

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

The consolidated balance sheet of Merck & Co., Inc. and subsidiaries as of December 31, 2018 and 2017, 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, 2018, the notes to consolidated financial statements, and the report dated February 27, 2019 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)

	2018	2017	2016
Sales	\$ 42,294	\$ 40,122	\$ 39,807
Costs, Expenses and Other			
Cost of sales	13,509	12,912	14,030
Selling, general and administrative	10,102	10,074	10,017
Research and development	9,752	10,339	10,261
Restructuring costs	632	776	651
Other (income) expense, net	(402)	(500)	189
	33,593	33,601	35,148
Income Before Taxes	8,701	6,521	4,659
Taxes on Income	2,508	4,103	718
Net Income	6,193	2,418	3,941
Less: Net (Loss) Income Attributable to Noncontrolling Interests	(27)	24	21
Net Income Attributable to Merck & Co., Inc.	\$ 6,220	\$ 2,394	\$ 3,920
Basic Earnings per Common Share Attributable to Merck & Co., Inc. Common Shareholders	\$ 2.34	\$ 0.88	\$ 1.42
Earnings per Common Share Assuming Dilution Attributable to Merck & Co., Inc. Common Shareholders	\$ 2.32	\$ 0.87	\$ 1.41

Consolidated Statement of Comprehensive Income

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions)

	2018	2017	2016
Net Income Attributable to Merck & Co., Inc.	\$ 6,220	\$ 2,394	\$ 3,920
Other Comprehensive (Loss) Income Net of Taxes:			
Net unrealized gain (loss) on derivatives, net of reclassifications	297	(446)	(66)
Net unrealized loss on investments, net of reclassifications	(10)	(58)	(44)
Benefit plan net (loss) gain and prior service (cost) credit, net of amortization	(425)	419	(799)
Cumulative translation adjustment	(223)	401	(169)
	(361)	316	(1,078)
Comprehensive Income Attributable to Merck & Co., Inc.	\$ 5,859	\$ 2,710	\$ 2,842

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)

	2018	2017
Assets		
Current Assets		
Cash and cash equivalents	\$ 7,965	\$ 6,092
Short-term investments	899	2,406
Accounts receivable (net of allowance for doubtful accounts of \$119 in 2018 and \$159 in 2017)	7,071	6,873
Inventories (excludes inventories of \$1,417 in 2018 and \$1,187 in 2017 classified in Other assets - see Note 7)	5,440	5,096
Other current assets	4,500	4,299
Total current assets	25,875	24,766
Investments	6,233	12,125
Property, Plant and Equipment (at cost)		
Land	333	365
Buildings	11,486	11,726
Machinery, equipment and office furnishings	14,441	14,649
Construction in progress	3,355	2,301
	29,615	29,041
Less: accumulated depreciation	16,324	16,602
	13,291	12,439
Goodwill	18,253	18,284
Other Intangibles, Net	11,431	14,183
Other Assets	7,554	6,075
	\$ 82,637	\$ 87,872
Liabilities and Equity		
Current Liabilities		
Loans payable and current portion of long-term debt	\$ 5,308	\$ 3,057
Trade accounts payable	3,318	3,102
Accrued and other current liabilities	10,151	10,427
Income taxes payable	1,971	708
Dividends payable	1,458	1,320
Total current liabilities	22,206	18,614
Long-Term Debt	19,806	21,353
Deferred Income Taxes	1,702	2,219
Other Noncurrent Liabilities	12,041	11,117
Merck & Co., Inc. Stockholders' Equity		
Common stock, \$0.50 par value		
Authorized - 6,500,000,000 shares		
Issued - 3,577,103,522 shares in 2018 and 2017	1,788	1,788
Other paid-in capital	38,808	39,902
Retained earnings	42,579	41,350
Accumulated other comprehensive loss	(5,545)	(4,910)
	77,630	78,130
Less treasury stock, at cost:		
984,543,979 shares in 2018 and 880,491,914 shares in 2017	50,929	43,794
Total Merck & Co., Inc. stockholders' equity	26,701	34,336
Noncontrolling Interests	181	233
Total equity	26,882	34,569
	\$ 82,637	\$ 87,872

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)

	2018	2017	2016
Cash Flows from Operating Activities			
Net income	\$ 6,193	\$ 2,418	\$ 3,941
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	4,519	4,676	5,471
Intangible asset impairment charges	296	646	3,948
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	—
Charge related to the settlement of worldwide <i>Keytruda</i> patent litigation	—	—	625
Deferred income taxes	(509)	(2,621)	(1,521)
Share-based compensation	348	312	300
Other	978	190	213
Net changes in assets and liabilities:			
Accounts receivable	(418)	297	(619)
Inventories	(911)	(145)	206
Trade accounts payable	230	254	278
Accrued and other current liabilities	(341)	(922)	(2,018)
Income taxes payable	827	(3,291)	124
Noncurrent liabilities	(266)	(123)	(809)
Other	(674)	(1,087)	237
Net Cash Provided by Operating Activities	10,922	6,451	10,376
Cash Flows from Investing Activities			
Capital expenditures	(2,615)	(1,888)	(1,614)
Purchases of securities and other investments	(7,994)	(10,739)	(15,651)
Proceeds from sales of securities and other investments	15,252	15,664	14,353
Acquisitions, net of cash acquired	(431)	(396)	(780)
Other	102	38	482
Net Cash Provided by (Used in) Investing Activities	4,314	2,679	(3,210)
Cash Flows from Financing Activities			
Net change in short-term borrowings	5,124	(26)	—
Payments on debt	(4,287)	(1,103)	(2,386)
Proceeds from issuance of debt	—	—	1,079
Purchases of treasury stock	(9,091)	(4,014)	(3,434)
Dividends paid to stockholders	(5,172)	(5,167)	(5,124)
Proceeds from exercise of stock options	591	499	939
Other	(325)	(195)	(118)
Net Cash Used in Financing Activities	(13,160)	(10,006)	(9,044)
Effect of Exchange Rate Changes on Cash, Cash Equivalents and Restricted Cash	(205)	457	(131)
Net Increase (Decrease) in Cash, Cash Equivalents and Restricted Cash	1,871	(419)	(2,009)
Cash, Cash Equivalents and Restricted Cash at Beginning of Year (includes \$4 million of restricted cash at January 1, 2018 included in Other Assets)	6,096	6,515	8,524
Cash, Cash Equivalents and Restricted Cash at End of Year (includes \$2 million of restricted cash at December 31, 2018 included in Other Assets)	\$ 7,967	\$ 6,096	\$ 6,515

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