

Item 8. Financial Statements and Supplementary Data.
(a) Financial Statements

The consolidated balance sheet of Merck & Co., Inc. and subsidiaries as of December 31, 2019 and 2018, and the related consolidated statements of income, of comprehensive income, of equity and of cash flows for each of the three years in the period ended December 31, 2019, the notes to consolidated financial statements, and the report dated February 26, 2020 of PricewaterhouseCoopers LLP, independent registered public accounting firm, are as follows:

Consolidated Statement of Income

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions except per share amounts)

	2019	2018	2017
Sales	\$ 46,840	\$ 42,294	\$ 40,122
Costs, Expenses and Other			
Cost of sales	14,112	13,509	12,912
Selling, general and administrative	10,615	10,102	10,074
Research and development	9,872	9,752	10,339
Restructuring costs	638	632	776
Other (income) expense, net	139	(402)	(500)
	35,376	33,593	33,601
Income Before Taxes	11,464	8,701	6,521
Taxes on Income	1,687	2,508	4,103
Net Income	9,777	6,193	2,418
Less: Net (Loss) Income Attributable to Noncontrolling Interests	(66)	(27)	24
Net Income Attributable to Merck & Co., Inc.	\$ 9,843	\$ 6,220	\$ 2,394
Basic Earnings per Common Share Attributable to Merck & Co., Inc. Common Shareholders	\$ 3.84	\$ 2.34	\$ 0.88
Earnings per Common Share Assuming Dilution Attributable to Merck & Co., Inc. Common Shareholders	\$ 3.81	\$ 2.32	\$ 0.87

Consolidated Statement of Comprehensive Income

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions)

	2019	2018	2017
Net Income Attributable to Merck & Co., Inc.	\$ 9,843	\$ 6,220	\$ 2,394
Other Comprehensive (Loss) Income Net of Taxes:			
Net unrealized (loss) gain on derivatives, net of reclassifications	(135)	297	(446)
Net unrealized gain (loss) on investments, net of reclassifications	96	(10)	(58)
Benefit plan net (loss) gain and prior service (cost) credit, net of amortization	(705)	(425)	419
Cumulative translation adjustment	96	(223)	401
	(648)	(361)	316
Comprehensive Income Attributable to Merck & Co., Inc.	\$ 9,195	\$ 5,859	\$ 2,710

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

Merck & Co., Inc. and Subsidiaries

December 31

(\$ in millions except per share amounts)

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 9,676	\$ 7,965
Short-term investments	774	899
Accounts receivable (net of allowance for doubtful accounts of \$86 in 2019 and \$119 in 2018)	6,778	7,071
Inventories (excludes inventories of \$1,480 in 2019 and \$1,417 in 2018 classified in Other assets - see Note 7)	5,978	5,440
Other current assets	4,277	4,500
Total current assets	27,483	25,875
Investments	1,469	6,233
Property, Plant and Equipment (at cost)		
Land	343	333
Buildings	11,989	11,486
Machinery, equipment and office furnishings	15,394	14,441
Construction in progress	5,013	3,355
	32,739	29,615
Less: accumulated depreciation	17,686	16,324
	15,053	13,291
Goodwill	19,425	18,253
Other Intangibles, Net	14,196	13,104
Other Assets	6,771	5,881
	\$ 84,397	\$ 82,637
Liabilities and Equity		
Current Liabilities		
Loans payable and current portion of long-term debt	\$ 3,610	\$ 5,308
Trade accounts payable	3,738	3,318
Accrued and other current liabilities	12,549	10,151
Income taxes payable	736	1,971
Dividends payable	1,587	1,458
Total current liabilities	22,220	22,206
Long-Term Debt	22,736	19,806
Deferred Income Taxes	1,470	1,702
Other Noncurrent Liabilities	11,970	12,041
Merck & Co., Inc. Stockholders' Equity		
Common stock, \$0.50 par value		
Authorized - 6,500,000,000 shares		
Issued - 3,577,103,522 shares in 2019 and 2018	1,788	1,788
Other paid-in capital	39,660	38,808
Retained earnings	46,602	42,579
Accumulated other comprehensive loss	(6,193)	(5,545)
	81,857	77,630
Less treasury stock, at cost:		
1,038,087,496 shares in 2019 and 984,543,979 shares in 2018	55,950	50,929
Total Merck & Co., Inc. stockholders' equity	25,907	26,701
Noncontrolling Interests	94	181
Total equity	26,001	26,882
	\$ 84,397	\$ 82,637

The accompanying notes are an integral part of this consolidated financial statement.

Consolidated Statement of Cash Flows

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions)

	2019	2018	2017
Cash Flows from Operating Activities			
Net income	\$ 9,777	\$ 6,193	\$ 2,418
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,652	4,519	4,676
Intangible asset impairment charges	1,040	296	646
Charge for the acquisition of Peloton Therapeutics, Inc.	993	—	—
Charge for future payments related to collaboration license options	—	650	500
Provisional charge for one-time transition tax related to the enactment of U.S. tax legislation	—	—	5,347
Deferred income taxes	(556)	(509)	(2,621)
Share-based compensation	417	348	312
Other	184	978	190
Net changes in assets and liabilities:			
Accounts receivable	294	(418)	297
Inventories	(508)	(911)	(145)
Trade accounts payable	399	230	254
Accrued and other current liabilities	376	(341)	(922)
Income taxes payable	(2,359)	827	(3,291)
Noncurrent liabilities	(237)	(266)	(123)
Other	(32)	(674)	(1,087)
Net Cash Provided by Operating Activities	13,440	10,922	6,451
Cash Flows from Investing Activities			
Capital expenditures	(3,473)	(2,615)	(1,888)
Purchases of securities and other investments	(3,202)	(7,994)	(10,739)
Proceeds from sales of securities and other investments	8,622	15,252	15,664
Acquisition of Antelliq Corporation, net of cash acquired	(3,620)	—	—
Acquisition of Peloton Therapeutics, Inc., net of cash acquired	(1,040)	—	—
Other acquisitions, net of cash acquired	(294)	(431)	(396)
Other	378	102	38
Net Cash (Used in) Provided by Investing Activities	(2,629)	4,314	2,679
Cash Flows from Financing Activities			
Net change in short-term borrowings	(3,710)	5,124	(26)
Payments on debt	—	(4,287)	(1,103)
Proceeds from issuance of debt	4,958	—	—
Purchases of treasury stock	(4,780)	(9,091)	(4,014)
Dividends paid to stockholders	(5,695)	(5,172)	(5,167)
Proceeds from exercise of stock options	361	591	499
Other	5	(325)	(195)
Net Cash Used in Financing Activities	(8,861)	(13,160)	(10,006)
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash	17	(205)	457
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	1,967	1,871	(419)
Cash, Cash Equivalents and Restricted Cash at Beginning of Year (includes \$2 million of restricted cash at January 1, 2019 included in Other Assets)	7,967	6,096	6,515
Cash, Cash Equivalents and Restricted Cash at End of Year (includes \$258 million of restricted cash at December 31, 2019 included in Other Assets - see Note 6)	\$ 9,934	\$ 7,967	\$ 6,096

The accompanying notes are an integral part of this consolidated financial statement.