

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

The consolidated balance sheet of Merck & Co., Inc. and subsidiaries as of December 31, 2017 and 2016, 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, 2017, the notes to consolidated financial statements, and the report dated February 27, 2018 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)

	2017	2016	2015
Sales	\$ 40,122	\$ 39,807	\$ 39,498
Costs, Expenses and Other			
Materials and production	12,775	13,891	14,934
Marketing and administrative	9,830	9,762	10,313
Research and development	10,208	10,124	6,704
Restructuring costs	776	651	619
Other (income) expense, net	12	720	1,527
	33,601	35,148	34,097
Income Before Taxes	6,521	4,659	5,401
Taxes on Income	4,103	718	942
Net Income	2,418	3,941	4,459
Less: Net Income Attributable to Noncontrolling Interests	24	21	17
Net Income Attributable to Merck & Co., Inc.	\$ 2,394	\$ 3,920	\$ 4,442
Basic Earnings per Common Share Attributable to Merck & Co., Inc. Common Shareholders	\$ 0.88	\$ 1.42	\$ 1.58
Earnings per Common Share Assuming Dilution Attributable to Merck & Co., Inc. Common Shareholders	\$ 0.87	\$ 1.41	\$ 1.56

**Consolidated Statement of Comprehensive Income**

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions)

	2017	2016	2015
Net Income Attributable to Merck & Co., Inc.	\$ 2,394	\$ 3,920	\$ 4,442
Other Comprehensive Income (Loss) Net of Taxes:			
Net unrealized loss on derivatives, net of reclassifications	(446)	(66)	(126)
Net unrealized loss on investments, net of reclassifications	(58)	(44)	(70)
Benefit plan net gain (loss) and prior service credit (cost), net of amortization	419	(799)	579
Cumulative translation adjustment	401	(169)	(208)
	316	(1,078)	175
Comprehensive Income Attributable to Merck & Co., Inc.	\$ 2,710	\$ 2,842	\$ 4,617

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

**Consolidated Balance Sheet**

Merck &amp; Co., Inc. and Subsidiaries

December 31

(\$ in millions except per share amounts)

	2017	2016
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 6,092	\$ 6,515
Short-term investments	2,406	7,826
Accounts receivable (net of allowance for doubtful accounts of \$210 in 2017 and \$195 in 2016)	6,873	7,018
Inventories (excludes inventories of \$1,187 in 2017 and \$1,117 in 2016 classified in Other assets - see Note 7)	5,096	4,866
Other current assets	4,299	4,389
Total current assets	24,766	30,614
Investments	12,125	11,416
Property, Plant and Equipment (at cost)		
Land	365	412
Buildings	11,726	11,439
Machinery, equipment and office furnishings	14,649	14,053
Construction in progress	2,301	1,871
	29,041	27,775
Less: accumulated depreciation	16,602	15,749
	12,439	12,026
Goodwill	18,284	18,162
Other Intangibles, Net	14,183	17,305
Other Assets	6,075	5,854
	\$ 87,872	\$ 95,377
<b>Liabilities and Equity</b>		
Current Liabilities		
Loans payable and current portion of long-term debt	\$ 3,057	\$ 568
Trade accounts payable	3,102	2,807
Accrued and other current liabilities	10,427	10,274
Income taxes payable	708	2,239
Dividends payable	1,320	1,316
Total current liabilities	18,614	17,204
Long-Term Debt	21,353	24,274
Deferred Income Taxes	2,219	5,077
Other Noncurrent Liabilities	11,117	8,514
Merck & Co., Inc. Stockholders' Equity		
Common stock, \$0.50 par value		
Authorized - 6,500,000,000 shares		
Issued - 3,577,103,522 shares in 2017 and 2016	1,788	1,788
Other paid-in capital	39,902	39,939
Retained earnings	41,350	44,133
Accumulated other comprehensive loss	(4,910)	(5,226)
	78,130	80,634
Less treasury stock, at cost:		
880,491,914 shares in 2017 and 828,372,200 shares in 2016	43,794	40,546
Total Merck & Co., Inc. stockholders' equity	34,336	40,088
Noncontrolling Interests	233	220
Total equity	34,569	40,308
	\$ 87,872	\$ 95,377

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)

	2017	2016	2015
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 2,418	\$ 3,941	\$ 4,459
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,637	5,441	6,375
Intangible asset impairment charges	646	3,948	162
Provisional charge for one-time transition tax related to the enactment of U.S. tax legislation	5,347	—	—
Charge for future payments related to AstraZeneca collaboration license options	500	—	—
Charge related to the settlement of worldwide <i>Keytruda</i> patent litigation	—	625	—
Foreign currency devaluation related to Venezuela	—	—	876
Net charge related to the settlement of <i>Vioxx</i> shareholder class action litigation	—	—	680
Equity income from affiliates	(42)	(86)	(205)
Dividends and distributions from equity method affiliates	2	16	50
Deferred income taxes	(2,621)	(1,521)	(764)
Share-based compensation	312	300	299
Other	269	313	874
Net changes in assets and liabilities:			
Accounts receivable	297	(619)	(480)
Inventories	(145)	206	805
Trade accounts payable	254	278	(37)
Accrued and other current liabilities	(922)	(2,018)	(8)
Income taxes payable	(3,291)	124	(266)
Noncurrent liabilities	(123)	(809)	(277)
Other	(1,091)	237	(5)
Net Cash Provided by Operating Activities	6,447	10,376	12,538
<b>Cash Flows from Investing Activities</b>			
Capital expenditures	(1,888)	(1,614)	(1,283)
Purchases of securities and other investments	(10,739)	(15,651)	(16,681)
Proceeds from sales of securities and other investments	15,664	14,353	20,413
Acquisition of Cubist Pharmaceuticals, Inc., net of cash acquired	—	—	(7,598)
Acquisitions of other businesses, net of cash acquired	(396)	(780)	(146)
Dispositions of businesses, net of cash divested	—	—	316
Other	38	482	221
Net Cash Provided by (Used in) Investing Activities	2,679	(3,210)	(4,758)
<b>Cash Flows from Financing Activities</b>			
Net change in short-term borrowings	(26)	—	(1,540)
Payments on debt	(1,103)	(2,386)	(2,906)
Proceeds from issuance of debt	—	1,079	7,938
Purchases of treasury stock	(4,014)	(3,434)	(4,186)
Dividends paid to stockholders	(5,167)	(5,124)	(5,117)
Proceeds from exercise of stock options	499	939	485
Other	(195)	(118)	(61)
Net Cash Used in Financing Activities	(10,006)	(9,044)	(5,387)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	457	(131)	(1,310)
Net (Decrease) Increase in Cash and Cash Equivalents	(423)	(2,009)	1,083
Cash and Cash Equivalents at Beginning of Year	6,515	8,524	7,441
Cash and Cash Equivalents at End of Year	\$ 6,092	\$ 6,515	\$ 8,524

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