of any Interest Period for any Eurodollar Rate Loans in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, such Interest Period shall have a duration of one month.

(d) Upon the occurrence and during the continuance of any Event of Default under Section 7.01(a), (i) each Eurodollar Rate Loan will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Loan and (ii) the obligation of the Lenders to make, or to Convert Loans into, Eurodollar Rate Loans shall be suspended.

(e) If the Eurodollar Rate for any Eurodollar Rate Loans cannot be determined in accordance with the definition of such term,

(i) the Administrative Agent shall forthwith notify the Borrower and the Lenders that the interest rate cannot be determined for such Eurodollar Rate Loans,

(ii) with respect to Eurodollar Rate Loans, each such Loan will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Loan (or, if such Loan is then a Base Rate Loan, will not be eligible for Conversion into a Eurodollar Rate Loan), and

(iii) the obligation of the Lenders to make Eurodollar Rate Loans or to Convert Loans into Eurodollar Rate Loans shall be suspended until the Administrative Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist, which notice shall be given promptly after such circumstances cease to exist.

Section 2.12 *Optional Conversion of Loans.* The Borrower may on any Business Day, upon notice given to the Administrative Agent not later than 11:00 a.m. (New York City time) on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.11 and 2.17, Convert all Revolving Loans or, from and after the Term Loan Conversion Date, all Term Loans of one Type comprising the same Borrowing into Revolving Loans or, from and after the Term Loan Conversion Date, Term Loans of the other Type; *provided* that any Conversion of Eurodollar Rate Loans into Base Rate Loans shall be made only on the last day of an Interest Period for such Eurodollar Rate Loans, any Conversion of Base Rate Loans into Eurodollar Rate Loans shall be in an amount not less than the minimum borrowing amount specified in Section 2.02 and no Conversion of any Loans shall result in more separate Borrowings than permitted under Section 2.02. Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Loans to be Converted and (i) if such Conversion is into Eurodollar Rate Loans, the duration of the initial Interest Period for each such Loan. Each notice of Conversion shall be irrevocable and binding on the Borrower.

Section 2.13 *Prepayments of Loans.*

(a) *Optional.* The Borrower may, upon notice to the Administrative Agent stating the proposed date and aggregate principal amount of the prepayment, given not later than 10:00 a.m. (New York City time) (x) three Business Days before such proposed prepayment in the case of Eurodollar Rate Loans and (y) on the day of such proposed prepayment in the case of Base Rate Loans, and, if such notice is given, the Borrower shall, prepay without penalty the outstanding principal amount of the Loans comprising part of the same Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid, *provided* that in the event of any such prepayment of a Eurodollar Rate Loan other than on the last day of the Interest Period therefor, such Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 9.04(b); *provided, further* that if a notice of optional prepayment is given in connection with a conditional termination of the Commitments as contemplated by Section 2.07(b), then such notice of prepayment may be revoked in accordance with Section 2.07(b) (subject to, for the avoidance of doubt, compliance with the immediately

preceding sentence). Each prepayment of Revolving Loans or Term Loans hereunder shall be in a minimum amount of \$10,000,000 or any whole multiple of \$1,000,000 in excess thereof.

(b) Mandatory.

(i) Within five (5) Business Days of the Borrower's receipt of any Net Cash Proceeds from any Specified Debt Incurrence on or after the Closing Date, the Borrower shall prepay the Loans in an aggregate amount equal to 100% of the Net Cash Proceeds (which such prepayment shall be accompanied by an automatic and permanent reduction in the Commitments equal to the amount of such prepayment in accordance with Section 2.07(d)) actually received by the Borrower or any of its Subsidiaries from any Specified Debt Incurrence.

(ii) Each prepayment made pursuant to this Section 2.13(b) shall be made together with any interest accrued to the date of such prepayment on the principal amounts prepaid and, in the case of any prepayment of a Eurodollar Rate Borrowing on a date other than the last day of an Interest Period or at its maturity, any additional amounts which the Borrower shall be obligated to reimburse to the Lenders in respect thereof pursuant to Section 9.04(b). Any Loans that are prepaid pursuant to this Section 2.13(b) may not be reborrowed.

(iii) The Borrower shall promptly (and no later than three (3) Business Days after receipt thereof) notify the Administrative Agent of the receipt by the Borrower or any of its Subsidiaries' receipt of Net Cash Proceeds subject to this Section 2.13(b), and such notice shall be accompanied by a reasonably detailed calculation of the applicable Net Cash Proceeds.

Section 2.14 *Payments and Computations.* (a) The Borrower shall make each payment hereunder and under the Notes to the Administrative Agent at the Administrative Agent's Account in same day funds, without any set-off, recoupment or counterclaim, not later than 12:00 noon (New York City time) on the due date of such payment (each such payment made after such time on such date to be deemed to have been made on the next Business Day). The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or unused commitment fees ratably (other than amounts payable pursuant to Section 2.16, 2.18 or 9.04(b)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 9.06(d), from and after the effective date specified in such Assignment and Acceptance, the Administrative Agent shall make all payments hereunder in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance (which shall not include the Borrower) shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) All computations of interest based on the Prime Rate shall be made by the Administrative Agent on the basis of a year of 365 or 366 days, as the case may be, and all computations of interest based on the Eurodollar Rate or the NYFRB Rate, of facility fees, shall be made by the Administrative Agent on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or such fees, are payable.

(c) Subject to the proviso in the definition of the term “Maturity Date”, whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or unused commitment fee, as the case may be; *provided* that, if such extension would cause payment of interest on or principal of Eurodollar Rate Loans to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Administrative Agent may assume that the Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Administrative Agent, each Lender shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Administrative Agent, at the Federal Funds Effective Rate.

Section 2.15 *Sharing of Payments Etc.* (a) If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Revolving Credit Exposure owing to it (other than pursuant to Section 2.16, 2.18 or 9.04(b)) in excess of its ratable share of payments on account of the Revolving Credit Exposure obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the Revolving Credit Exposure owing to such other Lenders as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; *provided* that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and each such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender’s ratable share (according to the proportion of (i) the amount of such Lender’s required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.15 may, to the fullest extent permitted by Law, exercise all its rights of payment with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

(b) Nothing contained herein shall require any Lender to exercise any such right or shall affect the right of any Lender to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of the Borrower.

Section 2.16 *Additional Costs.* (a) The Borrower shall, within 30 days following demand by a Lender (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender from time to time such amounts as such Lender may reasonably determine to be necessary to compensate it for any costs that such Lender determines are attributable to its making, funding or maintaining any Eurodollar Rate Loans or its obligation to make any Eurodollar Rate Loans hereunder, or any reduction in any amount receivable by such Lender hereunder in respect of any such Loans or any such obligation (excluding amounts attributable to Taxes applicable to payments made by the Borrower hereunder and Other Taxes, which shall be governed solely and exclusively by Section 2.18) (such increases in costs and reductions in amounts receivable being herein called “**Additional Costs**”), resulting from any Regulatory Change that: (i) imposes or modifies any reserve, special deposit, minimum capital, capital ratio or similar requirements (other than the Reserve Requirement utilized in the determination of the Eurodollar Rate for such Loans) relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, such Lender (including any such Loans or any deposits of the type referred to in the definition of “Eurodollar Rate” in Section 1.01), or the Commitment of such Lender or (ii) imposes any other cost, expense or condition affecting this Agreement or such Lender’s Notes (or any of such extensions of credit or liabilities) or Commitment; *provided* that the Borrower shall not be obligated to pay to such Lender such Additional Costs unless such Lender at such time shall be generally assessing such amounts on a non-discriminatory basis against borrowers under agreements having provisions similar to this paragraph; and *provided, further* that any such Additional Costs allocated to any Loans or the Commitment of such Lender shall not exceed the Borrower’s pro rata share of all costs attributable to all loans or advances or commitments to all borrowers by such Lender that collectively result in the consequences for which such Lender is to be compensated by the Borrower. Any Lender seeking compensation hereunder shall make reasonable efforts to notify the Borrower of the enactment of any Regulatory Change that would entitle such Lender to compensation pursuant to this Section 2.16(a) as promptly as practicable after obtaining knowledge thereof and the date of effectiveness of such Regulatory Change; *provided* that failure to provide such notice shall not in any way reduce the Borrower’s liability therefor. As soon thereafter as such Lender shall have determined to request such compensation, such Lender shall notify the Borrower thereof and shall use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) (i) to designate a different Applicable Lending Office for the Loans of such Lender affected by such Regulatory Change if such designation will avoid the need for, or reduce the amount of, such compensation, and will not, in the reasonable opinion of such Lender, be otherwise disadvantageous to such Lender and (ii) to otherwise minimize any such compensation payable by the Borrower hereunder. Notwithstanding anything in this Section 2.16(a) to the contrary, the Borrower’s obligation to reimburse such Lender for Additional Costs pursuant to this Section 2.16(a) shall be limited as follows:

(x) In the event of a Regulatory Change with an effective date occurring on or after its date of enactment, the Borrower shall be obligated to pay to such Lender only such amounts attributable to the period commencing on the later of the effective date of

such Regulatory Change or the date of such Lender's notice of determination to request compensation hereunder; and

(y) In the event of a Regulatory Change with an effective date retroactive from its date of enactment, the Borrower shall be obligated to pay only such amounts attributable to a period commencing up to 60 days prior to such Lender's notice of enactment of the Regulatory Change and its request for compensation hereunder.

(b) Without limiting the effect of the foregoing provisions of this Section 2.16 (but without duplication), the Borrower shall, within 30 days following a demand by a Lender (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender from time to time (i) such amounts as such Lender may reasonably determine to be necessary to compensate such Lender for any costs (excluding amounts attributable to Taxes applicable to payments made by the Borrower hereunder and Other Taxes, which shall be governed solely and exclusively by Section 2.18) that it determines are attributable to the maintenance by such Lender (or any Applicable Lending Office of such Lender), pursuant to any Law or regulation or any interpretation, directive or request (whether or not having the force of law) of any court or governmental or monetary authority following any Regulatory Change, of capital or liquidity in respect of its Commitment (such compensation to include, without limitation, an amount equal to any reduction of the rate of return on assets or equity of such Lender (or any Applicable Lending Office of such Lender) to a level below that which such Lender (or any Applicable Lending Office of such Lender) could have achieved but for such Law, regulation, interpretation, directive or request); *provided* that the Borrower shall not be obligated to pay to such Lender such additional amounts unless such Lender at such time shall be generally assessing such amounts on a nondiscriminatory basis against borrowers under agreements having provisions similar to this paragraph; and (ii) any such additional amounts allocated to the Commitment of such Lender shall not exceed the Borrower's pro rata share of all costs attributable to all commitments to all borrowers by such Lender that collectively result in the consequences for which such Lender is to be compensated by the Borrower. Each Lender will notify the Borrower that it is entitled to compensation pursuant to this Section 2.16(b) as promptly as practicable after it determines to request such compensation; *provided* that, in the event of (x) any Regulatory Change with an effective date occurring on or after its enactment, the Borrower shall be obligated to pay to such Lender only such amounts attributable to the period commencing on the later of the effective date of such Regulatory Change or the date of such Lender's notice of determination to request compensation hereunder; and (y) any Regulatory Change with an effective date retroactive from its date of enactment, such request arises from a Law, regulation, directive or request of a court or governmental or monetary authority that contains an effective date retroactive from its date of enactment, the Borrower shall be obligated to pay such Lender only such amounts attributable to the period commencing up to 60 days prior to the date of such Lender's notice.

(c) Determinations and allocations by a Lender for purposes of this Section 2.16 of the effect of any Regulatory Change pursuant to Section 2.16(a), or of the effect of capital maintained pursuant to Section 2.16(b), on its costs or rate of return of maintaining Loans or its obligation to make Loans, or on amounts receivable by it in respect of the foregoing, and of the amounts required to compensate such Lender under this Section 2.16, shall be conclusive and binding for all purposes, *provided* that such determinations and allocations are made on a

reasonable basis. Any Lender requesting compensation under this Section 2.16 will furnish the Borrower with a certificate setting forth the basis and amount of such request for compensation.

Section 2.17 *Illegality.* (a) Notwithstanding any other provision of this Agreement, if any Lender shall notify the Administrative Agent that the introduction of or any change in or in the interpretation of any Law or regulation makes it unlawful, or any central bank or other Governmental Authority asserts that it is unlawful, for any Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Loans or to fund or maintain Eurodollar Rate Loans hereunder, (i) each Eurodollar Rate Loan will automatically, upon such demand, Convert into a Base Rate Loan and (ii) the obligation of the Lenders to make Eurodollar Rate Loans or to Convert Loans into Eurodollar Rate Loans shall be suspended until the Administrative Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist, which notice shall be given promptly after such circumstances cease to exist.

(b) Each Lender agrees that, before making a demand under subsection (a) above, it shall (i) use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Eurodollar Lending Office for the Eurodollar Rate Loans of such Lender if such designation will avoid the need for the Conversion of or for the suspension of the obligation of any Lender or Lenders to make Eurodollar Rate Loans as described in subsection (a) above and will not, in the opinion of such Lender, be otherwise disadvantageous to such Lender and (ii) failing such efforts and if legally permissible, cause such demand to be made on the last day of the applicable Interest Period for each Eurodollar Rate Loan then outstanding, as the case may be.

Section 2.18 *Taxes.*

(a) Any and all payments by or on account of any Obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Taxes unless required by applicable Law; *provided* that if any Withholding Agent shall be required by Law to deduct any Taxes from such payments, then (i) if such Tax is and Indemnified Tax or Other Tax, the sum payable by the Borrower shall be increased, as necessary so that after all required deductions are made (including deductions applicable to additional sums payable under this Section 2.18) the Administrative Agent and each Lender (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Withholding Agent shall make such deductions and (iii) the Withholding Agent shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable Law.

(b) In addition, the Borrower shall pay any Other Taxes, without duplication, to the relevant Governmental Authority in accordance with applicable Law.

(c) The Borrower shall, without duplication, indemnify the Administrative Agent and each Lender, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes on or attributable to amounts payable under this Section 2.18) paid by the Administrative Agent or such Lender, as the case may be, and any reasonable expenses arising therefrom or with respect

thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by a Governmental Authority. A certificate setting forth in reasonable detail the basis for and calculation of the amount of such payment or liability delivered to the Borrower by a Lender, or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be presumptive evidence of such payment or liability absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to any Governmental Authority, and in any event within 60 days of such payment, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Each Lender shall severally indemnify, within 10 days after written demand therefor, (i) the Administrative Agent for the full amount of any Taxes (but, in the case of any Indemnified Taxes, only to the extent that the Borrower has not already indemnified the Administrative Agent for such Indemnified Taxes and without limiting the obligation of the Borrower to do so) and (ii) the Borrower for any Excluded Taxes, in each case, attributable to such Lender paid or payable by the Administrative Agent or the Borrower (as applicable) in connection herewith or with any other Loan Document and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes or Excluded Taxes were correctly or legally imposed or asserted by a Governmental Authority. A certificate setting forth in reasonable detail the basis for and calculation of the amount of such payment or liability delivered to the applicable Lender by the Administrative Agent or the Borrower (as applicable) shall be presumptive evidence of such payment or liability absent manifest error.

(f) (i) The Administrative Agent and each Lender, including any Foreign Lender, that is entitled to an exemption from or reduction of withholding Tax under the Law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement or any other Loan Document shall deliver to the Withholding Agent such properly completed and executed documentation (including Internal Revenue Service Form W-9 and applicable Internal Revenue Service Form(s) W-8 and any related documentation) as may be necessary or appropriate to permit the Withholding Agent to make payments under this Agreement or any Loan Document without withholding Tax or at a reduced withholding Tax rate.

(ii) If a payment made to the Administrative Agent or a Lender under any Loan Document would be subject to U.S. Federal withholding Tax imposed by FATCA if the Administrative Agent or such Lender, as applicable, were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), the Administrative Agent or such Lender, as applicable, shall deliver to the Withholding Agent, at the time or times prescribed by applicable Law and at such time or times reasonably requested by the Withholding Agent, such documentation prescribed by applicable Law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Withholding Agent as may be necessary for the Withholding Agent to comply with its obligations under FATCA, to determine that the Administrative Agent or

such Lender, as applicable, has or has not complied with its obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this Section 2.18(f)(ii), “FATCA” shall include any amendments made to FATCA after the date of this Agreement.

(iii) The Administrative Agent and each Lender shall deliver to the Withholding Agent such other documentation prescribed by applicable Law or reasonably requested by the Withholding Agent as will enable the Withholding Agent to determine whether or not the Administrative Agent or such Lender, as applicable, is subject to backup withholding or information reporting requirements.

(iv) The Administrative Agent and each Lender shall provide the appropriate documentation described in clauses (i), (ii) and (iii) of this Section 2.18(f) at the following times (A) prior to the first payment date after becoming a party to this Agreement, (B) upon a change in circumstances or, upon reasonable request by the Withholding Agent, upon a change in Law, in each case, requiring or making appropriate a new or additional form, certificate or documentation, (C) upon reasonable request by the Withholding Agent, upon or before the expiration, obsolescence or invalidity of any documentation previously provided to the Withholding Agent and (D) upon reasonable request by the Withholding Agent. The Administrative Agent and each Lender shall provide to the Withholding Agent such forms or certificates as the Withholding Agent may reasonably request to establish the Administrative Agent’s or such Lender’s, as applicable, entitlement to an exemption from or reduction of Taxes imposed by a non-U.S. jurisdiction; *provided, however*, neither the Administrative Agent nor any Lender shall be required to provide any such form or certificate if it determines in its reasonable discretion that the provision of such form or certificate would materially adversely affect it or it is not legally able to provide such form or certificate.

(g) Each Lender agrees that, if the Borrower is required to pay any additional amounts pursuant to Section 2.18, such Lender shall (at the request of the Borrower) use reasonable efforts (consistent with its legal and regulatory restrictions) to designate a different Applicable Lending Office or to assign its rights and obligations hereunder to another of its offices, branches or affiliates if such designation or assignment will avoid the need for, or reduce the amount of, any additional amounts that would otherwise thereafter accrue and will not, in the judgment of such Lender, require such Lender to incur an unreimbursed loss, and would not otherwise be disadvantageous to the Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment. Upon any such designation or assignment, such Lender shall provide to the Administrative Agent and the Borrower the appropriate form and documentation requirements set forth in Section 2.18(f).

(h) For purposes of this Section 2.18 the term “applicable Law” includes FATCA.

Section 2.19 *Defaulting Lenders*. If any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(a) commencing on the date that such Lender becomes a Defaulting Lender, fees under Section 2.08(a) shall cease to accrue on the unused portion of the Commitment of such Defaulting Lender;

(b) the Commitment and Revolving Loans of such Defaulting Lender shall not be included in determining whether the Required Lenders or other requisite Lenders have taken or may take any action hereunder (including any consent to any amendment or waiver pursuant to Section 9.03), *provided* that any waiver, amendment or modification requiring the consent of all Lenders or each affected Lender shall require the consent of such Defaulting Lender.

In the event that the Administrative Agent and the Borrower reasonably determine that a Defaulting Lender has adequately remedied all matters that caused such Lender to be a Defaulting Lender, then on such date such Lender shall purchase at par such of the Loans of the other Lenders as the Administrative Agent shall determine is necessary in order for such Lender to hold such Loans in accordance with its Applicable Percentage. Subject to Section 9.19, no reallocation hereunder shall constitute a waiver or release of any claim of any party hereunder against a Defaulting Lender arising from that Lender having become a Defaulting Lender, including any claim of a Non-Defaulting Lender as a result of such Non-Defaulting Lender's increased exposure following such reallocation.

Section 2.20 *Substitution of Lender.* If (a) the obligation of any Lender to make Eurodollar Rate Loans has been suspended pursuant to Section 2.11, (b) any Lender has demanded compensation or the Borrower is otherwise required to pay additional amounts under Section 2.16 or 2.18 or (c) such Lender is a Defaulting Lender, the Borrower shall have, in addition to the right to seek a substitute lender or lenders who qualify as Eligible Assignees to assume, in accordance with the provisions of Section 9.06, the Commitment of such Lender, the right to terminate the unused Commitment of such Lender.

Section 2.21 *Term Loan Conversion.* The Borrower may, by written notice to the Administrative Agent given not fewer than 5 Business Days prior to the Commitment Termination Date, elect (such election, the "**Term Loan Election**"), effective as of the Commitment Termination Date (the "**Term Loan Conversion Date**"), to convert all or a ratable portion of the Revolving Loans outstanding on the Term Loan Conversion Date into Term Loans which the Borrower shall repay in full ratably to the Lenders on the first anniversary of the Commitment Termination Date; *provided* that the Term Loan Election may not be exercised unless the conditions set forth in Section 3.03 are satisfied on the date of notice of the Term Loan Election and on the Term Loan Conversion Date. The conversion notice delivered by the Borrower shall specify: (x) the Type of the Term Loan Borrowing effective on the Term Loan Conversion Date and (y) in the case of a Eurodollar Rate Borrowing, the initial Interest Period to be applicable thereto. In the event that less than all of the Revolving Loans outstanding on the Commitment Termination Date are converted into Term Loans pursuant to this Section 2.21, any outstanding Revolving Loans not so converted shall be repaid in full on the Commitment Termination Date. The aggregate Commitment will terminate on the Commitment Termination Date and all commitment fees pursuant to Section 2.08(a) shall cease to accrue on the Commitment Termination Date. All Revolving Loans converted into Term Loans pursuant to this Section 2.21 shall continue to constitute Loans following the Term Loan Conversion Date except that the Borrower may not thereafter reborrow pursuant to Section 2.01 after all or any

portion of such Loans have been prepaid pursuant to Section 2.13 on or after the Commitment Termination Date.

ARTICLE 3 CONDITIONS

Section 3.01 *Conditions Precedent to Closing Date.* The closing of this Agreement shall occur on the date (the “**Closing Date**”) on which the following conditions precedent shall have been satisfied:

- (a) The Administrative Agent (or its counsel) shall have received from each applicable party the following, each dated such day (unless otherwise specified):
 - (i) A counterpart of this Agreement and each Note (if requested by any Lender) signed on behalf of each party thereto;
 - (ii) A copy of the articles or certificate of incorporation (or equivalent Constituent Document) of the Borrower, certified as of a recent date by the Secretary of State of the state of organization of the Borrower, together with a certificate of such official attesting to the good standing of the Borrower;
 - (iii) A certificate of the Secretary or an Assistant Secretary of the Borrower certifying (A) the names and true signatures of each officer of the Borrower who is authorized to sign this Agreement and the other Loan Documents on the Borrower’s behalf, (B) the by-laws (or equivalent Constituent Document) of the Borrower as in effect on the date of such certification, (C) that there have been no changes in the certificate of incorporation (or equivalent Constituent Document) of the Borrower from the certificate of incorporation (or equivalent Constituent Document) delivered pursuant to clause (ii) above and (D) the resolutions of the Board of Directors approving and authorizing the execution, delivery and performance of this Agreement; and
 - (iv) An opinion of in-house counsel for the Borrower reasonably acceptable to the Administrative Agent.
- (b) The Borrower shall have paid such fees as the Borrower shall have agreed to pay to any Joint Lead Arranger, any Lender or the Administrative Agent in connection herewith, including the reasonable and documented fees and expenses of Davis Polk & Wardwell LLP, special New York counsel to the Administrative Agent, in connection with the negotiation, preparation, execution and delivery of the Loan Documents, the extensions of credit hereunder and the syndication of the credit facility provided hereby (to the extent such fees and expenses are due and statements for such fees and expenses have been delivered to the Borrower).
- (c) The Lenders shall have received all documentation and other information required by bank regulatory authorities under applicable “know your customer” and anti-money laundering rules and regulations, including the PATRIOT Act, as reasonably requested by the Lenders.
- (d) (i) No Default shall have occurred and be continuing on the Closing Date (ii) the representations and warranties contained in Article 4 shall be accurate in all material respects on and as of

the Closing Date (except to the extent any such representation or warranty (1) relates solely to an earlier date, in which case it shall be accurate in all material respects as of such earlier date, or (2) is qualified by materiality or subject to a Material Adverse Effect qualification, in which case it shall be accurate in all respects) as if made on and as of such date (iii) no injunction affecting the execution, delivery or performance of the Loan Documents shall have been issued and remain in effect on the Closing Date and (iv) the Administrative Agent shall have received a certificate of a duly authorized officer of the Borrower, dated the Closing Date, stating that each of the conditions precedent set forth in clauses (i)-(iii) of this Section 3.01(d) have been satisfied.

The Administrative Agent shall promptly notify the Borrower and the Lenders of the Closing Date, and such notice shall be conclusive and binding on all parties hereto.

Section 3.02 *Conditions Precedent to Credit Extensions.* The obligation of each Lender to make a Loan hereunder on the occasion of each Borrowing (each, a “**Credit Extension**”) shall be subject to the further conditions precedent that (i) the Closing Date shall have occurred and (i) on the date of such Credit Extension and after giving effect thereto, the following statement shall be accurate (and each of the giving of the applicable request pursuant to Section 2.02 and the acceptance by the Borrower of the proceeds of such Borrowing shall constitute a representation and warranty by the Borrower that on the date of such Credit Extension such statement is accurate): (x) the representations and warranties contained in Article 4 (other than those set forth in Section 4.04(b) and in Section 4.07) are accurate in all material respects on and as of such date as if made on and as of such date, except to the extent any such representation or warranty (1) relates solely to an earlier date, in which case it shall be accurate in all material respects as of such earlier date, or (1) is qualified by materiality or subject to a Material Adverse Effect qualification, in which case it shall be accurate in all respects on and as of such date or such earlier date as specified in clause (1) above and (y) no Default has occurred and is continuing or would result from such Credit Extension or the application of any proceeds thereof.

Section 3.03 *Term Loan Conversion Date.* The Term Loan Conversion Date is subject to the satisfaction of the following conditions:

(a) On the Term Loan Conversion Date and after giving effect thereto, the following statement shall be accurate: (x) the representations and warranties contained in Article 4 (other than those set forth in Section 4.04(b) and in Section 4.07) are accurate in all material respects on and as of such date as if made on and as of such date, except to the extent any such representation or warranty (1) relates solely to an earlier date, in which case it shall be accurate in all material respects as of such earlier date, or (2) is qualified by materiality or subject to a Material Adverse Effect qualification, in which case it shall be accurate in all respects on and as of such date or such earlier date as specified in clause (1) above and (y) no Default has occurred and is continuing or would result from the Term Loan Conversion Date.

(b) The Administrative Agent shall have received for the ratable account of the Lenders a fee equal to 1.00% of the aggregate principal amount of the Revolving Loans converted to Term Loans on the Term Loan Conversion Date.

ARTICLE 4 REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Administrative Agent and the Lenders as follows:

Section 4.01 *Organization; Powers; Binding Effect.* The Borrower is duly incorporated or organized and validly existing under the Laws of the state of its incorporation or organization and has the necessary corporate or other power and authority to enter into this Agreement and the other Loan Documents, to borrow hereunder and to perform and observe its obligations hereunder and thereunder, all corporate or other action required to authorize the execution and delivery of this Agreement and the other Loan Documents and the performance by the Borrower of its obligations hereunder and under the other Loan Documents has been duly taken, and this Agreement and the other Loan Documents have been duly executed and delivered and constitute, and, when executed and delivered, each of the Notes shall have been duly executed and delivered and shall constitute, valid, legal and binding obligations of the Borrower enforceable against the Borrower in accordance with their terms, subject to bankruptcy, insolvency, reorganization, moratorium and similar Laws of general applicability relating to or affecting creditors' rights and to general equity principles.

Section 4.02 *Contravention.* Neither (a) the certificate of incorporation, by-laws or other Constituent Documents of the Borrower, (b) any provision of any existing material mortgage, trust deed, contract, license, franchise, concession or agreement or any other material contractual obligation by which the Borrower or any of its Subsidiaries or any of their property or assets is bound, nor (c) any Law, regulation, judgment, injunction or other Order or award of any judicial, administrative, governmental or other authority or of any arbitrator binding on the Borrower or any of its Subsidiaries, conflicts or would conflict with or be contravened in any respect by the execution and delivery of the Loan Documents or would conflict with or be contravened by the Borrower's or its Subsidiaries' performance or observance of any of its obligations under the Loan Documents, except, in the case of clauses (b) and (c) above, for any such conflict or contravention that could not (either individually or in the aggregate) reasonably be expected to have a Material Adverse Effect.

Section 4.03 *Authorization.* There are no authorizations, approvals, licenses, registrations or consents of any Governmental Authority necessary for the execution and delivery by the Borrower of any Loan Document, the performance by the Borrower of the obligations expressed to be assumed by it in or pursuant to the Loan Documents and the payment of any amounts hereunder or under the other Loan Documents in accordance with their terms or to render this Agreement or any other Loan Document legal, valid, binding, enforceable and admissible in evidence.

Section 4.04 *Financial Statements; Material Adverse Change.* The Initial Financial Statements were prepared in accordance with GAAP, consistently applied, except as otherwise

noted therein, and such Initial Financial Statements present fairly, in all material respects, the Consolidated financial position and results of operations and cash flows of the Borrower and its Subsidiaries in accordance with GAAP, as at the end of, and for, the respective periods covered thereby.

(b) Except as disclosed in the Borrower SEC Documents as filed prior to the Closing Date (but excluding any risk factor disclosures contained under the heading “Risk Factors,” any disclosure of risks included in any “forward looking statements” disclaimer or any other statements that are similarly non-specific or predictive or forward looking in nature, but in each case, other than any specific factual information contained therein), there has been no material adverse change in the financial position or results of operations of the Borrower and its Subsidiaries taken as a whole since December 31, 2017.

Section 4.05 *Federal Reserve Regulations.* (a) None of the Borrower or its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of buying or carrying margin stock (as defined in Regulation U).

(b) No part of the proceeds of the Loans will be used, whether directly or indirectly, and whether immediately, incidentally, or ultimately, for any purpose which entails a violation of, or which is inconsistent with, the provisions of Regulations U and X and all official rulings and interpretations thereunder or thereof.

Section 4.06 *Investment Company Status.* Neither the Borrower nor any of its Subsidiaries is an “investment company” or “controlled” by an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

Section 4.07 *Litigation.* Except as disclosed in the Borrower SEC Documents (but excluding any risk factor disclosures contained under the heading “Risk Factors,” any disclosure of risks included in any “forward looking statements” disclaimer or any other statements that are similarly non-specific or predictive or forward looking in nature, but other than any specific factual information contained therein) as filed prior to the Closing Date, there is no pending or (to the knowledge of the Borrower) threatened action, investigation or proceeding affecting the Borrower or any of its Subsidiaries before any court, governmental agency or arbitrator (i) that is reasonably likely to have a Material Adverse Effect or (ii) that could be reasonably expected to affect the legality, validity or enforceability of any Loan Document.

Section 4.08 *Compliance with ERISA.* Except for matters which could not reasonably be expected to have a Material Adverse Effect, (a) the Borrower and each ERISA Affiliate has fulfilled its obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and is in compliance with the currently applicable provisions of ERISA and the Code with respect to each Plan and (b) no ERISA Event has occurred.

Section 4.09 *Compliance with Law.* Neither the Borrower nor any of its Subsidiaries is in violation of any Law or regulation to which it is subject is in default with respect to any Order or has failed to obtain any license, permit, franchise or other governmental authorization necessary to the ownership of its property or to the conduct of its business which violation, default or failure to obtain could reasonably be expected to have a Material Adverse Effect.

Section 4.10 *Environmental Matters.* Except with respect to any matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect and except as disclosed in the Borrower SEC Documents (but excluding any risk factor disclosures contained under the heading “Risk Factors,” any disclosure of risks included in any “forward looking statements” disclaimer or any other statements that are similarly non-specific or predictive or forward looking in nature, but other than any specific factual information contained therein) as filed prior to the Closing Date, the Borrower and its Subsidiaries (i) are in compliance with all applicable Environmental Laws and have obtained, maintained and are in compliance with any permit, license or other approval required under any applicable Environmental Law for their current operations, (ii) are not subject to any Environmental Liability, (iii) have not received written notice of any claim with respect to any Environmental Liability and (iv) do not have knowledge of any basis for any Environmental Liability.

Section 4.11 *Taxes.* Except with respect to any matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, (a) the Borrower and its Subsidiaries have (i) filed all tax returns and all other tax returns which are required to be filed by them and (ii) paid all Taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or any Subsidiary to the extent such Taxes, have become due and payable and before they have become delinquent, except for Taxes which are being contested in good faith by the Borrower or the relevant Subsidiary pursuant to appropriate actions or proceedings being diligently pursued and for which reserves adequate under GAAP have been made, and (b) the charges, accruals and reserves on the books of the Borrower and its Subsidiaries in respect of Taxes are adequate under GAAP.

Section 4.12 *Full Disclosure.* All written information (other than financial projections and information of a general economic nature or general industry nature), as modified or supplemented by any information provided to any Agent or Lender, by the Borrower in connection with the transactions contemplated hereby is and will be complete and correct in all material respects (after giving effect to all amendments and supplements thereto), when taken as a whole together with all such filings of the Borrower with the SEC, and does not and will not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained therein not materially misleading in light of the circumstances under which such statements were or are made (after giving effect to all amendment sand supplements thereto).

Section 4.13 *Anti-Corruption Laws and Sanctions.* The Borrower has implemented and maintains in effect policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions, and the Borrower, its Subsidiaries and, to the knowledge of the Borrower, their respective directors, officers, employees and agents, are in compliance with Anti-Corruption Laws and applicable Sanctions in all material respects. None of (a) the Borrower or any Subsidiary or (b) to the knowledge of the Borrower, (x) any director, officer or employee of the Borrower or any Subsidiary or (y) any agent of the Borrower or any Subsidiary that will act in any capacity in connection with or benefit from the credit facility established hereby, is a Sanctioned Person.

ARTICLE 5
AFFIRMATIVE COVENANTS

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full, the Borrower covenants and agrees with the Lenders that:

Section 5.01 *Financial Statements and Other Information.* The Borrower will furnish to the Administrative Agent and each Lender:

(a) on or before the date on which such financial statements are required to be filed with the SEC (after giving effect to any permitted extensions) or, if such financial statements are not required to be filed with the SEC, on or before the date that is 90 days after the end of each such fiscal year of the Borrower, its audited Consolidated balance sheet and related statements of income, cash flows, shareholders' equity and footnotes as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by KPMG LLP or other independent registered public accounting firm of recognized national standing to the effect that such Consolidated financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the Borrower and its Consolidated Subsidiaries on a Consolidated basis in accordance with GAAP;

(b) on or before the date on which such financial statements are required to be filed with the SEC (after giving effect to any permitted extensions) with respect to each of the first three quarterly accounting periods in each fiscal year of the Borrower or, if such financial statements are not required to be filed with the SEC, on or before the date that is 45 days after the end of each such quarterly accounting period, its condensed Consolidated balance sheet and related statements of income, cash flows and footnotes as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly, in all material respects, the condensed financial position and results of operations and cash flows of the Borrower and its Consolidated Subsidiaries on a Consolidated basis in accordance with GAAP;

(c) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, a copy of a certificate of a Financial Officer of the Borrower (the original signed version of which shall be delivered to the Administrative Agent) (i) setting forth in reasonable detail the calculations necessary to demonstrate compliance with the requirements of Section 6.05 on the date of such financial statements and (i) stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto;

(d) within five Business Days after the Borrower first becomes aware of the occurrence of each Default continuing on the date of such statement, a written statement of a Financial Officer of the Borrower setting forth details of such Default and the action that the Borrower has taken and proposes to take with respect thereto;

(e) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K, 10-Q and 8-K (or their equivalents) which the Borrower shall have filed with the Securities and Exchange Commission;

(f) except for matters which could not reasonably be expected to have a Material Adverse Effect, if an ERISA Event occurs, a certificate of a Financial Officer of the Borrower setting forth details as to such occurrence and the action, if any, which the Borrower or applicable ERISA Affiliate is required or proposes to take; and

(g) from time to time such additional information regarding the financial position or business of the Borrower and its Subsidiaries as the Administrative Agent, at the request of any Lender, may reasonably request.

Information required to be delivered pursuant to subsections (a), (b) and (e) of this Section 5.01 shall be deemed to have been delivered if such information, or one or more annual or quarterly or other reports or proxy statements containing such information shall have been posted and available on the website of the SEC at <http://www.sec.gov> or on the website of the Borrower at www.zoetis.com.

Section 5.02 *Inspection of Property, Books and Records.* The Borrower will keep, and will cause each of its Subsidiaries to keep, proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities; and will, upon reasonable prior notice (or without notice during the continuance of an Event of Default), permit agents and representatives of the Administrative Agent and each Lender to, during regular business hours, (i) visit and inspect their respective properties, (ii) inspect and make reasonable extracts from and copies of their respective books and records and (iii) discuss, subject to reasonable availability, with their respective principal officers and auditors their respective affairs, finances and accounts, all at the expense of such Lender or the Administrative Agent, as the case may be, or, if such visit or other action is during the continuance of an Event of Default, at the expense of the Borrower.

Section 5.03 *Existence; Nature of Business.* (a) The Borrower will, and will cause each of its Subsidiaries to, preserve and keep in full force and effect its corporate or other legal existence and all licenses and permits necessary to the proper conduct of its business, except that the foregoing shall not (i) prevent any transaction permitted by Section 6.02 or (ii) require the preservation of the legal existence of any Subsidiary or of any such license or permit the nonpreservation of which could not reasonably be expected to have a Material Adverse Effect.

(a) Neither the Borrower nor any of its Subsidiaries will engage in any business if, as a result, the general nature of the business, taken on a consolidated basis, which would then be principally engaged in by the Borrower and its Subsidiaries would be substantially changed from the general nature of the business engaged in by the Borrower and its Subsidiaries on the Closing Date and similar or related businesses or businesses ancillary or complementary thereto.

Section 5.04 *Payment of Obligations.* Except to the extent the failure to do so could not reasonably be expected to result in a Material Adverse Effect, the Borrower shall pay and

discharge, and cause each Subsidiary to pay and discharge, before the same shall become delinquent, (i) all Taxes imposed upon it or upon its property or assets and (ii) all lawful claims that, if unpaid, might result in a Lien upon its property or assets; *provided, however*, that neither the Borrower nor any Subsidiary shall be required to pay or discharge any such Tax or claim that is being contested in good faith and by proper proceedings and as to which adequate reserves are being maintained in accordance with GAAP.

Section 5.05 *Maintenance of Properties; Insurance.* Except where the failure to do so could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, the Borrower shall, and shall cause each of its Subsidiaries to, (a) keep and maintain all property or assets material to the conduct of its business in good working order and condition, ordinary wear and tear excepted, and (b) maintain insurance (if not self-insured for such risk), with financially sound and reputable insurance companies, in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations or substantially consistent with past practices of the Borrower and its Subsidiaries.

Section 5.06 *Compliance with Laws.* The Borrower shall, and shall cause each of its Subsidiaries to, comply, in all material respects, with all Laws, rules, regulations and Orders of any Governmental Authority applicable to it or its property or assets, except where (a) the necessity of compliance therewith is contested in good faith by appropriate proceedings or (b) noncompliance therewith, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. The Borrower will maintain in effect and enforce policies and procedures designed to ensure compliance by the Borrower, its Subsidiaries and their respective directors, officers, employees and agents with Anti-Corruption Laws and applicable Sanctions.

Section 5.07 *Use of Proceeds.* The Borrower shall use the proceeds of the Loans solely for working capital and other general corporate purposes, including funding a portion of the purchase price of the acquisition of Abaxis, Inc.

ARTICLE 6 NEGATIVE COVENANTS

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full, the Borrower covenants and agrees with the Lenders that:

Section 6.01 *Mergers; Fundamental Changes.* The Borrower will not merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise Dispose of, and will not permit any Subsidiary to sell, transfer, lease or otherwise Dispose of, (in one transaction or in a series of transactions) all or substantially all of the property or assets of the Borrower and its Subsidiaries taken as a whole (in each case, whether now owned or hereafter acquired), or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing or would result therefrom (i) any Person may merge into or consolidate with the Borrower in a transaction in which the Borrower is the surviving corporation and (ii) any

Subsidiary may liquidate or dissolve if (A) the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower, and (B) such liquidation or dissolution is not materially disadvantageous to the Lenders.

Section 6.02 *Limitations on Liens.* The Borrower will not, and will not permit any of its Subsidiaries to, create or incur, or suffer to be incurred or to exist, any Lien on its property or assets, whether now owned or hereafter acquired, or upon any income or profits therefrom, except:

- (a) Permitted Liens;
- (b) any Lien existing on any property prior to the acquisition thereof by the Borrower or any Subsidiary (or prior to the time the Person owning such property or asset becomes a Subsidiary); *provided* that such Lien is not created in contemplation of or in connection with such transaction;
- (c) Liens securing Debt of the Borrower or any Subsidiary incurred to finance the acquisition of fixed or capital assets; *provided* that (i) such Liens do not encumber any property other than the property financed by such Debt and (ii) such Liens are incurred not later than 180 days after such acquisition;
- (d) any Permitted Refinancing of any of the foregoing Secured Debt;
- (e) Liens securing Intercompany Debt;
- (f) Liens securing Secured Debt permitted under Section 6.03; and
- (g) Liens securing Permitted Securitization Financings permitted by Section 6.04.

Section 6.03 *Priority Indebtedness.* The Borrower will not at any time permit (a) the aggregate outstanding principal amount of Secured Debt (other than Secured Debt secured only by Liens permitted under paragraphs (a) through (e) and (g) of Section 6.02) plus (a) all other Debt of all Subsidiaries (other than Intercompany Debt and Secured Debt), all determined on a Consolidated basis and without duplication, to exceed 15% of Consolidated Net Tangible Assets, all calculated as of the last day of each fiscal quarter of the Borrower.

Section 6.04 *Permitted Securitization Financings.* The Borrower will not, and will not permit any of its Subsidiaries to, incur or at any time be liable with respect to any Securitization Financings other than Permitted Securitization Financings with an aggregate Securitization Financing Amount at any date not to exceed \$500,000,000.

Section 6.05 *Financial Covenants.* (a) The Leverage Ratio as of the last day of any fiscal quarter shall not exceed 3:50:1.00; *provided* that, upon the Administrative Agent's receipt of a Material Acquisition Notice, the Leverage Ratio as of the last day of any fiscal quarter for the period beginning on the Consummation Date and continuing through the fourth full consecutive fiscal quarter ended immediately following the Consummation Date shall not exceed 4.00:1.00; *provided, further* that for the first two fiscal quarters ended immediately following the

fourth full consecutive fiscal quarter ended after any Consummation Date, the Leverage Ratio shall not exceed 3.50:1.00.

(b) The Interest Coverage Ratio shall not for any period of four consecutive fiscal quarters be less than 3.50:1.00. For purposes of determining compliance with this paragraph prior to the completion of four full fiscal quarters commencing subsequent to the Closing Date, computation shall be based on annualized amounts determined with reference to any full fiscal quarter commencing and ending after the Closing Date.

Section 6.06 *Limitations on Use of Proceeds.* The Borrower will not request any Borrowing, and the Borrower shall not use, directly or indirectly, the proceeds of any Borrowing (A) in violation of any Anti-Corruption Laws, or (B) for the purpose of funding, financing or facilitating any activities, business or transactions of or with any Sanctioned Person, or in any Sanctioned Country, to the extent such activities, businesses or transactions would be prohibited by Sanctions if conducted by a corporation incorporated in the United States or in a European Union member state or in the United Kingdom.

ARTICLE 7 EVENTS OF DEFAULT

Section 7.01 *Events of Default.* If one or more of the following events (herein called “**Events of Default**”) shall occur and be continuing:

- (a) the Borrower shall default in the payment of any principal of any Loan when due; or
- (b) the Borrower shall default in the payment of any interest on any Loan hereunder, any fee payable pursuant to Section 2.08 or any other amount payable under any Loan Document, and such default shall continue for three Business Days; or
- (c) any representation, warranty or certification made or deemed made in any Loan Document, by or on behalf of the Borrower, or any certificate or other document furnished to the Administrative Agent or any Lender pursuant to the provisions hereof or of any other Loan Document, shall prove to have been false or misleading as of the time made or furnished in any material respect; or
- (d) the Borrower or any Subsidiary shall default in the performance of (i) any of its obligations contained in Section 5.01(d), Section 5.03(a) (with respect to the Borrower only) or Article 6 or (ii) any of its other obligations under this Agreement or any other Loan Document and such default shall continue unremedied for a period of 30 days after written notice thereof to the Borrower by the Administrative Agent; or
- (e) the Borrower or any Subsidiary shall fail to pay any principal of any Debt in an amount of at least \$100,000,000 in the aggregate for the Borrower and all Subsidiaries (the “**Requisite Amount**”) (but excluding Debt outstanding hereunder), when the same becomes due

and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or

(f) the Borrower or any Subsidiary shall fail to observe or perform any term, covenant or condition on its part to be observed or performed under any agreement or instrument relating to any Debt in the Requisite Amount, when required to be observed or performed, and such failure shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such failure is to accelerate, or permit the acceleration of, the maturity of such Debt or such Debt has been accelerated; or any such Debt shall be required to be prepaid, defeased, purchased or otherwise acquired by the Borrower or any Subsidiary (other than by a regularly scheduled required prepayment or redemption and other than Secured Debt that becomes due as a result of the voluntary transfer of assets securing such Debt), prior to the stated maturity thereof; or

(g) any final judgment or Order for the payment of money in excess of the Requisite Amount shall be rendered against the Borrower or any Material Subsidiary and there shall be any period of 30 consecutive days during which a stay of enforcement of any such unsatisfied judgment or Order, by reason of bonding, a pending appeal or otherwise, shall not be in effect, *provided, however*, that any such judgment or Order shall not be an Event of Default under this Section 7.01(g) if and for so long as (i) the amount of such judgment or Order is covered by a valid and binding policy of insurance between the defendant and the insurer covering payment thereof and (i) such insurer has been notified of, and has not disputed the claim made for payment of, the amount of such judgment or Order; or

(h) the Borrower or any ERISA Affiliate shall incur liability that would reasonably be expected to have a Material Adverse Effect as a result of one or more of the following: (i) the occurrence of any ERISA Event; (ii) the partial or complete withdrawal of the Borrower or an ERISA Affiliate from a Multiemployer Plan; or (iii) the termination of a Multiemployer Plan; *provided, however*, that no Default under this Section 7.01(h) shall be deemed to have occurred if the Borrower or such ERISA Affiliate shall have made arrangements satisfactory to the Required Lenders to discharge or otherwise satisfy such liability (including the posting of a bond or other security); or

(i) the Borrower or any Material Subsidiary shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its property or assets, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the Bankruptcy Code, (iv) file a petition seeking to take advantage of any other Law relating to bankruptcy, insolvency, reorganization, winding up, or composition or readjustment of debts (in each case, relative to its own creditors or Debts), (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under the Bankruptcy Code, or (vi) take any corporate action for the purpose of effecting any of the foregoing; or

(j) a proceeding or case shall be commenced, without the application or consent of the Borrower or any Material Subsidiary, in any court of competent jurisdiction, seeking (i) its liquidation, reorganization, dissolution or winding up, or the composition or readjustment of its

Debts, (ii) the appointment of a trustee, receiver, custodian, liquidator or the like of the Borrower or such Material Subsidiary or of all or any substantial part of its property and assets, or (iii) similar relief in respect of the Borrower or such Material Subsidiary under any Law relating to bankruptcy, insolvency, reorganization, winding up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an Order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 days; or an Order for relief against the Borrower or such Material Subsidiary shall be entered in an involuntary case under the Bankruptcy Code; or

(k) a Change of Control shall occur;

THEREUPON: (i) in the case of an Event of Default that has occurred and is continuing other than one referred to in clause (i) or (j) of this Section 7.01 with respect to the Borrower, the Administrative Agent (A) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, cancel the Commitments and (B) shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, declare the principal amount of, and the accrued interest on, the Loans then outstanding and all other amounts payable by the Borrower hereunder and under the other Loan Documents to be forthwith due and payable, whereupon such amounts shall be immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Borrower; and (ii) in the case of the occurrence of an Event of Default referred to in clause (i) or (j) of this Section 7.01 with respect to the Borrower, the Commitments shall be automatically cancelled and the principal amount of, and the accrued interest on, the Loans then outstanding and all other amounts payable by the Borrower hereunder and under the other Loan Documents shall become automatically due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by the Borrower.

ARTICLE 8 THE ADMINISTRATIVE AGENT

Section 8.01 *Authorization and Action.*

(a) Each Lender hereby irrevocably appoints the entity named as Administrative Agent in the heading of this Agreement and its successors to serve as Administrative Agent under the Loan Documents, and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers under this Agreement and the other Loan Documents as are delegated to the Administrative Agent by the terms hereof, together with such powers as are reasonably incidental thereto. Without limiting the foregoing, each Lender hereby authorizes the Administrative Agent to execute and deliver and to perform its obligations under each of the Loan Documents to which the Administrative Agent is a party and to exercise all rights, powers and remedies that the Administrative Agent may have under such Loan Documents.

(b) As to any matters not expressly provided for by this Agreement and the other Loan Documents (including enforcement or collection of the Notes), the Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the written instructions of the Required Lenders (or such other number or percentage of the

Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith to be necessary, under the circumstances as provided in Section 9.03), and such instructions shall be binding upon all Lenders and all holders of Notes; *provided, however*, that the Administrative Agent shall not be required to take any action that (i) the Administrative Agent in good faith believes exposes it to personal liability unless the Administrative Agent receives an indemnification satisfactory to it from the Lenders or (ii) is contrary to this Agreement or any other Loan Document or applicable Law. The Administrative Agent agrees to give to each Lender prompt notice of each written notice of borrowing, repayment, prepayment or Event of Default given to it by the Borrower pursuant to the terms of this Agreement or the other Loan Documents, including any action that may be in violation of the automatic stay under any requirement of law relating to bankruptcy, insolvency or reorganization or relief of debtors or that may effect a forfeiture, modification or termination of property of a Defaulting Lender in violation of any requirement of law relating to bankruptcy, insolvency or reorganization or relief of debtors; *provided, further*, that the Administrative Agent may seek clarification or direction from the Required Lenders prior to the exercise of any such instructed action and may refrain from acting until such clarification or direction has been provided. Except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower, any Subsidiary or any Affiliate of any of the foregoing that is communicated to or obtained by the Person serving as Administrative Agent or any of its Affiliates in any capacity. Nothing in this Agreement shall require the Administrative Agent to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(c) In performing its functions and duties hereunder and under the other Loan Documents, the Administrative Agent is acting solely on behalf of the Lenders except to the limited extent provided in Section 9.06(e), and its duties are entirely administrative in nature. The Administrative Agent does not assume and shall not be deemed to have assumed any obligation or duty or any other relationship as the agent, fiduciary or trustee of or for any Lender other than as expressly set forth herein and in the other Loan Documents, regardless of whether a Default or an Event of Default has occurred and is continuing (and it is understood and agreed that the use of the term “agent” (or any similar term) herein or in any other Loan Document with reference to the Administrative Agent is not intended to connote any fiduciary duty or other implied (or express) obligations arising under agency doctrine of any applicable law, and that such term is used as a matter of market custom and is intended to create or reflect only an administrative relationship between contracting parties); additionally, each Lender agrees that it will not assert any claim against the Administrative Agent based on an alleged breach of fiduciary duty by the Administrative Agent in connection with this Agreement and the transactions contemplated hereby.

(d) The Administrative Agent may perform any of its duties under any Loan Document by or through its agents or employees.

(e) The Joint Lead Arrangers and the Persons named on the cover page hereof as Syndication Agents or Bookrunners shall have no obligations or duties whatsoever in such capacity under this Agreement and shall incur no liability hereunder in such capacity.

Section 8.02 *Administrative Agent's Reliance, Etc.*

(a) Neither the Administrative Agent nor any of its Affiliates or any of their respective directors, officers, agents or employees shall (i) be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement or any other Loan Document, except for its or their own gross negligence or willful misconduct (as determined by a final, non-appealable judgment of a court of competent jurisdiction) or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any officer thereof contained in this Agreement or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Administrative Agent under or in connection with, this Agreement or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other Loan Document or for any failure of the Borrower to perform its obligations hereunder or thereunder.

(b) The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof (stating that it is a “notice of default”) is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document or the occurrence of any Default, (iv) the sufficiency, validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article 4 or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent or satisfaction of any condition that expressly refers to the matters described therein being acceptable or satisfactory to the Administrative Agent.

(c) Without limitation of the generality of the foregoing, the Administrative Agent: (i) may treat the payee of any Note as the holder thereof until the Administrative Agent receives and accepts an Assignment and Acceptance entered into by the Lender that is the payee of such Note, as assignor, and an Eligible Assignee, as assignee, as provided in Section 9.06; (ii) may rely on the Register to the extent set forth in Section 9.06(e); (iii) may consult with legal counsel (including counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (iv) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement or any other Loan Document; (v) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement or any other Loan Document on the part of the Borrower, as to the financial position of the Borrower or as to the existence or possible existence of any Default or to inspect the property (including the books and records) of the Borrower or any of its Subsidiaries; (vi) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto; (vii) in determining compliance with any condition hereunder to the making of a Loan,

that by its terms must be fulfilled to the satisfaction of a Lender, may presume that such condition is satisfactory to such Lender unless the Administrative Agent shall have received notice to the contrary from such Lender sufficiently in advance of the making of such Loan and (viii) shall be entitled to rely on, and shall incur no liability under or in respect of this Agreement or any other Loan Document by acting upon, any notice, consent, certificate or other instrument or writing (which may be by facsimile transmission, Internet or intranet website posting, any electronic messaging system or other distribution) believed by it to be genuine and signed, sent or otherwise authenticated by the proper party or parties.

Section 8.03 *Barclays and Affiliates.* With respect to its Commitment, the Revolving Loans made by it and the Note issued to it, Barclays shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Administrative Agent; and the term “Lender” or “Lenders” shall, unless otherwise expressly indicated, include Barclays in its individual capacity. Barclays and its Affiliates (including their respective directors, officers, agents or employees) may accept deposits from, lend money to, act as trustee under indentures of, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with, the Borrower, any Subsidiary and any Person who may do any kind of banking, trust or other business with or own securities of the Borrower or any Subsidiary, all as if Barclays were not the Administrative Agent and without any duty to account therefor to the Lenders.

Section 8.04 *Lender Credit Decision.* Each Lender acknowledges that it shall, independently and without reliance upon the Administrative Agent, any Joint Lead Arranger or any other Lender, conduct its own independent investigation of the financial position and affairs of the Borrower in connection with the making and continuance of the Loans. Each Lender also acknowledges that it shall, independently and without reliance upon the Administrative Agent, any Joint Lead Arranger or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and other Loan Documents. Except for the documents expressly required by any Loan Document to be transmitted by the Administrative Agent to the Lenders, the Administrative Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of the Borrower or any Affiliate of the Borrower that may come into the possession of the Administrative Agent or any Affiliate thereof or any employee or agent of any of the foregoing.

Section 8.05 *Indemnification.* Each Lender agrees to indemnify the Administrative Agent and its Related Parties (to the extent not reimbursed by the Borrower and ratably according to the respective amount of such Lender’s Commitment (or, if this indemnity under this paragraph is sought after the termination of the Commitments, such Lender’s Commitment as most recently in effect)), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses and disbursements (including fees, expenses and disbursements of financial and legal advisors) of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against, the Administrative Agent or any of its Related Parties in any way relating to or arising out of this Agreement or the other Loan Documents or any action taken or omitted by the Administrative Agent under this Agreement or the other Loan Documents; *provided, however*, that no Lender shall be liable for any portion of such liabilities,

obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Administrative Agent's or such Related Party's gross negligence or willful misconduct (as determined in a final and non-appealable judgment of a court of competent jurisdiction). Without limiting the foregoing, each Lender agrees to reimburse the Administrative Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including fees, expenses and disbursements of financial and legal advisors) incurred by the Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of its rights or responsibilities under, this Agreement or the other Loan Documents, to the extent that the Administrative Agent is not reimbursed for such expenses by the Borrower or another Borrower.

Section 8.06 *Successor Administrative Agent.* The Administrative Agent may resign at any time by giving written notice thereof to the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Administrative Agent, subject to, if no Default shall have occurred and be continuing, the approval of the Borrower (which approval shall not be unreasonably withheld). If no successor Administrative Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent's giving of notice of resignation, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a commercial bank organized or licensed under the Laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$500,000,000, subject to, if no Default shall have occurred and be continuing, the approval of the Borrower (which approval shall not be unreasonably withheld). In addition and without any obligation on the part of the retiring Administrative Agent to appoint, on behalf of the Lenders, a successor Administrative Agent, the retiring Administrative Agent may at any time upon or after the end of such 30-day period, notify the Borrower and the Lenders that no qualifying Person has accepted appointment as successor Administrative Agent and the effective date of such retiring Administrative Agent's resignation (which effective date shall be no earlier than three Business Days after the date of such notice). Upon the resignation effective date established in such notice and regardless of whether a successor Administrative Agent has been appointed and accepted such appointment, the retiring Administrative Agent's resignation shall nonetheless become effective and (i) the retiring Administrative Agent shall be discharged from its duties and obligations as Administrative Agent hereunder and under the other Loan Documents and (i) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender directly, until such time as the Required Lenders appoint a successor Administrative Agent as provided for above in this paragraph. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under this Agreement (if not already discharged therefrom as provided above in this paragraph). Prior to any retiring Administrative Agent's resignation hereunder as Administrative Agent, the retiring Administrative Agent shall take such action as may be reasonably necessary to assign to the successor Administrative Agent its rights as Administrative Agent under the Loan Documents. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the

provisions of this Article 8 shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement.

Section 8.07 *Certain ERISA Matters.*

(a) Each Lender (x) represents and warrants, as of the date such Person became a Lender party hereto, to, and (y) covenants, from the date such Person became a Lender party hereto to the date such Person ceases being a Lender party hereto, for the benefit of, the Administrative Agent and each Joint Lead Arranger and their respective Affiliates, and not, for the avoidance of doubt, to or for the benefit of the Borrower, that at least one of the following is and will be true:

(i) such Lender is not using “plan assets” (within the meaning of 29 CFR § 2510.3-101, as modified by Section 3(42) of ERISA) of one or more Benefit Plans in connection with the Loans or the Commitments;

(ii) the transaction exemption set forth in one or more PTEs, such as PTE 84-14 (a class exemption for certain transactions determined by independent qualified professional asset managers), PTE 95-60 (a class exemption for certain transactions involving insurance company general accounts), PTE 90-1 (a class exemption for certain transactions involving insurance company pooled separate accounts), PTE 91-38 (a class exemption for certain transactions involving bank collective investment funds) or PTE 96-23 (a class exemption for certain transactions determined by in-house asset managers), is applicable with respect to such Lender’s entrance into, participation in, administration of and performance of the Loans, the Commitments and this Agreement;

(iii) (A) such Lender is an investment fund managed by a “Qualified Professional Asset Manager” (within the meaning of Part VI of PTE 84-14), (A) such Qualified Professional Asset Manager made the investment decision on behalf of such Lender to enter into, participate in, administer and perform the Loans, the Commitments and this Agreement, (A) the entrance into, participation in, administration of and performance of the Loans, the Commitments and this Agreement satisfies the requirements of sub-sections (b) through (g) of Part I of PTE 84-14 and (A) to the best knowledge of such Lender, the requirements of subsection (a) of Part I of PTE 84-14 are satisfied with respect to such Lender’s entrance into, participation in, administration of and performance of the Loans, the Commitments and this Agreement; or

(iv) such other representation, warranty and covenant as may be agreed in writing between the Administrative Agent, in its sole discretion, and such Lender.

(b) In addition, unless sub-clause (i) in the immediately preceding clause (a) is true with respect to a Lender or such Lender has not provided another representation, warranty and covenant as provided in sub-clause (iv) in the immediately preceding clause (a), such Lender further (x) represents and warrants, as of the date such Person became a Lender party hereto, to, and (y) covenants, from the date such Person became a Lender party hereto to the date such Person ceases being a Lender party hereto, for the benefit of, the Administrative Agent and each

Joint Lead Arranger and their respective Affiliates, and not, for the avoidance of doubt, to or for the benefit of the Borrower, that:

(i) none of the Administrative Agent or any Joint Lead Arranger or any of their respective Affiliates is a fiduciary with respect to the assets of such Lender (including in connection with the reservation or exercise of any rights by the Administrative Agent under this Agreement, any Loan Document or any documents related to hereto or thereto);

(ii) the Person making the investment decision on behalf of such Lender with respect to the entrance into, participation in, administration of and performance of the Loans, the Commitments and this Agreement is independent (within the meaning of 29 CFR § 2510.3-21) and is a bank, an insurance carrier, an investment adviser, a broker-dealer or other person that holds, or has under management or control, total assets of at least \$50 million, in each case as described in 29 CFR § 2510.3-21(c)(1)(i)(A)-(E);

(iii) the Person making the investment decision on behalf of such Lender with respect to the entrance into, participation in, administration of and performance of the Loans, the Commitments and this Agreement is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies (including in respect of the Obligations);

(iv) the Person making the investment decision on behalf of such Lender with respect to the entrance into, participation in, administration of and performance of the Loans, the Commitments and this Agreement is a fiduciary under ERISA or the Code, or both, with respect to the Loans, the Commitments and this Agreement and is responsible for exercising independent judgment in evaluating the transactions hereunder; and

(v) no fee or other compensation is being paid directly to the Administrative Agent or any Joint Lead Arranger or any their respective Affiliates for investment advice (as opposed to other services) in connection with the Loans, the Commitments or this Agreement.

(c) The Administrative Agent and each Joint Lead Arranger hereby informs the Lenders that each such Person is not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, in connection with the transactions contemplated hereby, and that such Person has a financial interest in the transactions contemplated hereby in that such Person or an Affiliate thereof (i) may receive interest or other payments with respect to the Loans, the Commitments and this Agreement, (i) may recognize a gain if it extended the Loans or the Commitments for an amount less than the amount being paid for an interest in the Loans or the Commitments by such Lender or (i) may receive fees or other payments in connection with the transactions contemplated hereby, the Loan Documents or otherwise, including structuring fees, commitment fees, arrangement fees, facility fees, upfront fees, underwriting fees, ticking fees, agency fees, administrative agent or collateral agent fees, utilization fees, minimum usage fees, letter of credit fees, fronting fees, deal-away or alternate transaction fees, amendment fees, processing fees, term out premiums, banker's acceptance fees, breakage or other early termination fees or fees similar to the foregoing.

ARTICLE 9
MISCELLANEOUS

Section 9.01 *No Waiver; Remedies.* No failure to exercise or delay in exercising any right, power or privilege in respect of this Agreement or any other Loan Document will be presumed to operate as a waiver, and no single or partial exercise of any right, power or privilege in respect of this Agreement or any other Loan Document will be presumed to preclude any subsequent or further exercise, of that right, power or privilege or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by Law.

Section 9.02 *Notices, Etc.* (a) *Notices Generally.* All notices and other communications provided for hereunder shall be in writing (including by facsimile transmission) and mailed, transmitted or delivered, if to the Borrower, at its address at Zoetis Inc., 10 Sylvan Way, Parsippany, NJ 07054, Email: LegalNotices@zoetis.com; if to any Lender, at its address for notices recorded by the Administrative Agent in the Register; and if to the Administrative Agent, at its address at Barclays Bank PLC, 745 Seventh Avenue, New York, NY 10019 USA, Attn: Patrick Shields, Phone: (212) 526-9531; Email: Patrick.Shields@barclays.com (with a copy to Barclays Bank PLC, 745 Seventh Avenue, New York, NY 10019 USA; Phone: (212) 526-9531; Attn: Bank Debt Management; Email: ltmny@barclays.com); or, as to the Borrower or the Administrative Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrower and the Administrative Agent. Without prejudice to clause (b)(iv) below, each such notice or communication will be deemed effective: (i) if in writing and delivered in person or by courier, on the date it is delivered; (ii) if sent by facsimile transmission or electronic mail, on the date that transmission is received by a responsible employee of the recipient in legible form (it being agreed that the burden of proving receipt will be on the sender and will not be met by a transmission report generated by the sender's facsimile machine); or (iii) if sent by certified or registered mail (airmail, if overseas) or the equivalent (return receipt requested), on the date that mail is delivered or its delivery is attempted, except that notices and communications to the Administrative Agent pursuant to Article 2, 3 or 8 shall not be effective until received by the Administrative Agent. Delivery by facsimile or electronic mail of an executed counterpart of any amendment or waiver of any provision of this Agreement or any of the other Loan Documents or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof.

(a) *Electronic Communications.*

(i) *Delivery of Communications by the Borrower.* The Borrower agrees that, unless otherwise requested by the Administrative Agent, it will provide to the Administrative Agent all information, documents and other materials that it is obligated to furnish to the Administrative Agent pursuant to this Agreement and the other Loan Documents, including all notices, requests, financial statements, financial and other reports, certificates and other information materials, but excluding any such communication that (A) relates to a request for a new, or a Conversion of an existing, Borrowing (including any election of an interest rate or Interest Period relating thereto), (B) relates to the payment of any principal or other amount due under this Agreement prior to the scheduled date therefor, (C) provides notice of any Default under this Agreement, (D) is required to be delivered to satisfy any condition precedent in Article 3 or (E) initiates or responds to legal process (all such non-excluded information being referred to herein collectively as the

“**Communications**”), by transmitting the Communications in an electronic/soft medium (*provided* such Communications contain any required signatures) in a format acceptable to the Administrative Agent to Patrick.Shields@barclays.com (with a copy to ltmny@barclays.com) or such other e-mail address designated in writing by the Administrative Agent from time to time.

(ii) *Use of Web Platforms.* Each party hereto agrees that the Administrative Agent may make the Communications available to the Lenders by posting the Communications on IntraLinks or another similar website reasonably acceptable to the Borrower, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third party website or whether sponsored by the Administrative Agent) (the “**Platform**”). Nothing in this Section 9.02 shall prejudice the right of the Administrative Agent to make the Communications available to the Lenders in any other manner specified in this Agreement. Each party hereto agrees that the Administrative Agent may, but (except as may be required by applicable Law) shall not be obligated to, store the Communications on the Platform in accordance with the Administrative Agent’s generally-applicable document retention procedures and policies.

(iii) *E-mail Notification to Lenders.* Each Lender agrees (unless separate arrangements have been made with the Administrative Agent) that e-mail notice to it (at the address provided pursuant to the next sentence and deemed delivered as provided in the next paragraph) specifying that Communications have been posted to the Platform shall constitute effective delivery of such Communications to such Lender for purposes of this Agreement. Each Lender agrees (A) to notify the Administrative Agent in writing (including by electronic communication) from time to time to ensure that the Administrative Agent has on record an effective e-mail address for such Lender to which the foregoing notice may be sent by electronic transmission, and (B) that the foregoing notice may be sent to such e-mail address.

(iv) *Presumption as to Delivery of E-mail.* Each party agrees that any electronic communication referred to in this Section 9.02 shall be deemed delivered upon the posting of a record of such communication as “received” in the e-mail system of the recipient; *provided* that if such communication is not so received during normal business hours, such communication shall be deemed delivered at the opening of business on the next Business Day.

(v) *Waiver of Responsibility.* Each party acknowledges that (A) although the Platform and its primary web portal are secured with generally-applicable security procedures and policies implemented or modified by the Administrative Agent from time to time (including, as of the Closing Date, a dual firewall and a User ID/Password Authorization System) and the Platform is secured through a single-user-per-deal authorization method whereby each user may access the Platform only on a deal-by-deal basis, the distribution of material through an electronic medium is not necessarily secure and that there are confidentiality and other risks associated with such distribution (and each party assumes the risks of such distribution), (B) the Communications and the Platform are provided “as is” and “as available,” (C) none of the Administrative Agent, its Affiliates nor any of their respective officers, directors, employees, members, trustees, agents, sub-agents, advisors or representatives (collectively, the “**Barclays Parties**”) warrants the adequacy, accuracy or completeness of the Communications or the Platform, and each Barclays Party expressly disclaims liability for errors or omissions in any Communications or the Platform, and (D) no warranty of any kind, express, implied or statutory, including any warranty of

merchantability, fitness for a particular purpose, non-infringement of third party rights or freedom from viruses or other code defects, is made by any Barclays Party in connection with any Communications or the Platform.

Section 9.03 *Amendments, Etc.*

(a) No amendment or waiver of any provision of this Agreement or the other Loan Documents, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; *provided* that no amendment, waiver or consent shall (b) increase the Commitment of any Lender, or subject any Lender to any additional obligations, without the prior written consent of such Lender, (c) reduce the principal of, or interest (or the rate of interest) on, the Loans of any Lender, or any fees (or the rate at which they accrue) or other amounts payable hereunder to any Lender, without the prior written consent of such Lender, (d) alter the manner in which Commitment reductions or payments or prepayments of principal, interest or other amounts hereunder shall be applied as among the Lenders without the prior written consent of all Lenders directly affected thereby, (e) postpone any date fixed for any payment of principal of, or interest on, the Loans of any Lender, or any fees or other amounts payable hereunder to any Lender, without the prior written consent of such Lender, (f) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Loans, that shall be required for the Lenders or any of them to take any action hereunder without the prior written consent of all Lenders affected thereby, (g) amend Section 2.15 or this Section 9.03 without the prior written consent of all Lenders adversely affected thereby, (h) extend the commitment period of any Lender or amend the definition of “Commitment Termination Date” with respect to any Lender, without the prior written consent of such Lender or (h) amend the definition of “Applicable Percentage” without the prior written consent of all Lenders affected thereby; *provided, further* that no amendment, waiver or consent shall amend, modify or otherwise affect the rights or duties of the Administrative Agent under any Loan Document without the prior written consent of the Administrative Agent; *provided, further*, that the Administrative Agent may, with the written consent of the Borrower, amend, modify or supplement this Agreement to cure any ambiguity, omission, defect or inconsistency, so long as such amendment, modification or supplement does not adversely affect the rights of any Lender. Notwithstanding the foregoing, any amendment to the Pricing Grid pursuant to the final paragraph of Annex I shall not require the written consent of any Lender, but shall require the written consent of the Borrower and the Administrative Agent only.

(b) For the avoidance of doubt, and notwithstanding any provision in this Agreement to the contrary, it shall not be necessary to obtain the consent or approval of any Lender to

effectuate, pursuant to Section 2.21, the conversion of any Revolving Loans into Term Loans and therewith extend the Maturity Date for such Term Loans to the first anniversary of the Commitment Termination Date.

Section 9.04 *Costs and Expenses; Indemnity.* (a) The Borrower agrees to pay, promptly following demand therefor, all reasonable and documented out-of-pocket costs and expenses of the Administrative Agent and the Joint Lead Arrangers in connection with the syndication of the credit facility provided for herein and the preparation, execution, delivery, administration, modification and amendment of this Agreement, the other Loan Documents and the other documents to be delivered hereunder and thereunder, including the reasonable and documented fees and expenses of counsel for the Administrative Agent with respect thereto and with respect to advising the Administrative Agent as to its rights and responsibilities under this Agreement with respect to issues arising after the date hereof and relating specifically to this Agreement. The Borrower further agrees to periodically pay, promptly following demand therefor, all reasonable and documented out-of-pocket costs and expenses of the Administrative Agent and the Lenders, if any (including reasonable and documented counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the other Loan Documents and the other documents to be delivered hereunder, including reasonable and documented fees and expenses of counsel for the Administrative Agent and each Lender in connection with the enforcement of rights under this Section 9.04(a). Notwithstanding the foregoing, nothing in this Section 9.04(a) shall require the Borrower to reimburse the Administrative Agent, any Joint Lead Arranger or any Lender for Taxes or Additional Costs paid pursuant to Section 2.16.

(b) If any payment or prepayment of principal of, or Conversion of, any Eurodollar Rate Loan is made by the Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Loan as a result of (i) a payment pursuant to this Agreement or a Conversion pursuant to Section 2.11, 2.13 or 2.17, (ii) [reserved], (iii) a payment by an Eligible Assignee to a Lender other than on the last day of the Interest Period for such Loan upon an assignment of rights and obligations under this Agreement pursuant to Section 9.06 as a result of a demand by the Borrower pursuant to Section 9.06(a) or 9.06(c), (iv) acceleration of the maturity of the Loans pursuant to Article 7, (v) any payment on the Commitment Termination Date with respect to any Loans for which the Interest Period is deemed to end on such Commitment Termination Date pursuant to clause (i) of the definition of “Interest Period” or (i) any other reason, or if the Borrower shall fail to effect any Borrowing of a Loan (other than a Base Rate Loan) on the date specified for such Borrowing in the related Borrowing request (including by reason of the failure of any applicable condition set forth in Article 3 to be satisfied), or if the Borrower shall fail to prepay any Eurodollar Rate Loan after notice has been given to any Lender pursuant to Section 2.13 (regardless of whether such notice may be revoked under Section 2.13 and is revoked in accordance therewith), then the Borrower shall, within 10 days following demand by such Lender (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses that it may reasonably incur as a result of such payment, prepayment or Conversion, or failure to borrow or prepay, including any loss (resulting from any interest rate differentials, excluding loss of anticipated margin), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Loan. Determinations by a Lender for purposes of this Section 9.04(b) of any loss, cost or expense shall be conclusive and binding for all purposes, *provided that*

such determinations are made on a reasonable basis. Any Lender requesting compensation under this Section 9.04(b) will furnish the Borrower with a certificate setting forth the basis and amount of such request for compensation. Notwithstanding the foregoing, nothing in this Section 9.04(b) shall require the Borrower to reimburse the Administrative Agent, any Joint Lead Arranger or any Lender for Taxes or Additional Costs paid pursuant to Section 2.16.

(c) The Borrower shall indemnify the Administrative Agent, each Joint Lead Arranger, and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an “**Indemnatee**”) on demand against, and hold each Indemnatee harmless from, any and all obligations, losses, claims, damages, penalties, actions, judgments, suits, costs, liabilities and related expenses, including the reasonable fees, charges and disbursements of any counsel for any Indemnatee, incurred by or asserted against any Indemnatee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement or any agreement or instrument contemplated hereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the transactions contemplated hereby, (ii) any Loan or the use of the proceeds therefrom, or (iii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing (including any such action, proceeding or investigation brought by or against any person, including stockholders, partners or other equity holders of the Borrower), whether based on contract, tort or any other theory and in any capacity regardless of whether any Indemnatee is a party thereto, in each case, whether or not such investigation, litigation, claim or proceeding is brought by the Borrower, any equity holders or creditors of the Borrower or an Indemnatee and whether or not any such Indemnatee is otherwise a party thereto; *provided* that such indemnity shall not, as to any Indemnatee, be available to the extent that such obligations, losses, claims, damages, penalties, actions, judgments, suits, costs, liabilities or related expenses are determined by final and nonappealable judgment of a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of such Indemnatee in the performance of its obligations under the Loan Documents; *provided, however*, that in no event will such Indemnatee or such other parties have any liability for any indirect, consequential, special or punitive damages in connection with or as a result of such Indemnatee’s or such other parties’ activities related to the Loan Documents and the Borrower hereby waives, releases and agrees not to sue upon such claim or any such damages whether or not accrued or not known or suspected to exist in its favor. If for any reason the foregoing indemnification is unavailable to any Indemnatee or insufficient to hold it harmless, then the Borrower will contribute to the amount paid or payable by such Indemnatee, as the case may be, as a result of such loss, claim, damage, liability and related expenses in such proportion as is appropriate to reflect the relative economic interests of (i) the Borrower and their respective Affiliates, stockholders, partners or other equity holders on the one hand and (ii) such Indemnatee on the other hand in the matters contemplated by the Loan Documents as well as the relative fault of (i) the Borrower and their respective Affiliates, stockholders, partners or other equity holders and (ii) such Indemnatee with respect to such loss, claim, damage or liability and any other relevant equitable considerations.

(d) Without prejudice to the survival of any other agreement of the Borrower or the Lenders hereunder, the agreements and obligations of the Borrower contained in Sections 2.16, 2.18 and this Section 9.04, and the agreements and obligations of each Lender under Sections

8.05 and 9.11, shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the Notes.

Section 9.05 *Binding Effect.* This Agreement shall become effective when it shall have been executed by the Borrower and the Administrative Agent and when the Administrative Agent shall have been notified by each Initial Lender that such Initial Lender has executed it and thereafter shall be binding upon and inure to the benefit of the Borrower, the Administrative Agent and each Lender and their respective successors and assigns, except that the Borrower shall have no right to assign its rights hereunder or any interest herein without the prior written consent of all Lenders (except Defaulting Lenders), which consent shall not be unreasonably withheld or delayed, and any purported assignment without such consent shall be null and void.

Section 9.06 *Assignments and Participations.* (a) Each Lender may assign to one or more Persons all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment, the Loans owing to it and any Notes held by it) with the consent of the Borrower (unless an Event of Default shall have occurred and be continuing or the assignment is to a Lender or an Affiliate of a Lender, in which case the consent of the Borrower shall not be required and provided that if the consent of the Borrower to an assignment is required hereunder, the Borrower shall be deemed to have consented to any assignment unless it shall object thereto by written notice to the Administrative Agent within 10 Business Days after having received a written request for its consent to such assignment) and the Administrative Agent, in each case, which consent shall not be unreasonably withheld or delayed, and, if demanded by the Borrower (pursuant to clause (c) below), upon at least five Business Days' notice to such Lender and the Administrative Agent, shall assign to one or more Persons all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment, the Loans owing to it and any Notes held by it); *provided* that (i) each such assignment shall be of a constant, and not a varying percentage of all rights and obligations under this Agreement, (ii) except in the case of an assignment to a Person that, immediately prior to such assignment, was a Lender or in the case of an assignment of all of a Lender's rights and obligations under this Agreement, the amount of the Commitment or Loan, as applicable, of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than \$10,000,000 or any whole multiple of \$1,000,000 in excess thereof, (iii) each such assignment shall be to an Eligible Assignee or an Affiliate of a Lender of the type described in clause (y) of the second proviso below, (iv) each such assignment made as a result of a demand by the Borrower shall comply with clause (c) below, (v) the parties to each such assignment (which shall not include the Borrower) shall execute and deliver to the Administrative Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with any Note subject to such assignment and a processing and recordation fee of \$3,500 and (i) the assignee, if not already a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire; *provided* that the Borrower shall pay such processing and recordation fee if such assignment occurs as a result of a demand by the Borrower pursuant to Section 9.06(c)(i) or (ii); *provided, further* that no consents shall be required (x) in the case of an assignment of the type described in clause (g) below, or (y) in the case of an assignment of a Commitment by a Lender to an Affiliate of such Lender if the long term deposit rating of such Affiliate is no less than the long term deposit rating of such Lender at the time of the assignment, subject to reassignment by such Affiliate to such Lender if at any time it ceases to be an Affiliate of such Lender and prior

notification of any such assignment to the Borrower. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Section 2.16, 2.18 and 9.04 with respect to facts and circumstances occurring prior to the effective date of such assignment.

(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender (A) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement or any other instrument or document furnished pursuant hereto, other than the representation and warranty that it owns the interest being assigned, free and clear of any liens or encumbrances, and has taken all action necessary to consummate the transactions pursuant to such Assignment and Acceptance; and (B) makes no representation or warranty and assumes no responsibility with respect to the financial position of the Borrower or the performance or observance by the Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; and (ii) such assignee (A) represents and warrants that it has taken all action necessary to consummate the transactions pursuant to such Assignment and Acceptance; (B) confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Sections 5.01(a) or 5.01(b) (or, prior to the first such delivery, the Initial Financial Statements) and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (C) agrees that it will, independently and without reliance upon the Administrative Agent, any Arranger, such assigning Lender or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (D) confirms that it is an Eligible Assignee; (E) appoints and authorizes the Administrative Agent to take such action as administrative agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Administrative Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto; and (F) agrees that it will perform in accordance with their terms all the obligations that by the terms of this Agreement are required to be performed by it as a Lender.

Anything herein to the contrary notwithstanding, the Borrower shall not be obligated to pay to any assignee any amounts under Section 2.16 or 2.18 in excess of the amount the Borrower would have been obligated to pay thereunder to the assigning Lender in the absence of such assignment, unless such assignment is made at a time when the circumstances giving rise to such greater payments did not exist.

(c) Following (i) a demand by any Lender pursuant to, or the incurrence by the Borrower of an obligation to make a payment pursuant to, Section 2.16, 2.17 or 2.18, (ii) any Lender becoming a Defaulting Lender or (iii) in connection with any proposed amendment, modification, waiver or termination requiring the consent of all the Lenders or all affected Lenders, for which the consent of the Required Lenders has been obtained, the failure of any Lender whose consent is required but not obtained to vote in favor of such amendment, modification, waiver or termination, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.06(a)), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); *provided that* (w) the Borrower shall have received the prior written consent of the Administrative Agent, which consent shall not unreasonably be withheld or delayed, (x) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans, accrued interest thereon, accrued fees (giving effect to Section 2.19 in the event such Lender is a Defaulting Lender) and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts), (y) in the case of any such assignment resulting from a claim or obligations under Section 2.16, 2.17 or 2.18, such assignment will result in a reduction in such compensation or payments and (z) no Default shall have occurred and be continuing. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

(d) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with any Notes subject to such assignment, the Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit A hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Borrower. Within five Business Days after its receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Administrative Agent in exchange for the surrendered Note (which shall be marked “cancelled” by the assigning Lender) a new Note to such Eligible Assignee in an amount equal to the Commitment or Loan, as applicable, assumed by it pursuant to such Assignment and Acceptance and, if the assigning Lender has retained a Commitment or Loan, as applicable, hereunder, a new Note to the assigning Lender in an amount equal to the Commitment or Loan, as applicable, retained by it hereunder. Such new Notes shall be in an aggregate principal amount equal to the aggregate principal amount of such surrendered Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of Exhibit B hereto.

(e) The Administrative Agent, acting solely for this purpose as a non-fiduciary agent of the Borrower, shall maintain at its address referred to in Section 9.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and the interest and principal amount of the Loans owing to, each Lender from time to time (the “**Register**”). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Administrative Agent and the Lenders shall treat each Person whose name is

recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(f) Each Lender may sell participations to one or more banks or other entities (other than the Borrower or any of its Affiliates) (a “**Participant**”) in or to all or a portion of its rights and/or obligations under this Agreement (including all or a portion of its Commitment, the Loans owing to it and any Notes held by it); *provided* that (i) such Lender’s obligations under this Agreement (including its Commitment hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Note for all purposes of this Agreement, (iv) the Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender’s rights and obligations under this Agreement and (v) no Participant under any such participation shall have any right to approve any amendment or waiver of any provision of this Agreement or any Note, or any consent to any departure by the Borrower therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation. The Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.16 and 2.18 (subject to the requirements and limitations therein, including the requirements under Section 2.18(f) (it being understood that the documentation required under Section 2.18(f) shall be delivered to the participating Lender)) to the same extent as if it were a Lender and had acquired its interest by assignment; *provided* that such Participant (A) agrees to be subject to the provisions of Section 2.18(g) as if it had acquired its interest by assignment and (B) shall not be entitled to receive any greater payment under Section 2.16 or 2.18, with respect to any participation, than its participating Lender would have been entitled to receive, except to the extent such entitlement to receive a greater payment results from a Change in Law that occurs after the Participant acquired the applicable participation. Each Lender that sells a participation, acting solely for this purpose as a non-fiduciary agent of the Borrower, shall maintain a register for the recordation of the names and addresses of each Participant and the Commitment of, and the interest and principal amount of the Loans owing to, each Participant from time to time (the “**Participant Register**”); *provided* that no Lender shall have any obligation to disclose all or any portion of the Participant Register to any Person (including the identity of any Participant or any information relating to a Participant’s interest in any Commitments, Loans or its other obligations hereunder or under any other Loan Document) except to the extent that such disclosure is necessary to establish that such Commitment, Loan or other obligation is in registered form under Section 5f.103-1(c) of the United States Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary.

(g) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time create a security interest in all or any portion of its rights under this Agreement (including the Loans owing to it and the Notes held by it) in favor of any Federal Reserve Bank or other Governmental Authority in accordance with any regulation of the Federal Reserve or

other Governmental Authority. No such assignment shall release any Lender from its obligations hereunder.

Section 9.07 *Governing Law.* This Agreement and the other Loan Documents and any claim, controversy or dispute arising under or related to this Agreement, the Loan Documents, the relationship of the parties under any Loan Document, and/or the interpretation and enforcement of the rights and duties of the parties under any Loan Document shall be governed by, and construed in accordance with, the law of the State of New York without regard to conflict of laws principles thereof that would result in the application of any law other than the law of the State of New York.

Section 9.08 *Execution in Counterparts.* This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or electronic mail shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 9.09 *Successors and Assigns.* This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assignees.

Section 9.10 *Captions.* Captions and section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

Section 9.11 *Confidentiality.* (a) The Administrative Agent, each Joint Lead Arranger and each Lender shall hold all non-public information regarding the Borrower and its Subsidiaries and their business identified as such by the Borrower and obtained by the Administrative Agent, such Joint Lead Arranger or Lender, as the case may be, pursuant to the requirements hereof in accordance with such Person's customary procedures for handling confidential information of such nature and only use such information in connection with its services to, and its relationship with, the Borrower, *provided* that nothing herein contained shall be construed to prevent the Administrative Agent or such Lender or Joint Lead Arranger from disclosing such information (i) to any Affiliate of the Administrative Agent or such Lender or Joint Lead Arranger or any officer, director or employee or agent or any attorney or accountant for the Administrative Agent or such Lender or Joint Lead Arranger that agrees to be similarly bound, (ii) to any bona fide or potential assignee, transferee or participant in connection with the contemplated assignment, transfer or participation of any Commitments or Loans or any participations therein or by any direct or indirect contractual counterparties (or the professional advisors thereto) to any swap or derivative transaction relating to the Borrower and its obligations or to any credit insurance provider relating to the Borrower and its obligations, in each case that agrees to be bound by the provisions of this Section 9.11, (iii) pursuant to any subpoena or upon the Order of any court or administrative agency or upon the request or demand of, or in connection with any investigation, examination or audit by, any governmental agency or authority, whether or not such request or demand shall have the force of Law, upon notice to the Administrative Agent and the Lenders of such subpoena, Order, request or demand (unless such notice is not legally permissible), *provided* that, except with respect to any audit or examination

conducted in the ordinary course by bank accountants or by any governmental bank regulatory authority exercising examination or supervisory authority, the Administrative Agent or such Lender or Joint Lead Arranger (as the case may be) shall have used commercially reasonable efforts to provide prompt notice to the Borrower (unless such notice is not legally permissible) of such subpoena, Order, request or demand or such investigation, examination or audit so as to enable the Borrower to seek a protective Order or other appropriate remedy and thereafter discloses only the minimum information required to be disclosed in order to comply with such subpoena, Order, request or demand of, or in connection with such investigation, examination or audit, (iv) that has been obtained from any Person that is not a party to this Agreement or an Affiliate of any such party and who was not similarly bound so far as such Person was aware, (v) to any rating agency when required by it, *provided* that, prior to any disclosure, such rating agency shall undertake in writing to preserve the confidentiality of any confidential information relating to the Borrower received by it from the Administrative Agent, any Joint Lead Arranger or any Lender, (vi) on a confidential basis, to data service providers, including league table providers, that serve the lending industry and (vii) in connection with the exercise of any remedy hereunder. Said authorization to disclose is subject to any federal or state securities Laws that reasonably require the parties to keep some or all aspects of the transaction contemplated herein confidential. Furthermore, nothing in this Section 9.11 shall be construed as a waiver of any applicable attorney client privilege or any privilege arising under section 7525 of the Code or any duty of confidentiality on the part of any attorney or accountant under any code of professional conduct that, in each case, relates to communications with respect to the transactions contemplated herein or the execution thereof.

Section 9.12 *Jurisdiction, Service of Process, Etc.* (a) Each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its property and assets, to the exclusive jurisdiction of the Supreme Court of the State of New York and of the United States District Court of the Southern District of New York, in each case sitting in New York County, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or any of the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto (subject, in the case of the Administrative Agent and each Lender, to the last sentence of this paragraph) hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding shall be heard and determined in any such New York State court or, to the extent permitted by Law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law.

(b) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Agreement or any of the other Loan Documents in any New York State or Federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by Law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(c) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.02. Nothing in this Agreement or any other Loan

Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

Section 9.13 *Waiver of Jury Trial.* EACH OF THE BORROWER, THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR THE ACTIONS OF THE ADMINISTRATIVE AGENT OR ANY LENDER IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT THEREOF.

Section 9.14 [Reserved].

Section 9.15 *USA PATRIOT Act and 31 C.F.R. § 1010.230.* Each Lender hereby notifies the Borrower that pursuant to the requirements of the PATRIOT Act and 31 C.F.R. § 1010.230, it is required to obtain, verify and record information that identifies the Borrower, which information includes the names and addresses of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with said Act and regulations.

Section 9.16 *No Fiduciary Duty.* The Administrative Agent, each Joint Lead Arranger, each Lender and their Affiliates (collectively, solely for purposes of this paragraph, the “**Lenders**”), may have economic interests that conflict with those of the Borrower. The Borrower agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty between the Lenders and the Borrower, its stockholders or its affiliates. The Borrower acknowledges and agrees that (i) the transactions contemplated by the Loan Documents are arm’s-length commercial transactions between the Lenders, on the one hand, and the Borrower, on the other, (i) in connection therewith and with the process leading to such transaction each of the Lenders is acting solely as a principal and not the agent or fiduciary of the Borrower, its management, stockholders, creditors or any other person, (i) no Lender has assumed an advisory or fiduciary responsibility in favor of the Borrower with respect to the transactions contemplated hereby or the process leading thereto (irrespective of whether any Lender or any of its affiliates has advised or is currently advising the Borrower on other matters) or any other obligation to the Borrower except the obligations expressly set forth in the Loan Documents and (i) the Borrower has consulted its own legal and financial advisors to the extent it deemed appropriate. The Borrower further acknowledges and agrees that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Borrower agrees that it will not claim that any Lender has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to the Borrower, in connection with such transaction or the process leading thereto.

Section 9.17 *Right of Set-off.* Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified in Article 7 by the Required Lenders to authorize the Administrative Agent to declare the Loans due and payable pursuant to the provisions of Article 7 and notice to the Borrower as required under Article 7, each Lender and each Affiliate of a Lender is hereby authorized at any time and from time to time, to the fullest extent permitted by Law, to set off and apply any and all deposits

(general or special, time or demand, provisional or final) at any time held and other Debt at any time owing by such Lender or its Affiliates to or for the credit or the account of the Borrower against any and all of the Obligations now or hereafter existing whether or not such Lender shall have made any demand under this Agreement or any other Loan Document and even though such Obligations may be unmatured. Each Lender agrees promptly to notify the Borrower after any such set-off and application made by such Lender or its Affiliates; *provided, however*, that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender under this Section 9.17 are in addition to the other rights and remedies (including other rights of set-off) that such Lender may have.

Section 9.18 *Integration.* This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent (in its capacity as such) constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof, including the commitments of the Lenders and, if applicable, their Affiliates under the Commitment Documents and any commitment advices submitted by them (but do not supersede any other provisions of the Commitment Documents that do not by the terms of such documents terminate upon the effectiveness of this Agreement, all of which provisions shall remain in full force and effect, except where such provisions conflict with any provision in this Agreement, in which case the latter shall have effect).

Section 9.19 *Acknowledgement and Consent to Bail-in of EEA Financial Institutions.* Notwithstanding anything to the contrary in any Loan Document or in any other agreement, arrangement or understanding among any such parties, each party hereto acknowledges that any liability of any EEA Financial Institution arising under any Loan Document may be subject to the write-down and conversion powers of an EEA Resolution Authority and agrees and consents to, and acknowledges and agrees to be bound by:

- (a) the application of any Write-Down and Conversion Powers by an EEA Resolution Authority to any such liabilities arising hereunder which may be payable to it by any party hereto that is an EEA Financial Institution; and
- (b) the effects of any Bail-In Action on any such liability, including, if applicable
 - (i) a reduction in full or in part or cancellation of any such liability;
 - (ii) a conversion of all, or a portion of, such liability into shares or other instruments of ownership in such EEA Financial Institution, its parent undertaking, or a bridge institution that may be issued to it or otherwise conferred on it, and that such shares or other instruments of ownership will be accepted by it in lieu of any rights with respect to any such liability under this Agreement or any other Loan Document; or
 - (iii) the variation of the terms of such liability in connection with the exercise of the write-down and conversion powers of any EEA Resolution Authority.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

ZOETIS INC.

By: /s/ Glenn David
Name: Glenn David
Title: Executive Vice President, Chief
Financial Officer

BARCLAYS BANK PLC, as Administrative
Agent and as a Lender

By: /s/ Ronnie Glenn

Name: Ronnie Glenn

Title: Director

JPMORGAN CHASE BANK, N.A., as a
Lender

By: /s/ Joseph M. McShane

Name: Joseph M. McShane

Title: Vice President

BANK OF AMERICA, N.A., as a Lender

By: /s/ Yinghua Zhang

Name: Yinghua Zhang

Title: Director

CITIBANK, N.A., as a Lender

By: /s/ Richard Rivera

Name: Richard Rivera

Title: Vice President

MUFG BANK, LTD., as a Lender

By: /s/ Jaime Johnson

Name: Jaime Johnson

Title: Director

ANNEX I

Pricing Grid

Level:	Ratings (Moody's/S&P):	Base Rate Margin (% per annum)	Eurodollar Margin (% per annum)	Facility Fee Rate (% per annum)
Level 1	Greater than or equal to A3/A-	0.000	1.000	0.060
Level 2	Baa1/BBB+	0.125	1.125	0.080
Level 3	Baa2/BBB	0.250	1.250	0.100
Level 4	Baa3/BBB-	0.500	1.500	0.125
Level 5	Lower than Baa3/BBB-	0.750	1.750	0.150

In the event of split Ratings from Moody's and S&P, the foregoing determinations will be based upon the Rating more favorable to the Borrower unless the Ratings differ by more than one Level, in which case the foregoing determinations will be based on the Level that is one Level below that of the more favorable Level (i.e., Level 2 is "below" Level 1).

For purposes of the foregoing: (a) if a Rating Agency shall merge with or into or be acquired by the other Rating Agency, or shall cease to be in the business of rating corporate debt obligations, or shall otherwise cease to have a Rating in effect, then Fitch will be substituted into the Pricing Grid for the Rating Agency from which a Rating is no longer available (with the Fitch equivalent ratings substituted) unless otherwise agreed by the Borrower and the Administrative Agent (on behalf of the Lenders), and if a Rating from Fitch is not available, the Borrower and the Administrative Agent (on behalf of the Lenders) shall negotiate in good faith to amend the Pricing Grid to replace the reference to the Rating of such Rating Agency with the rating of a rating agency registered with the SEC as a "nationally recognized statistical rating organization" and, pending the effectiveness of any such amendment, the foregoing determinations shall be determined by reference to the Rating of the other Rating Agency; *provided* that if no such agreement is reached after the Borrower and the Administrative Agent (on behalf of the Lenders) have negotiated in good faith for 90 days, then at the end of such 90 day period and thereafter (until an agreement is reached among the Borrower and the Administrative Agent (on behalf of the Lenders)) such Rating Agency shall be deemed to have a Rating available and such Rating shall be deemed to be in Level 5; (b) if any Rating Agency shall not have a Rating in effect for a reason other than one of the reasons set forth in the preceding clause (a), such Rating Agency shall be deemed to have a Rating available and such Rating shall be deemed to be in Level 5; and (c) in the event neither Rating Agency has a Rating in effect, the foregoing determinations will be determined by reference to Level 5.

ZOETIS INC. AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES^(a)

	Six Months Ended June 30,		Year Ended December 31,			
(IN MILLIONS, EXCEPT RATIOS)	2018	2017	2016	2015	2014	2013
Determination of earnings:						
Income before provision for taxes on income and noncontrolling interests	\$ 854	\$ 1,525	\$ 1,228	\$ 545	\$ 820	\$ 690
Less: Net income/(loss) attributable to noncontrolling interests	(4)	(2)	(2)	—	4	(1)
Income attributable to Zoetis Inc.	858	1,527	1,230	545	816	691
Add: fixed charges	102	188	177	137	131	127
Total earnings as defined	\$ 960	\$ 1,715	\$ 1,407	\$ 682	\$ 947	\$ 818
Fixed charges:						
Interest expense, net of capitalized interest ^(a)	\$ 93	\$ 175	\$ 166	\$ 124	\$ 117	\$ 113
Capitalized interest	4	4	3	4	4	3
Interest portion of rent expense ^(b)	5	9	8	9	10	11
Fixed charges	\$ 102	\$ 188	\$ 177	\$ 137	\$ 131	\$ 127
Ratio of earnings to fixed charges	9.4	9.1	7.9	5.0	7.2	6.4

^(a) Interest expense includes amortization of debt discount and fees. Interest expense does not include interest related to uncertain tax positions.

^(b) One-third of all rental expense is deemed to be interest, which we believe to be a conservative estimate of an interest factor in our leases.

ACCOUNTANTS' ACKNOWLEDGEMENT

August 2, 2018

Zoetis, Inc.
Parsippany, New Jersey

Re: Registration Statements (Nos. 333-186367, 333-189573, 333-200073, and 333-226481) on Form S-8 and (No. 333-226450) on Form S-3

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated August 2, 2018 related to our review of consolidated interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 ("the Act"), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP
Short Hills, New Jersey

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Juan Ramón Alaix, certify that:

1. I have reviewed this Quarterly Report of Zoetis Inc. on Form 10-Q for the period ending June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 2, 2018

By: /s/ JUAN RAMÓN ALAIX

Juan Ramón Alaix
Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Glenn David, certify that:

1. I have reviewed this Quarterly Report of Zoetis Inc. on Form 10-Q for the period ending June 30, 2018 as filed with the Securities and Exchange Commission on the date hereof;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 2, 2018

By: /s/ GLENN DAVID

Glenn David

Executive Vice President and
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350, I, Juan Ramón Alaix, Chief Executive Officer, hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Zoetis Inc. for the period ended June 30, 2018 (the "Report") (1) fully complies with Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Zoetis Inc.

August 2, 2018

By: /s/ JUAN RAMÓN ALAIX

Juan Ramón Alaix

Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. §1350, I, Glenn David, Executive Vice President and Chief Financial Officer, hereby certify that, to the best of my knowledge, the Quarterly Report on Form 10-Q of Zoetis Inc. for the period ended June 30, 2018 (the “Report”) (1) fully complies with Section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Zoetis Inc.

August 2, 2018

By: /s/ GLENN DAVID
 Glenn David
 Executive Vice President and
 Chief Financial Officer