JOHNSON & JOHNSON
Form 10-Q
August 02, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
for the quarterly period ended July 1, 2018
or

o 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 1-3215
(Exact name of registrant as specified in its charter)

NEW JERSEY	22-1024240
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Johnson & Johnson Plaza
New Brunswick, New Jersey 08933
(Address of principal executive offices)
Registrant's telephone number, including area code (732) 524-0400
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 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. þ Yes o No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes o 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 the 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 þ	Accelerated filer o
Non-accelerated filer o	(Do not check if a smaller reporting company)
Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicated 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. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
On July 27, 2018, 2,682,756,061 shares of Common Stock, $1.00 par value, were outstanding.

JOHNSON & JOHNSON AND SUBSIDIARIES
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and Johnson & Johnson's other publicly available documents contain "forward-looking statements" within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Management and representatives of Johnson & Johnson and its subsidiaries (the Company) also may from time to time make forward-looking statements. Forward-looking statements do not relate strictly to historical or current facts and reflect management's assumptions, views, plans, objectives and projections about the future. Forward-looking statements may be identified by the use of words such as "plans," "expects," "will," "anticipates," "estimates," and other words of similar meaning in conjunction with, among other things: discussions of future operations, expected operating results, financial performance; impact of planned acquisitions and dispositions; impact and timing of restructuring initiatives including associated cost savings and other benefits; the Company's strategy for growth; product development activities; regulatory approvals; market position and expenditures. Because forward-looking statements are based on current beliefs, expectations and assumptions regarding future events, they are subject to uncertainties, risks and changes that are difficult to predict and many of which are outside of the Company's control. Investors should realize that if underlying assumptions prove inaccurate, or known or unknown risks or uncertainties materialize, the Company's actual results and financial condition could vary materially from expectations and projections expressed or implied in its forward-looking statements. Investors are therefore cautioned not to rely on these forward-looking statements. Risks and uncertainties include, but are not limited to:

Risks Related to Product Development, Market Success and Competition

- Challenges and uncertainties inherent in innovation and development of new and improved products and technologies on which the Company's continued growth and success depend, including uncertainty of clinical outcomes, obtaining regulatory approvals, health plan coverage and customer access, and initial and continued commercial success;
- Challenges to the Company's ability to obtain and protect adequate patent and other intellectual property rights for new and existing products and technologies in the United States and other important markets;
- The impact of patent expirations, typically followed by the introduction of competing biosimilars and generics and resulting revenue and market share losses;
- Increasingly aggressive and frequent challenges to the Company's patents by competitors and others seeking to launch competing generic, biosimilar or other products and increased receptivity of courts, the United States Patent and Trademark Office and other decision makers to such challenges, potentially resulting in loss of market exclusivity and rapid decline in sales for the relevant product sooner than expected;
- Competition in research and development of new and improved products, processes and technologies, which can result in product and process obsolescence;
- Competition to reach agreement with third parties for collaboration, licensing, development and marketing agreements for products and technologies;
- Competition on the basis of cost-effectiveness, product performance, technological advances and patents attained by competitors; and
- Allegations that the Company's products infringe the patents and other intellectual property rights of third parties, which could adversely affect the Company's ability to sell the products in question and require the payment of money damages and future royalties.

Risks Related to Product Liability, Litigation and Regulatory Activity

- Product efficacy or safety concerns, whether or not based on scientific evidence, potentially resulting in product withdrawals, recalls, regulatory action on the part of the United States Food and Drug Administration (or international counterparts), declining sales and reputational damage;
- Impact, including declining sales and reputational damage, of significant litigation or government action adverse to the Company, including product liability claims and allegations related to pharmaceutical marketing practices and contracting strategies;
- Increased scrutiny of the health care industry by government agencies and state attorneys general resulting in investigations and prosecutions, which carry the risk of significant civil and criminal penalties, including, but not limited to, debarment from government business;

- Failure to meet compliance obligations in the McNEIL-PPC, Inc. Consent Decree or the Corporate Integrity Agreements of the Johnson & Johnson Pharmaceutical Affiliates, or any other compliance agreements with governments or government agencies, which could result in significant sanctions;
- Potential changes to applicable laws and regulations affecting United States and international operations, including relating to: approval of new products; licensing and patent rights; sales and promotion of health care products; access to, and reimbursement and pricing for, health care products and services; environmental protection and sourcing of raw materials;
- Changes in tax laws and regulations, including changes related to The Tax Cuts and Jobs Act in the United States, increasing audit scrutiny by tax authorities around the world and exposures to additional tax liabilities potentially in excess of existing reserves; and
- Issuance of new or revised accounting standards by the Financial Accounting Standards Board and regulations by the Securities and Exchange Commission.

Risks Related to the Company’s Strategic Initiatives and Health Care Market Trends

- Pricing pressures resulting from trends toward health care cost containment, including the continued consolidation among health care providers, trends toward managed care, the shift toward governments increasingly becoming the primary payers of health care expenses and significant new entrants to the health care markets seeking to reduce costs;
- Restricted spending patterns of individual, institutional and governmental purchasers of health care products and services due to economic hardship and budgetary constraints;
- Challenges to the Company’s ability to realize its strategy for growth including through externally sourced innovations, such as development collaborations, strategic acquisitions, licensing and marketing agreements, and the potential heightened costs of any such external arrangements due to competitive pressures;
- The potential that the expected strategic benefits and opportunities from any planned or completed acquisition or divestiture by the Company, including the integration of Actelion Ltd., may not be realized or may take longer to realize than expected; and
- The potential that the expected benefits and opportunities related to past and future restructuring actions may not be realized or may take longer to realize than expected, including due to any required consultation procedures relating to restructuring of workforce.

Risks Related to Economic Conditions, Financial Markets and Operating Internationally

- Impact of inflation and fluctuations in interest rates and currency exchange rates and the potential effect of such fluctuations on revenues, expenses and resulting margins;
- Potential changes in export/import and trade laws, regulations and policies of the United States and other countries, including any increased trade restrictions or tariffs and potential drug reimportation legislation;
- The impact on international operations from financial instability in international economies, sovereign risk, possible imposition of governmental controls and restrictive economic policies, and unstable international governments and legal systems;
- Changes to global climate, extreme weather and natural disasters that could affect demand for the Company's products and services, cause disruptions in manufacturing and distribution networks, alter the availability of goods and services within the supply chain, and affect the overall design and integrity of the Company's products and operations; and
- The impact of armed conflicts and terrorist attacks in the United States and other parts of the world including social and economic disruptions and instability of financial and other markets.

Risks Related to Supply Chain and Operations

- Difficulties and delays in manufacturing, internally through third party providers or otherwise within the supply chain, that may lead to voluntary or involuntary business interruptions or shutdowns, product shortages, withdrawals or suspensions of products from the market, and potential regulatory action;
- Interruptions and breaches of the Company's information technology systems, and those of the Company's vendors, could result in reputational, competitive, operational or other business harm as well as financial costs and regulatory action;
- Reliance on global supply chains and production and distribution processes that are complex and subject to increasing regulatory requirements that may adversely affect supply, sourcing and pricing of materials used in the Company’s products; and

- The potential that the expected benefits and opportunities related to restructuring actions contemplated for the global supply chain may not be realized or may take longer to realize than expected, including due to any required consultation

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procedures relating to restructuring of workforce and any required approvals from applicable regulatory authorities. Disruptions associated with the recently announced global supply chain actions may adversely affect supply and sourcing of materials used in the Company's products.

Investors also should carefully read the Risk Factors described in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, for a description of certain risks that could, among other things, cause the Company’s actual results to differ materially from those expressed in its forward-looking statements. Investors should understand that it is not possible to predict or identify all such factors and should not consider the risks described above to be a complete statement of all potential risks and uncertainties. The Company does not undertake to publicly update any forward-looking statement that may be made from time to time, whether as a result of new information or future events or developments.

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Part I — FINANCIAL INFORMATION

Item 1 — FINANCIAL STATEMENTS

JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited; Dollars in Millions Except Share and Per Share Data)

	July 1, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$17,569	17,824
Marketable securities	570	472
Accounts receivable, trade, less allowances for doubtful accounts $269 (2017, $291)	14,111	13,490
Inventories (Note 2)	8,810	8,765
Prepaid expenses and other	2,569	2,537
Assets held for sale (Note 10)	1,809	—
Total current assets	45,438	43,088
Property, plant and equipment at cost	41,293	41,466
Less: accumulated depreciation	(24,661)	(24,461)
Property, plant and equipment, net	16,632	17,005
Intangible assets, net (Note 3)	50,056	53,228
Goodwill (Note 3)	30,346	31,906
Deferred taxes on income	8,472	7,105
Other assets	4,421	4,971
Total assets	$155,365	157,303
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Loans and notes payable	$2,678	3,906
Accounts payable	6,516	7,310
Accrued liabilities	6,394	7,304
Accrued rebates, returns and promotions	8,717	7,210
Accrued compensation and employee related obligations	2,255	2,953
Accrued taxes on income	928	1,854
Total current liabilities	27,488	30,537
Long-term debt (Note 4)	29,405	30,675
Deferred taxes on income	7,666	8,368
Employee related obligations	9,989	10,074
Long-term taxes payable	8,647	8,472
Other liabilities	9,281	9,017
Total liabilities	92,476	97,143
Shareholders' equity:		
Common stock — par value $1.00 per share (authorized 4,320,000,000 shares; issued 3,119,843,000 shares)	$3,120	3,120
Accumulated other comprehensive income (loss) (Note 7)	(14,777)	(13,199)
Retained earnings	106,123	101,793
Less: common stock held in treasury, at cost (437,542,000 and 437,318,000 shares)	31,577	31,554
Total shareholders' equity	62,889	60,160

Total liabilities and shareholders' equity	$155,365	157,303

See Notes to Consolidated Financial Statements

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JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited; Dollars & Shares in Millions Except Per Share Amounts)

	Fiscal Second Quarters Ended			
	July 1, 2018	Percent to Sales	July 2, 2017	Percent to Sales
Sales to customers (Note 9)	$20,830	100.0 %	$18,839	100.0 %
Cost of products sold	6,927	33.3	5,846	31.0
Gross profit	13,903	66.7	12,993	69.0
Selling, marketing and administrative expenses	5,743	27.5	5,289	28.1
Research and development expense	2,639	12.7	2,296	12.2
Interest income	(126)	(0.6)	(105)	(0.6)
Interest expense, net of portion capitalized	253	1.2	227	1.2
Other (income) expense, net	364	1.7	527	2.8
Restructuring (Note 12)	57	0.3	11	0.1
Earnings before provision for taxes on income	4,973	23.9	4,748	25.2
Provision for taxes on income (Note 5)	1,019	4.9	921	4.9
NET EARNINGS	$3,954	19.0 %	$3,827	20.3 %
NET EARNINGS PER SHARE (Note 8)				
Basic	$1.47		$1.42	
Diluted	$1.45		$1.40	
CASH DIVIDENDS PER SHARE	$0.90		$0.84	
AVG. SHARES OUTSTANDING				
Basic	2,682.3		2,691.9	
Diluted	2,721.3		2,741.5	

Prior year amounts have been reclassified to conform to current year presentation
See Notes to Consolidated Financial Statements

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JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited; Dollars & Shares in Millions Except Per Share Amounts)

	Fiscal Six Months Ended			
	July 1, 2018	Percent to Sales	July 2, 2017	Percent to Sales
Sales to customers (Note 9)	$40,839	100.0 %	$36,605	100.0 %
Cost of products sold	13,541	33.2	11,255	30.8
Gross profit	27,298	66.8	25,350	69.2
Selling, marketing and administrative expenses	11,006	27.0	10,052	27.5
Research and development expense	5,043	12.3	4,366	11.9
Interest income	(240)	(0.6)	(226)	(0.6)
Interest expense, net of portion capitalized	512	1.3	431	1.2
Other (income) expense, net	424	1.0	308	0.8
Restructuring expense (Note 12)	99	0.2	96	0.2
Earnings before provision for taxes on income	10,454	25.6	10,323	28.2
Provision for taxes on income (Note 5)	2,133	5.2	2,074	5.7
NET EARNINGS	$8,321	20.4 %	$8,249	22.5 %
NET EARNINGS PER SHARE (Note 8)				
Basic	$3.10		$3.06	
Diluted	$3.05		$3.00	
CASH DIVIDENDS PER SHARE	$1.74		$1.64	
AVG. SHARES OUTSTANDING				
Basic	2,682.2		2,699.3	
Diluted	2,728.5		2,749.4	

Prior year amounts have been reclassified to conform to current year presentation
See Notes to Consolidated Financial Statements

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JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited; Dollars in Millions)

	Fiscal Second Quarters Ended		Fiscal Six Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Net earnings	$3,954	3,827	$8,321	8,249
Other comprehensive income (loss), net of tax				
Foreign currency translation	(2,190)	843	(1,567)	1,238
Securities:[1]				
Unrealized holding gain (loss) arising during period	—	47	—	136
Reclassifications to earnings	—	(14)	—	(193)
Net change	—	33	—	(57)
Employee benefit plans:				
Prior service cost amortization during period	(5)	(5)	(11)	(9)
Gain (loss) amortization during period	190	123	382	246
Net change	185	118	371	237
Derivatives & hedges:				
Unrealized gain (loss) arising during period	(61)	154	(225)	(70)
Reclassifications to earnings	(103)	140	75	319
Net change	(164)	294	(150)	249
Other comprehensive income (loss)	(2,169)	1,288	(1,346)	1,667
Comprehensive income	$1,785	5,115	$6,975	9,916

[1] 2018 includes the impact from the adoption of ASU 2016-01. For further details see Note 1 to the Consolidated Financial Statements
See Notes to Consolidated Financial Statements

The tax effects in other comprehensive income for the fiscal second quarters were as follows for 2018 and 2017, respectively: Foreign Currency Translation: $346 million in 2018 due to the enactment of the U.S. Tax Cuts and Jobs Act; Securities: $0 million and $17 million; Employee Benefit Plans: $51 million and $60 million; Derivatives & Hedges: $44 million and $158 million.

The tax effects in other comprehensive income for the fiscal six months were as follows for 2018 and 2017, respectively: Foreign Currency Translation: $183 million in 2018 due to the enactment of the U.S. Tax Cuts and Jobs Act; Securities: $0 million and $31 million; Employee Benefit Plans: $103 million and $120 million; Derivatives & Hedges:$40 million and $134 million.

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JOHNSON & JOHNSON AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; Dollars in Millions)

	Fiscal Six Months Ended	
	July 1, 2018	July 2, 2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$8,321	8,249
Adjustments to reconcile net earnings to cash flows from operating activities:		
Depreciation and amortization of property and intangibles	3,463	2,062
Stock based compensation	580	522
Asset write-downs	27	270
Net gain on sale of assets/businesses	(443)	(53)
Deferred tax provision	(285)	(72)
Accounts receivable allowances	(16)	24
Changes in assets and liabilities, net of effects from acquisitions and divestitures:		
Increase in accounts receivable	(989)	(476)
Increase in inventories	(491)	(421)
Decrease in accounts payable and accrued liabilities	(49)	(1,201)
Increase in other current and non-current assets	(267)	(541)
(Decrease)/Increase in other current and non-current liabilities	(166)	322
NET CASH FLOWS FROM OPERATING ACTIVITIES	9,685	8,685
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(1,533)	(1,249)
Proceeds from the disposal of assets/businesses, net	870	125
Acquisitions, net of cash acquired	(222)	(34,072)
Purchases of investments	(951)	(5,227)
Sales of investments	743	27,320
Other	(33)	(80)
NET CASH USED BY INVESTING ACTIVITIES	(1,126)	(13,183)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends to shareholders	(4,668)	(4,433)
Repurchase of common stock	(1,589)	(5,232)
Proceeds from short-term debt	27	2,635
Retirement of short-term debt	(2,433)	(180)
Proceeds from long-term debt, net of issuance costs	3	4,464
Retirement of long-term debt	(9)	(15)
Proceeds from the exercise of stock options/employee withholding tax on stock awards, net	162	719
Other	(137)	(25)
NET CASH USED BY FINANCING ACTIVITIES	(8,644)	(2,067)
Effect of exchange rate changes on cash and cash equivalents	(170)	191
Decrease in cash and cash equivalents	(255)	(6,374)

Cash and Cash equivalents, beginning of period	17,824	18,972
CASH AND CASH EQUIVALENTS, END OF PERIOD	$17,569	12,598
Acquisitions		
Fair value of assets acquired	$334	36,161
Fair value of liabilities assumed and noncontrolling interests	(112)	(2,089)
Net cash paid for acquisitions	$222	34,072

See Notes to Consolidated Financial Statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — The accompanying unaudited interim consolidated financial statements and related notes should be read in conjunction with the audited Consolidated Financial Statements of Johnson & Johnson and its subsidiaries (the Company) and related notes as contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The unaudited interim financial statements include all adjustments (consisting only of normal recurring adjustments) and accruals necessary in the judgment of management for a fair statement of the results for the periods presented.

New Accounting Standards
Recently Adopted Accounting Standards
ASU 2017-12: Targeted Improvements to Accounting for Hedging Activities
The Company elected to early adopt this standard as of the beginning of the fiscal second quarter of 2018. This update makes more financial and nonfinancial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. For additional required disclosures see Note 4 to the Consolidated Financial Statements.

ASU 2014-09: Revenue from Contracts with Customers
On January 1, 2018, the Company adopted the new accounting standard, ASC 606, Revenue from Contracts with Customers and all the related amendments (new revenue standard) to all contracts using the modified retrospective method. The cumulative effect of initially applying the new standard was recognized as an adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of the new revenue standard has not had a material impact to either reported Sales to customers or Net earnings. Additionally, the Company will continue to recognize revenue from product sales as goods are shipped or delivered to the customer, as control of goods occurs at the same time.

In accordance with the new standard requirements, the disclosure of the impact of adoption on the Company's Consolidated Statement of Earnings and Balance Sheet was as follows:
Statement of Earnings - For the fiscal six months ended July 1, 2018

(Dollars in millions)	As Reported	Effect of change	Balance without adoption of ASC 606
Sales to customers	$ 40,839	(40)	40,799
Net earnings	8,321	(33)	8,288

Statement of Earnings - For the fiscal second quarter ended July 1, 2018

(Dollars in millions)	As Reported	Effect of change	Balance without adoption of ASC 606
Sales to customers	$ 20,830	(11)	20,819

Net earnings	3,954	(8)	3,946

Balance Sheet - As of July 1, 2018

	As Reported	Effect of change	Balance without adoption of ASC 606
Assets	155,365	24	155,389
Liabilities	92,476	10	92,486
Equity	$ 62,889	14	62,903

The Company made a cumulative effect adjustment to the 2018 opening balance of retained earnings upon adoption of ASU 2014-09, which decreased beginning retained earnings by $47 million.
As part of the adoption of ASC 606 see Note 9 to the Consolidated Financial Statements for further disaggregation of revenue.

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The Company recognizes revenue from product sales when obligations under the terms of a contract with the customer are satisfied; generally, this occurs with the transfer of control of the goods to customers. The Company's global payment terms are typically between 30 to 90 days. Provisions for certain rebates, sales incentives, trade promotions, coupons, product returns and discounts to customers are accounted as variable consideration and recorded as a reduction in sales.

Product discounts granted are based on the terms of arrangements with direct, indirect and other market participants, as well as market conditions, including prices charged by competitors. Rebates are estimated based on contractual terms, historical experience, patient outcomes, trend analysis and projected market conditions in the various markets served. The Company evaluates market conditions for products or groups of products primarily through the analysis of wholesaler and other third-party sell-through and market research data, as well as internally generated information.

Sales returns are estimated and recorded based on historical sales and returns information. Products that exhibit unusual sales or return patterns due to dating, competition or other marketing matters are specifically investigated and analyzed as part of the accounting for sales return accruals.

Sales returns allowances represent a reserve for products that may be returned due to expiration, destruction in the field, or in specific areas, product recall. The sales returns reserve is based on historical return trends by product and by market as a percent to gross sales. In accordance with the Company’s accounting policies, the Company generally issues credit to customers for returned goods. The Company’s sales returns reserves are accounted for in accordance with the U.S. GAAP guidance for revenue recognition when right of return exists. Sales returns reserves are recorded at full sales value. Sales returns in the Consumer and Pharmaceutical segments are almost exclusively not resalable. Sales returns for certain franchises in the Medical Devices segment are typically resalable but are not material. The Company infrequently exchanges products from inventory for returned products. The sales returns reserve for the total Company has been approximately 1.0% of annual net trade sales during the fiscal reporting years 2017, 2016 and 2015.

Promotional programs, such as product listing allowances and cooperative advertising arrangements, are recorded in the same period as related sales. Continuing promotional programs include coupons and volume-based sales incentive programs. The redemption cost of consumer coupons is based on historical redemption experience by product and value. Volume-based incentive programs are based on the estimated sales volumes for the incentive period and are recorded as products are sold. These arrangements are evaluated to determine the appropriate amounts to be deferred or recorded as a reduction of revenue. The Company also earns service revenue for co-promotion of certain products, which is included in sales to customers.

ASU 2016-01: Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities

The Company adopted this standard as of the beginning of the fiscal year 2018 on a modified retrospective basis. The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (that is, trading or available-for-sale) and require equity securities to be measured at fair value with changes in the fair value recognized through net earnings. The standard amends financial reporting by providing relevant information about an entity’s equity investments and reducing the number of items that are recognized in other comprehensive income.

The Company made a cumulative effect adjustment to the opening balance of retained earnings upon adoption of ASU 2016-01 that increased retained earnings by $232 million net of tax and decreased accumulated other comprehensive income for previously unrealized gains from equity investments. For additional details see Note 4 to the Consolidated Financial Statements.

ASU 2016-16: Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory

The Company adopted this standard as of the beginning of the fiscal year 2018. This update removes the current exception in U.S. GAAP prohibiting entities from recognizing current and deferred income tax expenses or benefits related to transfer of assets, other than inventory, within the consolidated entity. The current exception to defer the recognition of any tax impact on the transfer of inventory within the consolidated entity until it is sold to a third party remains unaffected. The Company recorded net adjustments to deferred taxes of approximately $2.0 billion, a decrease to Other Assets of approximately $0.7 billion and an increase to retained earnings of approximately $1.3 billion. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

ASU 2017-01: Clarifying the Definition of a Business

The Company adopted this standard as of the beginning of the fiscal year 2018. This update narrows the definition of a business by providing a screen to determine when an integrated set of assets and activities is not a business. The screen specifies that an integrated set of assets and activities is not a business if substantially all of the fair value of the gross assets acquired or disposed of is concentrated in a single or a group of similar identifiable assets. This update was applied prospectively. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

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ASU 2017-07: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost
The Company adopted this standard as of the beginning of the fiscal year 2018. This update requires that an employer disaggregate the service cost component from the other components of net periodic benefit cost (NPBC). In addition, only the service cost component will be eligible for capitalization. The amendments in this update are required to be applied retrospectively for the presentation of the service cost component and the other components of NPBC in the Consolidated Statement of Earnings and prospectively, on and after the adoption date, for the capitalization of the service cost component of NPBC in assets. As required by the transition provisions of this update, the Company made the following reclassifications to the 2017 fiscal second quarter and fiscal six months Consolidated Statement of Earnings to retroactively apply classification of the service cost component and the other components of NPBC:

(Dollars In millions)	Increase (Decrease) to Net Expense Fiscal Second Quarter Ended	 Fiscal Six Months Ended
Cost of products sold	$23	46
Selling, marketing and administrative expenses	27	53
Research and development expense	11	21
Other (income) expense, net	(61)	(120)
Earnings before provision for taxes on income	$—	—

The following table summarizes the cumulative effect adjustments made to the 2018 opening balance of retained earnings upon adoption of the new accounting standards mentioned above:

(Dollars in Millions)	Cumulative Effect Adjustment Increase (Decrease) to Retained Earnings
ASU 2014-09 - Revenue from Contracts with Customers	$ (47)
ASU 2016-01 - Financial Instruments	232
ASU 2016-16 - Income Taxes: Intra-Entity Transfers	1,311
Total	$ 1,496

Recently Issued Accounting Standards
Not Adopted as of July 1, 2018
ASU 2018-02: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income
This update allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Job Act enacted in December 2017. This update will be effective for the Company for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect this standard to have a material impact on the Company's consolidated financial statements.

ASU 2016-02: Leases

This update requires the recognition of lease assets and lease liabilities on the balance sheet for all lease obligations and disclosing key information about leasing arrangements. This update requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under current generally accepted accounting principles. This update will be effective for the Company for all annual periods beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company will apply the new standard at its adoption date rather than at the earliest comparative period presented in the financial statements. The Company anticipates that most of its operating leases will result in the recognition of additional assets and the corresponding liabilities on its Consolidated Balance Sheets, however it does not expect the standard to have a material impact on the financial position. The actual impact will depend on the Company's lease portfolio at the time of adoption. The Company continues to assess all implications of the standard and related financial disclosures.

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NOTE 2 — INVENTORIES

(Dollars in Millions)	July 1, 2018	December 31, 2017
Raw materials and supplies	$1,166	1,140
Goods in process	2,282	2,317
Finished goods	5,362	5,308
Total inventories[1]	$8,810	8,765

[1] Net of assets held for sale on the Consolidated Balance Sheet for approximately $0.1 billion related to the divestiture of the LifeScan business and $0.1 billion related to the divestiture of the Advanced Sterilization Products business, both of which were pending as of July 1, 2018.

NOTE 3 — INTANGIBLE ASSETS AND GOODWILL

Intangible assets that have finite useful lives are amortized over their estimated useful lives. The latest annual impairment assessment of goodwill and indefinite lived intangible assets was completed in the fiscal fourth quarter of 2017. Future impairment tests for goodwill and indefinite lived intangible assets will be performed annually in the fiscal fourth quarter, or sooner, if warranted.

(Dollars in Millions)	July 1, 2018	December 31, 2017
Intangible assets with definite lives:		
Patents and trademarks — gross	$34,823	36,427
Less accumulated amortization	8,267	7,223
Patents and trademarks — net[1]	26,556	29,204
Customer relationships and other intangibles — gross	21,059	20,204
Less accumulated amortization	7,915	7,463
Customer relationships and other intangibles — net	13,144	12,741
Intangible assets with indefinite lives:		
Trademarks	6,952	7,082
Purchased in-process research and development	3,404	4,201
Total intangible assets with indefinite lives	10,356	11,283
Total intangible assets — net	$50,056	53,228

[1] Net of approximately $0.1 billion classified as assets held for sale on the Consolidated Balance Sheet related to the divestiture of the LifeScan business, which was pending as of July 1, 2018.

Goodwill as of July 1, 2018 was allocated by segment of business as follows:

(Dollars in Millions)	Consumer	Pharm	Med Devices	Total
Goodwill, net at December 31, 2017	$ 8,875	9,109	13,922	31,906
Goodwill, related to acquisitions	—	51	53	104
Goodwill, related to divestitures	—	—	—	—
Currency translation/Other	(297)	(118)	(1,249)[1]	(1,664)
Goodwill, net at July 1, 2018	$ 8,578	9,042	12,726	30,346

[1] Net of approximately $1.2 billion classified as assets held for sale on the Consolidated Balance Sheet. Goodwill of $1.0 billion was related to the divestiture of the LifeScan business and $0.2 billion was related to the divestiture of the Advanced Sterilization Products business, both of which were pending as of July 1, 2018.

The weighted average amortization periods for patents and trademarks and customer relationships and other intangible assets are 11 years and 22 years, respectively. The amortization expense of amortizable intangible assets included in cost of products sold was $2.2 billion and $0.8 billion for the fiscal six months ended July 1, 2018 and July 2, 2017, respectively. The estimated

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amortization expense for the five succeeding years approximates $4.4 billion, before tax, per year. Intangible asset write-downs are included in Other (income) expense, net.

See Note 10 to the Consolidated Financial Statements for additional details related to acquisitions and divestitures.

NOTE 4 — FAIR VALUE MEASUREMENTS

The Company uses forward foreign exchange contracts to manage its exposure to the variability of cash flows, primarily related to the foreign exchange rate changes of future intercompany product and third-party purchases of materials denominated in a foreign currency. The Company uses cross currency interest rate swaps to manage currency risk primarily related to borrowings.
The Company also uses equity collar contracts to manage exposure to market risk associated with certain equity investments.
All three types of derivatives are designated as cash flow hedges.

The Company uses interest rate swaps as an instrument to manage interest rate risk related to fixed rate borrowings. These derivatives are designated as fair value hedges. The Company uses cross currency interest rate swaps and forward foreign exchange contracts designated as net investment hedges. Additionally, the Company uses forward foreign exchange contracts to offset its exposure to certain foreign currency assets and liabilities. These forward foreign exchange contracts are not designated as hedges, and therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the related foreign currency assets and liabilities.

The Company early adopted ASU 2017-12: Targeted Improvements to Accounting for Hedge Activities effective as of the beginning of fiscal second quarter of 2018.

The Company does not enter into derivative financial instruments for trading or speculative purposes, or that contain credit risk related contingent features. During the fiscal second quarter of 2017, the Company entered into credit support agreements (CSA) with certain derivative counterparties establishing collateral thresholds based on respective credit ratings and netting agreements. As of July 1, 2018, the total amount of collateral paid under the credit support agreements amounted to $126 million, net. For equity collar contracts, the Company pledged the underlying hedged marketable equity securities to the counter-party as collateral. On an ongoing basis, the Company monitors counter-party credit ratings. The Company considers credit non-performance risk to be low, because the Company primarily enters into agreements with commercial institutions that have at least an investment grade credit rating. Refer to the table on significant financial assets and liabilities measured at fair value contained in this footnote for receivables and payables with these commercial institutions. As of July 1, 2018, the Company had notional amounts outstanding for forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps of $37.0 billion, $5.3 billion and $1.1 billion, respectively. As of December 31, 2017, the Company had notional amounts outstanding for forward foreign exchange contracts, cross currency interest rate swaps and interest rate swaps of $34.5 billion, $2.3 billion and $1.1 billion, respectively.

All derivative instruments are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction, and if so, the type of hedge transaction.

The designation as a cash flow hedge is made at the entrance date of the derivative contract. At inception, all derivatives are expected to be highly effective. Changes in the fair value of a derivative that is designated as a cash flow hedge and is highly effective are recorded in accumulated other comprehensive income until the underlying transaction affects earnings, and are then reclassified to earnings in the same account as the hedged transaction. Gains and losses associated with interest rate swaps and changes in fair value of hedged debt attributable to changes in interest rates are recorded to interest expense in the period in which they occur. Gains and losses on net investment hedges are accounted for through the currency translation account. On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes of hedged items. If a derivative is no longer expected to be highly effective, hedge accounting is discontinued.

During the fiscal second quarter of 2016, the Company designated its Euro denominated notes issued in May 2016 with due dates ranging from 2022 to 2035 as a net investment hedge of the Company's investments in certain of its international subsidiaries that use the Euro as their functional currency in order to reduce the volatility caused by changes in exchange rates.

As of July 1, 2018, the balance of deferred net loss on derivatives included in accumulated other comprehensive income was $80 million after-tax. For additional information, see the Consolidated Statements of Comprehensive Income and Note 7. The Company expects that substantially all of the amounts related to forward foreign exchange contracts will be reclassified into earnings over the next 12 months as a result of transactions that are expected to occur over that period. The maximum length of time over which the Company is hedging transaction exposure is 18 months, excluding interest rate contracts, net investment

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hedges and equity collar contracts. The amount ultimately realized in earnings may differ as foreign exchange rates change. Realized gains and losses are ultimately determined by actual exchange rates at maturity of the derivative.

The following table is a summary of the activity related to derivatives and hedges for the fiscal second quarters in 2018 and 2017:

	July 1, 2018					July 2, 2017				
(Dollars in Millions)	Sales	Cost of Products Sold	R&D Expense	Interest (Income) Expense	Other (Income) Expense	Sales	Cost of Products Sold	R&D Expense	Interest (Income) Expense	Other (Income) Expense
The effects of fair value, net investment and cash flow hedging:										
Gain (Loss) on fair value hedging relationship:										
Interest rate swaps contracts:										
Hedged items	$—	—	—	5	—	—	—	—	5	—
Derivatives designated as hedging instruments	—	—	—	(5)	—	—	—	—	(5)	—
Gain (Loss) on net investment hedging relationship:										
Cross currency interest rate swaps contracts:										
Amount of gain or (loss) recognized in income on derivative amount excluded from effectiveness testing	—	—	—	2	—	—	—	—	—	—
Amount of gain or (loss) recognized in AOCI	—	—	—	2	—	—	—	—	—	—
Gain (Loss) on cash flow hedging relationship:										
Forward foreign exchange contracts:										
Amount of gain or (loss) reclassified from AOCI into income (1)	17	76	(14)	—	(10)	(6)	(68)	1	—	(2)
Amount of gain or (loss) recognized in AOCI (1)	(49)	(57)	21	—	3	36	218	(19)	—	(12)
Cross currency interest rate swaps contracts:										
Amount of gain or (loss) reclassified from AOCI into income	—	—	—	32	—	—		—	(65)	—
Amount of gain or (loss) recognized in AOCI	$—	—	—	19	—	—	—	—	(69)	—

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The following table is a summary of the activity related to derivatives and hedges for the fiscal six months in 2018 and 2017:

(Dollars in Millions)	July 1, 2018					July 2, 2017				
	Sales	Cost of Products Sold	R&D Expense	Interest (Income) Expense	Other (Income) Expense	Sales	Cost of Products Sold	R&D Expense	Interest (Income) Expense	Other (Income) Expense
The effects of fair value, net investment and cash flow hedging:										
Gain (Loss) on fair value hedging relationship:										
Interest rate swaps contracts:										
Hedged items	$—	—	—	10	—	—	—	—	(1)	—
Derivatives designated as hedging instruments	—	—	—	(10)	—	—	—	—	1	—
Gain (Loss) on net investment hedging relationship:										
Cross currency interest rate swaps contracts:										
Amount of gain or (loss) recognized in income on derivative amount excluded from effectiveness testing	—	—	—	2	—	—	—	—	—	—
Amount of gain or (loss) recognized in AOCI	—	—	—	2	—	—	—	—	—	—
Gain (Loss) on cash flow hedging relationship:										
Forward foreign exchange contracts:										
Amount of gain or (loss) reclassified from AOCI into income [(1)]	46	78	(252)	—	(21)	(39)	(99)	(101)	—	(37)
Amount of gain or (loss) recognized in AOCI [(1)]	(18)	(54)	(216)	—	(15)	22	121	(128)	—	(44)
Cross currency interest rate swaps contracts:										
Amount of gain or (loss) reclassified from AOCI into income	—	—	—	72	—	—	—	—	(43)	—
Amount of gain or (loss) recognized in AOCI	$—	—	—	76	—	—	—	—	(41)	—

[(1)] Includes equity collar contracts. The equity collar contracts expired in December of 2017.

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As of July 1, 2018 and December 31, 2017, the following amounts were recorded on the Consolidated Balance Sheet related to cumulative basis adjustment for fair value hedges:

Line item in the Consolidated Balance Sheet in which the hedged item is included	Carrying Amount of the Hedged Liability		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Liability	
(Dollars in Millions)	July 1, 2018	December 31, 2017	July 1, 2018	December 31, 2017
Current Portion of Long-term Debt	$597	597	3	2
Long-term Debt	492	496	7	3

The following table is the effect of derivatives not designated as hedging instrument for the fiscal second quarters and fiscal six months in 2018 and 2017:

(Dollars in Millions)	Location of Gain /(Loss) Recognized in Income on Derivative	Gain/(Loss) Recognized In Income on Derivative Fiscal Second Quarters Ended		Gain/(Loss) Recognized In Income on Derivative Fiscal Six Months Ended	
Derivatives Not Designated as Hedging Instruments		July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Foreign Exchange Contracts	Other (income) expense	$(53)	63	(72)	34

The following table is the effect of net investment hedges for the fiscal second quarters in 2018 and 2017:

	Gain/(Loss) Recognized In Accumulated OCI		Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income Into Income	Gain/(Loss) Reclassified From Accumulated OCI Into Income	
(Dollars in Millions)	Fiscal Second Quarters Ended				
	July 1, 2018	July 2, 2017		July 1, 2018	July 2, 2017
Debt	$306	(268)	Other (income) expense	—	—
Cross Currency interest rate swaps	$37	—	Other (income) expense	—	—

The following table is the effect of net investment hedges for the fiscal six months in 2018 and 2017:

	Gain/(Loss)	Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income Into Income	Gain/(Loss) Reclassified

(Dollars in Millions)	Recognized In Accumulated OCI			From Accumulated OCI Into Income	
	Fiscal Six Months Ended				
	July 1, 2018	July 2, 2017		July 1, 2018	July 2, 2017
Debt	$156	(378)	Other (income) expense	—	—
Cross Currency interest rate swaps	$37	—	Other (income) expense	—	—

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The Company adopted ASU 2016-01: Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities as of the beginning of the fiscal year 2018. This ASU amends prior guidance to classify equity investments with readily determinable market values into different categories (that is, trading or available-for-sale) and require equity investments to be measured at fair value with changes in fair value recognized through net earnings. The Company made a cumulative effect adjustment to the opening balance of retained earnings upon adoption of ASU 2016-01 which increased retained earnings by $232 million, net of tax, and decreased accumulated other comprehensive income for previously net unrealized gains from equity investments.
The Company holds equity investments with readily determinable fair values and equity investments without readily determinable fair values. The Company has elected to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer.
The following table is a summary of the activity related to equity investments as of July 1, 2018:

(Dollars in Millions)	December 31, 2017			July 1, 2018	
	Carrying Value	Changes in Fair Value Reflected in Net Income (1)	Sales/ Purchases/Other (2)	Carrying Value	Non Current Other Assets
Equity Investments with readily determinable value	$ 751	(25)	(29)	697	697
Equity Investments without readily determinable value	$ 510	13	101	624	624

(1) Recorded in Other Income/Expense
(2) Other includes impact of currency

For equity investments without readily determinable market values, $25 million of the changes in fair value reflected in net income were the result of impairments. There were $38 million of changes in fair value reflected in net income due to changes in observable prices.

For the fiscal six months ended July 2, 2017, changes in fair value reflected within other comprehensive income due to previously unrealized gains on equity investments with readily determinable fair values net of tax was a net gain of $354 million.

Fair value is the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement determined using assumptions that market participants would use in pricing an asset or liability. The authoritative literature establishes a three-level hierarchy to prioritize the inputs used in measuring fair value. The levels within the hierarchy are described below with Level 1 inputs having the highest priority and Level 3 inputs having the lowest.

The fair value of a derivative financial instrument (i.e., forward foreign exchange contracts, interest rate contracts) is the aggregation by currency of all future cash flows discounted to its present value at the prevailing market interest rates and subsequently converted to the U.S. Dollar at the current spot foreign exchange rate. The Company does not believe that fair values of these derivative instruments materially differ from the amounts that could be realized upon settlement or maturity, or that the changes in fair value will have a material effect on the Company’s results of operations, cash flows or financial position. The Company also holds equity investments which are classified as Level 1 and debt securities which are classified as Level 2. The Company did not have any other significant financial assets or liabilities which would require revised valuations under this standard that are recognized at fair value.

The following three levels of inputs are used to measure fair value:

Level 1 — Quoted prices in active markets for identical assets and liabilities.
Level 2 — Significant other observable inputs.
Level 3 — Significant unobservable inputs.

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The Company’s significant financial assets and liabilities measured at fair value as of July 1, 2018 and December 31, 2017 were as follows:

	July 1, 2018				December 31, 2017
(Dollars in Millions)	Level 1	Level 2	Level 3	Total	Total[1]
Derivatives designated as hedging instruments:					
Assets:					
Forward foreign exchange contracts	$—	547	—	547	418
Interest rate contracts [2][4]	—	46	—	46	7
Total [7]	—	593	—	593	425
Liabilities:					
Forward foreign exchange contracts	—	471	—	471	402
Interest rate contracts [3][4]	—	236	—	236	165
Total [8]	—	707	—	707	567
Derivatives not designated as hedging instruments:					
Assets:					
Forward foreign exchange contracts [7]	—	58	—	58	38
Liabilities:					
Forward foreign exchange contracts [8]	—	71	—	71	38
Other Investments:					
Equity investments [5]	697	—	—	697	751
Debt securities[6]	$—	9,031	—	9,031	5,310

Gross to Net Derivative Reconciliation	July 1, 2018	December 31, 2017
(Dollars in Millions)		
Total Gross Assets	$651	463
Credit Support Agreement (CSA)	(295)	(76)
Total Net Asset	356	387
Total Gross Liabilities	778	605
Credit Support Agreement (CSA)	(421)	(238)
Total Net Liabilities	$357	367

(1) 2017 assets and liabilities are all classified as Level 2 with the exception of equity investments of $751 million, which are classified as Level 1.

(2) Includes $0 million and $7 million of non-current other assets for July 1, 2018 and December 31, 2017, respectively.

(3) Includes $0 million and $9 million of non-current other liabilities for July 1, 2018 and December 31, 2017, respectively.

(4) Includes cross currency interest rate swaps and interest rate swaps.

(5) Classified as non-current other assets. The carrying amount of the equity investments were $697 million and $751 million as of July 1, 2018 and December 31, 2017, respectively.

(6) Classified as cash equivalents and current marketable securities.

(7) Equal sum of total gross assets.

(8) Equal sum total gross liabilities.

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The Company's cash, cash equivalents and current marketable securities as of July 1, 2018 comprised:

	July 1, 2018			
(Dollars in Millions)	Carrying Amount	Estimated Fair Value	Cash & Cash Equivalents	Current Marketable Securities
Cash	$2,473	2,473	2,473	
Other sovereign securities(1)	180	180	180	
U.S. reverse repurchase agreements	2,425	2,425	2,425	
Other reverse repurchase agreements	425	425	425	
Corporate debt securities(1)	—	—	—	—
Money market funds	2,507	2,507	2,507	
Time deposits(1)	1,098	1,098	1,098	
Subtotal	9,108	9,108	9,108	—
Government securities	8,766	8,766	8,437	329
Other sovereign securities	—	—	—	—
Corporate debt securities	265	265	24	241
Subtotal available for sale debt(2)	$9,031	9,031	8,461	570
Total cash, cash equivalents and current marketable securities			17,569	570

(1) Held to maturity investments are reported at amortized cost and gains or losses are reported in earnings.
(2) Available for sale debt securities are reported at fair value with unrealized gains and losses reported net of taxes in other comprehensive income.

In the fiscal second quarter ended July 1, 2018 and the fiscal year ended December 31, 2017 the carrying amount was the same as the estimated fair value.

Fair value of government securities and obligations and corporate debt securities was estimated using quoted broker prices and significant other observable inputs.

The Company classifies all highly liquid investments with stated maturities of three months or less from date of purchase as cash equivalents and all highly liquid investments with stated maturities of greater than three months from the date of purchase as current marketable securities. Available for sale securities with stated maturities of greater than one year from the date of purchase are available for current operations and are classified as cash equivalents and current marketable securities.

The contractual maturities of the available for sale securities at July 1, 2018 are as follows:

(Dollars in Millions)	Cost Basis	Fair Value
Due within one year	$8,956	8,956
Due after one year through five years	75	75
Due after five years through ten years	—	—
Total debt securities	$9,031	9,031

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Financial Instruments not measured at Fair Value:
The following financial liabilities are held at carrying amount on the consolidated balance sheet as of July 1, 2018:

(Dollars in Millions)	Carrying Amount	Estimated Fair Value
Financial Liabilities		
Current Debt	$2,678	2,678
Non-Current Debt		
4.75% Notes due 2019 (1B Euro 1.1556)	1,154	1,234
1.875% Notes due 2019	492	488
3% Zero Coupon Convertible Subordinated Debentures due in 2020	52	88
1.950% Notes due 2020	499	491
2.95% Debentures due 2020	547	551
3.55% Notes due 2021	448	459
2.45% Notes due 2021	349	347
1.65% Notes due 2021	998	971
0.250% Notes due 2022 (1B Euro 1.1556)	1,153	1,162
2.25% Notes due 2022	996	974
6.73% Debentures due 2023	250	292
3.375% Notes due 2023	806	815
2.05% Notes due 2023	498	478
0.650% Notes due 2024 (750MM Euro 1.1556)	863	873
5.50% Notes due 2024 (500 MM GBP 1.3052)	647	799
2.625% Notes due 2025	747	718
2.45% Notes due 2026	1,991	1,866
2.95% Notes due 2027	995	959
2.90% Notes due 2028	1,492	1,436
1.150% Notes due 2028 (750MM Euro 1.1556)	859	873
6.95% Notes due 2029	296	388
4.95% Debentures due 2033	498	567
4.375% Notes due 2033	856	919
1.650% Notes due 2035 (1.5B Euro 1.1556)	1,716	1,776
3.55% Notes due 2036	987	957
5.95% Notes due 2037	991	1,269
3.625% Notes due 2037	1,486	1,461
3.40% Notes due 2038	990	941
5.85% Debentures due 2038	696	885
4.50% Debentures due 2040	538	579
4.85% Notes due 2041	296	333
4.50% Notes due 2043	495	540
3.70% Notes due 2046	1,971	1,907
3.75% Notes due 2047	991	967
3.50% Notes due 2048	742	695
Other	20	20
Total Non-Current Debt	$29,405	30,078

The weighted average effective interest rate on non-current debt is 3.20%.

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The excess of the estimated fair value over the carrying value of debt was $2.0 billion at December 31, 2017.

Fair value of the non-current debt was estimated using market prices, which were corroborated by quoted broker prices and significant other observable inputs.

NOTE 5 — INCOME TAXES

The worldwide effective income tax rates for the fiscal six months of 2018 and 2017 were 20.4% and 20.1%, respectively. The U.S. Tax Cuts and Jobs Act (TCJA) was enacted into law effective January 1, 2018. This law reduces the U.S. statutory corporate tax rate from 35% to 21%, eliminates or reduces certain corporate income tax deductions and introduces a tax on global intangible low-taxed income (GILTI). In December 2017, the Company recorded a provisional tax cost of $13.0 billion related to the enactment of the TCJA. Under the guidance in SEC Staff Accounting Bulletin 118 (SAB 118), the provisional amount was a reasonable estimate based on the most recent information and guidance available related to the calculation of the tax liability and the impact to its deferred tax assets and liabilities, including those recorded for foreign local and withholding taxes as of the 2017 assessment date of January 18, 2018. As noted below, the Company has made adjustments through the second quarter of 2018. All amounts recorded remain provisional and may require further adjustments and changes to the Company’s estimates as new guidance is made available. The estimate is subject to the finalization of management’s analysis related to certain matters, such as developing interpretations of the provisions of the TCJA, changes to certain estimates and amounts related to the earnings and profits of certain subsidiaries and the filing of tax returns. Revisions to the provisional charge may be material to the Company's future financial results. See Note 8 to the Consolidated Financial Statements in the Annual Report on Form 10-K for the fiscal year ended December 31, 2017 for further details on the TCJA and SAB 118.

The Company completed its acquisition of AMO in the first fiscal quarter of 2017, and incurred incremental tax costs that were discretely recorded in the first quarter of 2017, which had increased the effective tax rate by 2.1% for the first six months of 2017 compared to the same period in 2018. Additionally, in 2018 the Company had more income in higher tax jurisdictions relative to lower tax jurisdictions as compared to 2017. Tax benefits received from stock-based compensation during the fiscal six months of 2018 and 2017, reduced the effective tax rate by 1.3% and 2.7%, respectively. The reduction of the U.S. statutory corporate tax rate, offset by the elimination of the corporate income tax deductions, measurement period adjustments [1] and the GILTI tax [2], decreased the Company’s worldwide effective rate as compared to the same period of the prior year. As previously disclosed, the Company has elected to provisionally treat the GILTI tax as a period expense, pending further analysis by management of this new tax provision.

[1]The following adjustments were made to the provisional tax amounts through the fiscal second quarter of 2018 due to issued Treasury guidance and revisions to the Company’s estimates since the assessment date:

- $0.2 billion increase to the transition tax on previously undistributed foreign earnings as of December 31, 2017 due to U.S. Treasury Department’s issuance of Notice 2018-13 on January 19, 2018 and Notice 2018-26 on April 2, 2018.
- $0.3 billion decrease to the deferred tax liability for foreign withholding and local taxes, partially offset by a decrease of $0.1 billion in deferred tax assets for U.S. foreign tax credits due to updated estimates from the amounts recorded in 2017.

These measurement period adjustments decreased the Company’s effective tax rate by approximately 0.5% through the first fiscal six months of 2018 as compared to the same period of the prior year.

[2] The impact of GILTI on the effective tax rate through the first fiscal six months of 2018 was an increase of 2.1%.

In 2017, the Company provisionally recorded the TCJA transition tax and foreign local and withholding taxes on substantially all of the Company's foreign earnings. The Company has currently designated a portion of its 2018 foreign earnings as indefinitely reinvested in certain foreign jurisdictions and, as such, has not accrued for the impact of foreign local and withholding taxes in its financial results related to these earnings. The estimated impact of these taxes would have been an increase of approximately 2.5% to the year-to-date effective tax rate. As of July 1, 2018, the Company has no plans or intention to repatriate these designated earnings to the United States. However, the Company is continuing to evaluate its reinvestment plans based on the enacted provisions of the TCJA and related guidance issued to-date in 2018 by the U.S. Department of Treasury, specifically related to the eligibility of these earnings to utilize foreign tax credits. As further Treasury guidance is provided, the Company may re-evaluate its reinvestment plans and strategies for all of its foreign earnings.

As of July 1, 2018, the Company had approximately $3.2 billion of liabilities from unrecognized tax benefits. The Company believes it is possible that audits may be completed by tax authorities in some jurisdictions over the next twelve months. The Company is not able to provide a reasonably reliable estimate of the timing of any future tax payments relating to uncertain tax positions. The IRS has completed its audit for the tax years through 2009 and is currently auditing the tax years 2010 through

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2012. The Company currently expects completion of this audit during 2019. Final conclusion of the tax audit may result in an outcome that is different than the Company's estimates and may result in a material impact on the Company's current and future operating results or cash flows in the period that the audit is concluded.

NOTE 6 — PENSIONS AND OTHER BENEFIT PLANS

Components of Net Periodic Benefit Cost

Net periodic benefit cost for the Company's defined benefit retirement plans and other benefit plans for the fiscal second quarters and fiscal six months of 2018 and 2017 include the following components:

	Fiscal Second Quarters Ended				Fiscal Six Months Ended			
	Retirement Plans		Other Benefit Plans		Retirement Plans		Other Benefit Plans	
(Dollars in Millions)	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Service cost	$309	255	68	62	618	506	135	123
Interest cost	249	231	38	40	501	461	75	79
Expected return on plan assets	(554)	(509)	(2)	(1)	(1,114)	(1,014)	(4)	(3)
Amortization of prior service cost/(credit)	—	1	(8)	(8)	1	1	(16)	(15)
Recognized actuarial losses	213	150	31	35	428	302	61	69
Curtailments and settlements	—	(1)	—	—	(2)	(1)	—	—
Net periodic benefit cost	$217	127	127	128	432	255	251	253

As per the adoption of ASU 2017-07, the service cost component of net periodic benefit cost was presented in the same line items on the Consolidated Statement of Earnings where other employee compensation costs are reported. All other components of net periodic benefit cost are presented as part of Other (income) expense, net on the Consolidated Statement of Earnings.

Company Contributions

For the fiscal six months ended July 1, 2018, the Company contributed $36 million and $19 million to its U.S. and international retirement plans, respectively. The Company plans to continue to fund its U.S. defined benefit plans to comply with the Pension Protection Act of 2006. International plans are funded in accordance with local regulations.

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NOTE 7 — ACCUMULATED OTHER COMPREHENSIVE INCOME

Components of other comprehensive income (loss) consist of the following:

(Dollars in Millions)	Foreign Currency Translation	Gain/(Loss) On Securities	Employee Benefit Plans	Gain/(Loss) On Derivatives & Hedges	Total Accumulated Other Comprehensive Income (Loss)
December 31, 2017	$ (7,351)	232	(6,150)	70	(13,199)
Net change	(1,567)	—	371	(150)	(1,346)
Cumulative adjustment to retained earnings		(232) [1]			(232)
July 1, 2018	$ (8,918)	—	(5,779)	(80)	(14,777)

[1] See Note 1 to the Consolidated Financial Statements for additional details on the adoption of ASU 2016-01

Amounts in accumulated other comprehensive income are presented net of the related tax impact. Foreign currency translation is not adjusted for income taxes where it relates to permanent investments in international subsidiaries. For additional details on comprehensive income see the Consolidated Statements of Comprehensive Income.

Details on reclassifications out of Accumulated Other Comprehensive Income:
Gain/(Loss) On Securities - reclassifications released to Other (income) expense, net.
Employee Benefit Plans - reclassifications are included in net periodic benefit cost. See Note 6 for additional details.
Gain/(Loss) On Derivatives & Hedges - reclassifications to earnings are recorded in the same account as the underlying transaction. See Note 4 for additional details.

NOTE 8 — EARNINGS PER SHARE

The following is a reconciliation of basic net earnings per share to diluted net earnings per share for the fiscal second quarters and fiscal six months ended July 1, 2018 and July 2, 2017:

(Shares in Millions)	Fiscal Second Quarters Ended		Fiscal Six Months Ended	
	July 1, 2018	July 2, 2017	July 1, 2018	July 2, 2017
Basic net earnings per share	$1.47	1.42	3.10	3.06
Average shares outstanding — basic	2,682.3	2,691.9	2,682.2	2,699.3
Potential shares exercisable under stock option plans	127.5	143.2	141.8	142.2
Less: shares which could be repurchased under treasury stock method	(89.3)	(94.6)	(96.3)	(93.1)
Convertible debt shares	0.8	1.0	0.8	1.0
Average shares outstanding — diluted	2,721.3	2,741.5	2,728.5	2,749.4
Diluted net earnings per share	$1.45	1.40	3.05	3.00

The diluted net earnings per share calculation for both the fiscal second quarters ended July 1, 2018 and July 2, 2017 included the dilutive effect of convertible debt that was offset by the related reduction in interest expense. The diluted net earnings per share calculation for the fiscal second quarter ended July 1, 2018 excluded 17 million shares related to stock options, as the exercise price of these options was greater than their average market value. The diluted net earnings per share calculation for the fiscal second quarter of July 2, 2017 included all shares related to stock options, as there were no options or other instruments which were anti-dilutive.

The diluted net earnings per share calculation for both the fiscal six months ended July 1, 2018 and July 2, 2017 included the dilutive effect of convertible debt that was offset by the related reduction in interest expense. The diluted net earnings per share calculation for both the fiscal six months ended July 1, 2018 and July 2, 2017 included all shares related to stock options, as there were no options or other instruments which were anti-dilutive.

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NOTE 9 — SEGMENTS OF BUSINESS AND GEOGRAPHIC AREAS

SALES BY SEGMENT OF BUSINESS

(Dollars in Millions)	Fiscal Second Quarters Ended July 1, 2018	July 2, 2017	Percent Change	Fiscal Six Months Ended July 1, 2018	July 2, 2017	Percent Change
CONSUMER						
Baby Care						
U.S.	$89	113	(21.2)%	$186	226	(17.7)%
International	367	381	(3.7)	727	723	0.6
Worldwide	456	494	(7.7)	913	949	(3.8)
Beauty						
U.S.	637	649	(1.8)	1,248	1,216	2.6
International	472	427	10.5	945	841	12.4
Worldwide	1,109	1,076	3.1	2,193	2,057	6.6
Oral Care						
U.S.	157	150	4.7	314	306	2.6
International	236	244	(3.3)	458	450	1.8
Worldwide	393	394	(0.3)	772	756	2.1
OTC						
U.S.	454	432	5.1	919	909	1.1
International	612	574	6.6	1,219	1,110	9.8
Worldwide	1,066	1,006	6.0	2,138	2,019	5.9
Women's Health						
U.S.	4	3	33.3	7	6	16.7
International	276	273	1.1	516	512	0.8
Worldwide	280	276	1.4	523	518	1.0
Wound Care/Other						
U.S.	135	140	(3.6)	238	238	0.0
International	65	92	(29.3)	125	169	(26.0)
Worldwide	200	232	(13.8)	363	407	(10.8)
TOTAL CONSUMER						
U.S.	1,476	1,487	(0.7)	2,912	2,901	0.4
International	2,028	1,991	1.9	3,990	3,805	4.9
Worldwide	3,504	3,478	0.7	6,902	6,706	2.9
PHARMACEUTICAL						
Immunology						
U.S.	2,317	2,101	10.3	4,317	4,224	2.2
International	1,021	858	19.0	2,063	1,665	23.9
Worldwide	3,338	2,959	12.8	6,380	5,889	8.3
REMICADE®						
U.S.	918	1,064	(13.7)	1,834	2,246	(18.3)
U.S. Exports	104	127	(18.1)	246	292	(15.8)
International	298	339	(12.1)	629	664	(5.3)
Worldwide	1,320	1,530	(13.7)	2,709	3,202	(15.4)

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SIMPONI / SIMPONI ARIA®						
U.S.	274	230	19.1	498	459	8.5
International	274	209	31.1	568	408	39.2
Worldwide	548	439	24.8	1,066	867	23.0
STELARA®						
U.S.	919	680	35.1	1,571	1,227	28.0
International	422	303	39.3	831	579	43.5
Worldwide	1,341	983	36.4	2,402	1,806	33.0
OTHER IMMUNOLOGY						
U.S.	102	—	*	168	—	*
International	27	7	*	35	14	*
Worldwide	129	7	*	203	14	*
Infectious Diseases						
U.S.	328	341	(3.8)	661	667	(0.9)
International	521	451	15.5	1,018	874	16.5
Worldwide	849	792	7.2	1,679	1,541	9.0
EDURANT® / rilpivirine						
U.S.	15	17	(11.8)	29	29	0.0
International	196	162	21.0	392	299	31.1
Worldwide	211	179	17.9	421	328	28.4
PREZISTA® / PREZCOBIX® / REZOLSTA® / SYMTUZA®						
U.S.	277	278	(0.4)	550	537	2.4
International	215	176	22.2	420	347	21.0
Worldwide	492	454	8.4	970	884	9.7
OTHER INFECTIOUS DISEASES						
U.S.	36	46	(21.7)	82	101	(18.8)
International	110	113	(2.7)	206	228	(9.6)
Worldwide	146	159	(8.2)	288	329	(12.5)
Neuroscience						
U.S.	639	620	3.1	1,263	1,284	(1.6)
International	889	847	5.0	1,824	1,680	8.6
Worldwide	1,528	1,467	4.2	3,087	2,964	4.1
CONCERTA® / Methylphenidate						
U.S.	68	76	(10.5)	134	184	(27.2)
International	115	105	9.5	222	206	7.8
Worldwide	183	181	1.1	356	390	(8.7)
INVEGA SUSTENNA® / XEPLION® / TRINZA® / TREVICTA®						
U.S.	438	387	13.2	838	759	10.4
International	282	242	16.5	578	474	21.9
Worldwide	720	629	14.5	1,416	1,233	14.8
RISPERDAL CONSTA®						
U.S.	80	91	(12.1)	162	186	(12.9)
International	108	116	(6.9)	222	228	(2.6)
Worldwide	188	207	(9.2)	384	414	(7.2)

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OTHER NEUROSCIENCE						
U.S.	53	66	(19.7)	129	155	(16.8)
International	384	384	0.0	802	772	3.9
Worldwide	437	450	(2.9)	931	927	0.4
Oncology						
U.S.	1,085	697	55.7	2,018	1,361	48.3
International	1,371	1,030	33.1	2,749	1,960	40.3
Worldwide	2,456	1,727	42.2	4,767	3,321	43.5
DARZALEX®						
U.S.	298	212	40.6	562	413	36.1
International	213	87	*	381	141	*
Worldwide	511	299	70.9	943	554	70.2
IMBRUVICA®						
U.S.	250	202	23.8	477	392	21.7
International	370	248	49.2	730	467	56.3
Worldwide	620	450	37.8	1,207	859	40.5
VELCADE®						
U.S.	—	—	—	—	—	—
International	280	290	(3.4)	593	570	4.0
Worldwide	280	290	(3.4)	593	570	4.0
ZYTIGA®						
U.S.	486	241	*	893	474	88.4
International	423	317	33.4	861	607	41.8
Worldwide	909	558	62.9	1,754	1,081	62.3
OTHER ONCOLOGY						
U.S.	51	42	21.4	86	82	4.9
International	85	88	(3.4)	184	175	5.1
Worldwide	136	130	4.6	270	257	5.1
Pulmonary Hypertension						
U.S.	429	37	*	790	37	*
International	236	48	*	460	48	*
Worldwide	665	85	*	1,250	85	*
OPSUMIT®						
U.S.	180	24	*	329	24	*
International	131	21	*	253	21	*
Worldwide	311	45	*	582	45	*
TRACLEER®						
U.S.	71	2	*	139	2	*
International	72	24	*	144	24	*
Worldwide	143	26	*	283	26	*
UPTRAVI®						
U.S.	155	8	*	279	8	*
International	16	1	*	32	1	*
Worldwide	171	9	*	311	9	*

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OTHER						
U.S.	23	3	*	43	3	*
International	17	2	*	31	2	*
Worldwide	40	5	*	74	5	*
Cardiovascular / Metabolism / Other						
U.S.	1,101	1,214	(9.3)	2,204	2,309	(4.5)
International	417	391	6.6	831	771	7.8
Worldwide	1,518	1,605	(5.4)	3,035	3,080	(1.5)
XARELTO®						
U.S.	679	642	5.8	1,257	1,155	8.8
International	—	—	—	—	—	—
Worldwide	679	642	5.8	1,257	1,155	8.8
INVOKANA® / INVOKAMET®						
U.S.	169	256	(34.0)	373	503	(25.8)
International	46	39	17.9	90	76	18.4
Worldwide	215	295	(27.1)	463	579	(20.0)
PROCRIT® / EPREX®						
U.S.	156	174	(10.3)	345	343	0.6
International	80	81	(1.2)	167	159	5.0
Worldwide	236	255	(7.5)	512	502	2.0
OTHER						
U.S.	97	142	(31.7)	229	308	(25.6)
International	291	271	7.4	574	536	7.1
Worldwide	388	413	(6.1)	803	844	(4.9)
TOTAL PHARMACEUTICAL						
U.S.	5,899	5,010	17.7	11,253	9,882	13.9
International	4,455	3,625	22.9	8,945	6,998	27.8
Worldwide	10,354	8,635	19.9	20,198	16,880	19.7
MEDICAL DEVICES						
Diabetes Care						
U.S.	129	160	(19.4)	246	314	(21.7)
International	226	261	(13.4)	448	506	(11.5)
Worldwide	355	421	(15.7)	694	820	(15.4)
Diagnostics						
U.S.	—	—	—	—	—	—
International	—	—	—	—	1	*
Worldwide	—	—	—	—	1	*
Interventional Solutions						
U.S.	323	285	13.3	627	564	11.2
International	344	288	19.4	680	558	21.9
Worldwide	667	573	16.4	1,307	1,122	16.5
Orthopaedics						
U.S.	1,332	1,367	(2.6)	2,639	2,726	(3.2)
International	930	926	0.4	1,873	1,842	1.7
Worldwide	2,262	2,293	(1.4)	4,512	4,568	(1.2)

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HIPS						
U.S.	211	208	1.4	420	417	0.7
International	149	142	4.9	303	285	6.3
Worldwide	360	350	2.9	723	702	3.0
KNEES						
U.S.	229	236	(3.0)	457	482	(5.2)
International	153	149	2.7	312	301	3.7
Worldwide	382	385	(0.8)	769	783	(1.8)
TRAUMA						
U.S.	394	390	1.0	801	781	2.6
International	281	253	11.1	570	504	13.1
Worldwide	675	643	5.0	1,371	1,285	6.7
SPINE & OTHER						
U.S.	498	533	(6.6)	961	1,046	(8.1)
International	347	382	(9.2)	688	752	(8.5)
Worldwide	845	915	(7.7)	1,649	1,798	(8.3)
Surgery						
U.S.	1,022	1,012	1.0	2,015	2,007	0.4
International	1,493	1,372	8.8	2,923	2,648	10.4
Worldwide	2,515	2,384	5.5	4,938	4,655	6.1
ADVANCED						
U.S.	402	400	0.5	795	792	0.4
International	603	533	13.1	1,176	1,018	15.5
Worldwide	1,005	933	7.7	1,971	1,810	8.9
GENERAL						
U.S.	436	423	3.1	859	846	1.5
International	733	691	6.1	1,437	1,342	7.1
Worldwide	1,169	1,114	4.9	2,296	2,188	4.9
SPECIALTY						
U.S.	184	189	(2.6)	361	369	(2.2)
International	157	148	6.1	310	288	7.6
Worldwide	341	337	1.2	671	657	2.1
Vision						
U.S.	459	405	13.3	899	710	26.6
International	714	650	9.8	1,389	1,143	21.5
Worldwide	1,173	1,055	11.2	2,288	1,853	23.5
CONTACT LENSES / OTHER						
U.S.	320	274	16.8	629	530	18.7
International	524	479	9.4	1,022	906	12.8
Worldwide	844	753	12.1	1,651	1,436	15.0
SURGICAL						
U.S.	139	131	6.1	270	180	50.0
International	190	171	11.1	367	237	54.9
Worldwide	329	302	8.9	637	417	52.8

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TOTAL MEDICAL DEVICES						
U.S.	3,265	3,229	1.1	6,426	6,321	1.7
International	3,707	3,497	6.0	7,313	6,698	9.2
Worldwide	6,972	6,726	3.7	13,739	13,019	5.5
WORLDWIDE						
U.S.	10,640	9,726	9.4	20,591	19,104	7.8
International	10,190	9,113	11.8	20,248	17,501	15.7
Worldwide	$20,830	18,839	10.6 %	$40,839	36,605	11.6 %

*Percentage greater than 100% or not meaningful

EARNINGS BEFORE PROVISION FOR TAXES BY SEGMENT

(Dollars in Millions)	Fiscal Second Quarters Ended			Fiscal Six Months Ended		
	July 1, 2018	July 2, 2017	Percent Change	July 1, 2018	July 2, 2017	Percent Change
Consumer (1)	$829	658	26.0 %	$1,377	1,254	9.8 %
Pharmaceutical(2)	3,651	3,414	6.9	7,317	7,077	3.4
Medical Devices(3)	796	992	(19.8)	2,375	2,555	(7.0)
Segment earnings before provision for taxes	5,276	5,064	4.2	11,069	10,886	1.7
Less: Expense not allocated to segments (4)	303	316		615	563	
Worldwide income before tax	$4,973	4,748	4.7 %	$10,454	10,323	1.3 %

(1) Includes a gain of $0.3 billion from the divestiture of NIZORAL® in the fiscal second quarter and six months of 2018. Includes amortization expense of $0.1 billion in the fiscal second quarters and fiscal six months of 2018 and 2017.

(2) Includes acquisition costs related to the Actelion acquisition of $0.1 billion and $0.2 billion in the fiscal second quarters of 2018 and 2017, respectively. Includes acquisition costs related to the Actelion acquisition of $0.2 billion in the fiscal six months of 2018 and 2017. Includes a gain of $0.2 billion related to monetization of future royalty receivables in the fiscal second quarter and fiscal six months of 2017. Includes a gain of $0.2 billion in the fiscal six months of 2017 related to the sale of certain investments in equity securities held by Johnson & Johnson Innovation - JJDC, Inc. Includes amortization expense of $0.8 billion and $0.2 billion in the fiscal second quarters of 2018 and 2017, respectively. Includes a gain of $0.1 billion from the divestiture of PANCREASE® in the fiscal second quarter and six months of 2018. Includes amortization expense of $1.5 billion and $0.2 billion in the fiscal six months of 2018 and 2017, respectively.

(3) Includes a restructuring related charge of $0.1 billion and $0.1 billion in the fiscal second quarters of 2018 and 2017, respectively. Includes a restructuring related charge of $0.2 billion and $0.3 billion in the fiscal six months of 2018 and 2017, respectively. Includes litigation expense of $0.7 billion and $0.4 billion in the fiscal second quarters and fiscal six months of 2018 and 2017, respectively. Includes an asset impairment of $0.2 billion primarily related to the insulin pump business in the fiscal second quarter and fiscal six months of 2017. Includes amortization expense of $0.3 billion and $0.3 billion in the fiscal second quarters of 2018 and 2017, respectively. Includes amortization expense of $0.5 billion and $0.5 billion in the fiscal six months of 2018 and 2017, respectively.

(4) Amounts not allocated to segments include interest income/expense and general corporate income/expense.

SALES BY GEOGRAPHIC AREA

(Dollars in Millions)	Fiscal Second Quarters Ended			Fiscal Six Months Ended		
	July 1, 2018	July 2, 2017	Percent Change	July 1, 2018	July 2, 2017	Percent Change
United States	$10,640	9,726	9.4 %	$20,591	19,104	7.8 %

Europe	4,810	4,232	13.7		9,607	8,090	18.8	
Western Hemisphere, excluding U.S.	1,540	1,499	2.7		3,107	2,953	5.2	
Asia-Pacific, Africa	3,840	3,382	13.5		7,534	6,458	16.7	
Total	$20,830	18,839	10.6	%	$40,839	36,605	11.6	%

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NOTE 10— BUSINESS COMBINATIONS AND DIVESTITURES

Subsequent to the quarter, on July 30, 2018, the Company announced that it has entered into a definitive agreement to acquire Zarbee’s, Inc., a privately held company that is a leader in naturally-based healthcare products. The acquisition will include the full line of Zarbee’s Naturals™ products for children and adults.

During the fiscal second quarter of 2018, the Company announced acceptance of the binding offer from Platinum Equity, previously announced in the fiscal first quarter of 2018, to acquire its LifeScan business for approximately $2.1 billion, subject to customary adjustments. The transaction is expected to close by the end of 2018. As of July 1, 2018, the assets held for sale on the Consolidated Balance Sheet were $0.1 billion of inventory, $0.1 billion of property, plant and equipment, $0.1 billion of intangible assets, net and $1.0 billion of goodwill. The Company will retain certain net liabilities of approximately $0.4 billion associated with the LifeScan business.

Additionally, in the fiscal second quarter of 2018, the Company announced receipt of a binding offer from Fortive Corporation to acquire its Advanced Sterilization Products (ASP) business for approximately $2.7 billion, subject to customary adjustments. The transaction is expected to close in early 2019. As of July 1, 2018, the assets held for sale on the Consolidated Balance Sheet were $0.1 billion of inventory, $0.1 billion of property, plant and equipment and $0.2 billion of goodwill. The Company will retain certain net receivables of approximately $0.1 billion associated with the ASP business.

During the fiscal second quarter of 2018, the Company completed the acquisition BeneVir Biopharm, Inc. (BeneVir), a privately-held, biopharmaceutical company specializing in the development of oncolytic immunotherapies.

Additionally, during the fiscal second quarter of 2018, the Company completed the divestitures of NIZORAL®, PANCREASE® and VALCHLOR® products.

During the fiscal first quarter of 2018, the Company announced the acquisition of Orthotaxy, a privately-held developer of software-enabled surgery technologies, including a differentiated robotic-assisted surgery solution.

On June 16, 2017, the Company completed the acquisition of Actelion Ltd through an all cash tender offer in Switzerland for $280 per share, amounting to $29.6 billion, net of cash acquired. As part of the transaction, immediately prior to the completion of the acquisition, Actelion spun out its drug discovery operations and early-stage clinical development assets into a newly created Swiss biopharmaceutical company, Idorsia Ltd. The shares of Idorsia are listed on the SIX Swiss Exchange (SIX). The Company currently holds 9.9% of the shares of Idorsia and has rights to an additional 22.1% of Idorsia equity through a convertible loan with a principal amount of approximately $0.5 billion. The convertible loan may be converted into Idorsia shares as follows: (i) up to an aggregate shareholding of 16% of Idorsia shares as a result of certain shareholders holding more than 20% of the issued Idorsia shares, and (ii) up to the balance of the remaining amount within 20 business days of the maturity date of the convertible loan, which has a ten-year term, or if Idorsia undergoes a change of control transaction. The investment in Idorsia was recorded as a cost method investment in Other assets in the Company's consolidated Balance Sheet. The Company also exercised the option acquired on ACT-132577, a product within Idorsia being developed for resistant hypertension currently in phase 2 of clinical development. The Company has also entered into an agreement to provide Idorsia with a Swiss franc denominated credit facility of approximately $250 million. As of July 1, 2018, Idorsia has not made any draw-downs under the credit facility. Actelion has entered into a transitional services agreement with Idorsia. Actelion has established a leading franchise of differentiated, innovative products for pulmonary arterial hypertension (PAH) that are highly complementary to the existing portfolio of the Company. The addition of Actelion’s specialty in-market medicines and late-stage products is consistent with the Company's efforts to grow in attractive and complementary therapeutic areas and serve patients with serious illnesses and significant unmet medical need.

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The Company has finalized the purchase price allocation to the individual assets acquired and liabilities assumed using the acquisition method. The following table presents the amounts recognized for assets acquired and liabilities assumed as of the acquisition date with adjustments made through July 1, 2018:

(Dollars in Millions)	July 1, 2018
Cash & Cash equivalents	469
Inventory[(1)]	759
Accounts Receivable	485
Other current assets	93
Property, plant and equipment	104
Goodwill	6,161
Intangible assets	25,010
Deferred Taxes	99
Other non-current assets	19
Total Assets Acquired	33,199
Current liabilities	956
Deferred Taxes	1,776
Other non-current liabilities	413
Total Liabilities Assumed	