

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

The consolidated balance sheet of Merck & Co., Inc. and subsidiaries as of December 31, 2016 and 2015, 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, 2016, the notes to consolidated financial statements, and the report dated February 28, 2017 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)

	2016	2015	2014
Sales	\$ 39,807	\$ 39,498	\$ 42,237
Costs, Expenses and Other			
Materials and production	13,891	14,934	16,768
Marketing and administrative	9,762	10,313	11,606
Research and development	10,124	6,704	7,180
Restructuring costs	651	619	1,013
Other (income) expense, net	720	1,527	(11,613)
	35,148	34,097	24,954
Income Before Taxes	4,659	5,401	17,283
Taxes on Income	718	942	5,349
Net Income	3,941	4,459	11,934
Less: Net Income Attributable to Noncontrolling Interests	21	17	14
Net Income Attributable to Merck & Co., Inc.	\$ 3,920	\$ 4,442	\$ 11,920
Basic Earnings per Common Share Attributable to Merck & Co., Inc. Common Shareholders	\$ 1.42	\$ 1.58	\$ 4.12
Earnings per Common Share Assuming Dilution Attributable to Merck & Co., Inc. Common Shareholders	\$ 1.41	\$ 1.56	\$ 4.07

Consolidated Statement of Comprehensive Income

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions)

	2016	2015	2014
Net Income Attributable to Merck & Co., Inc.	\$ 3,920	\$ 4,442	\$ 11,920
Other Comprehensive Income (Loss) Net of Taxes:			
Net unrealized (loss) gain on derivatives, net of reclassifications	(66)	(126)	398
Net unrealized (loss) gain on investments, net of reclassifications	(44)	(70)	57
Benefit plan net (loss) gain and prior service (cost) credit, net of amortization	(799)	579	(2,077)
Cumulative translation adjustment	(169)	(208)	(504)
	(1,078)	175	(2,126)
Comprehensive Income Attributable to Merck & Co., Inc.	\$ 2,842	\$ 4,617	\$ 9,794

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

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Consolidated Balance Sheet

Merck & Co., Inc. and Subsidiaries

December 31

(\$ in millions except per share amounts)

	2016	2015
Assets		
Current Assets		
Cash and cash equivalents	\$ 6,515	\$ 8,524
Short-term investments	7,826	4,903
Accounts receivable (net of allowance for doubtful accounts of \$195 in 2016 and \$165 in 2015) (excludes accounts receivable of \$10 in 2015 classified in Other assets)	7,018	6,484
Inventories (excludes inventories of \$1,117 in 2016 and \$1,569 in 2015 classified in Other assets - see Note 6)	4,866	4,700
Other current assets	4,389	5,140
Total current assets	30,614	29,751
Investments	11,416	13,039
Property, Plant and Equipment (at cost)		
Land	412	490
Buildings	11,439	12,154
Machinery, equipment and office furnishings	14,053	14,261
Construction in progress	1,871	1,525
	27,775	28,430
Less: accumulated depreciation	15,749	15,923
	12,026	12,507
Goodwill	18,162	17,723
Other Intangibles, Net	17,305	22,602
Other Assets	5,854	6,055
	\$ 95,377	\$ 101,677
Liabilities and Equity		
Current Liabilities		
Loans payable and current portion of long-term debt	\$ 568	\$ 2,583
Trade accounts payable	2,807	2,533
Accrued and other current liabilities	10,274	11,216
Income taxes payable	2,239	1,560
Dividends payable	1,316	1,309
Total current liabilities	17,204	19,201
Long-Term Debt	24,274	23,829
Deferred Income Taxes	5,077	6,535
Other Noncurrent Liabilities	8,514	7,345
Merck & Co., Inc. Stockholders' Equity		
Common stock, \$0.50 par value		
Authorized - 6,500,000,000 shares		
Issued - 3,577,103,522 shares in 2016 and 2015	1,788	1,788
Other paid-in capital	39,939	40,222
Retained earnings	44,133	45,348
Accumulated other comprehensive loss	(5,226)	(4,148)
	80,634	83,210
Less treasury stock, at cost:		
828,372,200 shares in 2016 and 795,975,449 shares in 2015	40,546	38,534
Total Merck & Co., Inc. stockholders' equity	40,088	44,676
Noncontrolling Interests	220	91
Total equity	40,308	44,767
	\$ 95,377	\$ 101,677

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Consolidated Statement of Cash Flows

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions)

	2016	2015	2014
Cash Flows from Operating Activities			
Net income	\$ 3,941	\$ 4,459	\$ 11,934
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	5,441	6,375	6,691
Intangible asset impairment charges	3,948	162	1,222
Charge related to the settlement of worldwide <i>Keytruda</i> patent litigation	625	—	—
Foreign currency devaluation related to Venezuela	—	876	—
Net charge related to the settlement of <i>Vioxx</i> shareholder class action litigation	—	680	—
Gain on divestiture of Merck Consumer Care business	—	—	(11,209)
Gain on AstraZeneca option exercise	—	—	(741)
Loss on extinguishment of debt	—	—	628
Equity income from affiliates	(86)	(205)	(257)
Dividends and distributions from equity method affiliates	16	50	185
Deferred income taxes	(1,521)	(764)	(2,600)
Share-based compensation	300	299	278
Other	313	874	34
Net changes in assets and liabilities:			
Accounts receivable	(619)	(480)	(554)
Inventories	206	805	79
Trade accounts payable	278	(37)	593
Accrued and other current liabilities	(2,018)	(8)	1,635
Income taxes payable	124	(266)	(21)
Noncurrent liabilities	(809)	(277)	190
Other	237	(5)	(98)
Net Cash Provided by Operating Activities	10,376	12,538	7,989
Cash Flows from Investing Activities			
Capital expenditures	(1,614)	(1,283)	(1,317)
Purchases of securities and other investments	(15,651)	(16,681)	(24,944)
Proceeds from sales of securities and other investments	14,353	20,413	15,114
Divestiture of Merck Consumer Care business, net of cash divested	—	—	13,951
Dispositions of other businesses, net of cash divested	—	316	1,169
Proceeds from AstraZeneca option exercise	—	—	419
Acquisition of Cubist Pharmaceuticals, Inc., net of cash acquired	—	(7,598)	—
Acquisition of Idenix Pharmaceuticals, Inc., net of cash acquired	—	—	(3,700)
Acquisitions of other businesses, net of cash acquired	(780)	(146)	(181)
Acquisition of Bayer AG collaboration rights	—	—	(1,000)
Cash inflows from net investment hedges	29	139	195
Other	453	82	(80)
Net Cash Used in Investing Activities	(3,210)	(4,758)	(374)
Cash Flows from Financing Activities			
Net change in short-term borrowings	—	(1,540)	(460)
Payments on debt	(2,386)	(2,906)	(6,617)
Proceeds from issuance of debt	1,079	7,938	3,146
Purchases of treasury stock	(3,434)	(4,186)	(7,703)
Dividends paid to stockholders	(5,124)	(5,117)	(5,170)
Other dividends paid	—	—	(77)
Proceeds from exercise of stock options	939	485	1,560
Other	(118)	(61)	79
Net Cash Used in Financing Activities	(9,044)	(5,387)	(15,242)