

Dear Shareholders,

Reliable. Innovative. Customer-focused. As I reflect on our 2018 results, these three words best characterize our performance. We delivered our sixth consecutive year of operational revenue growth and increased profitability; we made further investments in our business, and introduced new products and lifecycle innovations that advance animal care; and, we achieved all of this thanks to a committed global team of Zoetis colleagues serving our customers and their businesses in ever better ways.

As we look to the future of animal health, we know the importance of animals will be even greater in the coming years, driven by increasing pet ownership and a growing demand for protein that is produced in sustainable ways. With that in mind, we at Zoetis have been making significant efforts to advance our company through innovations and investments that address the trends shaping our industry, including:

1. **Greater focus on improving livestock productivity and sustainability**, with greater emphasis on prediction and early detection of diseases versus treatment.
2. A **shifting profile of animal health customers**, led by a growing consolidation of farms and veterinary clinics on both a national and global scale.
3. The **influence of pet owners and consumers** on the care of their animals and demand for more transparency in the food chain.

4. The **growing importance of new product and lifecycle innovation** to maintain product differentiation and generate value for which customers are willing to pay.
5. The **opportunity in developing markets**, where growth will outpace those that are more mature, with different trajectories, increased medicalization and local needs.
6. The **deployment of digital technologies and data analytics**, which will have significant implications for precision farming and new customer experiences across the companion animal and livestock sectors.

Our core business and investment strategy have Zoetis well-positioned for the future, with a diverse portfolio addressing these trends and a broader spectrum of needs across the continuum of care — all with a promising pipeline of new products and lifecycle innovations.

Juan Ramón Alaix
Chief Executive Officer



OUR CORE BELIEFS

**OUR COLLEAGUES
MAKE THE DIFFERENCE**

**ALWAYS DO THE
RIGHT THING**

CUSTOMER OBSESSED

RUN IT LIKE YOU OWN IT

WE ARE ONE ZOETIS

OUR SIXTH CONSECUTIVE YEAR OF PROFITABLE REVENUE GROWTH

I am pleased to report that Zoetis delivered its sixth consecutive year of operational revenue growth and increased profitability, which was driven by higher revenue, an improved cost structure and tax reform.

Our performance in 2018 enabled us to achieve 10% operational revenue growth and 31% operational growth in adjusted net income. As part of our long-standing value proposition, we grew adjusted net income faster than revenue and expect our 2018 organic growth to once again outperform the animal health market.

At the foundation of Zoetis' performance is our diverse portfolio, and we saw growth across all our major species, markets and therapeutic areas in 2018. Companion animal products performed very well based on continued growth in our key dermatology brands, new parasiticides, and — for the first time — the addition of the Abaxis diagnostics portfolio. In livestock products, our swine, poultry and fish portfolios each delivered solid growth, with more modest gains in our cattle business.

INVESTING FOR GROWTH

In 2018, compared to prior years, we allocated more resources to critical R&D projects; deployed more sales people and direct-to-consumer campaigns to support new products; upgraded and expanded many of our manufacturing capabilities; and invested in key areas such as diagnostics with our acquisition of Abaxis.

FOCUS ON INTERNAL INNOVATION

Innovation is the foundation of our industry-leading portfolio. Thanks to our team of approximately 1,100 R&D colleagues, we generated new product approvals and lifecycle innovations across our 300 products and product lines. We are committed to developing medicines, vaccines and technologies like genetics, diagnostics and biodevices that can truly advance animal health and help our veterinary and livestock

customers achieve better results. In 2018, we invested over \$430 million internally, primarily to strengthen our research and development programs.

- We broadened our canine dermatology and parasiticides portfolios with solutions like **Cytopoint**[®] (lokivetmab), which now covers allergic as well as atopic dermatitis in the U.S., and is expanding to international markets; and our oral parasiticide, **Simparica**[®] (sarolaner) Chewables, which continued its successful rollout with additional approvals in countries outside the U.S. We also introduced **Stronghold**[®] **Plus/Revolution**[®] **Plus** (selamectin and sarolaner), a topical combination parasiticide for cats that was approved in the U.S., Japan and Canada in 2018, following its introduction in Europe and other international markets.
- We strengthened our vaccine portfolios with market approvals of **Fostera**[®] **Gold PCV MH** and **Suvaxyn**[®] **Circo**, providing livestock farmers innovative new solutions to help protect pigs from porcine circovirus (PCV2) and *Mycoplasma hyopneumoniae* (M. hyo); and **Core EQ Innovator**[™], the first and only equine vaccine to help protect horses from all five core equine diseases in one injection.
- With the growth of our fish business, our **PHARMAQ** division is now the market leader in vaccines for pancreatic disease in salmon — one of the world's most commercially important farmed fish species. In 2018, we established aquaculture facilities in Norway, China and Vietnam to increase our R&D capabilities.

EXPANDING INNOVATION WITH ACQUISITIONS AND COLLABORATIONS

- A primary focus for Zoetis in 2018 was to increase our scale and market position in veterinary diagnostics, a segment estimated to be worth more than \$4 billion, with compound annual growth of approximately 10% over the past three years.¹ The acquisition of **Abaxis** for approximately \$2 billion gives us an immediate presence in point-of-care diagnostic instruments

to help customers detect disease in animals. We have made good progress integrating Abaxis as we combine their diagnostic expertise with our global scale and direct presence in approximately 45 countries. Over the longer term, we believe we can expand into livestock diagnostics with Abaxis, enabling direct-to-farmer relationships in certain markets.

- Our acquisition of **Smartbow** paves the way for precision dairy farming and early disease intervention. This solution uses electronic ear tags for cows and machine learning that collects data and analytics to detect signs of behavior change and disease in each individual animal.
- Building our pipeline in monoclonal antibodies, we are making progress in targeting pain treatment for dogs — and over time, expanding to cats. Our R&D partnership with **Regeneron** enables us to explore additional monoclonal antibody treatments.

ENHANCING OUR DIRECT PRESENCE WITH CUSTOMERS

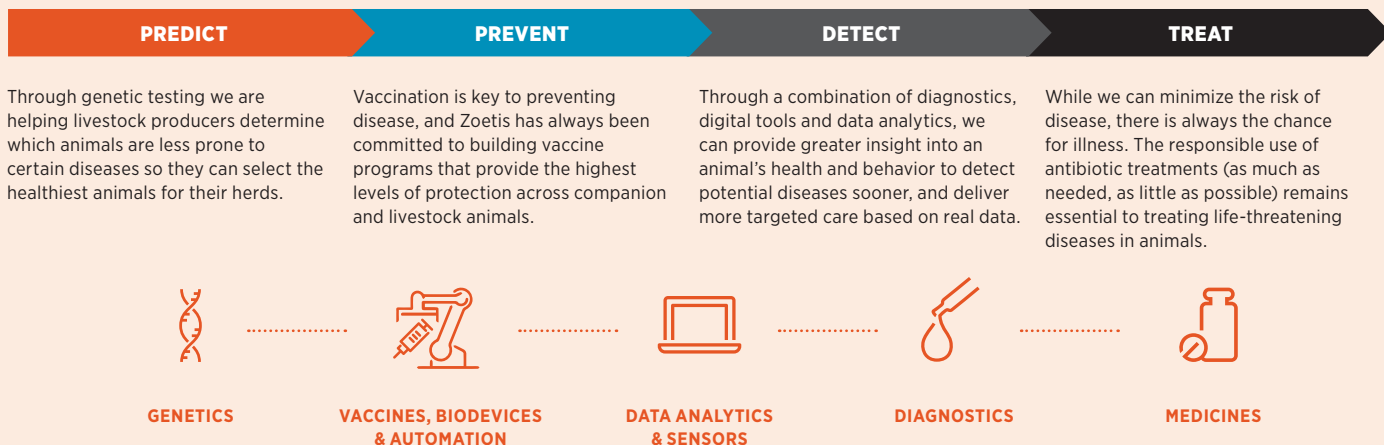
We continue to focus on initiatives that improve the service and support we bring to customers across the continuum of care. This includes investment in new tools, technology and training for the development of our field colleagues, who are the face of Zoetis to our customers. They also play a leading role in building our direct presence in fast-growing markets and expanded areas like diagnostics. Our commercial teams, and marketing initiatives, including direct-to-consumer campaigns, have been critical in supporting the launch of our newest companion animal blockbusters — Cytopoint and Simparica — in various markets.

EXPANDING OUR MANUFACTURING NETWORK

We have made critical investments to expand our manufacturing capacity, ensuring that we continue to bring our customers a reliable supply of high-quality Zoetis products at competitive prices.

INNOVATING ACROSS THE CONTINUUM OF CARE

The future of animal health will depend on **integrating many different solutions and technologies** to help producers and veterinarians make early and accurate decisions, prevent disease, and deliver targeted, effective treatment. Our investments are focused on bringing more integrated solutions to our customers across the entire lifecycle of animal care:



INTERNAL CAPABILITIES COMPLEMENTED WITH EXTERNAL PARTNERSHIPS

- We have expanded our production for poultry vaccines in Charles City, Iowa — one of our largest manufacturing locations serving markets around the world.
- Our expansion in Kalamazoo, Michigan, is progressing ahead of schedule and, pending regulatory approval, we anticipate delivering the first commercial batches of oral solid dose medicines to customers in 2019.
- By the end of 2019, we expect to complete construction of our facility in Suzhou, China, to develop and deliver quality vaccines that help protect against the strains of animal diseases prevalent in China.
- In Ireland, our acquisition of a manufacturing facility in Tallaght will help us increase supply security for our market-leading bovine teat sealants, and bring further value to our global dairy business.

CREATING SHAREHOLDER VALUE

Our collective investments and acquisitions, combined with our strong financial performance, continue to generate free cash flow that we use

to reinvest in our business and return excess capital to you, our shareholders. Since our initial public offering in 2013, we remain prudent in how we allocate our resources, which has enabled us to:

- Achieve operational revenue growth of 10% in 2018 and an average operational revenue growth rate of 8% from 2013 to 2018.
- Grow adjusted net income faster than our revenue at 31% operationally in 2018, with an average operational growth rate of 21% from 2013 to 2018.
- Increase cash returned to shareholders in the form of dividends, due to annual increases in the dividend rate, from \$98 million in 2013 at a quarterly rate of \$0.065, to \$243 million in 2018 at a quarterly rate of \$0.126.
- Complete approximately \$700 million in share repurchases in 2018.

In December 2018, Zoetis increased its dividend by 30% and authorized a \$2 billion multi-year share repurchase program as part of our long-term capital allocation plans. The company's previous \$1.5 billion share repurchase program is expected to be completed in the first half of 2019.

BRINGING VALUE TO SOCIETY

We are committed to creating value not only for our business, but also for society, as we strive to protect animal and human health; ensure a safe, sustainable supply of animal protein; and safeguard the livelihoods of our customers.

- Our continuous innovation is at the heart of our ability to advance animal health and make a positive impact on the world. Through our new products and comprehensive solutions, we help deliver safer, more affordable and sustainable ways to address our customers' most pressing animal health challenges — and deliver real value to their businesses.
- In 2018, Zoetis established the **Center for Transboundary and Emerging Diseases**, a globally coordinated initiative to help governments, veterinary and livestock farmer communities prepare for and respond to infectious disease threats.
- Over the last year, we made significant progress in our **African Livestock Productivity and Health Advancement (A.L.P.H.A.)** initiative with the Bill and Melinda Gates Foundation. This led to the opening of a new veterinary

OUR VALUE PROPOSITION



Grow revenue in line with or faster than the market



Grow adjusted net income faster than revenue



Target value-added investment opportunities



Return excess capital to shareholders

diagnostic center with one of the leading poultry producers in Nigeria. We initiated a similar partnership in Uganda to deliver sustainable animal health diagnostic services, education, and training to the country's cattle veterinarians and farmers. I'm pleased to add that our initial three-year grant for A.L.P.H.A. has been extended and now includes Tanzania.

- Zoetis collaborates with professionals and academia to raise the standards of veterinary education, modernize treatment, and allow wider, more affordable access to veterinary care through various grants and programs. Our focus is to ensure that veterinarians remain at the center of any animal health decision.

I am very proud of our performance and the progress we are making thanks to our Zoetis colleagues. Their ongoing commitment to Zoetis and our customers makes the difference in our results and our culture. And, they have made Zoetis an admired company for the past several years with recognition from *Working Mother* and *Forbes* magazines in the U.S.; *Exame* in Portugal and Brazil; and *Você SA* in Brazil, among others.

WHAT EXCITES US ABOUT THE FUTURE

Looking ahead at Zoetis, we are confident in our ability to address the emerging growth opportunities and evolving customer needs in the markets where we compete. We expect continued growth across all our species categories in 2019, based on the strength of our diverse and innovative portfolio, high-quality manufacturing and world-class field force.

Our strategic objective is the same as ever: to maximize short- and long-term profitable revenue growth, based on the strength of our business model, innovative products and interactions with customers. We are committed to developing all that's needed to address a growing animal health industry by executing against six strategic imperatives:

1. Delivering more innovations across core areas of vaccines, pharmaceuticals, diagnostics and the complementary spaces we've been adding over time such as genetics, biodevices, digital and data analytics.
2. Maintaining our diversity across species, geographies and therapeutic areas to balance economic cycles and regulatory changes, and minimize dependency in any one area.
3. Maximizing opportunities in developing markets by making the most of our investments in fast-growing areas like Brazil and China.
4. Developing more data analytics and digital solutions that will advance livestock production and pet care.
5. Supporting our customers' direct engagement with pet owners and consumers, and adjusting our future portfolio in line with their shifting influence.
6. Enhancing capabilities across the continuum of care — from disease prediction and prevention to detection and treatment.

Finally, we will continue positioning ourselves to lead the animal health market by identifying internal and external sources of revenue growth that match well with our strategy and ability to bring innovations to market.

I am excited about what Zoetis will accomplish in 2019. With our colleagues working together, we will deliver on our priorities and drive future growth for our company, customers and shareholders.

Thank you for your valued support of Zoetis.

Juan Ramón Alaix

Chief Executive Officer

¹ Based on internal estimates