

**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, 2022

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	ZTS	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

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

As of July 29, 2022, there were 468,138,568 shares of common stock outstanding.

TABLE OF CONTENTS

	<u>Page</u>
PART I — FINANCIAL INFORMATION	<u>1</u>
Item 1. Financial Statements	<u>1</u>
Condensed Consolidated Statements of Income (Unaudited)	<u>1</u>
Condensed Consolidated Statements of Comprehensive Income (Unaudited)	<u>2</u>
Condensed Consolidated Balance Sheets (Unaudited)	<u>3</u>
Condensed Consolidated Statements of Equity (Unaudited)	<u>4</u>
Condensed Consolidated Statements of Cash Flows (Unaudited)	<u>6</u>
Notes to Condensed Consolidated Financial Statements (Unaudited)	<u>7</u>
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	<u>22</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>40</u>
Item 4. Controls and Procedures	<u>40</u>
PART II — OTHER INFORMATION	<u>41</u>
Item 1. Legal Proceedings	<u>41</u>
Item 1A. Risk Factors	<u>41</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>42</u>
Item 3. Defaults Upon Senior Securities	<u>42</u>
Item 4. Mine Safety Disclosures	<u>42</u>
Item 5. Other Information	<u>42</u>
Item 6. Exhibits	<u>42</u>
SIGNATURES	<u>43</u>

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

(MILLIONS OF DOLLARS AND SHARES, EXCEPT PER SHARE DATA)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	\$ 2,052	\$ 1,948	\$ 4,038	\$ 3,819
Costs and expenses:				
Cost of sales	625	568	1,194	1,117
Selling, general and administrative expenses	529	495	994	904
Research and development expenses	135	120	257	238
Amortization of intangible assets	37	41	78	81
Restructuring charges and certain acquisition-related costs	1	21	3	30
Interest expense, net of capitalized interest	53	57	106	114
Other (income)/deductions—net	2	10	9	12
Income before provision for taxes on income	670	636	1,397	1,323
Provision for taxes on income	141	125	274	254
Net income before allocation to noncontrolling interests	529	511	1,123	1,069
Less: Net loss attributable to noncontrolling interests	—	(1)	(1)	(2)
Net income attributable to Zoetis Inc.	\$ 529	\$ 512	\$ 1,124	\$ 1,071
Earnings per share attributable to Zoetis Inc. stockholders:				
Basic	\$ 1.13	\$ 1.08	\$ 2.39	\$ 2.25
Diluted	\$ 1.12	\$ 1.07	\$ 2.38	\$ 2.24
Weighted-average common shares outstanding:				
Basic	470.0	474.8	471.1	475.2
Diluted	471.5	477.0	472.8	477.5
Dividends declared per common share	\$ 0.325	\$ 0.250	\$ 0.650	\$ 0.500

See notes to condensed consolidated financial statements.

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

(MILLIONS OF DOLLARS)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net income before allocation to noncontrolling interests	\$ 529	\$ 511	\$ 1,123	\$ 1,069
Other comprehensive (loss)/income, net of tax ^(a) :				
Unrealized gains/(losses) on derivatives for cash flow hedges, net of tax of \$7 and \$(5) for the three months ended June 30, 2022 and 2021; and \$14 and \$6 for the six months ended June 30, 2022 and 2021, respectively	22	(19)	48	20
Unrealized gains/(losses) on derivatives for net investment hedges, net of tax of \$9 and \$(2) for the three months ended June 30, 2022 and 2021; and \$13 and \$5 for the six months ended June 30, 2022 and 2021, respectively	33	(8)	45	17
Foreign currency translation adjustments	(73)	37	(52)	70
Benefit plans: Actuarial gain, net of tax ^(b)	—	—	1	—
Total other comprehensive (loss)/income, net of tax	(18)	10	42	107
Comprehensive income before allocation to noncontrolling interests	511	521	1,165	1,176
Less: Comprehensive loss attributable to noncontrolling interests	—	(1)	(1)	(2)
Comprehensive income attributable to Zoetis Inc.	\$ 511	\$ 522	\$ 1,166	\$ 1,178

^(a) Presented net of reclassification adjustments, which are not significant in any period presented.

^(b) Presented net of tax impacts, which are not significant in any period presented.

See notes to condensed consolidated financial statements.

ZOETIS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2022 (Unaudited)	December 31, 2021
(MILLIONS OF DOLLARS, EXCEPT SHARE AND PER SHARE DATA)		
Assets		
Cash and cash equivalents ^(a)	\$ 2,652	\$ 3,485
Accounts receivable, less allowance for doubtful accounts of \$24 in 2022 and \$17 in 2021	1,291	1,133
Inventories	2,205	1,923
Other current assets	503	389
Total current assets	6,651	6,930
Property, plant and equipment, less accumulated depreciation of \$2,193 in 2022 and \$2,072 in 2021	2,559	2,422
Operating lease right of use assets	193	181
Goodwill	2,720	2,682
Identifiable intangible assets, less accumulated amortization	1,390	1,474
Noncurrent deferred tax assets	110	100
Other noncurrent assets	147	111
Total assets	\$ 13,770	\$ 13,900
Liabilities and Equity		
Short-term borrowings	\$ 2	\$ —
Current portion of long-term debt	1,350	—
Accounts payable	430	436
Dividends payable	153	154
Accrued expenses	696	710
Accrued compensation and related items	237	392
Income taxes payable	68	38
Other current liabilities	115	67
Total current liabilities	3,051	1,797
Long-term debt, net of discount and issuance costs	5,221	6,592
Noncurrent deferred tax liabilities	274	320
Operating lease liabilities	161	151
Other taxes payable	250	257
Other noncurrent liabilities	233	239
Total liabilities	9,190	9,356
Commitments and contingencies (Note 15)		
Stockholders' equity:		
Common stock, \$0.01 par value: 6,000,000,000 authorized; 501,891,243 and 501,891,243 shares issued; 468,613,448 and 472,574,090 shares outstanding at June 30, 2022, and December 31, 2021, respectively	5	5
Treasury stock, at cost, 33,277,795 and 29,317,153 shares of common stock at June 30, 2022 and December 31, 2021, respectively	(3,766)	(2,952)
Additional paid-in capital	1,059	1,068
Retained earnings	8,004	7,186
Accumulated other comprehensive loss	(722)	(764)
Total Zoetis Inc. equity	4,580	4,543
Equity attributable to noncontrolling interests	—	1
Total equity	4,580	4,544
Total liabilities and equity	\$ 13,770	\$ 13,900

^(a) As of June 30, 2022 and December 31, 2021, includes \$4 million and \$3 million of restricted cash, respectively.

See notes to condensed consolidated financial statements.

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

Three months ended June 30, 2022									
Zoetis									
(MILLIONS OF DOLLARS AND SHARES)	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Equity Attributable to Noncontrolling Interests	Total Equity
	Shares ^(a)	Amount	Shares ^(a)	Amount					
Balance, March 31, 2022	501.9	\$ 5	30.7	\$ (3,317)	\$ 1,046	\$ 7,628	\$ (704)	\$ —	\$ 4,658
Net income	—	—	—	—	—	529	—	—	529
Other comprehensive loss	—	—	—	—	—	—	(18)	—	(18)
Share-based compensation awards ^(b)	—	—	—	2	13	—	—	—	15
Treasury stock acquired ^(c)	—	—	2.6	(451)	—	—	—	—	(451)
Dividends declared	—	—	—	—	—	(153)	—	—	(153)
Balance, June 30, 2022	501.9	\$ 5	33.3	\$ (3,766)	\$ 1,059	\$ 8,004	\$ (722)	\$ —	\$ 4,580

Three months ended June 30, 2021									
Zoetis									
(MILLIONS OF DOLLARS AND SHARES)	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Equity Attributable to Noncontrolling Interests	Total Equity
	Shares ^(a)	Amount	Shares ^(a)	Amount					
Balance, March 31, 2021	501.9	\$ 5	26.9	\$ (2,412)	\$ 1,030	\$ 6,099	\$ (633)	\$ 3	\$ 4,092
Net income/(loss)	—	—	—	—	—	512	—	(1)	511
Other comprehensive income	—	—	—	—	—	—	10	—	10
Share-based compensation awards ^(b)	—	—	(0.2)	10	14	—	—	—	24
Treasury stock acquired ^(c)	—	—	1.0	(166)	—	—	—	—	(166)
Dividends declared	—	—	—	—	—	(119)	—	—	(119)
Balance, June 30, 2021	501.9	\$ 5	27.7	\$ (2,568)	\$ 1,044	\$ 6,492	\$ (623)	\$ 2	\$ 4,352

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

^(b) Includes the issuance of shares of Zoetis Inc. common stock and the reacquisition of shares of treasury stock associated with exercises of employee share-based awards. 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 12. Share-based Payments* and *Note 13. Stockholders' Equity*.

^(c) Reflects the acquisition of treasury shares in connection with the share repurchase program. For additional information, see *Note 13. Stockholders' Equity*.

See notes to condensed consolidated financial statements.

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

Six months ended June 30, 2022									
(MILLIONS OF DOLLARS AND SHARES)	Zoetis								
	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Equity Attributable to Noncontrolling Interests	Total Equity
	Shares ^(a)	Amount	Shares ^(a)	Amount					
Balance, December 31, 2021	501.9	\$ 5	29.3	\$ (2,952)	\$ 1,068	\$ 7,186	\$ (764)	\$ 1	\$ 4,544
Net income/(loss)	—	—	—	—	—	1,124	—	(1)	1,123
Other comprehensive income	—	—	—	—	—	—	42	—	42
Share-based compensation awards ^(b)	—	—	(0.5)	(2)	(10)	—	—	—	(12)
Treasury stock acquired ^(c)	—	—	4.5	(812)	—	—	—	—	(812)
Employee benefit plan contribution from Pfizer Inc. ^(d)	—	—	—	—	1	—	—	—	1
Dividends declared	—	—	—	—	—	(306)	—	—	(306)
Balance, June 30, 2022	501.9	\$ 5	33.3	\$ (3,766)	\$ 1,059	\$ 8,004	\$ (722)	\$ —	\$ 4,580

Six months ended June 30, 2021									
(MILLIONS OF DOLLARS AND SHARES)	Zoetis								
	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Equity Attributable to Noncontrolling Interests	Total Equity
	Shares ^(a)	Amount	Shares ^(a)	Amount					
Balance, December 31, 2020	501.9	\$ 5	26.6	\$ (2,230)	\$ 1,065	\$ 5,659	\$ (730)	\$ 4	\$ 3,773
Net income/(loss)	—	—	—	—	—	1,071	—	(2)	1,069
Other comprehensive income	—	—	—	—	—	—	107	—	107
Share-based compensation awards ^(b)	—	—	(1.0)	9	(22)	—	—	—	(13)
Treasury stock acquired ^(c)	—	—	2.1	(347)	—	—	—	—	(347)
Employee benefit plan contribution from Pfizer Inc. ^(d)	—	—	—	—	1	—	—	—	1
Dividends declared	—	—	—	—	—	(238)	—	—	(238)
Balance, June 30, 2021	501.9	\$ 5	27.7	\$ (2,568)	\$ 1,044	\$ 6,492	\$ (623)	\$ 2	\$ 4,352

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

^(b) Includes the issuance of shares of Zoetis Inc. common stock and the reacquisition of shares of treasury stock associated with exercises of employee share-based awards. 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 12. Share-based Payments* and *Note 13. Stockholders' Equity*.

^(c) Reflects the acquisition of treasury shares in connection with the share repurchase program. For additional information, see *Note 13. Stockholders' Equity*.

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

See notes to condensed consolidated financial statements.

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

(MILLIONS OF DOLLARS)	Six Months Ended June 30,	
	2022	2021
Operating Activities		
Net income before allocation to noncontrolling interests	\$ 1,123	\$ 1,069
Adjustments to reconcile net income before noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization expense	231	221
Share-based compensation expense	31	29
Asset write-offs and asset impairments	2	14
Net loss on sale of assets	—	3
Provision for losses on inventory	31	25
Deferred taxes	(76)	(24)
Employee benefit plan contribution from Pfizer Inc.	1	1
Other non-cash adjustments	13	7
Other changes in assets and liabilities, net of acquisitions and divestitures:		
Accounts receivable	(182)	(149)
Inventories	(312)	(206)
Other assets	(34)	(36)
Accounts payable	(6)	(91)
Other liabilities	(206)	21
Other tax accounts, net	29	(3)
Net cash provided by operating activities	645	881
Investing Activities		
Capital expenditures	(261)	(190)
Acquisitions	(93)	(14)
Purchase of investments	(7)	—
Settlement on swaps designated as net investment hedges	40	2
Net cash used in investing activities	(321)	(202)
Financing Activities		
Increase in short-term borrowings, net	2	—
Payment of consideration related to previous acquisitions	—	(5)
Share-based compensation-related proceeds, net of taxes paid on withholding shares	(38)	(39)
Purchases of treasury stock	(812)	(347)
Cash dividends paid	(307)	(238)
Net cash used in financing activities	(1,155)	(629)
Effect of exchange-rate changes on cash and cash equivalents	(2)	4
Net (decrease)/increase in cash and cash equivalents	(833)	54
Cash and cash equivalents at beginning of period	3,485	3,604
Cash and cash equivalents at end of period	\$ 2,652	\$ 3,658
Supplemental cash flow information		
Cash paid during the period for:		
Income taxes	\$ 316	\$ 315
Interest, net of capitalized interest	121	127
Amounts included in the measurement of lease liabilities	25	23
Non-cash transactions:		
Capital expenditures	5	4
Lease obligations obtained in exchange for right-of-use assets	41	7
Dividends declared, not paid	153	119

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 animal health industry, focused on the discovery, development, manufacture and commercialization of medicines, vaccines, diagnostic products and services, biodevices, genetic tests and precision animal health technology. 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: dogs, cats and horses (collectively, companion animals) and cattle, swine, poultry, fish and sheep (collectively, livestock); and within seven major product categories: parasiticides, vaccines, dermatology, other pharmaceutical products, anti-infectives, animal health diagnostics and medicated feed additives.

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 U.S. are as of and for the three and six months ended May 31, 2022 and May 31, 2021.

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 2021 Annual Report on Form 10-K.

3. Accounting Standards

Recently Issued Accounting Standards

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. In January 2021, it issued a subsequent amendment to the initial guidance: ASU No. 2021-01, Reference Rate Reform (Topic 848). The new guidance provides temporary optional expedients and exceptions for applying GAAP to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued because of reference rate reform. Adoption of the guidance is optional and effective as of March 12, 2020, but only available through December 31, 2022. We currently have a revolving credit facility and various hedging transactions that reference LIBOR. We will make specific amendments to our affected contracts and hedge documentation to adopt these standards as of December 31, 2022 and we do not expect these changes to have a material impact on our consolidated financial statements or related disclosures.

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, retailers or e-commerce outlets. 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 research and development (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, vaccines and diagnostics, complemented by biodevices, genetic tests and a range of services. We refer to all different brands or a particular product, or its dosage forms for all species, as a product line. We have approximately 300 comprehensive product lines, including products for both companion animals and livestock within each of our major product categories.

Our major product categories are:

- **parasiticides:** products that prevent or eliminate external and internal parasites such as fleas, ticks and worms;
- **vaccines:** biological preparations that help prevent diseases of the respiratory, gastrointestinal and reproductive tracts or induce a specific immune response;
- **dermatology products:** products that relieve itch associated with allergic conditions and atopic dermatitis;
- **other pharmaceutical products:** pain and sedation, antiemetic, reproductive and oncology products;
- **anti-infectives:** products that prevent, kill or slow the growth of bacteria, fungi or protozoa;
- **animal health diagnostics:** blood, urine and fecal analysis testing capabilities, including point-of-care diagnostic products, instruments and reagents, rapid immunoassay tests, reference laboratory kits and services and blood glucose monitors; 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 biodevices, genetic tests and precision animal health.

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, vaccines and diagnostics 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, deepening the human-animal bond, receiving increased medical treatment and benefiting from advances in animal health medicine, vaccines and diagnostics.

Our livestock products primarily help prevent or treat diseases and conditions to allow veterinarians and producers to care for their animals and 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 demand for improved nutrition, particularly through increased consumption of animal protein. Second, population growth leads to greater natural resource constraints driving a need for enhanced productivity. Finally, as standards of living improve and the global food chain faces increased scrutiny, there is more focus on food quality, safety and reliability of supply.

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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
United States	\$ 1,091	\$ 1,004	\$ 2,111	\$ 1,937
Australia	80	69	145	126
Brazil	86	75	163	149
Canada	67	67	116	113
Chile	34	34	75	68
China	96	94	199	217
France	31	32	63	67
Germany	46	50	89	88
Italy	32	32	62	57
Japan	41	50	100	97
Mexico	33	34	68	67
Spain	35	33	68	64
United Kingdom	51	43	115	112
Other developed markets	118	112	233	223
Other emerging markets	193	199	395	398
	2,034	1,928	4,002	3,783
Contract manufacturing & human health	18	20	36	36
Total Revenue	\$ 2,052	\$ 1,948	\$ 4,038	\$ 3,819

Revenue by major species

(MILLIONS OF DOLLARS)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
U.S.				
Companion animal	\$ 895	\$ 794	\$ 1,669	\$ 1,452
Livestock	196	210	442	485
	1,091	1,004	2,111	1,937
International				
Companion animal	471	435	960	853
Livestock	472	489	931	993
	943	924	1,891	1,846
Total				
Companion animal	1,366	1,229	2,629	2,305
Livestock	668	699	1,373	1,478
Contract manufacturing & human health	18	20	36	36
Total Revenue	\$ 2,052	\$ 1,948	\$ 4,038	\$ 3,819

Revenue by species

(MILLIONS OF DOLLARS)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Companion Animal:				
Dogs and Cats	\$ 1,303	\$ 1,161	\$ 2,502	\$ 2,177
Horses	63	68	127	128
	1,366	1,229	2,629	2,305
Livestock:				
Cattle	328	342	692	741
Swine	144	161	298	351
Poultry	121	134	245	265
Fish	47	39	91	76
Sheep and other	28	23	47	45
	668	699	1,373	1,478
Contract manufacturing & human health	18	20	36	36
Total Revenue	\$ 2,052	\$ 1,948	\$ 4,038	\$ 3,819

Revenue by major product category

(MILLIONS OF DOLLARS)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Parasiticides	\$ 536	\$ 460	\$ 995	\$ 850
Vaccines	446	417	851	830
Dermatology	319	285	630	533
Other pharmaceuticals	265	248	519	474
Anti-infectives	233	259	518	580
Animal health diagnostics	87	99	185	188
Medicated feed additives	85	103	183	215
Other non-pharmaceuticals	63	57	121	113
	2,034	1,928	4,002	3,783
Contract manufacturing & human health	18	20	36	36
Total Revenue	\$ 2,052	\$ 1,948	\$ 4,038	\$ 3,819

B. Revenue from Contracts with Customers

Contract liabilities reflected within *Other current liabilities* as of December 31, 2021 and 2020, and subsequently recognized as revenue during the first six months of 2022 and 2021 were approximately \$2 million and \$8 million, respectively. Contract liabilities as of June 30, 2022 and December 31, 2021 were approximately \$14 million and \$12 million, respectively.

Estimated future revenue expected to be generated from long-term contracts with unsatisfied performance obligations as of June 30, 2022 is not material.

5. Acquisitions

During the second quarter of 2022, we completed the acquisition of Basepaws, a privately held petcare genetics company based in the U.S., which provides pet owners with genetic tests, analytics and early health risk assessments that can help manage the health, wellness and quality of care for their pets. This transaction did not have a significant impact on our consolidated financial statements.

During 2021, we entered into an agreement to acquire Jurox, a privately held animal health company based in Australia, which develops, manufactures and markets a wide range of veterinary medicines for treating companion animals and livestock. The transaction is subject to customary closing conditions and the satisfaction of regulatory requirements. We expect to complete the acquisition in 2022. In 2021, we also acquired certain assets to expand our portfolio of equine care products, which did not have a significant impact on our consolidated financial statements.

6. Restructuring Charges and Other Costs Associated with Acquisitions, Cost-Reduction and Productivity Initiatives

In connection with our cost-reduction/productivity initiatives, we typically incur costs and charges associated with site closings and other facility rationalization actions, workforce reductions and the expansion of shared services, including the development of global systems. In connection with our acquisition activity, we typically incur costs and charges associated with executing the transactions, integrating the acquired operations, which may include expenditures for consulting and the integration of systems and processes, product transfers and restructuring the consolidated company, which may include charges related to employees, assets and activities that will not continue in the consolidated company. All operating functions can be impacted by these actions, including sales and marketing, manufacturing and R&D, as well as enabling functions such as information technology, shared services and corporate operations.

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

(MILLIONS OF DOLLARS)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Restructuring charges and certain acquisition-related costs:				
Integration costs ^(a)	\$ 1	\$ 2	\$ 3	\$ 5
Restructuring charges ^(b) :				
Employee termination costs	—	6	—	10
Asset impairment charges	—	13	—	13
Exit costs	—	—	—	2
Total Restructuring charges and certain acquisition-related costs	\$ 1	\$ 21	\$ 3	\$ 30

^(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 and six months ended June 30, 2021 primarily represents asset impairment charges related to the consolidation of manufacturing sites in China and employee termination and exit costs associated with cost-reduction and productivity initiatives.

(MILLIONS OF DOLLARS)	Accrual ^(a)
Balance, December 31, 2021 ^(a)	\$ 25
Utilization and other ^(b)	(8)
Balance, June 30, 2022^(a)	\$ 17

^(a) At June 30, 2022 and December 31, 2021, included in *Accrued expenses* (\$6 million and \$14 million, respectively) and *Other noncurrent liabilities* (\$11 million).

^(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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Royalty-related income	\$ (1)	\$ (2)	\$ (2)	\$ (4)
Interest income	(5)	(2)	(7)	(3)
Net loss on sale of assets ^(a)	—	3	—	3
Foreign currency loss ^(b)	14	9	25	12
Other, net	(6)	2	(7)	4
Other (income)/deductions—net	\$ 2	\$ 10	\$ 9	\$ 12

^(a) For the three and six months ended June 30, 2021, represents a net loss related to the sale of certain assets of our poultry automation business located in the U.S. and Canada.

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

8. Income Taxes

A. Taxes on Income

Our effective tax rate was 21.0% for the three months ended June 30, 2022, compared with 19.7% for the three months ended June 30, 2021. The higher effective tax rate for the three months ended June 30, 2022, was primarily attributable to:

- 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, operating fluctuations in the normal course of business and the impact of non-deductible items and non-taxable items;
- a \$3 million discrete tax expense recorded in the three months ended June 30, 2022 related to changes in valuation allowances; and
- a \$1 million and \$4 million discrete tax benefit recorded in the three months ended June 30, 2022 and 2021, respectively, related to the excess tax benefits for share-based payments.

Our effective tax rate was 19.6% for the six months ended June 30, 2022, compared with 19.2% for the six months ended June 30, 2021. The higher effective tax rate for the six months ended June 30, 2022, was primarily attributable to:

- 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, operating fluctuations in the normal course of business and the impact of non-deductible items and non-taxable items; and
- a \$10 million and \$17 million discrete tax benefit recorded in the six months ended June 30, 2022 and 2021, respectively, related to the excess tax benefits for share-based payments,

partially offset by:

- a \$6 million discrete tax benefit recorded in the six months ended June 30, 2022 related to various tax items.

B. Deferred Taxes

As of June 30, 2022, the total net deferred income tax liability of \$164 million is included in *Noncurrent deferred tax assets* (\$110 million) and *Noncurrent deferred tax liabilities* (\$274 million).

As of December 31, 2021, the total net deferred income tax liability of \$220 million is included in *Noncurrent deferred tax assets* (\$100 million) and *Noncurrent deferred tax liabilities* (\$320 million).

C. Tax Contingencies

As of June 30, 2022, the net tax liabilities associated with uncertain tax positions of \$188 million (exclusive of interest and penalties related to uncertain tax positions of \$16 million) are included in *Noncurrent deferred tax assets* and *Other noncurrent assets* (\$1 million) and *Other taxes payable* (\$187 million).

As of December 31, 2021, the net tax liabilities associated with uncertain tax positions of \$189 million (exclusive of interest and penalties related to uncertain tax positions of \$15 million) are included in *Noncurrent deferred tax assets* and *Other noncurrent assets* (\$1 million) and *Other taxes payable* (\$188 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 multi-year \$1.0 billion senior unsecured revolving credit facility (the credit facility). In December 2018, the maturity for the amended and restated credit facility was extended through December 2023. 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 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, 2022 and December 31, 2021. There were no amounts drawn under the credit facility as of June 30, 2022 or December 31, 2021.

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, 2022, we had access to \$51 million of lines of credit which expire at various times through 2022 and are generally renewed annually. There were \$2 million of borrowings outstanding related to these facilities as of June 30, 2022 and no borrowings outstanding related to these facilities as of December 31, 2021.

Commercial Paper Program

In February 2013, we entered into a commercial paper program with a capacity of up to \$1.0 billion. As of June 30, 2022 and December 31, 2021, there was no commercial paper outstanding under this program.

Senior Notes and Other Long-Term Debt

On August 20, 2021, we redeemed, upon maturity, the \$300 million aggregate principal amount of our 2018 floating rate senior notes due 2021 and the \$300 million aggregate principal amount of our 2018 senior notes due 2021.

On May 12, 2020, we issued \$1.25 billion aggregate principal amount of our senior notes (2020 senior notes), with an original issue discount of \$10 million. These notes are comprised of \$750 million aggregate principal amount of 2.000% senior notes due 2030 and \$500 million aggregate principal amount of 3.000% senior notes due 2050. On October 13, 2020, the net proceeds were used to repay the \$500 million aggregate principal amount of our 3.450% 2015 senior notes due 2020 and the remainder is being used for general corporate purposes. On August 20, 2018, we issued \$1.5 billion aggregate principal amount of our senior notes (2018 senior notes), with an original issue discount of \$4 million. 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. 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 offering) in a private placement, with an original issue discount of \$10 million.

The 2013, 2015, 2017, 2018 and 2020 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, 2017, 2018 and 2020 senior notes may be declared immediately due and payable.

Pursuant to the indenture, we are able to redeem the 2013, 2015, 2017, 2018 and 2020 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, 2017, 2018 and 2020 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, 2017, 2018 and 2020 senior notes at a price equal to 101% of the aggregate principal amount of the 2013, 2015, 2017, 2018 and 2020 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, 2022	December 31, 2021
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
3.900% 2018 senior notes due 2028	500	500
2.000% 2020 senior notes due 2030	750	750
4.700% 2013 senior notes due 2043	1,150	1,150
3.950% 2017 senior notes due 2047	500	500
4.450% 2018 senior notes due 2048	400	400
3.000% 2020 senior notes due 2050	500	500
	6,650	6,650
Unamortized debt discount / debt issuance costs	(58)	(60)
Less current portion of long-term debt	1,350	—
Cumulative fair value adjustment for interest rate swap contracts	(21)	2
<i>Long-term debt, net of discount and issuance costs</i>	<i>\$ 5,221</i>	<i>\$ 6,592</i>

The fair value of our long-term debt was \$4,929 million and \$7,443 million as of June 30, 2022 and December 31, 2021, 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, 2022, matures in the following years:

(MILLIONS OF DOLLARS)	2022	2023	2024	2025	2026	After 2026	Total
Maturities	\$ —	\$ 1,350	\$ —	\$ 750	\$ —	\$ 4,550	\$ 6,650

Interest Expense

Interest expense, net of capitalized interest, was \$53 million and \$106 million for the three and six months ended June 30, 2022, respectively, and \$57 million and \$114 million for the three and six months ended June 30, 2021, respectively. Capitalized interest expense was \$6 million and \$11 million for the three and six months ended June 30, 2022, respectively, and \$4 million and \$9 million for the three and six months ended June 30, 2021, 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 Sheets*. The derivative financial instruments primarily offset exposures in the Canadian dollar, Chinese yuan, Danish krone, euro, Japanese yen 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. The vast majority of the foreign exchange derivative financial instruments mature within 60 days and all mature within three years.
- 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 recorded as a component of cumulative translation adjustment within *Accumulated other comprehensive income/(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 cash flows from these contracts are reflected within the investing section of our *Condensed Consolidated Statement of Cash Flows*. These cross-currency interest rate swap contracts have varying maturities of up to three years.

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.
- As of June 30, 2022, we had outstanding forward-starting interest rate swaps, having an effective date and mandatory termination date in March 2023, to hedge against interest rate exposure related principally to the anticipated future issuance of fixed-rate debt to be used primarily to refinance our 3.250% 2013 senior notes due 2023, and a forward-starting interest rate swap, having an effective date and mandatory termination date in March 2026, to hedge against interest rate exposure related principally to the anticipated future issuance of fixed-rate debt to be used primarily to refinance our 4.500% 2015 senior notes due 2025.
- We may use fixed-to-floating interest rate swaps that are designated as fair value hedges to hedge against changes in the fair value of certain fixed-rate debt attributable to changes in the benchmark LIBOR or the Secured Overnight Financing Rate (SOFR). These derivative instruments effectively convert a portion of the company's long-term debt from fixed-rate to floating-rate debt based on three-month LIBOR or daily SOFR plus a spread. Gains or losses on the fixed-to-floating interest rate swaps due to changes in LIBOR or SOFR are recorded in *Interest expense, net of capitalized interest*. Changes in the fair value of the fixed-to-floating interest rate swaps are offset by changes in the fair value of the underlying fixed-rate debt. As of June 30, 2022, we had outstanding fixed-to-floating interest rate swaps that correspond to a portion of the 3.900% 2018 senior notes due 2028 and the 2.00% senior notes due 2030. The amounts recorded during the three and six months ended June 30, 2022 for changes in the fair value of these hedges are not material to our consolidated financial statements.

Outstanding Positions

The aggregate notional amount of derivative instruments are as follows:

(MILLIONS)	Notional	
	June 30, 2022	December 31, 2021
Foreign currency forward-exchange contracts	\$ 2,261	\$ 1,749
Cross-currency interest rate swap contracts (in foreign currency):		
Euro	650	650
Danish krone	600	600
Swiss franc	25	25
Forward-starting interest rate swaps	\$ 650	\$ 550
Fixed-to-floating interest rate swap contracts	\$ 250	\$ 200

Fair Value of Derivative Instruments

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

(MILLIONS OF DOLLARS)	Balance Sheet Location	Fair Value of Derivatives	
		June 30, 2022	December 31, 2021
Derivatives Not Designated as Hedging Instruments			
Foreign currency forward-exchange contracts	Other current assets	\$ 29	\$ 16
Foreign currency forward-exchange contracts	Other current liabilities	(17)	(15)
Total derivatives not designated as hedging instruments		\$ 12	\$ 1
Derivatives Designated as Hedging Instruments:			
Forward-starting interest rate swap contracts	Other current assets	\$ 66	\$ —
Forward-starting interest rate swap contracts	Other noncurrent assets	9	17
Forward-starting interest rate swap contracts	Other current liabilities	(1)	—
Forward-starting interest rate swap contracts	Other noncurrent liabilities	—	(5)
Cross-currency interest rate swap contracts	Other current assets	34	12
Cross-currency interest rate swap contracts	Other noncurrent assets	21	14
Cross-currency interest rate swap contracts	Other current liabilities	—	(3)
Cross-currency interest rate swap contracts	Other noncurrent liabilities	(1)	—
Fixed-to-floating interest rate swap contracts	Other noncurrent assets	—	2
Fixed-to-floating interest rate swap contracts	Other noncurrent liabilities	(22)	—
Total derivatives designated as hedging instruments		106	37
Total derivatives		\$ 118	\$ 38

The company's derivative transactions are subject to master netting agreements that mitigate credit risk by permitting net settlement of transactions with the same counterparty. The company also has collateral security agreements with certain of its counterparties. Under these collateral security agreements either party is required to post cash collateral when the net fair value of derivative instruments covered by the collateral agreement exceeds contractually established thresholds. At June 30, 2022, there was \$43 million of collateral received and \$14 million of collateral posted related to derivative contracts recorded in *Other current liabilities* and *Other current assets*, respectively. At December 31, 2021, there was \$23 million of collateral received related to interest rate swap contracts and cross-currency interest rate swaps recorded in *Other noncurrent assets*.

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

(MILLIONS OF DOLLARS)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Foreign currency forward-exchange contracts	\$ (20)	\$ (6)	\$ (26)	\$ (11)

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 interest rate swap contracts, recorded, net of tax, in *Accumulated other comprehensive loss*, are as follows:

(MILLIONS OF DOLLARS)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Forward-starting interest rate swap contracts	\$ 21	\$ (20)	\$ 47	\$ 19
Cross-currency interest rate swap contracts	\$ 33	\$ (8)	\$ 45	\$ 17

Gains on 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,		June 30,	
	2022	2021	2022	2021
Cross-currency interest rate swap contracts	\$ 4	\$ 3	\$ 7	\$ 6

The net amount of deferred 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, 2022	December 31, 2021
Finished goods	\$ 971	\$ 888
Work-in-process	791	696
Raw materials and supplies	443	339
<i>Inventories</i>	<i>\$ 2,205</i>	<i>\$ 1,923</i>

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, 2021	\$ 1,424	\$ 1,258	\$ 2,682
Additions	61	—	61
Other ^(a)	—	(23)	(23)
Balance, June 30, 2022	\$ 1,485	\$ 1,235	\$ 2,720

^(a) Includes adjustments for foreign currency translation.

The gross goodwill balance was \$3,256 million and \$3,218 million as of June 30, 2022 and December 31, 2021, respectively. Accumulated goodwill impairment losses (generated entirely in fiscal 2002) were \$536 million as of June 30, 2022 and December 31, 2021.

B. Other Intangible Assets

The components of identifiable intangible assets are as follows:

(MILLIONS OF DOLLARS)	As of June 30, 2022			As of December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Identifiable Intangible Assets Less Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization	Identifiable Intangible Assets Less Accumulated Amortization
Finite-lived intangible assets:						
Developed technology rights	\$ 1,922	\$ (1,007)	\$ 915	\$ 1,933	\$ (949)	\$ 984
Brands and tradenames	430	(266)	164	426	(260)	166
Other	484	(348)	136	473	(335)	138
Total finite-lived intangible assets	2,836	(1,621)	1,215	2,832	(1,544)	1,288
Indefinite-lived intangible assets:						
Brands and tradenames	91	—	91	91	—	91
In-process research and development	77	—	77	88	—	88
Product rights	7	—	7	7	—	7
Total indefinite-lived intangible assets	175	—	175	186	—	186
<i>Identifiable intangible assets</i>	<i>\$ 3,011</i>	<i>\$ (1,621)</i>	<i>\$ 1,390</i>	<i>\$ 3,018</i>	<i>\$ (1,544)</i>	<i>\$ 1,474</i>

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 \$47 million and \$99 million for the three and six months ended June 30, 2022, respectively and \$52 million and \$103 million for the three and six months ended June 30, 2021, respectively.

12. Share-based Payments

The Zoetis 2013 Equity and Incentive Plan (the Equity Plan) provides long-term incentives to our employees and non-employee directors. The principal types of share-based awards available under the Equity Plan may include, but are not limited to, stock options, restricted stock and restricted stock units (RSUs), deferred stock units (DSUs), performance-vesting restricted stock units (PSUs) and other equity-based or cash-based awards. At our 2022 Annual Shareholder Meeting on May 19, 2022, our shareholders approved our Amended and Restated Equity Plan, which, among other things, increased the number of shares approved for issuance from 25 million shares to 30 million shares.

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

(MILLIONS OF DOLLARS)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Stock options / stock appreciation rights	\$ 3	\$ 3	\$ 5	\$ 5
RSUs / DSUs	8	9	17	17
PSUs	4	4	9	7
Share-based compensation expense—total ^(a)	\$ 15	\$ 16	\$ 31	\$ 29

^(a) Amounts capitalized to inventory were not material for the three and six months ended June 30, 2022 and 2021.

During the six months ended June 30, 2022, the company granted 235,900 stock options with a weighted-average exercise price of \$201.23 per stock option and a weighted-average fair value of \$51.13 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 1.81%; expected dividend yield of 0.64%; expected stock price volatility of 27.64%; and expected term of 4.9 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, 2022, the company granted 201,241 RSUs, with a weighted-average grant date fair value of \$201.33 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, 2022, the company granted 104,113 PSUs with a weighted-average grant date fair value of \$235.52 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 stock market index at the start of the performance period, excluding companies that during the performance period are acquired or no longer publicly traded (Relative TSR). The weighted-average fair value was estimated based on volatility assumptions of Zoetis common stock and an average of the S&P 500 companies, which were 28.4% and 38.1%, respectively. Depending on the company's Relative TSR performance at the end of the performance period, the recipient may earn from 0% to 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.

13. Stockholders' Equity

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

In December 2018, the company's Board of Directors authorized a \$2.0 billion share repurchase program. This program was completed as of June 30, 2022. In December 2021, the company's Board of Directors authorized an additional \$3.5 billion share repurchase program. As of June 30, 2022, there was approximately \$3.4 billion remaining under this authorization. Purchases of Zoetis shares may be made at the discretion of management, depending on market conditions and business needs.

Accumulated other comprehensive loss

Changes, net of tax, in accumulated other comprehensive loss, were as follows:

(MILLIONS OF DOLLARS)	Cash Flow Hedges	Currency Translation Adjustments		Benefit Plans Actuarial (Losses)/Gains	Accumulated Other Comprehensive Loss
		Net Investment Hedges	Other Currency Translation Adjustments		
Balance, December 31, 2021	\$ 4	\$ 5	\$ (756)	\$ (17)	\$ (764)
Other comprehensive income/(loss), net of tax	48	45	(52)	1	42
Balance, June 30, 2022	\$ 52	\$ 50	\$ (808)	\$ (16)	\$ (722)
Balance, December 31, 2020	\$ (15)	\$ (37)	\$ (655)	\$ (23)	\$ (730)
Other comprehensive income, net of tax	20	17	70	—	107
Balance, June 30, 2021	\$ 5	\$ (20)	\$ (585)	\$ (23)	\$ (623)

14. 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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Numerator				
Net income before allocation to noncontrolling interests	\$ 529	\$ 511	\$ 1,123	\$ 1,069
Less: Net loss attributable to noncontrolling interests	—	(1)	(1)	(2)
Net income attributable to Zoetis Inc.	\$ 529	\$ 512	\$ 1,124	\$ 1,071
Denominator				
Weighted-average common shares outstanding	470.0	474.8	471.1	475.2
Common stock equivalents: stock options, RSUs, PSUs and DSUs	1.5	2.2	1.7	2.3
Weighted-average common and potential dilutive shares outstanding	471.5	477.0	472.8	477.5
Earnings per share attributable to Zoetis Inc. stockholders—basic	\$ 1.13	\$ 1.08	\$ 2.39	\$ 2.25
Earnings per share attributable to Zoetis Inc. stockholders—diluted	\$ 1.12	\$ 1.07	\$ 2.38	\$ 2.24

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 three and six months ended June 30, 2022 and 2021.

15. 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 U.S. 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 (Phase II) environmental assessments are needed before a plan to manage that remaining waste can be prepared. On April 1, 2019, the defendants met with the Prosecutor to discuss the conclusions set forth in the written report. Following that discussion, on April 10, 2019, the Prosecutor issued a procedural order requesting that the defendants prepare and submit a technical proposal outlining the steps needed to conduct the additional Phase II environmental assessments. The defendants presented the technical proposal to the Prosecutor on October 21, 2019. On March 3, 2020, the Prosecutor notified the defendants that he submitted the proposal to the Ministry of the Environment for its review and consideration by the Prosecutor. On July 15, 2020, the Prosecutor recommended certain amendments to the proposal for the Phase II testing. On September 28, 2020, the parties and the Prosecutor agreed to the final terms and conditions concerning the cooperation agreement with respect to the Phase II testing. Due to ongoing issues presented by the COVID-19 pandemic, the parties have been unable to secure a start date for the Phase II testing and anticipate that it will begin later in 2022.

Lascadoil Contamination in Animal Feed

An investigation by the U.S. Food and Drug Administration (FDA) and the Michigan Department of Agriculture into the alleged contamination of the feed supply of certain turkey and hog feed mills in Michigan led to the recall of certain batches of soy oil (intended for use as an animal feed additive) that had originated with Shur-Green Farms LLC, a producer of soy oil, and that had been contaminated with lascadoil, an industrial by-product of certain Zoetis manufacturing processes. 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. The investigation posited that Shur-Green inadvertently contaminated soy oil with lascadoil which it purchased from Zoetis for use as a bio-fuel ingredient, and then sold the contaminated soy oil to fat recycling vendors, who in turn unknowingly sold to feed mills for use in animal feed.

During the course of its investigation, the FDA identified the process used to manufacture Zoetis' Avatec® (lasalocid sodium) and Bovatec® (lasalocid sodium) products as the possible source of the lascadoil, since lascadoil contains small amounts of lasalocid, the active ingredient found in both products. Zoetis sold the industrial lascadoil byproduct to Shur-Green, through its broker, Heritage Interactive Services, LLC. Under the terms of the sale agreement, the lascadoil could only be incinerated or resold for use in biofuel, and the agreement expressly prohibited the reselling of lascadoil for use 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 interlocutory (or interim) 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' request for an interlocutory appeal. The case was remanded back to the lower Court, where it was scheduled to proceed to trial by jury. We have been advised that the remaining parties have reached an agreement to settle the dispute, and on June 24, 2020, the remaining parties jointly stipulated to the dismissal of all remaining claims. On July 13, 2020, Plaintiffs filed a claim of appeal with Michigan Court of Appeals seeking reversal of the lower Court's decision granting Zoetis' motion for summary disposition. Plaintiffs' filed their appeal brief on October 29, 2020, and we filed our reply brief on December 3, 2020. The Court of Appeals heard oral arguments on December 7, 2021, and we currently await its decision.

Belgium Excess Profit Tax Regime

On February 14, 2019, the General Court of the European Union (General Court) annulled the January 11, 2016 decision of the European Commission (EC) that selective tax advantages granted by Belgium under its "excess profit" tax scheme constitute illegal state aid. As a result of the 2016 decision, the company recorded a net tax charge of approximately \$35 million in the first half of 2016. On May 8, 2019, the EC filed an appeal to the decision of the General Court. On September 16, 2019, the EC opened separate in-depth investigations to assess whether Belgium excess profit rulings granted to 39 multinational companies, including Zoetis, constituted state aid for those companies. On September 16, 2021, the European Court of Justice upheld the EC's decision that the Belgium excess profit ruling system is considered an aid scheme and referred the case back to the General Court to rule on open questions. On May 24, 2022, the General Court resumed all proceedings involved with the Excess Profit Rulings cases, including Zoetis. The company has not reflected any potential benefits in its consolidated financial statements as of June 30, 2022 as a result of the 2019 annulment. We will continue to monitor the developments of the appeal and its ultimate resolution.

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, 2022, recorded amounts for the estimated fair value of these indemnifications were not significant.

16. Segment Information

Operating Segments

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

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, our human health business, and expenses associated with our dedicated veterinary medicine research and development organization, research alliances, U.S. regulatory affairs and other operations focused on the development of our products. Other R&D-related costs associated with non-U.S. market and regulatory activities are generally included in the international commercial segment.
- *Corporate*, includes enabling functions such as information technology, facilities, legal, finance, human resources, business development, certain diagnostic costs and communications, among others. These costs also include compensation costs and other miscellaneous operating expenses not charged to our operating segments, as well as interest income and expense.
- Certain transactions and events such as (i) *Purchase accounting adjustments*, where we incur expenses associated with the amortization of fair value adjustments to inventory, intangible assets and property, plant and equipment; (ii) *Acquisition-related activities*, where we incur costs associated with acquiring and integrating newly acquired businesses, such as transaction costs and integration costs; and (iii) *Certain significant items*, which comprise substantive, unusual items that, either as a result of their nature or size, would not be expected to occur as part of our normal business on a regular basis, such as 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 finance that specifically support our global manufacturing operations; (iii) certain supply chain and global logistics costs; and (iv) procurement costs.

Segment Assets

We manage our assets on a total company basis, not by operating segment. Therefore, our chief operating decision maker does not regularly review any asset information by operating segment and, accordingly, we do not report asset information by operating segment.

Selected Statement of Income Information

(MILLIONS OF DOLLARS)	Earnings		Depreciation and Amortization ^(a)	
	Three Months Ended		Three Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
U.S.				
Revenue	\$ 1,091	\$ 1,004		
Cost of sales	198	192		
Gross profit	893	812		
Gross margin	81.9 %	80.9 %		
Operating expenses	207	170		
Other (income)/deductions-net	(7)	1		
U.S. Earnings	693	641	\$ 15	\$ 14
International				
Revenue ^(b)	943	924		
Cost of sales	288	278		
Gross profit	655	646		
Gross margin	69.5 %	69.9 %		
Operating expenses	161	147		
Other (income)/deductions-net	(2)	—		
International Earnings	496	499	23	18
Total operating segments	1,189	1,140	38	32
Other business activities	(111)	(98)	7	7
Reconciling Items:				
Corporate	(267)	(262)	31	28
Purchase accounting adjustments	(40)	(44)	40	44
Acquisition-related costs	(1)	(2)	—	—
Certain significant items ^(c)	(4)	(24)	—	—
Other unallocated	(96)	(74)	1	1
Total Earnings^(d)	\$ 670	\$ 636	\$ 117	\$ 112

^(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 \$204 million and \$209 million for the three months ended June 30, 2022 and 2021, respectively.

^(c) For the three months ended June 30, 2022, primarily represents inventory charges related to the consolidation of manufacturing sites in China.

For the three months ended June 30, 2021, primarily represents asset impairment charges related to the consolidation of manufacturing sites in China, employee termination costs related to cost-reduction and productivity initiatives and a net loss related to the sale of certain assets of our poultry automation business located in the U.S. and Canada.

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

(MILLIONS OF DOLLARS)	Earnings		Depreciation and Amortization ^(a)	
	Six Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
U.S.				
Revenue	\$ 2,111	\$ 1,937		
Cost of sales	383	376		
Gross profit	1,728	1,561		
Gross margin	81.9 %	80.6 %		
Operating expenses	372	301		
Other (income)/deductions-net	(7)	2		
U.S. Earnings	1,363	1,258	\$ 28	\$ 27
International				
Revenue ^(b)	1,891	1,846		
Cost of sales	553	560		
Gross profit	1,338	1,286		
Gross margin	70.8 %	69.7 %		
Operating expenses	306	277		
Other (income)/deductions-net	(2)	—		
International Earnings	1,034	1,009	41	35
Total operating segments	2,397	2,267	69	62
Other business activities	(209)	(195)	14	14
Reconciling Items:				
Corporate	(526)	(492)	66	55
Purchase accounting adjustments	(80)	(88)	80	88
Acquisition-related costs	(3)	(7)	—	—
Certain significant items ^(c)	(4)	(32)	—	—
Other unallocated	(178)	(130)	2	2
Total Earnings^(d)	\$ 1,397	\$ 1,323	\$ 231	\$ 221

^(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 \$407 million and \$401 million for the six months ended June 30, 2022 and 2021, respectively.

^(c) For the six months ended June 30, 2022, primarily represents inventory charges related to the consolidation of manufacturing sites in China and product transfer costs, partially offset by other items.

For the six months ended June 30, 2021, primarily represents asset impairment charges related to the consolidation of manufacturing sites in China, employee termination costs related to cost-reduction and productivity initiatives and a net loss related to the sale of certain assets of our poultry automation business located in the U.S. and Canada.

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

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

Overview of our business

Zoetis is a global leader in the animal health industry, focused on the discovery, development, manufacture and commercialization of medicines, vaccines, diagnostic products and services, biodevices, genetic tests and precision animal health technology. For 70 years, we have been innovating ways to predict, prevent, detect, and treat animal illness, and continue to stand by those raising and caring for animals worldwide - from livestock farmers to veterinarians and pet owners.

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 companion animal and livestock customers in order to capitalize on local and regional trends and customer needs. See Notes to Condensed Consolidated Financial Statements — *Note 16. 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, Chile, 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, has 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.

We have approximately 300 product lines that we sell in over 100 countries for the prediction, prevention, detection and treatment of diseases and conditions that affect various companion animal and livestock species. The diversity of our product portfolio and our global operations provides stability to our overall business. For instance, in livestock, impacts on our revenue that may result from disease outbreaks or weather conditions in a particular market or region are often offset by increased sales in other regions from exports and other species as consumers shift to other proteins.

A summary of our 2022 performance compared with the comparable 2021 period follows:

(MILLIONS OF DOLLARS)	Three Months Ended June 30,		% Change		
			Related to		
	2022	2021	Total	Foreign Exchange	Operational ^(a)
Revenue	\$ 2,052	\$ 1,948	5	(3)	8
Net income attributable to Zoetis	529	512	3	(12)	15
Adjusted net income ^(a)	567	566	—	(9)	9

(MILLIONS OF DOLLARS)	Six Months Ended June 30,		% Change		
			Related to		
	2022	2021	Total	Foreign Exchange	Operational ^(a)
Revenue	\$ 4,038	\$ 3,819	6	(3)	9
Net income attributable to Zoetis	1,124	1,071	5	(8)	13
Adjusted net income ^(a)	1,192	1,169	2	(6)	8

^(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 of Financial Condition and Results of Operations (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 2021 Annual Report on Form 10-K. Set forth below are updates to certain of the factors disclosed in our 2021 Form 10-K.

COVID-19 Update

We continue to closely monitor the impact of the coronavirus (COVID-19) pandemic and the resulting global recession on all aspects of our business across geographies, including how it has and may continue to impact our customers, workforce, suppliers and vendors. We cannot predict the impact that the COVID-19 pandemic will have on our customers, vendors and suppliers; however, any material effect on these parties could adversely impact us. The situation surrounding COVID-19 remains fluid, and we will continue to actively monitor the situation and may take actions that alter our business operations that we determine are in the best interests of our workforce, customers, vendors, suppliers, and other stakeholders, or as required by federal, state, or local authorities. For further information regarding the impact of COVID-19 on the Company, see *Item 1A, Risk Factors* in this Quarterly Report on Form 10-Q.

Global Supply Chain Disruption

We continue to experience isolated supply chain challenges for certain products. Some of these challenges are expected to continue throughout the remainder of 2022, but are being managed by our global manufacturing network through certain supply chain optimizations, controlled launches for new products in additional markets and customer coordination.

Russia's Invasion of Ukraine

Russia's invasion of Ukraine and the global response, including sanctions imposed by the United States and other countries, have increased global economic and political uncertainty. As we announced on March 16, 2022, our first concern remains the safety of our colleagues and their families in Ukraine. We have remained guided by our purpose to nurture the world and humankind by advancing care for animals. With this in mind, we continue to support our veterinary and livestock customers in Russia to address people's fundamental needs for a safe food supply and animal care. Our operations in Russia will be focused on maintaining a supply of medicines and vaccines in compliance with any sanctions that are put in place. We do not directly source input materials or components from Russia and do not have any manufacturing plants in Russia or Ukraine. While we do expect sales in the affected regions to be impacted by this situation, Russia and Ukraine are not among our top 12 international markets and although we are unable to predict the impact of this crisis on the global economy or on our results of operations, we do not expect it to have a material adverse effect to our results or financial condition.

Quarterly Variability of Financial Results

Our quarterly financial results are subject to variability related to a number of factors including, but not limited to: the impact of the COVID-19 pandemic discussed above, global macroeconomic conditions, including global supply chain disruption and Russia's invasion of Ukraine discussed above, variability in distributor inventory stocking levels as a result of expected demand and promotional activities, weather patterns, herd management decisions, regulatory actions, inflation, competitive dynamics, disease outbreaks, product and geographic mix, timing of price increases and timing of investment decisions.

Disease Outbreaks

Sales of our livestock products have in the past been, and may in the future 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. Alternatively, 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, 2022, approximately 43% 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, British pound, Canadian dollar, Chinese yuan, euro 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, 2022, approximately 57% of our total revenue was in U.S. dollars. Our year-over-year total revenue growth was unfavorably impacted by approximately 3% from changes in foreign currency values relative to the U.S. dollar.

We have accounted for operations in Venezuela and Argentina as highly inflationary since the date the prior three-year cumulative inflation rate surpassed 100%. Effective in the second quarter of 2022, we have accounted for operations in Turkey as highly inflationary, as the prior three-year cumulative inflation rate exceeded 100%. Revenue, earnings and balances of underlying net assets of our operations in these three markets are not material to our results of operations or financial position.

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 financial 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 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 June 30,			%	Six Months Ended June 30,			%
	2022	2021			2022	2021		
Revenue	\$ 2,052	\$ 1,948		5	\$ 4,038	\$ 3,819		6
Costs and expenses:								
Cost of sales	625	568		10	1,194	1,117		7
% of revenue	30.5 %	29.2 %			29.6 %	29.2 %		
Selling, general and administrative expenses	529	495		7	994	904		10
% of revenue	26 %	25 %			25 %	24 %		
Research and development expenses	135	120		13	257	238		8
% of revenue	7 %	6 %			6 %	6 %		
Amortization of intangible assets	37	41		(10)	78	81		(4)
Restructuring charges and certain acquisition-related costs	1	21		(95)	3	30		(90)
Interest expense, net of capitalized interest	53	57		(7)	106	114		(7)
Other (income)/deductions—net	2	10		(80)	9	12		(25)
Income before provision for taxes on income	670	636		5	1,397	1,323		6
% of revenue	33 %	33 %			35 %	35 %		
Provision for taxes on income	141	125		13	274	254		8
Effective tax rate	21.0 %	19.7 %			19.6 %	19.2 %		
Net income before allocation to noncontrolling interests	529	511		4	1,123	1,069		5
Less: Net loss attributable to noncontrolling interests	—	(1)		*	(1)	(2)		(50)
Net income attributable to Zoetis Inc.	\$ 529	\$ 512		3	\$ 1,124	\$ 1,071		5
% of revenue	26 %	26 %			28 %	28 %		

*Calculation not meaningful

Revenue

Three months ended June 30, 2022 vs. three months ended June 30, 2021

Total revenue increased by \$104 million, or 5%, in the three months ended June 30, 2022, compared with the three months ended June 30, 2021, an increase of \$161 million, or 8%, on an operational basis. Operational revenue growth was comprised primarily of the following:

- volume growth from new products of approximately 6%;
- price growth of approximately 3%; and
- volume growth from key dermatology products of approximately 2%,

partially offset by:

- volume decrease from other in-line products of approximately 3%.

Foreign exchange decreased reported revenue growth by approximately 3%.

Six months ended June 30, 2022 vs. six months ended June 30, 2021

Total revenue increased by \$219 million, or 6%, in the six months ended June 30, 2022, compared with the six months ended June 30, 2021, an increase of \$329 million, or 9%, on an operational basis. Operational revenue growth was comprised primarily of the following:

- volume growth from new products of approximately 5%;
- price growth of approximately 3%; and
- volume growth from key dermatology products of approximately 2%,

partially offset by:

- volume decrease from other in-line products of approximately 1%.

Foreign exchange decreased reported revenue growth by approximately 3%.

Costs and Expenses

Cost of sales

(MILLIONS OF DOLLARS)	Three Months Ended			% Change	Six Months Ended			% Change
	June 30,		June 30,					
	2022	2021	2022		2021			
Cost of sales	\$ 625	\$ 568	10	\$ 1,194	\$ 1,117	7		
% of revenue	30.5 %	29.2 %		29.6 %	29.2 %			

Three months ended June 30, 2022 vs. three months ended June 30, 2021

Cost of sales as a percentage of revenue was 30.5% in the three months ended June 30, 2022, compared with 29.2% in the three months ended June 30, 2021. The increase was primarily as a result of:

- unfavorable foreign exchange;
- unfavorable manufacturing and other costs; and
- higher freight and import costs,

partially offset by:

- price increases; and
- favorable product mix.

Six months ended June 30, 2022 vs. six months ended June 30, 2021

Cost of sales as a percentage of revenue was 29.6% in the six months ended June 30, 2022, compared with 29.2% in the six months ended June 30, 2021. The increase was primarily as a result of:

- higher freight and import costs;
- unfavorable manufacturing and other costs; and
- unfavorable foreign exchange,

partially offset by:

- favorable product mix; and
- price increases.

Selling, general and administrative expenses

(MILLIONS OF DOLLARS)	Three Months Ended			% Change	Six Months Ended			% Change
	June 30,		June 30,					
	2022	2021	2022		2021			
Selling, general and administrative expenses	\$ 529	\$ 495	7	\$ 994	\$ 904	10		
% of revenue	26 %	25 %		25 %	24 %			

Three months ended June 30, 2022 vs. three months ended June 30, 2021

SG&A expenses increased by \$34 million, or 7%, in the three months ended June 30, 2022, compared with the three months ended June 30, 2021, primarily as a result of:

- an increase in investments to support revenue growth;
- higher travel and entertainment expenses;
- investments in information technology; and
- higher freight and logistics costs,

partially offset by:

- favorable foreign exchange.

Six months ended June 30, 2022 vs. six months ended June 30, 2021

SG&A expenses increased by \$90 million, or 10%, in the six months ended June 30, 2022, compared with the six months ended June 30, 2021, primarily as a result of:

- an increase in investments to support revenue growth;
- higher travel and entertainment expenses;
- an increase in certain compensation-related costs primarily due to additional headcount;
- investments in information technology;
- higher freight and logistics costs; and
- higher bad debt reserves for accounts receivables,

partially offset by:

- favorable foreign exchange.

Research and development expenses

(MILLIONS OF DOLLARS)	Three Months Ended June 30,			% Change	Six Months Ended June 30,			% Change
	2022	2021			2022	2021		
Research and development expenses	\$ 135	\$ 120		13	\$ 257	\$ 238		8
% of revenue	7 %	6 %			6 %	6 %		

Three months ended June 30, 2022 vs. three months ended June 30, 2021

R&D expenses increased by \$15 million, or 13%, in the three months ended June 30, 2022, compared with the three months ended June 30, 2021, primarily as a result of:

- an increase in certain compensation-related costs to support innovation;
- increased spending driven by project investments; and
- higher other operating costs,

partially offset by:

- favorable foreign exchange.

Six months ended June 30, 2022 vs. six months ended June 30, 2021

R&D expenses increased by \$19 million, or 8%, in the six months ended June 30, 2022, compared with the six months ended June 30, 2021, primarily as a result of:

- an increase in certain compensation-related costs to support innovation;
- increased spending driven by project investments; and
- higher other operating costs,

partially offset by:

- favorable foreign exchange.

Amortization of intangible assets

(MILLIONS OF DOLLARS)	Three Months Ended June 30,			% Change	Six Months Ended June 30,			% Change
	2022	2021			2022	2021		
Amortization of intangible assets	\$ 37	\$ 41		(10)	\$ 78	\$ 81		(4)

Amortization of intangible assets decreased in the three and six months ended June 30, 2022 versus the comparable prior year periods primarily due to assets that became fully amortized in the current year periods.

Restructuring charges and certain acquisition-related costs

(MILLIONS OF DOLLARS)	Three Months Ended June 30,			% Change	Six Months Ended June 30,			% Change
	2022	2021			2022	2021		
Restructuring charges and certain acquisition-related costs	\$ 1	\$ 21		(95)	\$ 3	\$ 30		(90)

Three months ended June 30, 2022 vs. three months ended June 30, 2021

Restructuring charges and certain acquisition-related costs were \$1 million and \$21 million in the three months ended June 30, 2022 and 2021, respectively. Restructuring charges and certain acquisition-related costs in the three months ended June 30, 2022 primarily consisted of integration costs related to recent acquisitions. Restructuring charges and certain acquisition-related costs in the three months ended June 30, 2021 consisted of asset impairment charges related to the consolidation of manufacturing sites in China, employee termination costs associated with cost-reduction and productivity initiatives and integration costs related to recent acquisitions.

Six months ended June 30, 2022 vs. six months ended June 30, 2021

Restructuring charges and certain acquisition-related costs were \$3 million and \$30 million in the six months ended June 30, 2022 and 2021, respectively. Restructuring charges and certain acquisition-related costs in the six months ended June 30, 2022 primarily consisted of integration costs related to recent acquisitions. Restructuring charges and certain acquisition-related costs in the six months ended June 30, 2021 consisted of asset impairment charges related to the consolidation of manufacturing sites in China, employee termination and exit costs associated with cost-reduction and productivity initiatives and integration costs related to recent acquisitions.

Interest expense, net of capitalized interest

(MILLIONS OF DOLLARS)	Three Months Ended June 30,			% Change	Six Months Ended June 30,			% Change
	2022	2021			2022	2021		
Interest expense, net of capitalized interest	\$ 53	\$ 57		(7)	\$ 106	\$ 114		(7)

Interest expense, net of capitalized interest, decreased by 7% in the three and six months ended June 30, 2022 versus the comparable prior year periods. The decreases were primarily as a result of the redemption, upon maturity, of the \$300 million aggregate principal amount of our 2018 floating rate senior notes and the \$300 million aggregate principal amount of our 2018 senior notes in August 2021.

Other (income)/deductions—net

(MILLIONS OF DOLLARS)	Three Months Ended June 30,			% Change	Six Months Ended June 30,			% Change
	2022	2021			2022	2021		
Other (income)/deductions—net	\$ 2	\$ 10		(80)	\$ 9	\$ 12		(25)

*Calculation not meaningful

The change in *Other (income)/deductions—net* in the three and six months ended June 30, 2022 versus the comparable prior year periods is primarily as a result of higher foreign currency losses in the current year periods, partially offset by higher interest income in the current year periods.

Provision for taxes on income

(MILLIONS OF DOLLARS)	Three Months Ended June 30,			% Change	Six Months Ended June 30,			% Change
	2022	2021			2022	2021		
Provision for taxes on income	\$ 141	\$ 125		13	\$ 274	\$ 254		8
Effective tax rate	21.0 %	19.7 %			19.6 %	19.2 %		

Three months ended June 30, 2022 vs. three months ended June 30, 2021

Our effective tax rate was 21.0% for the three months ended June 30, 2022, compared with 19.7% for the three months ended June 30, 2021. The higher effective tax rate for the three months ended June 30, 2022 was primarily attributable to:

- 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, operating fluctuations in the normal course of business and the impact of non-deductible items and non-taxable items;
- a \$3 million discrete tax expense recorded in the three months ended June 30, 2022 related to changes in valuation allowances; and
- a \$1 million and \$4 million discrete tax benefit recorded in the three months ended June 30, 2022 and 2021, respectively, related to the excess tax benefits for share-based payments.

Six months ended June 30, 2022 vs. six months ended June 30, 2021

Our effective tax rate was 19.6% for the six months ended June 30, 2022, compared with 19.2% for the six months ended June 30, 2021. The higher effective tax rate for the six months ended June 30, 2022 was primarily attributable to:

- 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, operating fluctuations in the normal course of business and the impact of non-deductible items and non-taxable items; and
- a \$10 million and \$17 million discrete tax benefit recorded in the six months ended June 30, 2022 and 2021, respectively, related to the excess tax benefits for share-based payments,

partially offset by:

- a \$6 million discrete tax benefit recorded in the six months ended June 30, 2022 related to various tax items.

Operating Segment Results

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

(MILLIONS OF DOLLARS)	Three Months Ended June 30,		Total	% Change	
				Related to	
	2022	2021		Foreign Exchange	Operational
U.S.					
Companion animal	\$ 895	\$ 794	13	—	13
Livestock	196	210	(7)	—	(7)
	1,091	1,004	9	—	9
International					
Companion animal	471	435	8	(8)	16
Livestock	472	489	(3)	(5)	2
	943	924	2	(6)	8
Total					
Companion animal	1,366	1,229	11	(3)	14
Livestock	668	699	(4)	(3)	(1)
Contract manufacturing & human health	18	20	(10)	4	(14)
	\$ 2,052	\$ 1,948	5	(3)	8

(MILLIONS OF DOLLARS)	Six Months Ended June 30,		Total	% Change	
				Related to	
	2022	2021		Foreign Exchange	Operational
U.S.					
Companion animal	\$ 1,669	\$ 1,452	15	—	15
Livestock	442	485	(9)	—	(9)
	2,111	1,937	9	—	9
International					
Companion animal	960	853	13	(6)	19
Livestock	931	993	(6)	(5)	(1)
	1,891	1,846	2	(6)	8
Total					
Companion animal	2,629	2,305	14	(2)	16
Livestock	1,373	1,478	(7)	(4)	(3)
Contract manufacturing & human health	36	36	—	1	(1)
	\$ 4,038	\$ 3,819	6	(3)	9

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 June 30,		% Change		
			Total	Related to	
	2022	2021		Foreign Exchange	Operational
U.S.					
Revenue	\$ 1,091	\$ 1,004	9	—	9
Cost of Sales	198	192	3	—	3
Gross Profit	893	812	10	—	10
Gross Margin	81.9 %	80.9 %			
Operating Expenses	207	170	22	—	22
Other (income)/deductions-net	(7)	1	*	*	*
U.S. Earnings	693	641	8	—	8
International					
Revenue	943	924	2	(6)	8
Cost of Sales	288	278	4	—	4
Gross Profit	655	646	1	(9)	10
Gross Margin	69.5 %	69.9 %			
Operating Expenses	161	147	10	(2)	12
Other (income)/deductions-net	(2)	—	*	*	*
International Earnings	496	499	(1)	(11)	10
Total operating segments	1,189	1,140	4	(5)	9
Other business activities	(111)	(98)	13		
Reconciling Items:					
Corporate	(267)	(262)	2		
Purchase accounting adjustments	(40)	(44)	(9)		
Acquisition-related costs	(1)	(2)	(50)		
Certain significant items	(4)	(24)	(83)		
Other unallocated	(96)	(74)	30		
Total Earnings	\$ 670	\$ 636	5		

(MILLIONS OF DOLLARS)	Six Months Ended June 30,		% Change		
			Total	Related to	
	2022	2021			Foreign Exchange
U.S.					
Revenue	\$ 2,111	\$ 1,937	9	—	9
Cost of Sales	383	376	2	—	2
Gross Profit	1,728	1,561	11	—	11
Gross Margin	81.9 %	80.6 %			
Operating Expenses	372	301	24	—	24
Other (income)/deductions-net	(7)	2	*	*	*
U.S. Earnings	1,363	1,258	8	—	8
International					
Revenue	1,891	1,846	2	(6)	8
Cost of Sales	553	560	(1)	(3)	2
Gross Profit	1,338	1,286	4	(7)	11
Gross Margin	70.8 %	69.7 %			
Operating Expenses	306	277	10	(5)	15
Other (income)/deductions-net	(2)	—	*	*	*
International Earnings	1,034	1,009	2	(8)	10
Total operating segments	2,397	2,267	6	(3)	9
Other business activities	(209)	(195)	7		
Reconciling Items:					
Corporate	(526)	(492)	7		
Purchase accounting adjustments	(80)	(88)	(9)		
Acquisition-related costs	(3)	(7)	(57)		
Certain significant items	(4)	(32)	(88)		
Other unallocated	(178)	(130)	37		
Total Earnings	\$ 1,397	\$ 1,323	6		

* Calculation not meaningful.

Three months ended June 30, 2022 vs. three months ended June 30, 2021

U.S. operating segment

U.S. segment revenue increased by \$87 million, or 9%, in the three months ended June 30, 2022, compared with the three months ended June 30, 2021, reflecting an increase of \$101 million in companion animal products, partially offset by a decrease of \$14 million in livestock products.

- Companion animal revenue growth was driven primarily by increased sales of parasiticides, primarily Simparica Trio®. The key dermatology portfolio also contributed to growth across both the Apoquel® and Cytapoint® brands.
- Livestock revenue declined due to cattle and poultry, partially offset by growth in swine. Sales of cattle products declined as a result of generic competition for Draxxin® and unfavorable conditions in beef and dairy markets, including increased input costs and dry weather conditions. The poultry portfolio declined due to the expanded use of lower cost alternatives and generic competition for Zoamix®, our alternative to antibiotics in medicated feed additives. Sales of swine products grew primarily from increased disease prevalence and favorable market conditions for producers.

U.S. segment earnings increased by \$52 million, or 8%, in the three months ended June 30, 2022, compared with the three months ended June 30, 2021, primarily due to revenue and gross margin growth, partially offset by higher operating expenses.

International operating segment

International segment revenue increased by \$19 million, or 2%, in the three months ended June 30, 2022, compared with the three months ended June 30, 2021. Operational revenue increased by \$76 million, or 8%, driven by growth of approximately \$68 million in companion animal products, partially offset by growth of approximately \$8 million in livestock products. Growth in the quarter across species was impacted by lower sales due to the war in Ukraine.

- Companion animal operational revenue growth resulted from increased sales of our recently launched monoclonal antibody (mAb) products for osteoarthritis pain, Librela® and Solensia®, as well as the key dermatology portfolio across both the Apoquel and Cytapoint brands. The Simparica portfolio, including Simparica Trio, also contributed to growth in the quarter.
- Livestock operational revenue growth was driven by increased sales in fish and cattle products, partially offset by decreased sales of swine and poultry products. Growth in our fish portfolio was primarily the result of increased sales of vaccines across key salmon markets, including Chile and Norway. Sales of cattle products grew due to favorable market conditions and price in key and emerging markets, including

Australia, Turkey, New Zealand, China and the U.K. Sales of sheep products grew as a result of favorable market conditions and new product launches in Australia. Sales of swine products decreased in the quarter due to lower pork prices and COVID-related lockdowns in China, which temporarily impacted our supply chain in the market, as well as an exceptionally strong comparative period versus the second quarter of last year. The poultry portfolio declined due to the unfavorable impact of producer rotational programs with certain medicated feed additives in Europe and reduced flock sizes in Latin American markets.

- Additionally, International segment revenue was unfavorably impacted by foreign exchange which decreased revenue by approximately \$57 million, or 6%, primarily driven by the euro, Turkish lira, Japanese yen and Australian dollar.

International segment earnings decreased by \$3 million, or 1%, in the three months ended June 30, 2022, compared with the three months ended June 30, 2021. Operational earnings growth was \$48 million, or 10%, primarily due to revenue and gross margin growth, partially offset by higher operating expenses.

Six months ended June 30, 2022 vs. six months ended June 30, 2021

U.S. operating segment

U.S. segment revenue increased by \$174 million, or 9%, in the six months ended June 30, 2022, compared with the six months ended June 30, 2021, reflecting an increase of \$217 million in companion animal products, partially offset by a decrease of \$43 million in livestock products.

- Companion animal revenue growth was driven primarily by increased sales of parasiticides, primarily Simparica Trio. In-line product growth benefited from increased sales of our key dermatology portfolio and vaccines.
- Livestock revenue declined due to cattle and poultry, partially offset by growth in swine. Sales of cattle products declined as a result of generic competition for Draxxin and unfavorable conditions in beef and dairy markets, including increased input costs and dry weather conditions. The poultry portfolio declined due to the expanded use of lower cost alternatives resulting from reduced disease pressure from smaller flock sizes and generic competition for Zoamix, the company's alternative to antibiotics in medicated feed additives. Sales of swine products grew slightly as a result of favorable market conditions for producers and increased disease prevalence.

U.S. segment earnings increased by \$105 million, or 8%, in the six months ended June 30, 2022, compared with the six months ended June 30, 2021, primarily due to revenue and gross margin growth, partially offset by higher operating expenses.

International operating segment

International segment revenue increased by \$45 million, or 2%, in the six months ended June 30, 2022, compared with the six months ended June 30, 2021. Operational revenue increased by \$154 million, or 8%, driven by growth of approximately \$163 million in companion animal products, partially offset by a decrease of approximately \$9 million in livestock products. Growth across species was impacted by lower sales due to the war in Ukraine.

- Companion animal operational revenue growth was driven primarily by increased sales of our key dermatology portfolio, the recent launches of our mAb therapies, Librela and Solensia, and growth in the Simparica franchise. Growth across the broader in-line portfolio benefited from increased pet ownership and standards of care.
- Livestock operational revenue declined due to decreased sales of swine products, partially offset by increased sales of fish and cattle products. Sales of swine products decreased due to lower pork prices and COVID-related lockdowns in China, which temporarily impacted our supply chain in the market, as well as a difficult comparative period versus the first half of last year. Growth in our fish portfolio was primarily the result of increased sales of vaccines across key salmon markets, including Chile and Norway. Sales of cattle products grew due to favorable market conditions and price in key and emerging markets, including Turkey, Australia and China. Sales of sheep products grew as a result of favorable market conditions and new product launches in Australia.
- Additionally, International segment revenue was unfavorably impacted by foreign exchange which decreased revenue by approximately \$109 million, or 6%, primarily driven by the Argentine peso, euro, Turkish lira, Japanese yen and Australian dollar.

International segment earnings increased by \$25 million, or 2%, in the six months ended June 30, 2022, compared with the six months ended June 30, 2021. Operational earnings growth was \$103 million, or 10%, primarily due to revenue and gross margin growth, partially offset by higher operating expenses.

Other business activities

Other business activities includes our Client Supply Services contract manufacturing results, our human health business and expenses associated with our dedicated veterinary medicine research and development organization, research alliances, U.S. regulatory affairs and other operations focused on the development of our products. Other R&D-related costs associated with non-U.S. market and regulatory activities are generally included in the International segment.

Three months ended June 30, 2022 vs. three months ended June 30, 2021

Other business activities net loss increased by \$13 million in the three months ended June 30, 2022, compared with the three months ended June 30, 2021, reflecting an increase in R&D costs due to an increase in certain compensation-related costs to support innovation, an increase in project investments and facility costs, partially offset by favorable foreign exchange.

Six months ended June 30, 2022 vs. six months ended June 30, 2021

Other business activities net loss increased by \$14 million in the six months ended June 30, 2022, compared with the six months ended June 30, 2021, reflecting an increase in R&D costs due to an increase in certain compensation-related costs to support innovation, an increase in project investments and facility costs, partially offset by higher earnings in our human health business and favorable foreign exchange.

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 information 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, 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 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, 2022 vs. three months ended June 30, 2021

Corporate expenses increased by \$5 million, or 2%, in the three months ended June 30, 2022, compared with the three months ended June 30, 2021, primarily due to investments in information technology and unfavorable foreign exchange, partially offset by lower compensation related costs and interest expense, as well as higher interest income.

Other unallocated expenses increased by \$22 million, or 30%, in the three months ended June 30, 2022, compared with the three months ended June 30, 2021, primarily due to higher freight charges, manufacturing costs and inventory obsolescence, scrap and other charges, partially offset by favorable foreign exchange.

Six months ended June 30, 2022 vs. six months ended June 30, 2021

Corporate expenses increased by \$34 million, or 7%, in the six months ended June 30, 2022, compared with the six months ended June 30, 2021, primarily due to investments in information technology and unfavorable foreign exchange, partially offset by lower compensation related costs and interest expense, as well as higher interest income.

Other unallocated expenses increased by \$48 million, or 37%, in the six months ended June 30, 2022, compared with the six months ended June 30, 2021, primarily due to higher freight charges and manufacturing costs, partially offset by favorable foreign exchange.

See Notes to Condensed Consolidated Financial Statements—*Note 16. 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 certain acquisitions, 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, vaccines and diagnostics 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 U.S. Food and Drug Administration and/or other regulatory authorities.

Certain significant items

Adjusted net income is calculated excluding 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 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 asset impairments; adjustments related to the resolution of certain tax positions; significant currency devaluation; the impact of adopting certain significant, event-driven tax legislation; costs related to our CEO transition in fiscal 2020; or charges related to legal matters. See Notes to Condensed Consolidated Financial Statements—*Note 15. 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, as reported under U.S. GAAP, to adjusted net income follows:

(MILLIONS OF DOLLARS)	Three Months Ended			% Change	Six Months Ended			% Change
	June 30,		June 30,					
	2022	2021	2022		2021			
GAAP reported net income attributable to Zoetis	\$ 529	\$ 512	3	\$ 1,124	\$ 1,071	5		
Purchase accounting adjustments—net of tax	31	34	(9)	61	68	(10)		
Acquisition-related costs—net of tax	1	2	(50)	2	6	(67)		
Certain significant items—net of tax	6	18	(67)	5	24	(79)		
Non-GAAP adjusted net income ^(a)	\$ 567	\$ 566	—	\$ 1,192	\$ 1,169	2		

*Calculation not meaningful.

^(a) The effective tax rate on adjusted pretax income is 20.7% and 20.0% for the three months ended June 30, 2022 and 2021, respectively. The higher effective tax rate for the three months ended June 30, 2022, compared with the three months ended June 30, 2021, was primarily attributable to (i) changes in the jurisdictional mix of earnings, which includes the impact of the location of earnings, repatriation costs, operating fluctuations in the normal course of business and the impact of non-deductible and non-taxable items, and (ii) a \$1 million and \$4 million discrete tax benefit recorded in the three months ended June 30, 2022 and 2021, respectively, related to the excess tax benefits for share-based payments.

The effective tax rate on adjusted pretax income is 19.7% and 19.5% for the six months ended June 30, 2022 and 2021, respectively. The higher effective tax rate for the six months ended June 30, 2022, compared with the six months ended June 30, 2021, was primarily attributable to (i) changes in the jurisdictional mix of earnings, which includes the impact of the location of earnings, repatriation costs, operating fluctuations in the normal course of business and the impact of non-deductible and non-taxable items, and (ii) a \$10 million and \$17 million discrete tax benefit recorded in the six months ended June 30, 2022 and 2021, respectively, related to the excess tax benefits for share-based payments, partially offset by a \$7 million discrete tax benefit recorded in the six months ended June 30, 2022 related to various tax items.

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			% Change	Six Months Ended			% Change		
	June 30,		June 30,							
	2022	2021	2022		2021					
Earnings per share—diluted ^(a) :										
GAAP reported EPS attributable to Zoetis —diluted	\$	1.12	\$	1.07	5	\$	2.38	\$	2.24	6
Purchase accounting adjustments—net of tax		0.07		0.08	(13)		0.13		0.15	(13)
Acquisition-related costs—net of tax		—		—	*		—		0.01	*
Certain significant items—net of tax		0.01		0.04	(75)		0.01		0.05	(80)
Non-GAAP adjusted EPS—diluted	\$	1.20	\$	1.19	1	\$	2.52	\$	2.45	3

* Calculation not meaningful.

^(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 June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Interest expense, net of capitalized interest	\$ 53	\$ 57	\$ 106	\$ 114
Interest income	5	2	7	3
Income taxes	148	141	293	283
Depreciation	68	59	129	115
Amortization	9	9	22	18

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

(MILLIONS OF DOLLARS)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Purchase accounting adjustments:				
Amortization and depreciation	\$ 40	\$ 44	\$ 80	\$ 88
Total purchase accounting adjustments—pre-tax	40	44	80	88
Income taxes ^(a)	9	10	19	20
Total purchase accounting adjustments—net of tax	31	34	61	68
Acquisition-related costs:				
Integration costs	1	2	3	5
Restructuring costs	—	—	—	2
Total acquisition-related costs—pre-tax	1	2	3	7
Income taxes ^(a)	—	—	1	1
Total acquisition-related costs—net of tax	1	2	2	6
Certain significant items:				
Other restructuring charges and cost-reduction/productivity initiatives ^(b)	1	8	3	15
Certain asset impairment charges ^(c)	4	13	4	14
Net loss on sale of assets	—	3	—	3
Other	(1)	—	(3)	—
Total certain significant items—pre-tax	4	24	4	32
Income taxes ^(a)	(2)	6	(1)	8
Total certain significant items—net of tax	6	18	5	24
Total purchase accounting adjustments, acquisition-related costs, and certain significant items—net of tax	\$ 38	\$ 54	\$ 68	\$ 98

^(a) 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* also includes tax benefits related to a deferred adjustment as a result of a change in tax basis for the six months ended June 30, 2022 and a remeasurement of deferred taxes as a result of changes in statutory tax rates for the three and six months ended June 30, 2022 and 2021.

Income taxes in *Certain significant items* also includes tax expense related to changes in valuation allowances for the three and six months ended June 30, 2022.

^(b) For the six months ended June 30, 2022, primarily represents product transfer costs.

For the three and six months ended June 30, 2021, primarily represents employee termination costs related to cost-reduction and productivity initiatives and product transfer costs.

^(c) For the three and six months ended June 30, 2022 and 2021, primarily represents certain asset impairment charges related to the consolidation of manufacturing sites in China.

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

(MILLIONS OF DOLLARS)	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Cost of sales:				
Purchase accounting adjustments	\$ 1	\$ 1	\$ 2	\$ 3
Inventory write-offs	4	—	4	1
Other	—	2	3	5
<i>Total Cost of sales</i>	5	3	9	9
Selling, general & administrative expenses:				
Purchase accounting adjustments	7	7	14	15
<i>Total Selling, general & administrative expenses</i>	7	7	14	15
Research & development expenses:				
Purchase accounting adjustments	—	1	—	1
<i>Total Research & development expenses</i>	—	1	—	1
Amortization of intangible assets:				
Purchase accounting adjustments	32	35	64	69
<i>Total Amortization of intangible assets</i>	32	35	64	69
Restructuring charges and certain acquisition-related costs:				
Integration costs	1	2	3	5
Employee termination costs	—	6	—	10
Asset impairments	—	13	—	13
Exit costs	—	—	—	2
<i>Total Restructuring charges and certain acquisition-related costs</i>	1	21	3	30
Other (income)/deductions—net:				
Net loss on sale of assets	—	3	—	3
Other	—	—	(3)	—
<i>Total Other (income)/deductions—net</i>	—	3	(3)	3
Provision for taxes on income	7	16	19	29
Total purchase accounting adjustments, acquisition-related costs, and certain significant items—net of tax	\$ 38	\$ 54	\$ 68	\$ 98

Analysis of the condensed consolidated statements of comprehensive income

Changes in other comprehensive income for the periods presented are primarily related to foreign currency translation adjustments and unrealized gains/(losses) on derivative instruments. The foreign currency translation adjustment 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. Unrealized gains/(losses) on the changes in the fair value of derivative instruments are recorded within *Accumulated other comprehensive income/(loss)* and reclassified into earnings depending on the nature and purpose of the financial instrument, as described in *Note 9. Financial Instruments* of the Notes to Condensed Consolidated Financial Statements.

Analysis of the condensed consolidated balance sheets

June 30, 2022 vs. December 31, 2021

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 increased primarily due to higher net sales in the period, partially offset by the impact of foreign exchange, rebate credits issued to customers and timing of customer payments.

Inventories increased primarily as a result of the build-up of certain products and materials for increased demand, new product launches and to prevent supply shortages, as well as the timing of material purchases and product shipments.

Other current assets increased primarily due to the mark-to-market adjustment of derivative instruments, collateral paid related to derivative contracts and the reclassification of derivative instruments maturing within one year from *Other noncurrent assets*, partially offset by the timing of income tax payments.

Property, plant and equipment increased primarily as a result of capital spending, partially offset by depreciation expense.

The increase in *Operating lease right of use assets* and *Operating lease liabilities* reflect assets and liabilities established through new and amended lease obligations, partially offset by lease amortization and payments.

Identifiable intangible assets, less accumulated amortization decreased primarily as a result of amortization expense and the impact of foreign exchange, partially offset by intangible asset additions from acquisitions.

Other noncurrent assets increased primarily due to a reclassification of collateral received related to derivative contracts to *Other current liabilities*, partially offset by the reclassification of derivative instruments maturing within one year to *Other current assets*.

Accrued compensation and related items decreased due to the payments of 2021 annual incentive bonuses and savings plan contributions to eligible employees, as well as payments for sales incentive bonuses, partially offset by the accrual of 2022 annual incentive bonuses and savings plan contributions to eligible employees, sales incentive bonus accrual and the timing of the payment of payroll taxes.

The net changes in *Noncurrent deferred tax assets*, *Noncurrent deferred tax liabilities*, *Income taxes payable* and *Other taxes payable* primarily reflect adjustments to the accrual for the income tax provision, the timing of income tax payments, the tax impact of various acquisitions and the impact of the remeasurement of deferred taxes as a result of changes in tax rates.

Other current liabilities increased primarily due to a reclassification of collateral received related to derivative contracts from *Other noncurrent assets*, as well as additional collateral received during the period.

For an analysis of the changes in *Total Equity*, see the Condensed Consolidated Statements of Equity and Notes to Condensed Consolidated Financial Statements— *Note 13. Stockholders' Equity*.

Analysis of the condensed consolidated statements of cash flows

(MILLIONS OF DOLLARS)	Six Months Ended June 30,		% Change
	2022	2021	
Net cash provided by (used in):			
Operating activities	\$ 645	\$ 881	(27)
Investing activities	(321)	(202)	59
Financing activities	(1,155)	(629)	84
Effect of exchange-rate changes on cash and cash equivalents	(2)	4	*
Net (decrease)/increase in cash and cash equivalents	\$ (833)	\$ 54	*

*Calculation not meaningful.

Operating activities

Six months ended June 30, 2022 vs. six months ended June 30, 2021

Net cash provided by operating activities was \$645 million for the six months ended June 30, 2022, and \$881 million for the six months ended June 30, 2021. The decrease in operating cash flows was primarily attributable to the timing of receipts and payments in the ordinary course of business and the inventory build-up of certain products for increased demand, partially offset by higher net income as adjusted by non-cash items.

Investing activities

Six months ended June 30, 2022 vs. six months ended June 30, 2021

Our net cash used in investing activities was \$321 million for the six months ended June 30, 2022, compared with net cash used in investing activities of \$202 million for the six months ended June 30, 2021. The net cash used in investing activities for 2022 was primarily due to capital expenditures and acquisitions, partially offset by net proceeds from interest rate swaps. The net cash used in investing activities for 2021 was primarily due to capital expenditures and acquisitions.

Financing activities

Six months ended June 30, 2022 vs. six months ended June 30, 2021

Our net cash used in financing activities was \$1,155 million for the six months ended June 30, 2022, compared with net cash used in financing activities of \$629 million for the six months ended June 30, 2021. The net cash used in financing activities for 2022 and 2021 was primarily attributable to the purchase of treasury shares, the payment of dividends and taxes paid on withholding shares, partially offset by proceeds in connection with the issuance of common stock under our equity incentive plan.

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 cash needs for the next twelve months and beyond, 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. While we do not anticipate it, 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, 2022	December 31, 2021
Cash and cash equivalents	\$ 2,652	\$ 3,485
Accounts receivable, net ^(a)	1,291	1,133
Current portion of long-term debt	1,350	—
Long-term debt, net of discount and issuance costs	5,221	6,592
Working capital	3,600	5,133
Ratio of current assets to current liabilities	2.18:1	3.86:1

^(a) Accounts receivable are usually collected over a period of 45 to 75 days. For the six months ended June 30, 2022 compared with December 31, 2021, the number of days that accounts receivables were outstanding remained within this range. 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 multi-year \$1.0 billion senior unsecured revolving credit facility (the credit facility). In December 2018, the maturity for the amended and restated credit facility was extended through December 2023. 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 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, 2022 and December 31, 2021. There were no amounts drawn under the credit facility as of June 30, 2022 or December 31, 2021.

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, 2022, we had access to \$51 million of lines of credit which expire at various times through 2022 and are generally renewed annually. There were \$2 million of borrowings outstanding related to these facilities as of June 30, 2022 and no borrowings outstanding related to these facilities as of December 31, 2021.

Domestic and international short-term funds

Many of our operations are conducted outside the U.S. The amount of funds held in the U.S. 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). Actual repatriation of overseas funds can result in additional U.S. and local income taxes, such as U.S. state income taxes, local withholding taxes, and taxes on currency gains and losses.

Global economic conditions

Challenging economic conditions in recent years have 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 an economic downturn would not impact our ability to obtain financing in the future.

Debt

On August 20, 2021, we redeemed, upon maturity, the \$300 million aggregate principal amount of our 2018 floating rate senior notes due 2021 and the \$300 million aggregate principal amount of our 2018 senior notes due 2021.

On May 12, 2020, we issued \$1.25 billion aggregate principal amount of our senior notes (2020 senior notes), with an original issue discount of \$10 million. These notes are comprised of \$750 million aggregate principal amount of 2.000% senior notes due 2030 and \$500 million aggregate principal amount of 3.000% senior notes due 2050. On October 13, 2020, the net proceeds were used to repay the \$500 million aggregate principal amount of our 3.450% 2015 senior notes due 2020 and the remainder is being used for general corporate purposes. On August 20, 2018, we issued \$1.5 billion aggregate principal amount of our senior notes (2018 senior notes), with an original issue discount of \$4 million. 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. 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 offering) in a private placement, with an original issue discount of \$10 million.

The 2013, 2015, 2017, 2018 and 2020 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, the 2013, 2015, 2017, 2018 and 2020 senior notes may be declared immediately due and payable.

Pursuant to the indenture, we are able to redeem the 2013, 2015, 2017, 2018 and 2020 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, 2017, 2018 and 2020 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, 2017, 2018 and 2020 senior notes at a price equal to 101% of the aggregate principal amount of the 2013, 2015, 2017, 2018 and 2020 senior notes together with accrued and unpaid interest to, but excluding, the date of repurchase.

The components of our long-term debt follow:

Description	Principal Amount	Interest Rate	Terms
2013 Senior Notes due 2023	\$1,350 million	3.250%	Interest due semi annually, not subject to amortization, aggregate principal due on February 1, 2023
2015 Senior Notes due 2025	\$750 million	4.500%	Interest due semi annually, not subject to amortization, aggregate principal due on November 13, 2025
2017 Senior Notes due 2027	\$750 million	3.000%	Interest due semi annually, not subject to amortization, aggregate principal due on September 12, 2027
2018 Senior Notes due 2028	\$500 million	3.900%	Interest due semi annually, not subject to amortization, aggregate principal due on August 20, 2028
2020 Senior Notes due 2030	\$750 million	2.000%	Interest due semi annually, not subject to amortization, aggregate principal due on May 15, 2030
2013 Senior Notes due 2043	\$1,150 million	4.700%	Interest due semi annually, not subject to amortization, aggregate principal due on February 1, 2043
2017 Senior Notes due 2047	\$500 million	3.950%	Interest due semi annually, not subject to amortization, aggregate principal due on September 12, 2047
2018 Senior Notes due 2048	\$400 million	4.450%	Interest due semi annually, not subject to amortization, aggregate principal due on August 20, 2048
2020 Senior Notes due 2050	\$500 million	3.000%	Interest due semi annually, not subject to amortization, aggregate principal due on May 15, 2050

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

Share Repurchase Program

In December 2018, our Board of Directors authorized a \$2.0 billion share repurchase program. This program was completed as of June 30, 2022. In December 2021, our Board of Directors authorized an additional \$3.5 billion share repurchase program. As of June 30, 2022, there was approximately \$3.4 billion remaining under this authorization. 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 six months of 2022, approximately 4.5 million shares were repurchased for \$812 million.

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, 2022 and December 31, 2021, 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, 2022

A description of recently issued accounting standards is contained in *Note 3. Accounting Standards* of the Notes to Condensed Consolidated Financial Statements.

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 the impact of the COVID-19 pandemic, our 2022 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, anticipated timing of generic market entries, 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, 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 assumptions that could prove to be inaccurate. Among the factors that could cause actual results to differ materially from past results and future plans and projected future results are the following:

- the impact of the COVID-19 global pandemic on our business, global supply chain, customers and workforce;
- adverse global economic conditions, including the current crisis in Ukraine and inflation;
- a cyber-attack, information security breach or other misappropriation of our data;
- unanticipated safety, quality or efficacy concerns or issues about our products;
- failure of our R&D, acquisition and licensing efforts to generate new products and product lifecycle innovations;
- the possible impact and timing of competing products, including generic alternatives, on our products and our ability to compete against such products;
- disruptive innovations and advances in medical practices and technologies;
- difficulties or delays in the development or commercialization of new products;
- consolidation of our customers and distributors;
- changes in the distribution channel for companion animal products;
- the economic, political, legal and business environment of the foreign jurisdictions in which we do business;
- failure to successfully acquire businesses, license rights or products, integrate businesses, form and manage alliances or divest businesses;
- restrictions and bans on the use of and consumer preferences regarding antibacterials in food-producing animals;
- perceived adverse effects linked to the consumption of food derived from animals that utilize our products or animals generally;
- 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;
- legal factors, including product liability claims, antitrust litigation and governmental investigations, including 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;
- product launch delays, inventory shortages, recalls or unanticipated costs caused by manufacturing problems and capacity imbalances;
- an outbreak of infectious disease carried by animals;
- adverse weather conditions and the availability of natural resources;
- the impact of climate change;
- 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 U.S. of income earned outside the U.S. that may result from pending or 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.

For a complete discussion of our exposure to interest rate and foreign exchange risk, refer to *Item 7A. Quantitative and Qualitative Disclosures About Market Risk* in our Annual Report on Form 10-K for the year ended December 31, 2021. There have been no significant changes from the information discussed therein.

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, 2022, 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 15. 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 2021 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 2021 Annual Report on Form 10-K.

The COVID-19 pandemic has negatively affected the global economy; has disrupted our and our customers', suppliers', and vendors' operations; has negatively affected certain elements of our business and operations; and may materially adversely affect our business, financial condition, results of operations and/or cash flows.

Our global operations expose us to risks associated with public health crises, including epidemics and pandemics such as COVID-19. The global spread of COVID-19 has had, and may continue to have, an adverse impact on our operations, sales and delivery and global supply chains. The spread of COVID-19 has resulted in authorities in various jurisdictions in which we operate implementing numerous measures since late 2019 to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders and shutdowns of non-essential businesses. There is no certainty that measures taken by governmental authorities will be sufficient to mitigate the risks posed by the virus, and our ability to continue to perform critical functions could be harmed.

The COVID-19 pandemic has and may continue to impact our global supply chain as we experience disruptions or delays in shipments of certain materials or components of our products. Any prolonged component shortages or supply chain disruption may result in manufacturing or R&D delays and could limit our ability to meet customer demand or otherwise adversely impact our revenue, and may have a material adverse effect on our business, financial condition, results of operations and/or cash flows.

The COVID-19 pandemic also has and may continue to reduce demand for some of our products as a result of the negative impact it has had and may continue to have on our customers. In particular, our livestock customers have been and may continue to be challenged by voluntary or mandatory facility closures, reduced packing plant capacity, travel bans and quarantines inhibiting consumption of protein and transportation of live animals, and labor shortages negatively impacting their operations. For example, a number of significant meat processing plants were closed temporarily in 2020 after employees tested positive for COVID-19, and plants continue to experience periodic disruptions. The resulting reduction in demand for some of our products has negatively impacted our business, financial condition, results of operations and cash flows and may have a material adverse effect on our business, financial condition, results of operations and/or cash flows, if such demand reduction accelerates or is prolonged.

Additionally, many of our workforce continue to work remotely as a result of the pandemic. Remote working arrangements could result in additional complexity or inefficiency or increase operational risks, including, but not limited to, risks associated with cybersecurity, information technology and systems which could have a material adverse effect on our business.

We cannot at this time predict the full impact of the COVID-19 pandemic, but we anticipate that the COVID-19 pandemic is likely to continue to impact our business, financial condition, results of operations and/or cash flows in 2022. Weak global economic conditions also may exacerbate the ongoing impact of the pandemic. The impact of the COVID-19 pandemic may also exacerbate the other risks discussed in this Risk Factors section and the Risk Factors section in our 2021 Annual Report on Form 10-K, any of which could have a material effect on us. This situation continues to change rapidly, especially as new variants of the virus are identified and additional impacts may arise that we are not aware of currently.

Our business is subject to risk based on global economic and political conditions.

Macroeconomic, business, political and financial disruptions, including the risks associated with the crisis resulting from Russia's invasion of Ukraine and the imposition of sanctions and business disruptions as well as inflation, could have a material adverse effect on our operating results, financial condition and liquidity. Certain of our customers and suppliers could be affected directly by an economic downturn and could face credit issues or cash flow problems that could give rise to payment delays, increased credit risk, bankruptcies and other financial hardships that could decrease the demand for our products or hinder our ability to collect amounts due from customers. If one or more of our large customers, including distributors, discontinue their relationship with us as a result of economic conditions, sanctions or otherwise, our operating results and financial condition may be materially adversely affected. In addition, economic concerns and geopolitical instability may cause some pet owners to forgo or defer visits to veterinary practices or could reduce their willingness to treat pet health conditions or even to continue to own a pet. Moreover, customers may seek lower price alternatives to our products if they are negatively impacted by poor economic conditions. Infectious disease outbreaks, pandemics, sanctions, geopolitical instability and widespread fear of spreading disease through human contact can cause disruptions to or negatively impact our customers' and our distributors' business operations, which could materially adversely affect our operating results. Furthermore, our exposure to credit and collectability risk and cybersecurity risk is higher in certain international markets and as a result of the crisis resulting from Russia's invasion of Ukraine, our ability to mitigate such risks may be limited. While we have procedures to monitor and limit exposure to credit and collectability risk and have defensive measures in place to prevent and mitigate cyberattacks, there can be no assurances that such procedures and measures will effectively limit such risks and avoid losses.

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

In December 2018, our Board of Directors authorized a \$2.0 billion share repurchase program. This program was completed as of June 30, 2022. In December 2021, our Board of Directors authorized an additional \$3.5 billion share repurchase program.

The following table provides information with respect to the shares of the company's common stock repurchased during the three months ended June 30, 2022:

	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	Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs
April 1 - April 30, 2022	593,446	\$186.51	592,749	\$3,708,783,334
May 1 - May 31, 2022	1,392,619	\$165.63	1,388,286	\$3,478,887,311
June 1 - June 30, 2022	657,650	\$166.95	656,281	\$3,368,524,041
	<u>2,643,715</u>	<u>\$170.65</u>	<u>2,637,316</u>	<u>\$3,368,524,041</u>

^(a) The company repurchased 6,399 shares during the three-month period ended June 30, 2022 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.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

Exhibit 3.1	Amended and Restated Certificate of Incorporation of Zoetis Inc. (incorporated by reference to Exhibit 3.1 to Zoetis Inc.'s Current Report on Form 8-K filed on May 20, 2022 (File No. 001-35797)).
Exhibit 3.2	Amended and Restated By-laws of Zoetis Inc. (incorporated by reference to Exhibit 3.2 to Zoetis Inc.'s Current Report on Form 8-K filed on May 20, 2022 (File No. 001-35797)).
Exhibit 10.1	Zoetis Inc. 2013 Equity and Incentive Plan Amended and Restated as of May 19, 2022
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	Inline XBRL INSTANCE DOCUMENT
EX-101.SCH	Inline XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT
EX-101.CAL	Inline XBRL TAXONOMY EXTENSION CALCULATION LINKBASE DOCUMENT
EX-101.LAB	Inline XBRL TAXONOMY EXTENSION LABEL LINKBASE DOCUMENT
EX-101.PRE	Inline XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE DOCUMENT
EX-101.DEF	Inline XBRL TAXONOMY EXTENSION DEFINITION LINKBASE DOCUMENT
EX-104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

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
Zoetis Inc.

August 4, 2022	By: <u> /S/ KRISTIN C. PECK </u> Kristin C. Peck Chief Executive Officer and Director
August 4, 2022	By: <u> /S/ WETTENY JOSEPH </u> Wetteny Joseph Executive Vice President and Chief Financial Officer

authorized.

ZOETIS INC.
2013 EQUITY AND INCENTIVE PLAN AMENDED AND RESTATED AS OF MAY 19, 2022
ARTICLE I

PURPOSE

The purposes of the Zoetis Inc. 2013 Equity and Incentive Plan, as amended and restated as of May 19, 2022, the “Plan”) are to provide long-term incentives to those individuals with significant responsibility for the success and growth of the Company and its Affiliates, to align the interests of such individuals with those of the Company’s stockholders, to assist the Company in recruiting, retaining and motivating qualified Employees, Consultants and Directors and to provide an effective means to link pay to performance for such individuals.

ARTICLE II
DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 “Administrator” shall have the meaning provided in Section 12.1 hereof.

2.2 “Affiliate” shall mean (i) any Parent or Subsidiary, (ii) any entity that, directly or through one or more intermediaries, is controlled by the Company, or (iii) any entity in which the Company has a significant equity interest, in each case as determined by the Administrator.

2.3 “Applicable Accounting Standards” shall mean Generally Accepted Accounting Principles in the United States, International Financial Reporting Standards or such other accounting principles or standards as may apply to the Company’s financial statements under United States federal securities laws from time to time.

2.4 “Applicable Laws” shall mean all applicable laws, rules, regulations and requirements, including, but not limited to, all applicable U.S. federal or state laws, any rules or regulations of any securities exchange or automated quotation system on which the Shares may be listed, quoted or traded, and the applicable laws, rules or regulations of any other country or jurisdiction where Awards are granted under the Plan or Participants reside or provide services or that may otherwise be applicable to Awards, as such laws, rules, and regulations shall be in effect from time to time.

2.5 “Award” shall mean an Option, a Restricted Stock award, a Restricted Stock Unit award, a Performance Award (which includes, but is not limited to, cash bonuses as set forth in Article IX), a Dividend Equivalent award, a Stock Payment award, an award of Stock Appreciation Rights, or Other Incentive Award, which may be awarded or granted under the Plan.

2.6 “Award Agreement” shall mean the written notice, agreement, contract or other instrument or document evidencing an Award, including through an electronic medium, which shall contain such terms and conditions with respect to an Award as the Administrator shall determine, consistent with the Plan.

2.7 “Beneficial Owner” (or any variant thereof) has the meaning defined in Rule 13d-3 under the Exchange Act.

2.8 “Board” shall mean the Board of Directors of the Company.

2.9 “Change in Capitalization” shall have the meaning provided in Section 3.2(a) hereof.

2.10 “Change in Control” shall be deemed to have occurred if an event set forth in any one of the following paragraphs shall have occurred:

(a) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including the securities beneficially owned by such Person or any securities acquired directly from the Company or any Affiliate thereof) representing 50% or more of the combined voting power of the Company’s then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (1) of paragraph (c) below; or

(b) the following individuals cease for any reason to constitute a majority of the number of directors then serving on the Board: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including, but not limited to, a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company’s stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; or

(c) there is consummated a merger, amalgamation or consolidation of the Company with any other corporation, other than (1) a merger, amalgamation or consolidation which results in the voting securities of the Company outstanding immediately prior to such merger, amalgamation or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 50% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger, amalgamation or consolidation or (2) a merger, amalgamation or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 50% or more of the combined voting power of the Company’s then outstanding securities; or (3) a merger, amalgamation or consolidation effected to change the jurisdiction of incorporation of the Company; or

(d) there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company’s assets, other than (1) a sale or disposition by the Company of all or substantially all of the Company’s assets to an entity, at least fifty percent (50%) of the combined voting power of the voting securities of which are owned by stockholders of the Company following the completion of such transaction in substantially the same proportions as their ownership of the Company immediately prior to such sale or (2) a sale or disposition of all or substantially all of the Company’s assets immediately following which the

individuals who comprise the Board immediately prior thereto constitute at least a majority of the board of directors of the entity to which such assets are sold or disposed of, if such entity is a subsidiary, the ultimate parent thereof.

Notwithstanding the foregoing, a Change in Control shall not be deemed to have occurred by virtue of (i) the consummation of any transaction or series of integrated transactions immediately following which the holders of Common Stock immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions, or (ii) the consummation of the Distribution (as such term is defined in that certain Global Separation Agreement entered into between Pfizer Inc. and the Company).

For each Award that constitutes deferred compensation under Section 409A of the Code, a Change in Control shall be deemed to have occurred under the Plan with respect to such Award, resulting in the payment of such Award, only if a change in the ownership or effective control of the Company or a change in ownership of a substantial portion of the assets of the Company shall also be deemed to have occurred under Section 409A of the Code. The Administrator may, in its sole discretion and without a Participant's consent, amend the definition of "Change in Control" to conform to the definition of "Change in Control" under Section 409A of the Code, and the regulations thereunder.

2.11 "Code" shall mean the U.S. Internal Revenue Code of 1986, as amended.

2.12 "Committee" shall mean the Human Resources Committee of the Board, or another committee or subcommittee of the Board described in Article XII hereof.

2.13 "Common Stock" shall mean the common stock of the Company, par value \$0.01 per share.

2.14 "Company" shall mean Zoetis Inc., a Delaware corporation, and any successor corporation.

2.15 "Consultant" shall mean any person, including an advisor or independent contractor, engaged by the Company or an Affiliate to render services to such entity or, subject to Applicable Law, who is otherwise providing services to the Company or an Affiliate.

2.16 "Covered Employee" shall mean any Employee who is a "covered employee" within the meaning of Section 162(m) of the Code.

2.17 "Director" or "Non-Employee Director" shall mean a non-employee member of the Board, as constituted from time to time.

2.18 "Disaffiliation" means a Subsidiary's or Affiliate's ceasing to be a Subsidiary or Affiliate for any reason (including, without limitation, as a result of a public offering, or a spinoff or sale by the Company, of the stock of the Subsidiary or Affiliate) or a sale of a division of the Company or its Affiliates.

2.19 "Dividend Equivalent" shall mean a right to receive the equivalent value (in cash or Shares) of dividends paid on Shares, awarded under Section 9.2 hereof.

2.20 "Effective Date" shall mean May 19, 2022.

2.21 "Eligible Individual" shall mean any natural person who is an Employee, Consultant or a Non-Employee Director, as determined by the Administrator.

2.22 "Employee" shall mean any person employed by the Company or an Affiliate, with the status of employment determined pursuant to such factors as are deemed appropriate by the Company in its sole discretion, subject to any requirements of Applicable Laws, including the Code.

2.23 “Exchange Act” shall mean the U.S. Securities Exchange Act of 1934, as amended from time to time.

2.24 “Fair Market Value” shall mean, as of any given date, the value of a Share determined as follows:

(a) if the Common Stock is (i) listed on any established securities exchange (such as the New York Stock Exchange, the NASDAQ Global Market or the NASDAQ Global Select Market), (ii) listed on any national market system or (iii) listed, quoted or traded on any automated quotation system, its Fair Market Value shall be the closing sales price for a Share as quoted on such exchange or system for such date or, if there is no closing sales price for a Share on the date in question, the closing sales price for a Share on the last preceding date for which such quotation exists, as reported in The Wall Street Journal or such other source as the Administrator deems reliable;

(b) if the Common Stock is traded only otherwise than on a securities exchange and is not quoted on the NASDAQ, the closing quoted selling price of the Common Stock on such date as quoted in “pink sheets” published by the National Daily Quotation Bureau;

(c) if the Common Stock is not listed on an established securities exchange, national market system or automated quotation system, but the Common Stock is regularly quoted by a recognized securities dealer, its Fair Market Value shall be the mean of the high bid and low asked prices for such date or, if there are no high bid and low asked prices for a Share on such date, the high bid and low asked prices for a Share on the last preceding date for which such information exists, as reported in The Wall Street Journal or such other source as the Administrator deems reliable; or

(d) if the Common Stock is neither listed on an established securities exchange, national market system or automated quotation system nor regularly quoted by a recognized securities dealer, its Fair Market Value shall be established by the Administrator in good faith on the date awarded.

2.25 “Greater Than 10% Stockholder” shall mean an individual then-owning (within the meaning of Section 424(d) of the Code) more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any “parent corporation” or “subsidiary corporation” (as defined in Sections 424(e) and 424(f) of the Code, respectively).

2.26 “Incentive Stock Option” shall mean an Option that is intended to qualify as an incentive stock option and conforms to the applicable provisions of Section 422 of the Code.

2.27 “Individual Award Limit” shall mean the cash and Share limits applicable to Awards granted under the Plan, as set forth in Section 3.3 hereof.

2.28 “Non-Qualified Stock Option” shall mean an Option that is not an Incentive Stock Option, or which is designated as an Incentive Stock Option but does not meet the applicable requirements of the Code.

2.29 “Option” shall mean a right to purchase Shares at a specified exercise price, granted under Article VI hereof. An Option shall be either a Non-Qualified Stock Option or an Incentive Stock Option; provided, however, that Options granted to Non-Employee Directors and Consultants shall only be Non-Qualified Stock Options.

2.30 “Other Incentive Award” shall mean an Award denominated in, linked to or derived from Shares or value metrics related to Shares, granted pursuant to Section 9.4 hereof.

2.31 “Parent” shall mean any entity (other than the Company), whether domestic or foreign, in an unbroken chain of entities ending with the Company if each of the entities other than the

Company beneficially owns, at the time of the determination, securities or interests representing more than fifty percent (50%) of the total combined voting power of all classes of securities or interests in one of the other entities in such chain.

2.32 “Participant” shall mean an Eligible Individual who has been granted an Award.

2.33 “Performance Award” shall mean an Award that is granted under Section 9.1 hereof.

2.34 “Performance-Based Compensation” shall mean any compensation that is intended to qualify as “performance-based compensation” as described in Section 162(m)(4)(C) of the Code.

2.35 “Performance Goals” shall mean the performance goals (and adjustments) established by the Administrator for a Performance Period, based on one or more of the following criteria:

(a) (i) net earnings (either before or after one or more of the following: (A) interest, (B) taxes, (C) depreciation, (D) amortization and (E) non-cash equity-based compensation expense); (ii) gross or net sales or revenue; (iii) net income (either before or after taxes); (iv) adjusted net income; (v) operating earnings or profit; (vi) cash flow (including, but not limited to, operating cash flow and free cash flow); (vii) return on assets; (viii) return on capital; (ix) return on stockholders’ equity; (x) total stockholder return; (xi) return on sales; (xii) gross or net profit or operating margin; (xiii) costs; (xiv) funds from operations; (xv) expenses; (xvi) working capital; (xvii) earnings per Share; (xviii) adjusted earnings per Share; (xix) price per Share; (xx) implementation or completion of critical projects; (xxi) market share; (xxii) debt levels or reduction; (xxiii) customer retention; (xxiv) sales-related goals; (xxv) customer satisfaction and/or growth; (xxvi) research and development achievements; (xxvii) financing and other capital raising transactions; (xxviii) capital expenditures, (xxix) economic profit or (xxx) any other measures of performance selected by the Administrator, any of which may be measured either in absolute terms for the Company or any operating unit of the Company or as compared to any

incremental increase or decrease or as compared to results of a peer group or to market performance indicators or indices or in any other manner determined by the Administrator.

(b) Performance Goals may be expressed in terms of overall Company performance, or the performance of an Affiliate or one or more divisions, business units or product lines or in any other manner determined by the Administrator. In addition, such Performance Goals may be based upon the attainment of specified levels of performance under one or more of the measures described above relative to the performance of other corporations or the performance of an index, survey or other benchmark or in any other manner determined by the Administrator.

(c) The Administrator may, in its sole discretion, provide that one or more objectively determinable adjustments shall be made to one or more of the Performance Goals. Such adjustments may include, but are not limited to, one or more of the following: (i) items related to a change in accounting principles; (ii) items relating to financing activities; (iii) expenses for restructuring or productivity initiatives; (iv) other non-operating items; (v) items related to acquisitions; (vi) items attributable to the business operations of any entity acquired by the Company during the Performance Period; (vii) items related to the disposal or sale of a business or segment of a business; (viii) items related to discontinued operations that do not qualify as a segment of a business under Applicable Accounting Standards; (ix) items attributable to any stock dividend, stock split, combination or exchange of stock occurring during the Performance Period; (x) any other items of significant income or expense which are determined to be appropriate adjustments; (xi) items relating to unusual or extraordinary corporate transactions, events or developments; (xii) items related to amortization of acquired intangible assets; (xiii) items that are outside the scope of the Company’s core, on-going business activities; (xiv) items

related to acquired in-process research and development; (xv) items relating to changes in tax laws; (xvi) items relating to major licensing or partnership arrangements; (xvii) items relating to asset impairment charges; (xviii) items relating to gains or losses for litigation, arbitration and contractual settlements; or (xix) items relating to any other unusual or nonrecurring events or changes in Applicable Laws, accounting principles or business conditions.

2.36 “Performance Period” shall mean one or more periods of time, which may be of varying and overlapping durations, as the Administrator may select, over which the attainment of one or more Performance Goals or other specific criteria will be measured for the purpose of determining a Participant’s right to, and the payment of, a Performance Award.

2.37 “Person” shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any Subsidiary thereof, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary thereof, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of Shares of the Company.

2.38 “Plan” shall have the meaning set forth in Article I.

2.39 “Restricted Stock” shall mean an Award of Shares made under Article VII hereof that is subject to certain restrictions and may be subject to risk of forfeiture or repurchase.

2.40 “Restricted Stock Unit” shall mean a contractual right awarded under Article VIII hereof to receive in cash or Shares the Fair Market Value of a Share of Common Stock.

2.41 “Restriction Period” shall mean the period of time specified by the Administrator during which an Award of Restricted Stock shall be subject to restrictions.

2.42 “Securities Act” shall mean the U.S. Securities Act of 1933, as amended.

2.43 “Share Limit” shall have the meaning provided in Section 3.1(a) hereof.

2.44 “Shares” shall mean shares of Common Stock.

2.45 “Stock Appreciation Right” shall mean a stock appreciation right granted under Article X hereof.

2.46 “Stock Payment” shall mean a payment in the form of Shares awarded under Section 9.3 hereof.

2.47 “Subsidiary” shall mean any entity (other than the Company), whether domestic or foreign, in an unbroken chain of entities beginning with the Company if each of the entities other than the last entity in the unbroken chain beneficially owns, at the time of the determination, securities or interests representing more than fifty percent (50%) of the total combined voting power of all classes of securities or interests in one of the other entities in such chain.

2.48 “Substitute Award” means any Award granted in assumption of, or in substitution for, an award of a company or business (that is not, prior to the applicable transaction, a Subsidiary or Affiliate of the Company) acquired by the Company or a Subsidiary or Affiliate or with which the Company or a Subsidiary or Affiliate combines.

2.49 “Termination of Service” shall mean, unless otherwise provided in the Award Agreement, the termination of the applicable Participant’s employment with, or performance of services for, the Company and any of its Affiliates. Unless otherwise determined by the Administrator, a Participant employed by, or performing services for, an Affiliate or a division of the Company or its Affiliates shall be deemed to incur a Termination of Service if, as a result of a

Disaffiliation, such Affiliate, or division ceases to be an Affiliate or division, as the case may be, and the Participant does not immediately become an employee of, or service provider for, the Company or another Affiliate. Unless otherwise provided in the Award Agreement, temporary absences from employment because of illness, vacation, or leave of absence, and transfers among the Company and its Affiliates, shall not be considered Terminations of Service. Notwithstanding the foregoing, with respect to any Award that constitutes “nonqualified deferred compensation” within the meaning of Section 409A of the Code, “Termination of Service” shall mean a “separation from service” as defined under Section 409A of the Code to the extent required to comply with Section 409A of the Code.

2.50 “Vesting Period” shall mean the period of time before unrestricted Shares become non-forfeitable and/or issuable to a Participant pursuant to the applicable Award Agreement.

ARTICLE III SHARES SUBJECT TO THE PLAN

3.1 Number of Shares.

(a) Subject to Section 3.2 hereof, the maximum aggregate number of Shares available for the grant of Awards and issuance under the Plan (the “Share Limit”) shall be equal to 30,000,000 Shares. Notwithstanding the generality of the foregoing, subject to Sections 3.2 hereof, the maximum number of Shares available for the grant of Awards and issuance under the Plan with respect to Incentive Stock Options shall be the number of Shares that is equal to fifty percent (50%) of the Share Limit. Any performance-based Awards having variable payout potential, shall be counted at maximum payout against the Share Limit. Awards that can only be settled in cash shall not count against the Share Limit.

(b) Shares issued under the Plan may, in whole or in part, be authorized but unissued Shares or Shares that shall have been or may be reacquired by the Company in the open market, in private transactions, or otherwise. To the extent an Award is forfeited, cancelled or otherwise terminates or expires without a distribution of Shares to the Participant, the Shares with respect to such Award shall, to the extent of any such forfeiture, cancellation, termination or expiration, again be available for Awards under the Plan, including, without limitation, any Shares that are not earned under performance-based Awards having variable payout potential. Notwithstanding anything to the contrary set forth in the Plan the following shall no longer be available for grant under the Plan: (i) Shares tendered, surrendered or withheld as payment of either the exercise price of an Award and/or withholding taxes in respect of an Award, (ii) for any Awards that may be settled in cash or Shares, Shares that are paid out in cash, (iii) any Shares withheld to cover the exercise price of a Stock Appreciation Right (iv) any vested and/or exercised Shares subject to an Award (whether or not issued to the Participant); and (v) Shares repurchased by the Company using stock option exercise proceeds. In addition, in the case of any Substitute Award, Shares delivered or deliverable in connection with such Substitute Award shall not be deemed granted or issued under the Plan for purposes of Sections 3.1 or 3.3.

3.2 Adjustments.

(a) In the event of any stock dividend, stock split, combination or exchange of Shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, amalgamation, consolidation, reclassification, recapitalization, spin-off,

spin-out, repurchase or other reorganization or corporate transaction or event, or any other change affecting the Shares or the Share price (any such occurrence or event, a "Change in Capitalization"), the Administrator shall make equitable adjustments, if any, to reflect such change with respect to (i) the aggregate number and kind of Shares that may be issued under the Plan (including, but not limited to, adjustments of the Share Limit and Individual Award Limits); (ii) the number and kind of Shares (or other securities or property) subject to outstanding Awards; (iii) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and/or (iv) the grant or exercise price per Share for any outstanding Awards under the Plan; provided, however, that the Administrator shall make such equitable adjustments as it determines to be appropriate and equitable, in its sole discretion, to prevent dilution or enlargement of rights. Without limiting the generality of the foregoing, in connection with a Change in Capitalization, the Administrator may provide, in its sole discretion, for the cancellation of any outstanding Award granted hereunder in exchange for payment in cash or other property having an aggregate Fair Market Value of the Shares covered by such award, reduced by the aggregate exercise price or purchase price thereof, if any. In the case where the exercise price per Share of an Option or Stock Appreciation Right exceeds the Fair Market Value per Share, in connection with a Change in Capitalization, the Administrator may cancel, in its sole discretion, such Option or Stock Appreciation Right for no payment. The Administrator's determinations pursuant to this Section 3.2(a) shall be final, binding and conclusive.

(b) Any adjustment affecting an Award intended as Performance-Based Compensation shall be made consistent with the requirements of Section 162(m) of the Code unless otherwise determined by the Administrator. No action shall be taken under this Section 3.2(b) which shall cause an Award to fail to comply with Section 409A of the Code or an exemption therefrom, in either case, to the extent applicable to such Award.

3.3 Individual Award Limits. Notwithstanding any provision in the Plan to the contrary, and subject to Section 3.2:

(a) the aggregate number of Shares subject to Options and Stock Appreciation Rights awarded to any one Participant during any calendar year may not exceed 1.5 million Shares;

(b) the aggregate number of Shares subject to Awards other than Options and Stock Appreciation Rights (excluding Awards referenced in Section 3.3(c) below) awarded to any one Participant during any calendar year may not exceed 1.5 million Shares, with any performance-based Awards having variable payout potential counted at maximum payout for purposes of such limit;

(c) the aggregate amount of compensation awarded to any one Participant in respect to all Awards denominated in cash in any calendar year is \$10 million, calculated based on maximum potential payout; and

(d) the aggregate grant date fair value (computed as of the date of grant in accordance with applicable financial accounting rules) of all Awards granted to any Director during any single calendar year, together with any cash fees paid to such Director during such calendar year for services on the Board shall not exceed \$850,000. Such applicable limit shall include the value of any Awards that are received in lieu of all or a portion of any annual committee cash retainers or other similar cash-based payments. For the avoidance of doubt, neither Awards granted or compensation paid to an individual for services as an Employee or Consultant, nor any amounts paid to an individual as a reimbursement of an expense will count against the foregoing limitation.

ARTICLE IV
GRANTING OF AWARDS

4.1 Participation. The Administrator may, from time to time, select from among all Eligible Individuals, those to whom one or more Awards shall be granted and shall determine the nature and amount of each Award, which shall not be inconsistent with the requirements of the Plan. No Eligible Individual shall have any right to be granted an Award pursuant to the Plan.

4.2 Award Agreement. Each Award shall be evidenced by an Award Agreement stating the terms and conditions applicable to such Award, consistent with the requirements of the Plan.

4.3 Stand-Alone and Tandem Awards. Awards granted pursuant to the Plan may, in the sole discretion of the Administrator, be granted either alone, in addition to or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

4.4 Minimum Vesting. Notwithstanding any provision of the Plan to the contrary, all Awards granted under the Plan after the Effective Date shall have a minimum vesting period of one-year measured from the date of grant; provided, however, that Awards covering up to 5% of the Shares available for future distribution under this Plan as of the Effective Date may be granted without such minimum vesting requirement. Nothing in this Section 4.4 shall (i) limit the Company's ability to grant awards that contain rights to accelerated vesting on a Termination of Service (or to otherwise accelerate vesting) or (ii) limit any rights to accelerated vesting in connection with a Change in Control. In addition, the minimum vesting requirement set forth in this Section 4.4 shall not apply to Substitute Awards.

ARTICLE V
PROVISIONS APPLICABLE TO AWARDS INTENDED TO QUALIFY AS PERFORMANCE-BASED COMPENSATION

5.1 Purpose. The provisions of this Article V apply to Awards that were granted prior to the Effective Date that were intended to qualify as Performance-Based Compensation and remain eligible for the "performance-based compensation" as described in Section 162(m)(4)(C) of the Code. For the avoidance of doubt, any Awards to Eligible Individuals that are based on Performance Goals and are granted on or after the Effective Date are not intended to qualify as Performance-Based Compensation.

5.2 Payment of Performance-Based Awards. Performance Awards shall be paid, unless otherwise determined by the Administrator, no later than 2 ½ months after the tax year in which the Performance Award vests, consistent with the requirements of Section 409A of the Code. Unless otherwise provided in the applicable Performance Goals or Award Agreement, a Participant shall be eligible to receive payment pursuant to such Awards for a Performance Period only if and to the extent the Performance Goals for such applicable Performance Period are achieved. The achievement of each Performance Goal shall be (i) determined in accordance with Applicable Accounting Standards, to the extent applicable and (ii) for all Awards intended to qualify as Performance-Based Compensation, certified in accordance with the requirements of Section 162(m) of the Code.

5.3 Additional Limitations. Notwithstanding any other provision of the Plan and except as otherwise determined by the Administrator, any Award which is intended to qualify as Performance-Based Compensation and remains eligible for the “performance-based compensation” as described in Section 162(m)(4)(C) of the Code shall be subject to any additional limitations imposed under Section 162(m) of the Code that are requirements for qualification as Performance-Based Compensation, and the Plan and the Award Agreement shall be deemed amended to the extent necessary to conform to such requirements. Determinations by the Administrator in respect of all Awards intended to qualify as Performance-Based Compensation shall be made within the time prescribed by, and otherwise in compliance with, Section 162(m) of the Code, and payment in respect of such Awards may be decreased, but not increased, in the discretion of the Administrator.

ARTICLE VI

OPTIONS

6.1 Granting of Options to Eligible Individuals. The Administrator is authorized to grant Options to Eligible Individuals from time to time, in its sole discretion, on such terms and conditions as it may determine which shall not be inconsistent with the Plan.

6.2 Eligibility for Incentive Stock Options. No Incentive Stock Option shall be granted to any individual who is not an Employee of the Company or any “parent corporation” or “subsidiary corporation” of the Company (as defined in Sections 424(e) and 424(f) of the Code, respectively).

6.3 Option Exercise Price. The exercise price per Share subject to each Option shall be set by the Administrator, but shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted (or, as to Incentive Stock Options, on the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code). In addition, in the case of Incentive Stock Options granted to a Greater Than 10% Stockholder, such price shall not be less than one hundred ten percent (110%) of the Fair Market Value of a Share on the date the Option is granted (or the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code).

6.4 Option Term. The term of each Option shall be set forth in the Award Agreement; provided, however, that the term shall not be more than ten (10) years from the date the Option is granted, or five (5) years from the date an Incentive Stock Option is granted to a Greater Than 10% Stockholder. The Award Agreement shall set forth the time period, including the time period following a Termination of Service, during which the Participant has the right to exercise the vested Options, which time period may not extend beyond the stated term of the Option. Except as limited by the requirements of Section 409A or Section 422 of the Code, the Administrator may extend the term of any outstanding Option, and may extend the time period during which vested Options may be exercised, and, subject to Section 13.1 hereof, may amend any other term or condition of such Option relating to a Termination of Service.

6.5 Option Vesting.

(a) The terms and conditions pursuant to which an Option vests in the Participant and becomes exercisable shall be set forth in the applicable Award Agreement. Such vesting may be based on service with the Company or any Affiliate, attainment of one or more of the

Performance Goals, or any other criteria selected by the Administrator. At any time after the grant of an Option, the Administrator may, in its sole discretion and subject to whatever terms and conditions it selects, accelerate the vesting of the Option, including following a Termination of Service; provided, that in no event shall an Option become exercisable following its expiration, termination or forfeiture.

(b) No portion of an Option which is unexercisable at a Participant's Termination of Service shall thereafter become exercisable, except as may be otherwise provided in the applicable Award Agreement or by action of the Administrator following the grant of the Option.

6.6 Treatment of Options upon Certain Events. The applicable Award Agreement shall provide for the treatment of each Option upon a Termination of Service.

6.7 Substitution of Stock Appreciation Rights. The Administrator may, in its sole discretion, substitute an Award of Stock Appreciation Rights for an outstanding Option at any time prior to or upon exercise of such Option; provided, however, that such Stock Appreciation Rights shall be exercisable with respect to the same number of Shares for which such substituted Option would have been exercisable, and shall also have the same exercise price and remaining term as the substituted Option.

6.8 Partial Exercise of Options. An exercisable Option may be exercised in whole or in part. However, an Option shall not be exercisable with respect to fractional Shares and the Administrator may require that, by the terms of the Option, a partial exercise must be with respect to a minimum number of Shares.

6.9 Manner of Exercise of Options. A Participant may exercise an exercisable Option, subject to Applicable Laws and any other applicable requirements established by the Administrator, by paying the full exercise price and applicable withholding taxes to the stock administrator of the Company for the Shares with respect to which the Option, or portion thereof, is exercised, in one or more of the following manners: (i) cash or check, (ii) Shares (including, in the case of payment of the exercise price of an Option, Shares issuable pursuant to the exercise of the Option), in each case, having a Fair Market Value on the date of delivery equal to the aggregate payments required, or (iii) other form of legal consideration acceptable to the Administrator (including cashless exercise via a broker). Notwithstanding any other provision of the Plan to the contrary, no Participant who is a Director or an "executive officer" of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to make payment with respect to any Awards granted under the Plan, or continue any extension of credit with respect to such payment, with a loan from the Company or a loan arranged by the Company in violation of Section 13(k) of the Exchange Act.

6.10 Notification Regarding Disposition. The Participant shall give the Company prompt written or electronic notice of any disposition of Shares acquired by exercise of an Incentive Stock Option which occurs within (a) two (2) years from the date of granting (including the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code) such Option to such Participant, or (b) one (1) year after the transfer of such Shares to such Participant.

ARTICLE VII
RESTRICTED STOCK

7.1 Award of Restricted Stock.

(a) The Administrator is authorized to grant Restricted Stock to Eligible Individuals, and shall determine the terms and conditions, including the restrictions, applicable to each award of Restricted Stock, which terms and conditions shall be set forth in the Award Agreement and shall not be inconsistent with the Plan, and may impose such conditions on the issuance of such Restricted Stock as it deems appropriate.

(b) The Award Agreement shall set forth the purchase price, if any, and form of payment for Restricted Stock; provided, however, that if a purchase price is charged, such purchase price shall be no less than the par value of the Shares to be purchased, unless otherwise permitted by Applicable Laws. In all cases, legal consideration shall be required for each issuance of Restricted Stock to the extent required by Applicable Laws.

(c) The Award Agreement shall set forth the treatment of each Award of Restricted Stock upon a Termination of Service.

7.2 Rights as Stockholders. Upon issuance of Restricted Stock, the Participant shall have, unless otherwise provided herein or in the Award Agreement, all the rights of a stockholder with respect to said Shares. This includes, but is not limited to, the right to vote Shares of Restricted Stock as the record owner thereof, and the right to receive dividends and other distributions payable to an Eligible Individual during the restriction period; provided, however, that, the Award Agreement may provide that any distributions with respect to the Shares shall be subject to the restrictions set forth in Section 7.3 hereof.

7.3 Restrictions. All Shares of Restricted Stock (including any Shares received by Participants thereof with respect to Shares of Restricted Stock as a result of a Change in Capitalization) shall be subject to restrictions and vesting requirements as set forth in the Award Agreement. Such restrictions may include, without limitation, restrictions concerning voting rights and transferability. Such restrictions may lapse separately or in combination at such times and pursuant to such circumstances or based on such criteria as set forth in the Award Agreement, including, without limitation, criteria based on the Participant's duration of service with the Company or an Affiliate, the Performance Goals, Company or Affiliate performance, individual performance or other criteria set forth in the Award Agreement. Restricted Stock may not be sold or encumbered until all restrictions are terminated or expire.

7.4 Certificates for Restricted Stock. Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Administrator shall determine. Certificates or book entries evidencing Shares of Restricted Stock must include an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, in its sole discretion, retain physical possession of any stock certificate until such time as all applicable restrictions lapse.

7.5 Section 83(b) Election. If a Participant makes an election under Section 83(b) of the Code to be taxed with respect to the Restricted Stock as of the date of transfer of the Restricted Stock rather than as of the date or dates upon which the Participant would otherwise be taxable under Section 83(a) of the Code, the Participant shall be required to deliver a copy of such election to the Company promptly after filing such election with the Internal Revenue Service.

ARTICLE VIII
RESTRICTED STOCK UNITS

8.1 Award of Restricted Stock Units.

(a) The Administrator is authorized to grant Restricted Stock Units to Eligible Individuals, and shall determine the terms and conditions, including the restrictions, applicable to each award of Restricted Stock Units, which terms and conditions shall be set forth in the Award Agreement and shall not be inconsistent with the Plan, and may impose such conditions on the issuance of such Restricted Stock Units as it deems appropriate. The Award Agreement shall set forth the time and form of payment of each Award of Restricted Stock Units.

(b) The Administrator shall specify, or permit the Participant to elect, the conditions and dates upon which the Shares underlying the Restricted Stock Units shall be issued (or cash in lieu thereof shall be paid), which dates shall not be earlier than the date as of which the Restricted Stock Units vest and become nonforfeitable. Such conditions and dates shall be established in accordance with the applicable provisions of Section 409A of the Code or an exemption therefrom.

(c) The Award Agreement shall set forth the treatment of each Award of Restricted Stock Units upon a Termination of Service.

(d) On the distribution dates, the Company shall issue to the Participant one unrestricted, fully transferable Share (or if provided in the Award Agreement, the Fair Market Value of one such Share in cash) for each vested and nonforfeitable Restricted Stock Unit.

ARTICLE IX
PERFORMANCE AWARDS, DIVIDEND EQUIVALENTS, STOCK PAYMENTS, OTHER INCENTIVE AWARDS

9.1 Performance Awards.

(a) The Administrator is authorized to grant Performance Awards to any Eligible Individual. The vesting and value of Performance Awards may be linked to any one or more of the Performance Goals or other specific criteria determined by the Administrator, in each case on a specified date or dates or over any period or periods as set forth in the applicable Award Agreement. Performance Awards may be paid in cash, Shares or a combination of both.

(b) Without limiting Section 9.1(a) hereof, the Administrator may grant Performance Awards to any Eligible Individual in the form of a cash bonus payable upon the attainment of objective Performance Goals, or such other criteria, whether or not objective, which are established by the Administrator, in each case on a specified date or dates or over any period or periods determined by the Administrator.

9.2 Dividend Equivalents.

(a) Subject to Section 9.2(b) hereof, Dividend Equivalents may be granted by the Administrator, either alone or in tandem with another Award, based on dividends declared on the Common Stock, to be credited as of dividend payment dates during the period between the date the Dividend Equivalents are granted to a Participant and the date such Dividend Equivalents terminate or expire, as determined by the Administrator. Such Dividend Equivalents shall be converted to cash or additional Shares by such formula, at such time and subject to such

limitations as set forth in the applicable Award Agreement. Dividend Equivalents with respect to Shares covered by an Award shall only be paid out to the Participant at the same time or times and to the same extent that the vesting conditions and/or performance goals, if any, are subsequently satisfied and the Award vests with respect to such Shares, and shall not otherwise be paid.

(b) Notwithstanding the foregoing, no Dividend Equivalents shall be payable with respect to Options or Stock Appreciation Rights.

9.3 Stock Payments. The Administrator is authorized to make one or more Stock Payments to any Eligible Individual. The number or value of Shares of any Stock Payment shall be determined by the Administrator and may be based upon one or more Performance Goals or any other specific criteria, including service to the Company or any Affiliate, determined by the Administrator.

9.4 Other Incentive Awards. The Administrator is authorized to grant Other Incentive Awards to any Eligible Individual, which Awards may cover Shares or the right to purchase Shares or have a value derived from the value of, or an exercise or conversion privilege at a price related to, or that are otherwise payable in or based on, Shares, stockholder value or stockholder return, in each case, on a specified date or dates or over any period or periods determined by the Administrator. The terms and conditions applicable to such Other Incentive Awards shall be set forth in the applicable Award Agreement. Other Incentive Awards may be linked to any one or more of the Performance Goals or other specific criteria determined appropriate by the Administrator and may be payable in cash or Shares.

9.5 Other Terms and Conditions. All applicable terms and conditions of each Award described in this Article IX, including without limitation, as applicable, the term, vesting conditions and exercise/purchase price applicable to the Award, shall be set by the Administrator in its sole discretion, provided, however, that the value of the consideration paid by a Participant for an Award shall not be less than the par value of a Share, unless otherwise permitted by Applicable Laws. The rights of Participants granted Performance Awards, Dividend Equivalents, or Other Incentive Awards upon Termination of Service shall be set forth in the Award Agreement.

ARTICLE X

STOCK APPRECIATION RIGHTS

10.1 Grant of Stock Appreciation Rights.

(a) The Administrator is authorized to grant Awards of Stock Appreciation Rights to Eligible Individuals from time to time, in its sole discretion, on such terms and conditions as it may determine consistent with the Plan.

(b) Each Award of Stock Appreciation Rights shall entitle the Participant (or other individual entitled to exercise the Award of Stock Appreciation Rights pursuant to the Plan) to exercise all or a specified portion of the Award of Stock Appreciation Rights (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount determined by multiplying the difference obtained by subtracting the exercise price per Share of the Stock Appreciation Rights from the Fair Market Value on the date of exercise of the Stock Appreciation Right by the number of Stock Appreciation Rights that shall have been exercised, subject to any limitations the Administrator may impose or set forth in the Award Agreement. Such amount

shall be payable in Shares or in cash, as determined by the Administrator. The exercise price per Share subject to each Award of Stock Appreciation Rights shall be set by the Administrator, but shall not be less than one hundred percent (100%) of the Fair Market Value on the date the Stock Appreciation Rights are granted.

(c) The Award Agreement shall set forth the treatment of each Award of Stock Appreciation Rights upon a Termination of Service.

10.2 Stock Appreciation Right Vesting.

(a) The Award Agreement shall set forth the period during which a Participant shall vest in an Award of Stock Appreciation Rights and have the right to exercise such Stock Appreciation Rights (subject to Section 10.4 hereof) in whole or in part. Such vesting may be based on service with the Company or any Affiliate, any of the Performance Goals or any other criteria selected by the Administrator. At any time after grant of an Award of Stock Appreciation Rights, the Administrator may, in its sole discretion and subject to whatever terms and conditions it selects, accelerate the period during which the Stock Appreciation Rights vest.

(b) No portion of an Award of Stock Appreciation Rights which is unexercisable upon Termination of Service shall thereafter become exercisable, except as may be otherwise provided in an Award Agreement or by action of the Administrator following the grant of the Stock Appreciation Rights; provided, that in no event shall an Award of Stock Appreciation Rights become exercisable following its expiration, termination or forfeiture.

10.3 Manner of Exercise. A Participant may exercise an exercisable Stock Appreciation Right as follows, subject to Applicable Laws and any applicable requirements established by the Administrator; full payment of the applicable withholding taxes shall be made to the stock administrator of the Company for the Shares with respect to which the Stock Appreciation Rights, or portion thereof, are exercised, in a manner permitted by Section 6.9 in respect of Options.

10.4 Stock Appreciation Right Term. The term of each Award of Stock Appreciation Rights shall be set forth in the Award Agreement; provided, however, that the term shall not be more than ten (10) years from the date the Stock Appreciation Rights are granted. The Award Agreement shall set forth the time period, including any time period following a Termination of Service, during which the Participant has the right to exercise any vested Stock Appreciation Rights, which time period may not extend beyond the expiration date of the Award term. Except as limited by the requirements of Section 409A of the Code, the Administrator may extend the term of any outstanding Stock Appreciation Rights, and may extend

the time period during which vested Stock Appreciation Rights may be exercised in connection with any Termination of Service, and, subject to Section 13.1 hereof, may amend any other term or condition of such Stock Appreciation Rights relating to such a Termination of Service.

ARTICLE XI

ADDITIONAL TERMS OF AWARDS

11.1 Change in Control. Unless otherwise set forth in an Award Agreement, in the event of a Change in Control:

(a) With respect to each outstanding Award that is assumed or substituted in connection with a Change in Control, in the event the Participant incurs a Termination of Service other than for "cause," as defined in the applicable Award Agreement, during the 24-month period following such Change in Control, on the date of such Termination of Service (i) such Award shall become fully vested and, if applicable, exercisable, (ii) the restrictions, payment conditions, and forfeiture conditions applicable to any such Award granted shall lapse and (iii) and any performance conditions imposed with respect to such Award shall be deemed to be achieved at target performance levels.

(b) With respect to each outstanding Award that is not assumed or substituted in connection with a Change in Control, immediately prior to the occurrence of the Change in Control (i) such Award shall become fully vested and, if applicable, exercisable, (ii) the restrictions, payment conditions, and forfeiture conditions applicable to any such Award granted shall lapse and (iii) and any performance conditions imposed with respect to such Award shall be deemed to be achieved at target performance levels. In lieu of the foregoing, the Administrator may also provide for the cash-out of vested and unvested Awards (at target performance levels with respect to performance-based Awards).

(c) For purposes of this Section 11.1, an Award shall be considered assumed or substituted for if, following the Change in Control, the Award is of comparable value and remains subject to the same terms and conditions that were applicable to the Award immediately prior to the Change in Control except that, if the Award related to Shares, the Award instead confers the right to receive common stock of the acquiring entity or in the case of an amalgamation, the amalgamated company or its parent.

(d) Notwithstanding the foregoing, if any Award is subject to Section 409A of the Code, this Section 11.1 shall be applicable only to the extent specifically provided in the Award Agreement and as permitted pursuant to Section 13.5.

11.2 Tax Withholding. The Company and its Affiliates shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company or an Affiliate, an amount sufficient to satisfy federal, state, local and foreign taxes (including the Participant's social security, Medicare and any other employment tax or other obligation) required by law to be withheld with respect to any taxable event or any other liability legally payable by a Participant in connection with any Award. The Administrator may in its sole discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company or an Affiliate withhold Shares otherwise issuable under an Award (or allow the surrender of Shares), provided that, to the extent necessary to avoid adverse accounting consequences, if any, the number of Shares which may be so withheld or surrendered shall be limited to the number of Shares which have a Fair Market Value on the date of withholding no greater than the amount necessary to satisfy the minimum statutory withholding requirements.

11.3 Transferability of Awards.

(a) No Award under the Plan may be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution;

(b) No Award or interest or right therein shall be liable for the debts, contracts or engagements of the Participant or his or her successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) unless and until such Award has been exercised, or the

Shares underlying such Award have been issued, and all restrictions applicable to such Shares have lapsed, and any attempted disposition of an Award prior to the satisfaction of these conditions shall be null and void and of no effect;

(c) During the lifetime of the Participant, only the Participant may exercise an Award (or any portion thereof) granted to him or her under the Plan. After the death of the Participant, any exercisable portion of an Award may, prior to the time when such portion becomes unexercisable under the Plan or Award Agreement, be exercised by his personal representative or by any individual empowered to do so under the deceased Participant's will or under the then-applicable laws of descent and distribution; and

(d) Notwithstanding the foregoing, the Administrator may, in its sole discretion, permit (on such terms, conditions and limitations as it may establish) Awards to be transferred, but only without receiving any consideration for such transfer, to a member of a Participant's immediate family or to a trust or similar vehicle for the benefit of a Participant's immediate family members.

11.4 Conditions to Issuance of Shares.

(a) Notwithstanding anything herein to the contrary, neither the Company nor its Affiliates shall be required to issue or deliver any certificates or make any book entries evidencing Shares pursuant to the exercise of any Award, unless and until the Administrator has determined, with advice of counsel, that the issuance of such Shares is in compliance with all Applicable Laws, and the Shares are covered by an effective registration statement or applicable exemption from registration. The Company will have no obligation to complete any registration or other qualification of Shares under any foreign law or regulations, or to effect compliance with the registration, qualification or listing requirements of any foreign securities laws, exchange control regulations, stock exchange or automated quotation system, and the Company will have no liability for any inability or failure to do so. In addition to the terms and conditions provided herein, the Administrator may require that a Participant make such reasonable covenants, agreements, and representations as the Administrator, in its discretion, deems necessary or advisable in order to comply with Applicable Laws.

(b) All Share certificates delivered pursuant to the Plan and all Shares issued pursuant to book entry procedures are subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with Applicable Laws. The Administrator may place legends on any Share certificate or book entry to reference restrictions applicable to the Shares.

(c) The Administrator shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement, distribution or exercise of any Award, including a window-period limitation, as may be imposed in the sole discretion of the Administrator.

(d) No fractional Shares shall be issued and the Administrator shall determine, in its sole discretion, whether cash shall be given in lieu of fractional Shares or whether such fractional Shares shall be eliminated by rounding down.

(e) Notwithstanding any other provision of the Plan, unless otherwise determined by the Administrator or required by any Applicable Laws, the Company and/or its Affiliates may, in lieu of delivering to any Participant certificates evidencing Shares issued in connection with any Award, record the issuance of Shares in the books of the Company (or, as applicable, its transfer agent or stock plan administrator).

11.5 Forfeiture and Recoupment Provisions. Pursuant to its general authority to determine the terms and conditions applicable to Awards under the Plan and without limiting

such authority, the Administrator shall have the right to provide, in the terms of Awards made under the Plan, or to require a Participant to agree by separate written or electronic instrument, that: any proceeds, gains or other economic benefit must be paid to the Company, and the Award shall terminate and any unexercised or unsettled portion of the Award (whether or not vested) shall be forfeited, if (i) a Termination of Service occurs prior to a specified date, or within a specified time period following receipt or exercise of the Award, (ii) the Participant at any time, or during a specified time period, engages in any activity which violates any applicable restrictive covenants of the Company, as may be further specified in the Award Agreement or (iii) the Participant incurs a Termination of Service for “cause,” as defined in the applicable Award Agreement. In addition, all Awards made under the Plan shall be subject to any clawback or recoupment policies of the Company, as in effect from time to time, subject to Applicable Laws.

11.6 Prohibition on Repricing. Subject to limitations imposed by Section 409A of the Code or other Applicable Laws and the limitations contained in Section 13.1 below, in no event shall the exercise price with respect to an Award be reduced following the grant of an Award, nor shall an Award be cancelled in exchange for a replacement Award with a lower exercise price or in exchange for another type of Award or cash payment without stockholder approval.

11.7 Leave of Absence. Unless the Administrator provides otherwise (subject to Applicable Laws regarding leaves of absence), vesting of Awards granted hereunder shall continue during any paid or unpaid leave of absence. Unless otherwise provided in an Award Agreement, a Participant shall not cease to be considered an Employee, Consultant or Non-Employee Director, as applicable, in the case of any

(a) leave of absence approved by the Company, or (b) transfer between locations of the Company or between the Company and any of its Affiliates or any successor thereof.

ARTICLE XII ADMINISTRATION

12.1 Administrator. The Committee (or another committee or a subcommittee of the Board assuming the functions of the Committee under the Plan) shall administer the Plan (except as otherwise permitted herein) and shall be referred to herein as the “Administrator.” Unless otherwise determined by the Board, the Committee shall consist solely of two or more Non-Employee Directors appointed by and holding office at the pleasure of the Board, each of whom is intended to qualify as a “non-employee director” as defined by Rule 16b-3 of the Exchange Act, an “outside director” for purposes of Section 162(m) of the Code and an “independent director” under the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded, in each case, to the extent required under such provision; provided, however, that any action taken by the Committee shall be valid and effective, whether or not members of the Committee at the time of such action are later determined not to have satisfied the requirements for membership set forth in this Section 12.1 or otherwise provided in any charter of the Committee. Notwithstanding the foregoing, (a) the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to Awards granted to Non-Employee Directors and (b) the Board or Committee may delegate its authority hereunder to the extent permitted by Section 12.5 hereof.

12.2 Duties and Powers of Administrator. It shall be the duty of the Administrator to conduct the general administration of the Plan in accordance with its provisions. The

Administrator shall have the power to interpret the Plan and all Award Agreements, and to adopt such rules for the administration, interpretation and application of the Plan as are not inconsistent with the Plan, to interpret, amend or revoke any such rules and to amend any Award Agreement, provided that the rights or obligations of the holder of the Award that is the subject of any such Award Agreement are not affected adversely by such amendment unless the consent of the Participant is obtained or such amendment is otherwise permitted under Section 13.1 hereof. In its sole discretion, the Board may at any time and from time-to-time exercise any and all rights and duties of the Committee under the Plan except with respect to matters which under Rule 16b-3 under the Exchange Act, Section 162(m) of the Code, or the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded are required to be determined in the sole discretion of the Committee.

12.3 Authority of Administrator. Subject to any specific designation in the Plan, the Administrator has the exclusive power, authority and sole discretion to:

- (a) Designate Eligible Individuals to receive Awards;
- (b) Determine the type or types of Awards to be granted to Eligible Individuals;
- (c) Determine the number of Awards to be granted and the number of Shares to which an Award will relate;
- (d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any performance criteria, any restrictions or limitations on the Award, any schedule for vesting, lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, and any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Administrator in its sole discretion determines;
- (e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in cash, Shares, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;
- (f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;
- (g) Decide all other matters that must be determined in connection with an Award;
- (h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;
- (i) Interpret the terms of, and any matter arising pursuant to, the Plan or any Award Agreement; and
- (j) Make all other decisions and determinations that may be required pursuant to the Plan or as the Administrator deems necessary or advisable to administer the Plan.

12.4 Decisions Binding. The Administrator's interpretation of the Plan, any Awards granted pursuant to the Plan or any Award Agreement and all decisions and determinations by the Administrator with respect to the Plan are final, binding, and conclusive on all parties.

12.5 Delegation of Authority. To the extent permitted by Applicable Laws, the Board or Committee may from time to time delegate to a committee of one or more members of the Board, to one or more officers of the Company the authority to grant or amend Awards or to take other administrative actions pursuant to this Article XII; provided, however, that in no event shall an officer of the Company be delegated the authority to grant Awards to, or amend Awards held by, the following individuals: (a) individuals who are subject to Section 16 of the Exchange Act,

(b) Covered Employees with respect to Awards intended to constitute Performance-Based Compensation, or (c) officers of the Company (or Directors) to whom authority to grant or amend Awards has been delegated hereunder; provided further, that any delegation of administrative authority shall only be permitted to the extent it is permissible under Section 162(m) of the Code and applicable securities laws or the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded. Any delegation hereunder shall be subject to the restrictions and limits that the Board or Committee specifies at the time of such delegation, and the Board or Committee may at any time rescind the authority so delegated or appoint a new delegatee. At all times, the delegatee appointed under this Section 12.5 shall serve in such capacity at the pleasure of the Board and the Committee.

ARTICLE XIII MISCELLANEOUS PROVISIONS

13.1 Amendment, Suspension or Termination of the Plan. The Plan may be amended or terminated at any time by action of the Board. However, no amendment may, without stockholder approval, except as set forth in Section 3.2 herein, (i) increase the aggregate number of Shares available for Awards, (ii) extend the term of the Plan, (iii) materially expand the types of awards available under the Plan, (iv) change the definition of Eligible Individual to add a category or categories of individuals who are eligible to participate in the Plan, (v) delete or limit the prohibition against repricing of Awards contained in Section 11.6, or (vi) make other changes which require approval by the stockholders of the Company in order to comply with Applicable Laws. No amendment or termination of the Plan may adversely modify any individual's rights under an outstanding Award unless such individual consents to the modification in writing.

13.2 Paperless Administration. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the documentation, granting or exercise of Awards, such as a system using an internet website or interactive voice response, then the paperless documentation, granting or exercise of Awards by a Participant may be permitted through the use of such an automated system.

13.3 Titles and Headings, References to Sections of the Code or Exchange Act. The titles and headings of the sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control. References to sections of the Code or the Exchange Act shall include any amendment or successor thereto.

13.4 Governing Law. The Plan and any programs and agreements hereunder shall be administered, interpreted and enforced under the internal laws of the State of Delaware, U.S.A. without regard to conflicts of laws thereof.

13.5 Section 409A. The intent of the parties is that payments and benefits under the Plan comply with Section 409A of the Code to the extent subject thereto, and, accordingly, to the maximum extent permitted, the Plan shall be interpreted and be administered to be in compliance therewith. Any payments described in the Plan that are due within the "short-term deferral period" as defined in Section 409A of the Code shall not be treated as deferred compensation unless Applicable Laws require otherwise.

Notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, the Participant shall not be considered to have

terminated employment or service with the Company for purposes of the Plan and no payment shall be due to the Participant under the Plan or any Award until the Participant would be considered to have incurred a “separation from service” from the Company within the meaning of Section 409A of the Code. Notwithstanding anything to the contrary in the Plan, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, amounts that would otherwise be payable and benefits that would otherwise be provided pursuant to the Plan during the six (6) month period immediately following the Participant’s Termination of Service shall instead be paid on the first business day after the date that is six (6) months following the Participant’s separation from service (or upon the Participant’s death, if earlier). In addition, for purposes of the Plan, each amount to be paid or benefit to be provided to the Participant pursuant to the Plan shall be construed as a separate identified payment for purposes of Section 409A of the Code.

13.6 No Rights to Awards. No Eligible Individual or other individual shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Administrator is obligated to treat Eligible Individuals, Participants or any other individuals uniformly.

13.7 Foreign Employees and Foreign Law Considerations. The Administrator may grant Awards to Eligible Individuals who are foreign nationals, who are located outside the United States, who are United States citizens or resident aliens on global assignments in foreign nations, who are not compensated from a payroll maintained in the United States, or who are otherwise subject to (or could cause the Company to be subject to) legal or regulatory provisions of countries or jurisdictions outside the United States, on such terms and conditions different from those specified in the Plan as may, in the judgment of the Administrator, be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance of such purposes, the Administrator may make such modifications, amendments, procedures, or subplans as may be necessary or advisable to comply with such legal or regulatory provisions.

13.8 Unfunded Status of Awards. The Plan is intended to be an “unfunded” plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Affiliate.

13.9 Indemnification. To the extent allowable pursuant to Applicable Laws, each member of the Board and any officer or other employee to whom authority to administer any component of the Plan is delegated shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; provided, however, that he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such individuals may be entitled pursuant to the Company’s Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

13.10 Relationship to other Benefits. No payment pursuant to the Plan shall be taken into account in determining any benefits under any pension, retirement, savings, profit sharing,

group insurance, welfare, or other benefit plan of the Company or any Affiliate except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

13.11 Successors. The obligations of the Company under the Plan shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of the Company, or upon any successor corporation or organization succeeding to substantially all of the assets and business of the Company.

13.12 Expenses. The expenses of administering the Plan shall be borne by the Company and its Affiliates.

13.13 Term of Plan. The Plan shall terminate on the tenth anniversary of the Effective Date; provided, however, any Awards that are outstanding as of the date of the Plan's termination shall remain in effect, and the terms of the Plan shall apply until such Awards terminate as provided in the applicable Award Agreements.

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kristin C. Peck, certify that:

1. I have reviewed this Quarterly Report of Zoetis Inc. on Form 10-Q for the period ending June 30, 2022 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 4, 2022

By: /s/ KRISTIN C. PECK
 Kristin C. Peck
 Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Wetteny Joseph, certify that:

1. I have reviewed this Quarterly Report of Zoetis Inc. on Form 10-Q for the period ending June 30, 2022 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 4, 2022

By: /s/ WETTENY JOSEPH
Wetteny Joseph
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, Kristin C. Peck, 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, 2022 (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 4, 2022

By:

/s/ KRISTIN C. PECK

Kristin C. Peck
Chief Executive Officer

August 4, 2022

By: /s/ WETTENY JOSEPH
Wetteny Joseph
Executive Vice President and Chief Financial Officer