Schering-Plough Corporation

2000 ANNUAL REPORT

Schering-Plough Corporation

PROFILE

Schering-Plough is a worldwide pharmaceutical company committed to discovering, developing and marketing new therapies and treatment programs that can improve people's health and extend lives. The Company is a recognized leader in biotechnology, genomics and gene therapy. Core product groups are allergy and respiratory, anti-infective and anticancer, cardiovasculars and dermatologicals. Schering-Plough also has a global animal health business as well as leading consumer brands of foot care, over-the-counter and sun care products. Innovative research, effective marketing and solid financial management have enabled the Company to grow and deliver attractive financial results.

2000 HIGHLIGHTS

15TH CONSECUTIVE YEAR OF DOUBLE-DIGIT GROWTH IN EARNINGS PER SHARE.

17TH DIVIDEND INCREASE SINCE 1986.

10 SHARE REPURCHASE PROGRAMS COMPLETED SINCE 1983; CURRENT $1.5 BILLION PROGRAM ONGOING.

PARTNERSHIPS FORMED WITH MERCK & CO., INC. TO DEVELOP AND MARKET IN THE UNITED STATES NEW MEDICINES IN CHOLESTEROL-MANAGEMENT AND RESPIRATORY THERAPY AREAS.

EIGHT MARKETING APPROVALS RECEIVED FOR MAJOR PRODUCTS OR INDICATIONS.

14 MARKETING APPLICATIONS FILED FOR MAJOR PRODUCTS OR INDICATIONS.

COVER

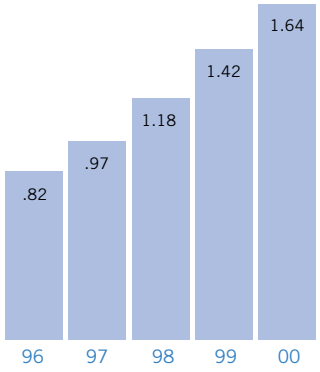
Identifying natural and synthetic compounds that interact with drug targets and then determining their molecular structure can be key to discovering potential therapeutic agents. Photo depicts a sample compound being inserted for analysis using nuclear magnetic resonance (NMR) technology.

As used in this Annual Report, the terms "Schering-Plough" and the "Company" refer collectively to Schering-Plough Corporation, a holding company, and its domestic and international operating subsidiaries, which are engaged in the discovery, development, manufacturing and marketing of pharmaceutical products worldwide.

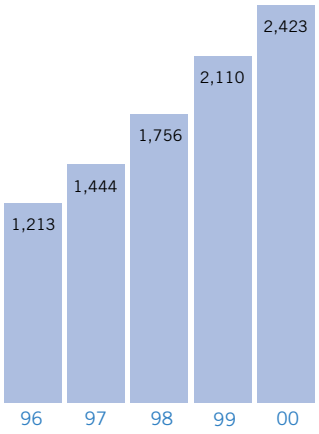
financial highlights

(Dollars in millions, except per share figures)	2000	1999	Percent Change
Operating Results			
Net sales	$ 9,815	$ 9,116	8%
Income before income taxes	3,188	2,795	14%
Net income	2,423	2,110	15%
Diluted earnings per common share	1.64	1.42	15%
Investments			
Research and development	$ 1,333	$ 1,191	12%
Capital expenditures	763	543	40%
Financial Condition			
Return on average shareholders' equity	42.9%	46.0%	
Total assets	$ 10,805	$ 9,375	
Shareholders' equity	6,119	5,165	
Other Data			
Cash dividends per common share	$ .545	$ .485	
Number of employees	28,100	26,500	
Average shares outstanding for diluted EPS (in millions)	1,476	1,486	

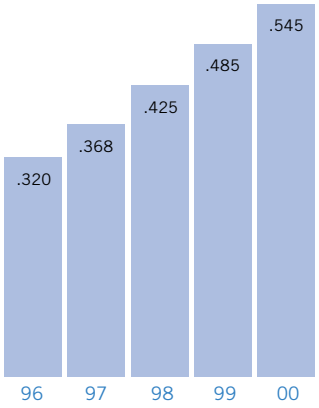
DILUTED EARNINGS PER COMMON SHARE
dollars



NET INCOME
dollars in millions



DIVIDENDS PER COMMON SHARE
dollars



contents

letter to shareholders

For the 15th consecutive year, Schering-Plough in 2000 recorded double-digit growth in diluted earnings per share, which rose 15 percent to $1.64 from $1.42 in the prior year. Net income totaled $2.4 billion versus $2.1 billion in 1999. Worldwide sales for the year were up 8 percent to $9.8 billion. Excluding foreign exchange, sales rose 10 percent. Growth was paced by worldwide pharmaceuticals, which contributed 85 percent of total Company sales.

Schering-Plough recorded other notable achievements during the year. We gained marketing approvals for eight major products or indications in the United States or internationally. We filed 14 regulatory applications for major products or indications. We strengthened our research and development programs by entering into eight research collaborations and recommending that five new compounds advance into development.

ADVANCES IN RESEARCH Schering-Plough's record of success proceeds from a tradition of growth through research, as evidenced by steadily increasing expenditures for research and development. In 2000, R&D spending rose 12 percent to $1.3 billion.

Targeting specific therapeutic areas, Schering-Plough has built a strong in-house organization to generate promising drug candidates and critically assess external opportunities. We actively seek to expand our pipeline through licensing agreements for new compounds and advanced research technologies.

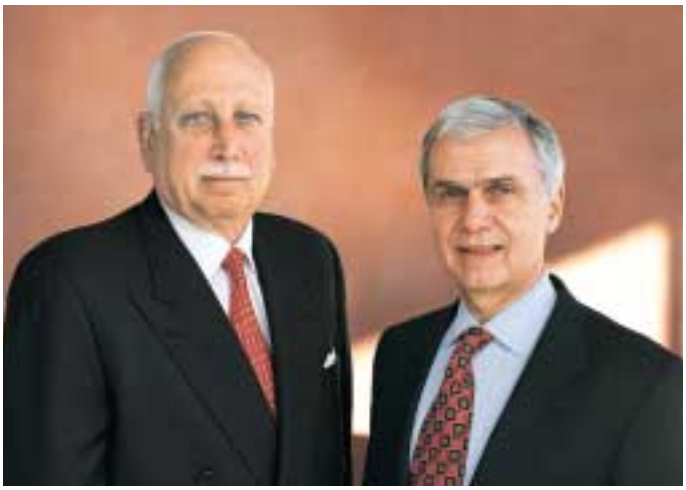
An important collaboration was announced in May, when we entered into two partnerships with Merck & Co., Inc. One partnership is seeking to develop for the U.S. market a once-daily fixed-combination tablet of ezetimibe, the Company's novel cholesterol absorption inhibitor, and Merck's cholesterol-management medicine *Zocor*, as well as use of ezetimibe as monotherapy and co-administered with other statins. The other partnership is pursuing development in the United States of a once-daily fixed-combination tablet containing our nonsedating antihistamine CLARITIN and Merck's leukotriene receptor antagonist *Singulair* for treating allergic rhinitis and asthma.

MARKETING ACHIEVEMENTS Worldwide pharmaceutical sales in 2000 grew 8 percent to $8.3 billion. Leading pharmaceutical sales for the year was our CLARITIN line of nonsedating antihistamines, the largest selling in the world. Worldwide sales of CLARITIN increased 13 percent to $3.0 billion.

Building on the strength of the CLARITIN franchise in world allergy markets is expected to be CLARINEX (desloratadine), a new once-daily nonsedating antihistamine. In January 2001, the product gained European Union (EU) approval for the treatment of seasonal allergies, and it also received a U.S. approvable letter. Schering-Plough is working to expand its global allergy/respiratory franchise with NASONEX, a nasal-inhaled steroid for allergies, and ASMANEX, an orally inhaled steroid for asthma. In 2000, NASONEX continued to gain market share in the United States and major international markets. ASMANEX has been approved for use in eight international countries, including Canada.

Our alpha interferon franchise for treating various cancers and viral diseases was a major contributor in 2000, with worldwide sales increasing 21 percent to $1.4 billion. The product line consists of INTRON A; REBETRON Combination Therapy, containing REBETOL Capsules and INTRON A Injection; and PEG-INTRON, a longer-acting form of INTRON A. REBETRON Combination Therapy is the current standard of care for treating hepatitis C, a serious disease affecting some 10 million people in major world markets. PEG-INTRON was approved in May in the EU and in January 2001 in the United States to treat hepatitis C. In December, the EU's regulatory agency recommended approval of the combination use of PEG-INTRON and REBETOL for hepatitis C. This combination is expected to become the new standard of care. A U.S. application for the combination use was submitted in February 2001.

Schering-Plough is increasing its presence in the areas of cancer and inflammatory diseases. Sales of TEMODAR, a brain cancer treatment, topped $100 million for the first time in 2000. In June, REMICADE, an anti-inflammatory agent, received EU marketing authorization for combination use in treating rheumatoid arthritis, with an expanded indication approved in February 2001. The product is licensed for



RICHARD JAY KOGAN (LEFT) AND RAUL E. CESAN

marketing in most non-U.S. countries from Centocor, Inc., a unit of Johnson & Johnson.

In cardiovasculars, INTEGRILIN Injection, a platelet aggregation inhibitor, has become the most widely used GP IIb/IIIa inhibitor in the United States. Through a licensing agreement with COR Therapeutics, Inc., Schering-Plough co-markets INTEGRILIN in the United States and markets the product in Europe.

Contributing to Schering-Plough's success in 2000 were our animal health and consumer products business units. Animal health sales totaled $720 million. Our DR. SCHOLL'S line of foot care products and the COPPERTONE and BAIN DE SOLEIL sun care lines together hold well-established No. 1 positions in their North American markets. The Company's over-the-counter products include some of the best-known U.S. brands.

CORPORATE DEVELOPMENTS Schering-Plough's capital investments totaled $763 million in 2000. A $450 million expansion of our Singapore manufacturing facilities was initiated in December 2000. In July, Schering-Plough announced an agreement to purchase Novartis Pharmaceuticals Corporation's research and office facility in Summit, N.J. This past fall we opened a new world headquarters at our Kenilworth, N.J. campus.

The Board of Directors in April 2000 authorized Schering-Plough's 17th increase in the quarterly dividend since 1986, raising the quarterly payment by 12 percent to 14 cents per share. A $1.5 billion share repurchase program begun in April 2000 was 33 percent complete by year-end 2000. Since 1983, the Company has bought back the equivalent of 789 million shares at a cost of approximately $5.9 billion.

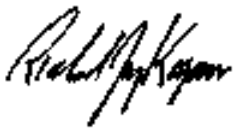
Schering-Plough in February 2001 reported on U.S. manufacturing process and control issues, critical findings from facility inspections by the U.S. Food and Drug Administration (FDA) and the negative impact these issues are expected to have on our 2001 financial results. For details see page 19. We are taking full responsibility for resolving these matters in a timely manner and securing the confidence of the FDA regarding the quality and reliability of our manufacturing systems and controls.

We continue to strive to conduct all aspects of our business according to the highest ethical standards and in compliance with all applicable laws and regulations. We believe that our products deliver quality and value to patients and the medical community, and that we have priced them responsibly. The Company recognizes its obligations to be a good corporate citizen and seeks to fulfill those responsibilities. Philanthropic contributions in 2000 totaled $6.0 million, including those from the Schering-Plough Foundation and direct or in-kind corporate gifts.

We are pleased to welcome David H. Komansky, chairman and chief executive officer of Merrill Lynch & Co., Inc., who was elected to the Board of Directors effective November 1, 2000.

At year-end, Hugh A. D'Andrade, vice chairman and chief administrative officer, retired from his corporate and Board positions. Mr. D'Andrade has been an integral part of Schering-Plough's progress for nearly 20 years and a valued member of our leadership team. We are grateful to him for his many contributions.

Schering-Plough demonstrated in 2000 that we have the expertise, resources and drive to compete and succeed in the global pharmaceutical marketplace. We are confident our strengths will enable us to build on that record in the years ahead.



RICHARD JAY KOGAN
Chairman and Chief Executive Officer

RAUL E. CESAN
President and Chief Operating Officer

February 16, 2001

worldwide pharmaceuticals and research

Schering-Plough's success in the worldwide pharmaceutical marketplace stems from its commitment to innovative research and effective execution of global marketing programs.

Consolidated worldwide sales rose 8 percent in 2000, led by Schering-Plough's global pharmaceuticals business. U.S. sales rose 9 percent and international sales grew 6 percent, with pharmaceutical products generating 85 percent of total sales. Also contributing were the Company's global animal health business and its consumer lines of foot care, over-the-counter and sun care products.

The United States, as the world's largest pharmaceutical market, historically has produced the majority of Schering-Plough's sales. While the Company expects this country to remain its largest market, it also foresees major growth opportunities in international markets, notably in Europe. In that region, Schering-Plough has new products, both on the market and undergoing regulatory review, in therapeutic areas where the Company has not previously competed.

Helping fuel this growth has been the steady expansion of the Company's sales force, both internationally and in the United States. The sales force has grown to approximately 12,400 worldwide, with about 4,700 in the United States and 7,700 internationally.

Schering-Plough's research and development efforts focus on therapeutic areas where there are opportunities to achieve significant medical advances. Research targets include allergic and inflammatory disorders, infectious diseases, oncology, cardiovascular disease and central nervous system disorders. In 2000, five discovery compounds were recommended to advance into clinical development.

The Company has systematically integrated new technologies into its drug discovery and development programs. These technologies include genomics, combinatorial chemistry, automated high-throughput screening and structure-based drug design. Schering-Plough also actively supplements in-house research efforts by licensing potential new therapies and research technologies. R&D investments in 2000 rose 12 percent to $1.3 billion.

allergy and respiratory

MARKETED PRODUCTS

Building on strong and growing product lines, allergy/respiratory is Schering-Plough's largest therapeutic product category. Worldwide sales increased 9 percent to $4.2 billion in 2000.

Schering-Plough is establishing a global allergy/respiratory franchise with new and established products that are steadily producing higher sales in most major markets. The Company holds the leading position in the U.S. allergy/respiratory market and is embarking on a major drive to extend that position on a worldwide basis.

The Company's strong U.S. position has been led by sales of the CLARITIN (loratadine) family of nonsedating antihistamine products. Worldwide CLARITIN sales increased by 13 percent in 2000 to $3.0 billion, with $2.6 billion generated in the United States. Decongestant formulations represented 27 percent of CLARITIN sales, or $817 million.

The Company's next-generation allergy treatment, CLARINEX (desloratadine), is a new once-daily nonsedating antihistamine for the treatment of seasonal allergic rhinitis (SAR). In January 2001, the European Union (EU) granted marketing authorization for desloratadine 5 mg tablets for the treatment of SAR in adults and children 12 years of age and older. A highly potent H1 receptor antagonist, desloratadine taken once daily provides 24-hour relief from nasal and non-nasal symptoms of SAR and, in clinical trials, significantly reduced total symptom scores associated with seasonal allergies.

A U.S. approvable letter for the 5 mg tablet formulation of CLARINEX was issued in January 2001. Regulatory applications have been submitted in the EU and the United States for other CLARINEX formulations and indications, including a rapidly disintegrating tablet, a twice-daily version with a decongestant and a pediatric syrup formulation, and for use in treating chronic idiopathic urticaria (CIU), or hives of unknown cause.

REVIEWING PLANS FOR CLARINEX (LEFT PHOTO), A NEW ONCE-DAILY NONSEDATING ANTIHISTAMINE, ARE MARKETING TEAM MEMBERS, FROM LEFT, GRETA KELLER, DIRECTOR; JAMES ROBINSON, DIRECTOR; AND LUIS SALMUN, M.D., DIRECTOR. REAGENTS AND BUFFERS (RIGHT PHOTO) ARE USED TO PURIFY PROTEINS BY SCIENTISTS SEARCHING FOR NEW THERAPEUTIC ENTITIES.

The success of CLARITIN has been due to its unique combination of benefits. A once-daily, nonsedating antihistamine, CLARITIN provides safe and effective relief from seasonal allergies with flexible and convenient dosing. In major world markets, the product is available in as many as five formulations. These include CLARITIN Tablets, a once-daily antihistamine; CLARITIN-D 24 Hour (loratadine/pseudoephedrine sulfate) Extended Release Tablets, a once-daily version with a decongestant; CLARITIN-D 12 Hour, a twice-daily version with a decongestant; CLARITIN Syrup, a syrup formulation for children; and CLARITIN REDITABS, a once-daily product in a rapidly disintegrating tablet.

Based on the results of pediatric trials, the U.S. Food and Drug Administration (FDA) in December approved broader product labeling for CLARITIN Syrup to include children 2 to 5 years old for the relief of nasal and non-nasal symptoms of SAR and the treatment of CIU. CLARITIN Syrup is the only nonsedating antihistamine approved for children as young as age 2.

In August 2000, the FDA granted CLARITIN six months of additional marketing exclusivity, covering all five formulations of the product, as a result of the Company's having conducted pediatric clinical trials. The six-month period of marketing exclusivity is added to the expiration dates of all patents covering CLARITIN.

Schering-Plough owns or has licensed several loratadine-related patents. The loratadine compound patent in the United States is set to expire in June 2002 and the compound patent for desloratadine in April 2004. A fluoroloratadine patent is due to expire in 2008, and a formulation patent for CLARITIN-D 24 Hour is due to expire in 2012.

The Company also has licensed from Sepracor Inc. patent rights covering certain uses of desloratadine that expire in 2014. In August 2000, a U.S. formulation patent covering desloratadine-related products was issued to Schering-Plough that expires in 2019.

An important part of Schering-Plough's drive to expand its global allergy/respiratory franchise is NASONEX (mometasone furoate monohydrate), a potent, once-daily nasal spray for allergies. Sold in 57 countries, the product offers a rapid onset of action, favorable side-effect profile and low systemic absorption.

Worldwide sales of NASONEX increased 60 percent in 2000 to $415 million. NASONEX continues to capture U.S. market share formerly held by VANCENASE (beclomethasone dipropionate), the Company's predecessor nasal-inhaled steroid. Combined worldwide sales of NASONEX and VANCENASE rose 24 percent to $590 million in 2000. At year-end, the two products held a 33 percent share of the U.S. nasal-inhaled steroid category.

In the United States, NASONEX is marketed for the treatment of nasal symptoms of seasonal and perennial allergic rhinitis in children as young as 3 years of age. NASONEX is the only drug in its class to be indicated for children as young as age 3, and the only nasal-inhaled steroid approved in the United States for the prevention of nasal symptoms of SAR in adults and children as young as age 12. The Company holds a U.S. patent that is set to expire in 2017 for mometasone furoate monohydrate, the active ingredient in NASONEX.

In the EU, NASONEX is marketed for use in children 6 to 11 years of age for the once-daily treatment of symptoms of seasonal allergic or perennial allergic rhinitis. In France, NASONEX is indicated for use in children as young as age 3. The product holds the No. 2 position in the world nasal-inhaled steroid market and leading positions in several major markets in the EU and Latin America.

Asthma affects millions of people worldwide and represents a growing public health concern in major world markets, particularly given its increased incidence in pediatric populations.

DISCUSSING NEW RESPIRATORY THERAPIES (LEFT PHOTO) ARE GARY MCWALTERS, SENIOR PRODUCT MANAGER, AND LINDA ARMSTRONG, M.D., DIRECTOR, CLINICAL RESEARCH, ALLERGY. CARMINE GIANNETTA, PROCESS DEVELOPMENT SPECIALIST (RIGHT PHOTO), MONITORS A 30-LITER CELL CULTURE BIOREACTOR AT A COMPANY FACILITY IN UNION, N.J.

Asmanex (mometasone furoate), an orally inhaled steroid, is the Company's next-generation treatment for asthma. Asmanex Twisthaler, a dry powder inhaled formulation, has received regulatory approvals in eight countries, including Canada. Asmanex uses a state-of-the-art delivery device designed to offer a simplified inhalation delivery system powered by the patient's own inhalation and free of any chlorofluorocarbon (CFC) propellants. Under regulatory review in the United States, Asmanex may offer improved pharmacological benefits, low systemic absorption and the convenience of once-daily dosing. A U.S. approvable letter was received in October 1999.

The Company's other asthma products include Vanceril (beclomethasone dipropionate), an orally inhaled steroid for asthma, with 2000 sales of $127 million, down 29 percent due primarily to manufacturing issues; and Proventil and other albuterol products, with sales of $197 million, down 21 percent due to manufacturing issues and continued generic competition in the United States. A Company subsidiary, Warrick Pharmaceuticals, markets generic albuterol products.

PRODUCTS IN DEVELOPMENT

Building upon its 50-year history as a leader in developing therapies for allergy and asthma, Schering-Plough is pursuing new and more effective therapies to prevent or block the body's allergic and immunological responses.

In December 2000, the Company submitted marketing applications to the FDA for three new Clarinex formulations: a fixed combination of desloratadine and the decongestant pseudoephedrine sulfate as a twice-daily treatment of SAR in adults and children 12 years of age and older; a syrup form for the treatment of SAR and CIU in patients as young as 2 years of age; and a rapidly disintegrating tablet formulation. A U.S. regulatory application is also pending for Clarinex in treating CIU. EU applications for treating CIU and for the syrup form were filed in January 2001. Phase II and Phase III studies for various line extensions are ongoing.

In May 2000, the Company formed a partnership with Merck & Co., Inc. to develop and market in the United States a once-daily fixed-combination tablet containing Claritin and *Singulair* (montelukast sodium) for the treatment of allergic rhinitis and asthma. *Singulair* is Merck's once-daily leukotriene receptor antagonist for the treatment of asthma. A Claritin/*Singulair* fixed-combination tablet may have the potential to treat seasonal allergies by blocking two key mediators of inflammation in the respiratory tract (histamine and leukotrienes). The combination therapy is in Phase III studies for the treatment of SAR.

A metered-dose, CFC-free (non-chlorofluorocarbon) inhaled version of Asmanex is in Phase III studies for the treatment of asthma.

In pursuing new methods to prevent or block allergic and immunologic responses, Schering-Plough researchers are conducting Phase II clinical studies with a monoclonal antibody to the cytokine interleukin-5 (IL-5). Anti-IL-5 is designed to block the migration of inflammatory eosinophils to the lungs, thus offering promise as a long-acting asthma treatment.

An early stage collaborative effort with Chiroscience Group plc (merged with Celltech Group plc) has identified a potent and highly selective oral inhibitor of the phosphodiesterase type 4 (PDE 4) enzyme, a component of the body's inflammatory response mechanism. Such inhibitors may be effective as oral treatments for asthma and other inflammatory diseases. The compound is in early phase studies.

Through a new collaboration and licensing agreement, the Company is working with Texas Biotechnology Corporation to discover, develop and commercialize VLA-4 antagonists, a new class of compounds being studied as possible treatments for asthma.

RESEARCH SCIENTISTS, FROM LEFT, BIRENDRA PRAMANIK, PH.D., AND YAN-HUI LIU, PH.D., USE MASS SPECTROMETERS TO CHARACTERIZE THE STRUCTURE OF SMALL MOLECULES AND PROTEINS IN THE EARLY DRUG DISCOVERY PROCESS. PHOTO AT RIGHT SHOWS A DETAILED VIEW OF A MASS SPECTROMETER.

An expanded research agreement with Genome Therapeutics Corp. (GTC) enables Schering-Plough to use GTC's high-throughput positional cloning, bioinformatics and genomics sequencing capabilities to identify asthma-susceptibility genes that may be useful in the development of novel asthma therapies.

anti-infective and anticancer

MARKETED PRODUCTS

Fueled by growth in U.S. and major international markets, the Company's anti-infective/anticancer product group achieved 16 percent higher sales in 2000 to total $2.0 billion.

The anticancer/antiviral agent INTRON A (interferon alfa-2b recombinant) Injection is the world's largest-selling alpha interferon and has been the foundation for Schering-Plough's success in this product category. The broad medical utility of alpha interferon, used as monotherapy, in combination with other agents and most recently in a longer-acting formulation, has continued to expand, creating a major franchise for the Company and driving sales higher.

Schering-Plough's research into the use of INTRON A to treat hepatitis C has led to the Company's becoming the world leader in discovering and developing new therapies for the disease, one of the most prevalent worldwide public health threats. This serious disease affects as many as 10 million people in major world markets, including about 4 million in the United States. Despite the seriousness of the disease, only about 10 to 15 percent of patients with hepatitis C have been treated.

According to the Centers for Disease Control and Prevention, approximately 70 percent of U.S. patients infected with hepatitis C go on to develop chronic liver disease. Hepatitis C infection contributes to the deaths of an estimated 8,000 to 10,000 Americans each year, and the toll is expected to triple by the year 2010, exceeding the number of annual deaths due to AIDS. The American Liver Foundation has reported that hepatitis C-associated end-stage liver disease is the most frequent indication for liver transplantation among adults.

A major advance in the treatment of hepatitis C came in June 1998 with the U.S. introduction of Schering-Plough's REBETRON Combination Therapy, containing REBETOL (ribavirin) Capsules and INTRON A Injection. This combination therapy quickly became the worldwide standard of care for treating the disease. Schering-Plough has exclusive rights to market oral ribavirin for hepatitis C in all major world markets through a licensing agreement with ICN Pharmaceuticals, Inc. In November 2000, an application was submitted to the U.S. Food and Drug Administration (FDA) seeking approval to market REBETOL separately for use in combination with INTRON A for the treatment of chronic hepatitis C.

In the European Union (EU), the use of REBETOL Capsules in combination with interferon alfa-2b injection (marketed as INTRON A in certain EU countries) has gained rapid, widespread acceptance among physicians treating hepatitis C patients. The disease is the leading cause of chronic liver disease and the most common reason for liver transplants in Europe, where some 5 million people are estimated to be chronically infected.

In October, the United Kingdom's National Institute for Clinical Excellence (NICE) issued clinical guidance recommending the combination use of interferon alpha and ribavirin for the treatment of moderate to severe hepatitis C.

The next advance in treating hepatitis C is expected to be the combination use of PEG-INTRON (peginterferon alfa-2b) with REBETOL. PEG-INTRON is a longer-acting form of INTRON A that uses proprietary PEG technology developed by Enzon, Inc.

Use of PEG-INTRON as once-weekly monotherapy to treat chronic hepatitis C was approved in the EU in May and in the United States in January 2001, making it the first pegylated interferon approved for marketing in the world. In clinical studies, once-weekly administration of PEG-INTRON has been shown to be significantly more effective

CONFERRING WITH A PATIENT (LEFT PHOTO) ABOUT TREATMENT OF CHRONIC HEPATITIS C IS DR. CHRISTINA MONDORF IN FRANKFURT, GERMANY. PEG-INTRON IS APPROVED FOR TREATING CHRONIC HEPATITIS C IN THE UNITED STATES AND THE EUROPEAN UNION. X-RAY CRYSTALLOGRAPHY (RIGHT PHOTO) CAN ACCELERATE DRUG DISCOVERY BY PROVIDING 3-D STRUCTURES OF POTENTIAL DRUG MOLECULES BOUND TO THEIR PROTEIN TARGETS.

in treating hepatitis C than INTRON A, with a similar safety profile and the convenience of less-frequent dosing.

In December 2000, the EU's Committee for Proprietary Medicinal Products (CPMP) recommended approval of the combination use of PEG-INTRON and REBETOL Capsules for treating both relapsed and naïve (previously untreated) adult hepatitis C patients. The CPMP recommendation serves as the basis for a European Commission approval, which typically follows three to four months later. A U.S. application for the combination use was submitted in February 2001 with a request for priority review.

Combined worldwide sales of INTRON A, REBETRON Combination Therapy and PEG-INTRON increased 21 percent to $1.4 billion in 2000. The higher sales reflected the significant treatment advance afforded by REBETRON Combination Therapy and the increased recognition by the public, medical community and governments of the seriousness of the disease and its potential financial impact on health care systems if not properly treated.

INTRON A is also approved for several cancer indications, including use as an adjuvant treatment to surgery in patients with malignant melanoma. Results of a study presented in October at the 25th Congress of the European Society of Medical Oncology confirmed the significant and consistent efficacy of INTRON A in high-risk melanoma patients.

A multidose injection pen delivery system, which offers six pre-measured injections in a compact and easy-to-use delivery system, has been widely accepted by patients who administer INTRON A at home.

Schering-Plough is committed to helping patients gain access to medicines proven to be safe and effective at affordable prices. Its COMMITMENT TO CARE patient-assistance program is designed to ensure that no patient is denied access to the Company's oncology and biotechnology products because of an inability to pay. Schering-Plough's BE IN CHARGE program, a patient-counseling service, is available to hepatitis B and hepatitis C patients in the United States.

A new program under development is geared to patients who have been diagnosed with hepatitis C but are not yet on any therapy. A personalized nurse counselor provides education about the disease, including transmission and risk factors. The Company also offers CROSSING BRIDGES, a patient-support program designed to help malignant melanoma patients adhere to their INTRON A dosing regimen.

The anticancer product TEMODAR (temozolomide) has gained increasing use as a treatment for two serious and aggressive types of malignant brain cancer. Sales of TEMODAR were $121 million for the year, surpassing the $100 million sales mark for the first time. An oral cytotoxic, alkylating agent, the product is approved in the EU for the treatment of patients with glioblastoma multiforme showing progression or recurrence after standard therapy and for anaplastic astrocytoma. The product gained U.S. approval in 1999 for refractory anaplastic astrocytoma, making it the first new chemotherapy agent for this type of brain tumor approved in the United States in 20 years. Schering-Plough has exclusive worldwide rights to market temozolomide through a licensing agreement with Cancer Research Campaign Technology, Ltd.

Schering-Plough entered into a co-promotion agreement in March 2000 with Bristol-Myers Squibb Company to co-promote TEQUIN (gatifloxacin), a broad-spectrum fluoroquinolone antibiotic. The product is co-marketed by the two companies in the United States for the treatment of community-acquired respiratory infections.

REMICADE (infliximab), a novel anti-TNF antibody, has been marketed internationally since 1999 for the treatment of Crohn's disease, a chronic and debilitating disorder of the gastrointestinal tract that often occurs in young adults and can seriously diminish a patient's quality of life.

SCIENTISTS USE COMPUTER-ASSISTED DRUG DESIGN (LEFT PHOTO) TO VISUALIZE AND MANIPULATE MOLECULAR MODELS OF POTENTIAL NEW DRUGS. SENIOR SCIENTISTS LI XIAO, PH.D. (LEFT), AND JOSE DUCA, PH.D., ANALYZE THE STRUCTURE OF A POTENTIAL ANTICANCER AGENT. A ROBOTIC LIQUID HANDLING SYSTEM (RIGHT PHOTO) IS USED TO DETERMINE THE SOLUBILITY OF NEW COMPOUNDS.

In June 2000, REMICADE with methotrexate received EU marketing authorization for the reduction of the signs and symptoms of rheumatoid arthritis (RA) in patients with active disease when the response to other available treatments has been inadequate. REMICADE not only has been shown to relieve RA symptoms, but also has demonstrated a reduction in the rate of joint damage in some patients, as verified by X-ray results. In January 2001, the EU's regulatory agency approved a broader RA indication for REMICADE, including the improvement in physical function in patients and a reduction in the rate of the progression of joint damage.

In Europe, an estimated 2.5 million people – mostly women – are affected by RA, which is a chronic and often painful disease characterized by inflammation of the joints. As the disease progresses, joints become swollen, inflamed, painful and stiff. When inflammation persists or does not respond well to treatment, destruction of nearby cartilage, bone, tendons and ligaments can occur and lead to permanent disability. Schering-Plough has international marketing rights, excluding Japan and parts of the Far East, for REMICADE from Centocor, Inc., a Johnson & Johnson subsidiary.

Other cancer therapies include ETHYOL (amifostine), a cytoprotective agent licensed for international marketing from MedImmune, Inc., and CAELYX (pegylated liposomal doxorubicin HCl), a long-circulating pegylated liposomal formulation of the cancer drug doxorubicin. CAELYX received EU marketing approval in October for the treatment of advanced ovarian cancer in women who have failed a first-line platinum-based chemotherapy regimen. Canadian approval was granted in January 2001. Schering-Plough has exclusive international marketing rights to CAELYX, except in Japan and certain other countries, through a distribution agreement with ALZA Corporation. ALZA markets the product in the United States under the trade name *Doxil.*

PRODUCTS IN DEVELOPMENT

Schering-Plough has targeted the fields of cancer, infectious diseases and immunology as areas of major focus for its research efforts. The Company's success is evident in its growing portfolio of new and innovative compounds in development and products launched in global markets.

PEG-INTRON, a longer-acting formulation of INTRON A, is among the Company's potential new therapies for treating various cancers. The product is in Phase III clinical trials for chronic myelogenous leukemia and malignant melanoma, and in early phase studies for a variety of solid tumors. PEG-INTRON uses Enzon, Inc.'s proprietary drug-delivery system.

Approved as once-weekly monotherapy for the treatment of hepatitis C, PEG-INTRON is under U.S. and EU regulatory review in combination with REBETOL for the treatment of chronic hepatitis C. The EU's CPMP in December recommended approval for this combination use.

The oral chemotherapy agent TEMODAR is the lead compound in a new class of compounds known as imidazotetrazines. The product, approved for treating certain brain cancers, is in Phase II development for treating various solid tumors. Studies are exploring different dosing regimens and its use in combination with other chemotherapy agents.

In development for malignant melanoma is MELACINE, a therapeutic vaccine developed by Corixa Corporation, which is in Phase III studies as monotherapy for Stage II malignant melanoma and in combination with INTRON A for Stage IV of the disease. Schering-Plough has exclusive worldwide marketing rights to this agent from Corixa.

Seeking to gain expanded indications for marketed products, the Company is conducting Phase III studies of CAELYX in breast cancer.

A farnesyl protein transferase (FPT) inhibitor from Schering-Plough Research Institute is in Phase II trials as an oral therapy for several solid tumors. Research is focused on inhibiting the

SCHERING-PLOUGH AND MERCK & CO., INC. (LEFT PHOTO) IN MAY 2000 FORMED PARTNERSHIPS TO DEVELOP AND MARKET NEW PRODUCTS IN THE U.S. CHOLESTEROL-MANAGEMENT AND RESPIRATORY MARKETS. PICTURED ARE, FROM LEFT, RATNAKAR MITRA, SCHERING-PLOUGH VICE PRESIDENT AND GENERAL MANAGER OF THE RESPIRATORY PARTNERSHIP, AND ROBERT MCMAHON, MERCK VICE PRESIDENT AND GENERAL MANAGER OF THE CHOLESTEROL PARTNERSHIP. PHOTO AT RIGHT DEPICTS A VIEW INSIDE SCHERING-PLOUGH'S NEW WORLD HEADQUARTERS IN KENILWORTH, N.J.

action of the enzyme FPT, which is involved in the growth of solid tumors, including those of the bladder and lung, and in chronic myelogenous leukemia.

Schering-Plough continues to explore the potential of gene therapy to treat various diseases. Phase II studies with p53 tumor suppressor gene therapy for treating ovarian cancer are ongoing. Further research in this area is being conducted at Canji, Inc., the Company's center for gene therapy discovery.

Schering-Plough research into new hepatitis C treatments has involved determining the molecular structure of all identified key enzymes of the hepatitis C virus (HCV). Company scientists have identified the structure of an enzyme complex that is essential to replication of HCV. Protease and helicase activities of NS3, a multifunctional HCV protein, are required for viral maturation and replication. These unique, virally encoded enzymes are essential in the life cycle of HCV and constitute promising targets for drug intervention.

Also known to play a critical role in virus infection and transmission are chemokine receptors expressed on the surface of immune cells. A small molecule CCR5 receptor antagonist identified by Schering-Plough researchers is in early phase development as an oral agent for treating HIV.

Approved for the treatment of Crohn's disease and rheumatoid arthritis, REMICADE is in Phase III studies as a treatment for early rheumatoid arthritis.

TENOVIL (interleukin-10), a cytokine cloned and expressed at DNAX Research Institute, is in Phase II trials for hepatic fibrosis, a serious liver disorder, and in early phase development for various inflammatory disorders and viral diseases.

In Phase III studies for treating serious opportunistic fungal infections is posaconazole, a highly potent antifungal agent. Schering-Plough's activities in antifungal research include an agreement with Genome Therapeutics Corp., which has resulted in the identification, using proprietary genomic technologies, of a large number of novel target genes in two medically important fungal pathogens, *Candida albicans* and *Aspergillus fumigatus*. In the area of antibacterial research, Company scientists have identified novel target genes in gram-negative and gram-positive bacteria. These findings may lead to the identification of novel drug targets for broad-spectrum antibiotics.

In May 2000, the Company discontinued the clinical development of ZIRACIN (evernimicin), an intravenous antibiotic for treating drug-resistant bacterial infections.

cardiovasculars

MARKETED PRODUCTS

Schering-Plough's growing presence in the worldwide cardiovascular marketplace is expanding through internal development programs and strategic licensing agreements. Sales for the cardiovascular product group increased 11 percent to $746 million in 2000, driven by positive physician acceptance of INTEGRILIN (eptifibatide) Injection, a platelet receptor glycoprotein (GP) IIb/IIIa inhibitor for treating cardiovascular patients with acute coronary syndromes.

INTEGRILIN, which helps prevent platelets from binding to fibrinogen and forming blood clots, has become the most widely used GP IIb/IIIa inhibitor in the United States. Worldwide sales increased sharply to $172 million in 2000, driven by increased U.S. market penetration due to positive results of a major clinical trial named ESPRIT. Interim results were first reported in February 2000, with six-month results reported in January 2001. The ESPRIT trial demonstrated a statistically significant 35 percent reduction in the combined incidence of death or heart attack over the six months following intracoronary stent implantation in patients receiving a stent and INTEGRILIN as compared to those patients receiving a stent and placebo. Launched in the United States in 1998, INTEGRILIN has the broadest U.S. labeling in its class.

A PROTEIN SEQUENCER (LEFT PHOTO) IS USED TO IDENTIFY PURIFIED PROTEINS IN THE DRUG DISCOVERY PROCESS. INTEGRILIN, A PLATELET-CLOTTING INHIBITOR (RIGHT PHOTO), IS THE MOST WIDELY USED DRUG IN ITS CLASS IN THE UNITED STATES. CARDIOLOGIST SABINO TORRE, M.D. (LEFT) AND DAVID PEARSALL, MEDICAL CENTER SPECIALIST, KEY ACUTE CORONARY SYNDROMES, CONFER IN A CATHETERIZATION LAB AT SAINT BARNABAS MEDICAL CENTER IN LIVINGSTON, N.J.

In the European Union (EU), INTEGRILIN is marketed for the prevention of early myocardial infarction in patients with acute coronary syndromes who are managed medically and/or with percutaneous coronary intervention (PCI), also known as angioplasty.

Schering-Plough, through a licensing agreement with COR Therapeutics, Inc., markets INTEGRILIN in Europe and co-markets the product with COR in the United States.

Complementing INTEGRILIN marketing efforts is a three-way collaboration with COR and Genentech, Inc., announced in January 2001, to co-promote INTEGRILIN, TNKASE (tenecteplase) and ACTIVASE (alteplase, recombinant). TNKASE and ACTIVASE are Genentech's market-leading fibrinolytic therapies for the treatment of acute myocardial infarction. The agreement is expected to expand the promotion of INTEGRILIN into thousands of additional hospitals nationwide.

Sales of K-DUR, a sustained-release potassium chloride supplement, rose 16 percent to $290 million in 2000. Sales of IMDUR (isosorbide mononitrate), a once-daily, long-acting oral nitrate for angina, declined in 2000 to $120 million due to continued generic competition. A Company subsidiary, Warrick Pharmaceuticals, markets a generic version.

PRODUCTS IN DEVELOPMENT

Schering-Plough's cardiovascular research program illustrates how external licensing agreements and collaborations can help realize the potential of novel therapies.

In May 2000, the Company formed a partnership with Merck & Co., Inc. to develop and market in the United States ezetimibe, Schering-Plough's cholesterol absorption inhibitor, in three ways: as a once-daily fixed-combination tablet with *Zocor* (simvastatin), Merck's cholesterol-management medicine; as a once-daily monotherapy; and in co-administration with statins.

An ezetimibe/*Zocor* fixed-combination tablet has the potential to achieve higher levels of cholesterol reduction through two complementary mechanisms of action while maintaining a good safety profile.

Ezetimibe, a product of Schering-Plough's internal research efforts, has been shown in clinical studies to selectively inhibit the body's ability to absorb cholesterol in the intestine without interfering with the absorption of other fat-soluble nutrients. Statins, such as *Zocor*, act primarily by inhibiting the production of cholesterol in the liver. Ezetimibe is in Phase III trials as monotherapy and as a co-administered agent with statins.

INTEGRILIN is in Phase II studies as a treatment for acute myocardial infarction.

A collaborative effort with AtheroGenics, Inc. is seeking to develop and commercialize drugs for the treatment and prevention of restenosis in patients following PCI. AGI-1067 has been identified as the first in a promising new class of orally delivered compounds known as vascular protectants. The agent is in early phase development for the prevention of atherosclerosis and restenosis.

dermatologicals

MARKETED PRODUCTS

Schering-Plough is well established as a leader in world dermatological markets through nearly five decades of research discoveries and product innovations. Worldwide sales of the dermatological product group were $680 million in 2000, approximately the same as the prior year.

LOTRISONE (clotrimazole/betamethasone dipropionate) is the most-prescribed topical

DISCUSSING EARLY PHASE CLINICAL DATA (LEFT PHOTO) OF AN ANTI-INFECTIVE COMPOUND ARE, FROM LEFT, BAHIGE BAROUDY, PH.D., DIRECTOR, ANTIVIRAL THERAPY, AND KATHLEEN COX, PH.D., SENIOR PRINCIPAL SCIENTIST. PHOTO AT RIGHT WAS TAKEN IN A SCHERING-PLOUGH RESEARCH LABORATORY IN KENILWORTH, N.J.

antifungal/anti-inflammatory cream in the United States, with a market share approaching 60 percent. The product line was expanded in December 2000 with U.S. approval of a lotion formulation of LOTRISONE. In 2000, worldwide sales decreased 2 percent to $192 million.

Available in 64 countries, ELOCON (mometasone furoate) holds the leading worldwide position among branded, medium-potency topical steroids. Worldwide sales of ELOCON increased 2 percent in 2000 to $171 million.

Also contributing to 2000 dermatological sales were Schering-Plough's DIPROLENE and DIPROSONE (betamethasone dipropionate) lines of high-potency topical steroids, with combined sales of $176 million.

central nervous system and other disorders

MARKETED PRODUCTS

Worldwide sales for the Company's other pharmaceutical product category were $716 million in 2000.

Schering-Plough has exclusive worldwide rights, excluding Japan, Taiwan and Korea, to market a line of buprenorphine hydrochloride products for opiate addiction through a distribution agreement with Reckitt & Colman plc. These products include SUBUTEX, a sublingual tablet formulation of buprenorphine, and SUBOXONE, a sublingual tablet combination of buprenorphine and naloxone. SUBUTEX is marketed in select international countries, including the United Kingdom, Germany and France, for the treatment of opiate addiction.

In the United States, both anti-addiction treatments are under regulatory review and have received approvable letters from the U.S. Food and Drug Administration.

To better focus its U.S. marketing resources on core therapeutic areas, Schering-Plough in 2000 ended its 1998 agreement with Novo Nordisk to co-promote PRANDIN (repaglinide), an oral antidiabetic agent for the treatment of Type 2 diabetes, and a range of other insulin products and devices.

PRODUCTS IN DEVELOPMENT

Building on the Company's strengths in chemical synthesis and molecular biology, research efforts are progressing to discover and develop medications that can treat cognitive disorders and degenerative nervous system diseases.

Ecopipam, a potent D1/D5 dopamine receptor antagonist, is in Phase II studies as a potential obesity-management therapy. Preclinical data suggest that the compound could reduce food craving in patients undergoing diet restrictions in a weight-loss program.

In early phase development is an antagonist of the M2 subtype of the muscarinic acetylcholine receptor. This M2 antagonist has the potential for enhancing memory function and may be useful in the symptomatic treatment of dementia associated with Alzheimer's disease.

In January 2000, the Company extended its collaboration with the University of Toronto to develop drugs to prevent and treat Alzheimer's disease. Efforts are focused on the function of presenilin genes as possible tools for drug development.

animal health

MARKETED PRODUCTS

Sales for Schering-Plough's animal health business rose 7 percent in 2000 to $720 million, including revenues from the June acquisition of the animal health business of Takeda Chemical Industries, Ltd. in Japan. Despite challenging market conditions, Schering-Plough achieved higher sales for the year and ranks sixth largest in world animal health markets.

VETERINARIAN KEITH WALL, D.V.M., TECHNICAL SERVICES MANAGER, SCHERING-PLOUGH ANIMAL HEALTH, IS PICTURED (LEFT PHOTO) AT HIS FARM IN NEW JERSEY. INNOVATIVE MARKETING EFFORTS (RIGHT PHOTO) SUPPORT THE DR. SCHOLL'S LINE OF FOOT CARE PRODUCTS. PICTURED ARE, FROM LEFT, SUE FULTON, SENIOR PRODUCT MANAGER, DR. SCHOLL'S, AND CLOVER BERGMANN, VICE PRESIDENT, MARKETING, SCHERING-PLOUGH HEALTHCARE PRODUCTS.

Higher sales were led by NUFLOR (florfenicol), a broad-spectrum antibiotic used to treat bovine respiratory disease, a serious condition that can have a significant economic impact on cattle producers. In 2000, NUFLOR sales increased 18 percent to $93 million. In March 2000, a subcutaneous claim for NUFLOR was approved in the European Union; marketing for that indication began in the second half of the year.

OTOMAX (gentamicin, betamethasone and clotrimazole), a three-way treatment for acute and chronic ear infections in dogs, was launched in early 2000 in major European markets, including Germany, Spain and Italy.

Also contributing to 2000 results were other established lines of animal health products. Sales increased for swine biologicals, reflecting the Company's leading position in that market and its ability to offer the only effective product against a strain of swine flu prevalent in the United States in 2000.

foot care

MARKETED PRODUCTS

Led by the DR. SCHOLL'S brand, Schering-Plough's sales of foot care products in 2000 grew 5 percent to $348 million. The Company strengthened its position as the U.S. market leader with new product offerings and technological innovations.

Foot care sales were driven by the introduction of several new products, including DR. SCHOLL'S ADVANTAGE Sport Insoles, designed to help athletes improve performance, and DR. SCHOLL'S ADVANTAGE Work Insoles, clinically proven to reduce lower back pain. Other innovative DR. SCHOLL'S products launched in 2000 include MAGNA-ENERGY Insoles.

LOTRIMIN AF and TINACTIN antifungal products maintained their No. 1 and No. 2 positions, respectively, in unit sales during the year, supported by product introductions and a strong marketing campaign.

otc products

MARKETED PRODUCTS

Sales of over-the-counter (OTC) products declined 4 percent in 2000 to $202 million, primarily due to the December 1999 divestiture of the PAAS product line of decorating kits.

The AFRIN brand maintained its leadership position in the nasal spray category, supported by the launch of three "No Drip" sprays – AFRIN No Drip Severe Congestion Nasal Spray, AFRIN No Drip Sinus Nasal Spray and AFRIN No Drip Extra Moisturizing Nasal Spray.

CORICIDIN HBP continued to outperform sales growth in the cough/cold category, benefiting from its targeted positioning for consumers with high blood pressure. The 2000 introduction of CORICIDIN Maximum Strength Flu helped the brand achieve significant sales growth.

sun care

MARKETED PRODUCTS

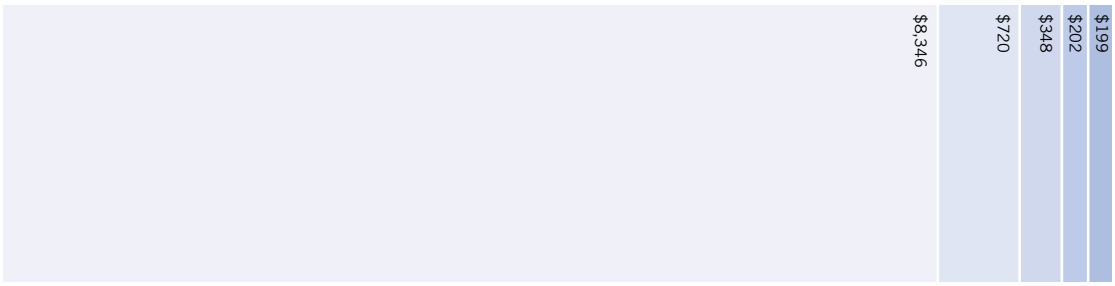
Schering-Plough maintained its No. 1 position in the U.S. sun care category in 2000.

Sales of sun care products increased 8 percent to $199 million in 2000, driven by strong sales of the BAIN DE SOLEIL line acquired in 1999 from Pfizer Inc.

Also contributing to sales were four new COPPERTONE KIDS WACKY FOAM products and a line of WATER BABIES sprays, which was the No. 1-selling new sun care product in 2000.

major therapeutic categories

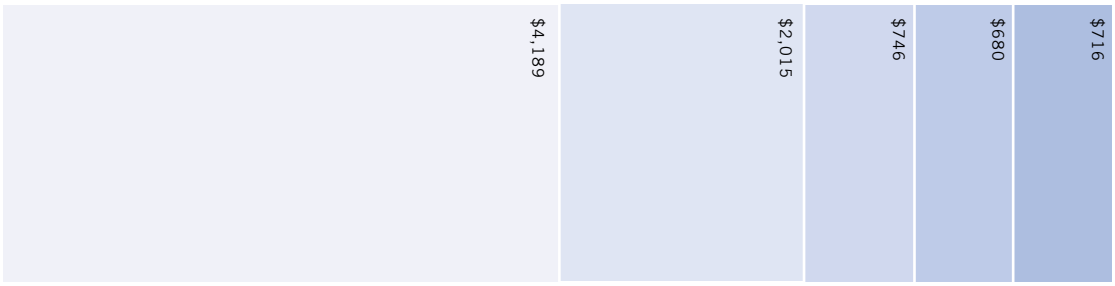
SCHERING–PLOUGH CORPORATION 2000 SALES dollars in millions



PHARMACEUTICALS
ANIMAL HEALTH
FOOT CARE
OTC
SUN CARE

CONSOLIDATED $9,815

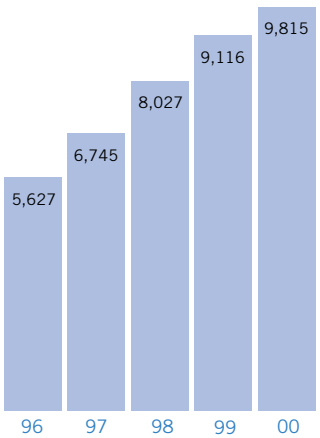
PHARMACEUTICAL THERAPEUTIC CATEGORIES 2000 SALES dollars in millions



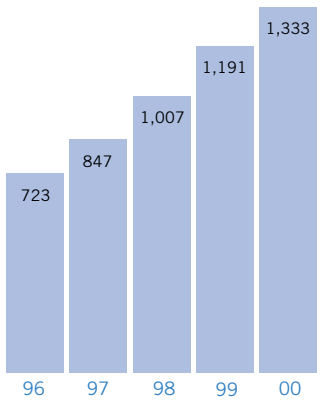
ALLERGY AND RESPIRATORY
ANTI-INFECTIVE AND ANTICANCER
CARDIOVASCULARS
DERMATOLOGICALS
OTHER PHARMACEUTICALS

TOTAL PHARMACEUTICALS $8,346

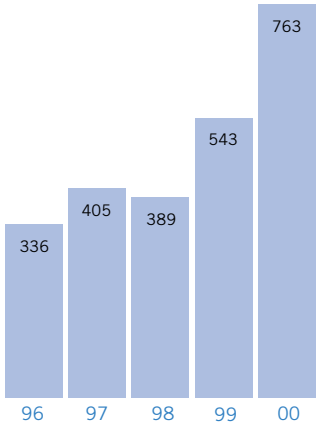
NET SALES
dollars in millions



RESEARCH AND DEVELOPMENT
dollars in millions



CAPITAL EXPENDITURES
dollars in millions



financials

management's discussion and analysis of operations and financial condition

net sales

Consolidated net sales in 2000 totaled $9.8 billion, an increase of 8 percent over 1999, due to volume growth of 8 percent and price increases of 2 percent, tempered by unfavorable foreign exchange of 2 percent. Net sales in the United States increased 9 percent versus 1999 and advanced 6 percent internationally. Foreign exchange negatively impacted the international sales growth by 7 percent.

Consolidated 1999 net sales of $9.1 billion advanced 14 percent over 1998, reflecting volume growth of 13 percent. Price increases and foreign exchange both had a less than 1 percent impact on the sales increase.

Net sales by major therapeutic category for the years ended 2000, 1999 and 1998 were as follows:

(Dollars in millions)				% Increase (Decrease)	
	2000	1999	1998	**2000/1999**	1999/1998
Allergy & Respiratory	**$ 4,189**	$ 3,850	$ 3,375	**9%**	14%
Anti-infective & Anticancer	**2,015**	1,738	1,263	**16**	38
Cardiovasculars	**746**	673	750	**11**	(10)
Dermatologicals	**680**	682	619	**0**	10
Other Pharmaceuticals	**716**	775	677	**(8)**	15
Animal Health	**720**	672	642	**7**	5
Foot Care	**348**	332	323	**5**	3
Over-the-Counter (OTC)	**202**	209	207	**(4)**	1
Sun Care	**199**	185	171	**8**	8
Consolidated net sales	**$ 9,815**	$ 9,116	$ 8,027	**8%**	14%

Certain amounts in 1999 and 1998 have been reclassified from selling, general and administrative expense to net sales to comply with Emerging Issues Task Force (EITF) Issue No. 00-14, "Accounting for Certain Sales Incentives."

Worldwide net sales of allergy and respiratory products increased 9 percent in 2000 and 14 percent in 1999, led by continued growth for the CLARITIN line of nonsedating antihistamines. Worldwide net sales of the CLARITIN brand totaled $3.0 billion in 2000, $2.7 billion in 1999 and $2.3 billion in 1998. The increase in the CLARITIN brand in 2000 was due primarily to continued expansion in the U.S. antihistamine market, tempered by market share declines. Franchise sales of nasal-inhaled steroid products, which include NASONEX, a once-daily corticosteroid for seasonal allergic rhinitis, and VANCENASE allergy products, increased 24 percent in 2000 and 17 percent in 1999. The growth in both periods was due to overall nasal-inhaled steroid market expansion in the United States and the launch of NASONEX in most major international markets. Sales of VANCERIL, an orally inhaled steroid for asthma, declined $52 million in 2000 and $14 million in 1999 due primarily to manufacturing issues. U.S. sales of the PROVENTIL (albuterol) line of asthma products declined $54 million in 2000 due to manufacturing issues and continued generic competition.

Net sales of worldwide anti-infective and anticancer products rose 16 percent compared with 1999. Growth was led by combined worldwide sales of INTRON A and REBETRON Combination Therapy, containing REBETOL Capsules and INTRON A Injection, which totaled $1.4 billion, up 21 percent from 1999. These gains were attributable to increased utilization in the treatment of chronic hepatitis C, including the launch of REBETOL, for combination use, in most major European markets. The U.S. and international launches of TEMODAR, a chemotherapy agent for treating certain types of brain tumors, and the international launch of REMICADE, marketed for Crohn's disease and rheumatoid arthritis, also contributed to the increase in this therapeutic category's sales in 2000. These sales increases were moderated by lower sales of EULEXIN, a prostate cancer therapy, due to generic and branded competition. In 1999, worldwide net sales of anti-infective and anticancer products increased 38 percent, led by worldwide sales of INTRON A and REBETRON Combination Therapy and the U.S. and international launches of TEMODAR. This increase was moderated by lower sales of EULEXIN due to generic and branded competition.

Worldwide net sales of cardiovascular products increased 11 percent in 2000, led by higher U.S. sales of INTEGRILIN, a platelet receptor glycoprotein IIb/IIIa inhibitor for the treatment of patients with acute coronary syndromes. Sales of K-DUR, a sustained-release potassium chloride supplement, also contributed to the increase in this therapeutic category's sales in 2000. Partially offsetting this growth was a decline in sales of IMDUR, an oral nitrate for angina, due to generic competition in the United States. In 1999, worldwide net sales of cardiovascular products decreased 10 percent, due to generic competition against IMDUR and NORMODYNE, an alpha-beta blocker for hypertension, tempered by higher sales of INTEGRILIN and K-DUR.

Dermatological products' worldwide net sales were unchanged in 2000 versus the prior year and increased 10 percent in 1999 versus 1998. Growth in 1999 was due to higher sales of LOTRISONE, an antifungal/anti-inflammatory cream, and ELOCON, a medium-potency topical steroid.

Other pharmaceuticals consist of products that do not fit into the Company's major therapeutic categories.

Worldwide sales of animal health products increased 7 percent in 2000. Sales growth was primarily due to the June 2000 acquisition of the animal health business of Takeda Chemical Industries, Ltd. in Japan. Sales of animal health products in 1999 increased 5 percent over 1998, driven by NUFLOR, a broad-spectrum, multi-species antibiotic, and BANAMINE, a non-steroidal anti-inflammatory agent.

Foot care product sales rose 5 percent in 2000 and 3 percent in 1999, led by increases in the DR. SCHOLL'S insoles product line resulting from new product introductions and line extensions.

Over-the-counter (OTC) product sales decreased 4 percent in 2000 due to the 1999 sale of the PAAS product line. OTC product sales increased 1 percent in 1999 due to a strong spring cough/cold season.

Sun care sales were up 8 percent in 2000 benefiting from the 1999 acquisition of the BAIN DE SOLEIL product line. In 1999, sales grew 8 percent, primarily due to market growth.

summary of costs and expenses:

(Dollars in millions)					% Increase
	2000	1999	1998	**2000/1999**	1999/1998
Cost of sales	**$ 1,902**	$ 1,800	$ 1,601	**6%**	12%
% of net sales	**19.4%**	19.7%	19.9%		
Selling, general and administrative	**$ 3,485**	$ 3,374	$ 3,091	**3%**	9%
% of net sales	**35.5%**	37.0%	38.5%		
Research and development	**$ 1,333**	$ 1,191	$ 1,007	**12%**	18%
% of net sales	**13.6%**	13.1%	12.5%		

Certain amounts in 1999 and 1998 have been reclassified from selling, general and administrative expense to net sales to comply with Emerging Issues Task Force (EITF) Issue No. 00-14, "Accounting for Certain Sales Incentives."

Cost of sales as a percentage of net sales in 2000 decreased versus 1999, due to favorable sales mix and foreign exchange impacts. The slight decrease in the 1999 cost of sales as a percentage of net sales versus 1998 reflects favorable sales mix.

Selling, general and administrative expenses in 2000 and 1999 decreased as a percentage of sales. In both years, sales growth outpaced investments in field force expansions, promotional and selling-related spending.

Research and development expenses grew 12 percent to $1.3 billion and represented 13.6 percent of sales in 2000. In 1999, research and development expenses increased 18 percent over 1998 and represented 13.1 percent of sales. The higher spending in both years reflects the Company's funding of both internal research efforts and research collaborations with various partners to discover and develop a steady flow of innovative products.

income before income taxes

Income before income taxes totaled $3.2 billion in 2000, an increase of 14 percent over 1999. In 1999, income before income taxes was $2.8 billion, up 20 percent over $2.3 billion in 1998.

income taxes

The Company's effective tax rate was 24.0 percent for 2000 and 24.5 percent for the years 1999 and 1998. The decrease in 2000 was primarily due to increased sales of products manufactured in jurisdictions with lower tax rates. The effective tax rate for each period was lower than the U.S. statutory income tax rate, principally due to tax incentives in certain jurisdictions where manufacturing facilities are located. For additional information, see "Income Taxes" in the Notes to Consolidated Financial Statements.

net income

Net income in 2000 increased 15 percent to $2.4 billion. Net income in 1999 increased 20 percent over 1998.

earnings per common share

Diluted earnings per common share rose 15 percent in 2000 to $1.64 and 20 percent in 1999 to $1.42. The strengthening of the U.S. dollar against most foreign currencies decreased growth in earnings per common share in 2000. Excluding the impact of exchange rate fluctuations, diluted earnings per common share increased 16 percent in 2000. Foreign currency exchange had no impact on 1999 diluted earnings per common share. Basic earnings per common share increased 15 percent in 2000 to $1.65 and 20 percent in 1999 to $1.44.

Under existing share repurchase programs authorized by the Board of Directors, approximately 33 million common shares were repurchased during 2000, 1999 and 1998. A $1 billion program was authorized in September 1997 and commenced in January 1998. This program was completed in March 2000 with approximately 22.4 million shares acquired. A $1.5 billion program was authorized in February 2000 and commenced in April 2000. At December 31, 2000, 10.7 million shares had been acquired under the 2000 authorization and the program was approximately 33 percent complete.

euro

On January 1, 1999, certain member countries of the European Union established a new common currency, the euro. Also on January 1, 1999, the participating countries fixed the rate of exchange between their existing legacy currencies and the euro. The new euro currency will eventually replace the legacy currencies currently in use in each of the participating countries.

Companies operating within the participating countries may, at their discretion, choose to operate in either legacy currencies or the euro until January 1, 2002. The Company expects the majority of its affected subsidiaries to continue to operate in their respective legacy currencies during 2001. However, selected subsidiaries will adopt the euro as their operating currency during 2001, with the remaining affected subsidiaries adopting the euro no later than January 1, 2002. During this transition period, the Company will be able to accommodate transactions for customers and suppliers in either legacy currencies or euros.

The Company believes that the creation of the euro will not significantly change its market risk with respect to foreign exchange. Having a common European currency may result in certain changes to competitive practices, product pricing and marketing strategies. Although unable to quantify these effects, if any, management at this time does not believe the creation of the euro will have a material effect on the Company.

environmental matters

The Company has responsibilities for environmental cleanup under various state, local and federal laws, including the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund. Environmental expenditures have not had and, based on information currently available, are not anticipated to have a material impact on the Company. For additional information, see "Legal and Environmental Matters" in the Notes to Consolidated Financial Statements.

additional factors influencing operations

In the United States, many of the Company's pharmaceutical products are subject to increasingly competitive pricing as managed care groups, institutions, government agencies and other buying groups seek price discounts. In most international markets, the Company operates in an environment of government-mandated cost-containment programs. Several governments have placed restrictions on physician prescription levels and patient reimbursements, emphasized greater use of generic drugs and enacted across-the-board price cuts as methods to control costs.

Since the Company is unable to predict the final form and timing of any future domestic and international governmental or other health care initiatives, their effect on operations and cash flows cannot be reasonably estimated. Similarly, the effect on operations and cash flows of decisions of government entities, managed care groups and other buying groups concerning formularies, pharmaceutical reimbursement policies and availability of the Company's pharmaceutical products cannot be reasonably estimated.

A significant portion of net sales are made to major pharmaceutical and health care products distributors and major retail chains in the United States. Consequently, net sales and quarterly growth comparisons may be affected by fluctuations in the buying patterns of major distributors, retail chains and other trade buyers. These fluctuations may result from seasonality, pricing, wholesaler buying decisions or other factors.

The market for pharmaceutical products is competitive. The Company's operations may be affected by technological advances of competitors, industry consolidation, patents granted to competitors, new products of competitors and generic competition as the Company's products mature. In addition, patent positions are increasingly being challenged by competitors, and the outcome can be highly uncertain. An adverse result in a patent dispute can preclude commercialization of products or negatively affect sales of existing products. The effect on operations of competitive factors and patent disputes cannot be predicted.

Uncertainties inherent in government regulatory approval processes, including, among other things, delays in approval of new products, formulations or indications, may also affect the Company's operations. The effect on operations of regulatory approval processes cannot be predicted.

The Company is subject to the jurisdiction of various national, state and local regulatory agencies and is, therefore, subject to potential administrative actions. Of particular importance is the Food and Drug Administration (FDA) in the United States. It has jurisdiction over all the Company's businesses and administers requirements covering the testing, safety, effectiveness, approval, manufacturing, labeling and marketing of the Company's products. From time to time, agencies, including the FDA, may require the Company to address various manufacturing, advertising, labeling or other regulatory issues. Failure to comply with governmental regulations can result in delays in the release of products, seizure or recall of products, suspension or revocation of the authority necessary for the production and sale of products, fines and other civil or criminal sanctions.

From time to time, the Company has received Warning Letters from the FDA pertaining to various manufacturing issues. Among these, the Company has received a Warning Letter from the FDA relating specifically to manufacturing issues identified during FDA inspections of the Company's aerosol products (PROVENTIL, including other albuterol products, and VANCERIL) manufacturing facilities in New Jersey. The Company is implementing remedial actions at these facilities. The Company has met with the FDA on several occasions to apprise the agency of the scope and status of these activities. The Company cannot predict whether its remedial actions will resolve the FDA's concerns, whether the FDA will take any further action, or the effect of this matter on the Company's operations.

In February 2001, the Company reported that manufacturing process and control issues have led to reduced sales of certain products in the U.S. marketplace, with the result that first quarter and full-year 2001 sales and earnings will be lower than expected. The extent of this impact will depend upon the timing and nature of a resolution of the manufacturing issues. The Company said that the FDA has been conducting inspections of the Company's manufacturing facilities in New Jersey and Puerto Rico, and has issued reports citing deficiencies concerning compliance with current Good Manufacturing Practices (GMPs), primarily relating to production processes, controls and procedures. The FDA has advised the Company that GMP deficiencies cited in facility inspection reports must be resolved prior to granting approval of the Company's pending New Drug Application (NDA) for Clarinex (desloratadine) Tablets. Among the issues affecting the Company's ability to manufacture and ship certain pharmaceutical products has been the temporary interruption of some production lines to install system upgrades and further enhance compliance, and other technical production and equipment qualification issues. As part of its effort to improve manufacturing and quality-control functions, the Company has committed to spend more than $50 million in new equipment, process and system improvements. In addition, the Company has increased the number of personnel dedicated to quality control and compliance. While the Company has taken extensive measures intended to enhance its manufacturing processes and controls, the Company notes that the FDA's inspection reports and its own internal reviews indicate that improvements are required.

Under certain circumstances, the Company may deem it advisable to initiate product recalls. In 1999, the Company voluntarily chose to initiate several recalls, including a recall of certain shipments of Proventil, including other albuterol products, and Vanceril manufactured at its New Jersey facilities. In the first quarter of 2000, the Company voluntarily expanded the recall to include shipments manufactured prior to September 30, 1999. The cost of the recall did not have a significant impact on the financial results of the Company.

liquidity and financial resources

Net income generated from operations continues to be the Company's major source of funds to finance working capital, capital expenditures, shareholder dividends and common share repurchases.

Cash provided by operating activities totaled $2,511 million in 2000, $2,020 million in 1999 and $2,138 million in 1998. Year-to-year changes in cash provided by operating activities result from the timing of receipts and disbursements as well as from an overall net investment in working capital necessitated by the growth in the business.

Capital expenditures amounted to $763 million in 2000, $543 million in 1999 and $389 million in 1998. It is expected that capital expenditures will exceed $750 million in 2001. Commitments for future capital expenditures totaled $223 million at December 31, 2000.

Cash flow related to financing activities included equity proceeds as well as proceeds from short-term borrowings. Common shares repurchased in 2000 totaled 19.8 million shares at a cost of $855 million. In 1999, 9.9 million shares were repurchased for $504 million and, in 1998, 3.4 million shares were repurchased at a cost of $141 million. Dividend payments of $802 million were made in 2000, compared with $716 million in 1999 and $627 million in 1998. Dividends per common share were $0.545 in 2000, up from $0.485 in 1999 and $0.425 in 1998.

Cash and cash equivalents totaled $2,397 million, $1,876 million and $1,259 million at December 31, 2000, 1999 and 1998, respectively. Short-term borrowings and current portion of long-term debt totaled $994 million at year-end 2000, $728 million in 1999 and $558 million in 1998.

The Company's ratio of debt to total capital was 15 percent in 2000 and 12 percent in 1999. The Company's liquidity and financial resources continued to be sufficient to meet its operating needs. As of December 31, 2000, the Company had $1.3 billion in unused lines of credit, which includes $1.0 billion available under a multi-currency unsecured revolving credit facility expiring in 2001. The Company had A-1+ and P-1 ratings for its commercial paper, and AA and Aa2 general bond ratings from Standard & Poor's and Moody's, respectively, as of December 31, 2000. After the Company announced the manufacturing issues discussed herein, Standard & Poor's and Moody's affirmed these ratings, but revised their rating outlook on the Company's long-term debt ratings from stable to negative.

market risk disclosures

The Company is exposed to market risk primarily from changes in foreign currency exchange rates and, to a lesser extent, from interest rates. The following describes the nature of the risks and demonstrates that, in general, such market risk is not material to the Company.

Foreign Currency Exchange Risk

The Company has subsidiaries in more than 40 countries worldwide. In 2000, sales outside the United States accounted for approximately 36 percent of worldwide sales. Virtually all these sales were denominated in currencies of the local country. As such, the Company's reported profits and cash flows are exposed to changing exchange rates. In 2000, changes in foreign exchange rates reduced sales by 2 percent and reduced 2000 diluted earnings per common share by 1 percent.

To date, management has not deemed it cost-effective to engage in a formula-based program of hedging the profits and cash flows of foreign operations using derivative financial instruments. Because the Company's foreign subsidiaries purchase significant quantities of inventory payable in U.S. dollars, managing the level of inventory and related payables and the rate of inventory turnover provides a level of protection against adverse changes in exchange rates. In addition, the risk of adverse exchange rate change is mitigated by the fact that the Company's foreign operations are widespread.

In addition, at any point in time, the Company's foreign subsidiaries hold financial assets and liabilities that are denominated in currencies other than U.S. dollars. These financial assets and liabilities consist primarily of short-term, third-party and intercompany receivables and payables. Changes in exchange rates affect these financial assets and liabilities. For the most part, however, gains or losses arise from translation and, as such, do not significantly affect net income.

On occasion, the Company has used derivatives to hedge specific short-term risk situations involving foreign currency exposures. However, these derivative transactions have not been material.

Interest Rate and Equity Price Risk

The financial assets of the Company that are exposed to changes in interest rates and equity prices include debt and equity securities held in non-qualified trusts for employee benefits and equity securities acquired in connection with in-licensing arrangements. The trust investments totaled approximately $193 million at December 31, 2000. Due to the long-term nature of the liabilities that these trust assets fund, the Company's exposure to market risk is low. A moderate decline in market value of these investments would not necessitate any near-term funding of the trusts. In connection with certain research and development in-licensing arrangements, on occasion the Company acquires equity securities of the licensor company. These investments are generally accounted for as available for sale and, as such, carried at market value. The total market value of these investments at December 31, 2000, was $132 million. See "Unrealized gain (loss) on investments held available for sale, net" in the Statements of Consolidated Shareholders' Equity and "Equity Swap Contracts" in the "Financial Instruments" footnote in the Notes to Consolidated Financial Statements for additional information. The other financial assets of the Company do not give rise to significant interest rate risk due to their short duration.

The financial obligations of the Company that are exposed to changes in interest rates are generally limited to short-term borrowings and a $200 million equity-type security issued in 1999. All other borrowings are not significant. Although the borrowings are, for the most part, floating rate obligations, the interest rate risk posed by these borrowings is low because the amount of this obligation is small in relation to annual cash flow. The Company believes it has the financial flexibility to pay off these borrowings quickly if interest rates were to increase significantly.

Interest Rate Swaps

In 1991 and 1992, the Company utilized interest rate swaps as part of its international cash management strategy. For additional information, see "Financial Instruments" in the Notes to Consolidated Financial Statements. These swaps subject the Company to a moderate degree of market risk. The Company accounts for these swaps using fair value accounting, with changes in the fair value recorded in earnings. The fair value of these swaps was a liability of $1 million at December 31, 2000. The fair value of these swaps at December 31, 1999, was an asset of $1 million. It is estimated that a 10 percent change in interest rate structure could change the fair value of the swaps by approximately $2 million.

During 1999, the Company purchased a $200 million variable rate, three-month time deposit. The Company intends to roll over this time deposit every three months until November 2003. To hedge the future variable interest receipts on this time deposit, the Company entered into an interest rate swap that matures in November 2003. Under this swap, the Company receives a fixed rate and pays a three-month variable rate. The fair value of this swap was a $15 million asset at December 31, 2000. The fair value of this swap at December 31, 1999 was a liability of $6 million. It is estimated that a 10 percent change in interest rate structure could change the fair value of the swap by approximately $3 million.

statement of financial accounting standards (sfas) no. 133

Effective January 1, 2001, the Company has adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." Based on the Company's limited use of derivative financial instruments, the impact of adoption will not be material and its ongoing effects are not expected to be material.

cautionary factors that may affect future results

This annual report and other written reports and oral statements made from time to time by the Company may contain so-called "forward-looking statements," all of which are subject to risks and uncertainties. One can identify these forward-looking statements by the use of such words as "expects," "plans," "will," "estimates," "forecasts," "projects," "believes" and other words of similar meaning. One also can identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address the Company's growth strategy, financial results, regulatory issues, status of product approvals, development programs, litigation and investigations. One must carefully consider any such statement and should understand that many factors could cause actual results to differ from the Company's forward-looking statements. These factors include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward-looking statement can be guaranteed, and actual future results may vary materially.

The Company does not assume the obligation to update any forward-looking statement. One should carefully evaluate such statements in light of factors described in the Company's filings with the Securities and Exchange Commission, especially on Forms 10-K, 10-Q and 8-K (if any). In Item 1 of the Company's annual report on Form 10-K for the year ended December 31, 2000, the Company discusses in more detail various important factors that could cause actual results to differ from expected or historic results. The Company notes these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. One should understand that it is not possible to predict or identify all such factors. Consequently, the reader should not consider any such list to be a complete statement of all potential risks or uncertainties.

schering-plough corporation and subsidiaries

statements of consolidated income

(Amounts in millions, except per share figures)	For the Years Ended December 31, 2000	1999	1998
Net sales	$ 9,815	$ 9,116	$ 8,027
Costs and Expenses:			
Cost of sales	1,902	1,800	1,601
Selling, general and administrative	3,485	3,374	3,091
Research and development	1,333	1,191	1,007
Other (income) expense, net	(93)	(44)	2
Total costs and expenses	6,627	6,321	5,701
Income before income taxes	3,188	2,795	2,326
Income taxes	765	685	570
Net income	$ 2,423	$ 2,110	$ 1,756
Diluted earnings per common share	$ 1.64	$ 1.42	$ 1.18
Basic earnings per common share	$ 1.65	$ 1.44	$ 1.20

See notes to consolidated financial statements.

statements of consolidated cash flows

(Amounts in millions)	For the Years Ended December 31, 2000	1999	1998
Operating Activities:			
Net income	$ 2,423	$ 2,110	$ 1,756
Depreciation and amortization	299	264	238
Accounts receivable	(418)	(352)	(67)
Inventories	(17)	(150)	(102)
Prepaid expenses and other assets	(30)	(76)	(116)
Accounts payable and other liabilities	254	224	429
Net cash provided by operating activities	2,511	2,020	2,138
Investing Activities:			
Capital expenditures	(763)	(543)	(389)
Purchases of investments	(104)	(338)	(319)
Reduction of investments	60	215	–
Other, net	(41)	3	–
Net cash used for investing activities	(848)	(663)	(708)
Financing Activities:			
Cash dividends paid to common shareholders	(802)	(716)	(627)
Common shares repurchased	(855)	(504)	(141)
Net change in short-term borrowings	280	187	(19)
Issuance (repayment) of long-term debt	106	(2)	(42)
Other, net	133	297	(55)
Net cash used for financing activities	(1,138)	(738)	(884)
Effect of exchange rates on cash and cash equivalents	(4)	(2)	(1)
Net increase in cash and cash equivalents	521	617	545
Cash and cash equivalents, beginning of year	1,876	1,259	714
Cash and cash equivalents, end of year	$ 2,397	$ 1,876	$ 1,259

See notes to consolidated financial statements.

schering-plough corporation and subsidiaries

consolidated balance sheets

(Amounts in millions, except per share figures)	At December 31, 2000	1999
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,397	$ 1,876
Accounts receivable, less allowances: 2000, $96; 1999, $92	1,413	1,022
Inventories	951	958
Prepaid expenses, deferred income taxes and other current assets	959	1,053
Total current assets	5,720	4,909
Property, at cost:		
Land	56	50
Buildings and improvements	2,072	1,922
Equipment	1,861	1,760
Construction in progress	938	654
Total	4,927	4,386
Less accumulated depreciation	1,565	1,447
Property, net	3,362	2,939
Intangible assets, net	627	588
Other assets	1,096	939
	$ 10,805	$ 9,375
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,031	$ 1,063
Short-term borrowings and current portion of long-term debt	994	728
U.S., foreign and state income taxes	589	502
Accrued compensation	312	301
Other accrued liabilities	719	615
Total current liabilities	3,645	3,209
Long-term Liabilities:		
Deferred income taxes	214	284
Other long-term liabilities	827	717
Total long-term liabilities	1,041	1,001
Shareholders' Equity:		
Preferred shares – authorized shares: 50, $1 par value; issued: none	–	–
Common shares – authorized shares: 2,400, $.50 par value; issued: 2,030	1,015	1,015
Paid-in capital	974	675
Retained earnings	9,817	8,196
Accumulated other comprehensive income	(318)	(233)
Total	11,488	9,653
Less treasury shares: 2000, 567; 1999, 558; at cost	5,369	4,488
Total shareholders' equity	6,119	5,165
	$ 10,805	$ 9,375

See notes to consolidated financial statements.

schering-plough corporation and subsidiaries

statements of consolidated shareholders' equity

(Amounts in millions)	Common Shares	Paid-in Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance December 31, 1997	$ 1,015	$ 96	$ 5,673	$ (3,719)	$ (244)	$ 2,821
Comprehensive income:						
Net income			1,756			1,756
Foreign currency translation, net of tax					5	5
Unrealized gain on investments held available for sale, net					1	1
Total comprehensive income						1,762
Cash dividends on common shares			(627)			(627)
Stock incentive plans		269		(82)		187
Common shares repurchased				(141)		(141)
Balance December 31, 1998	1,015	365	6,802	(3,942)	(238)	4,002
Comprehensive income:						
Net income			2,110			2,110
Foreign currency translation, net of tax					(54)	(54)
Unrealized gain on investments held available for sale, net					59	59
Total comprehensive income						2,115
Cash dividends on common shares			(716)			(716)
Stock incentive plans		310		(42)		268
Common shares repurchased				(504)		(504)
Balance December 31, 1999	1,015	675	8,196	(4,488)	(233)	5,165
Comprehensive income:						
Net income			**2,423**			**2,423**
Foreign currency translation, net of tax					**(75)**	**(75)**
Unrealized (loss) on investments held available for sale, net					**(10)**	**(10)**
Total comprehensive income						**2,338**
Cash dividends on common shares			**(802)**			**(802)**
Stock incentive plans		**299**		**(26)**		**273**
Common shares repurchased				**(855)**		**(855)**
Balance December 31, 2000	**$ 1,015**	**$ 974**	**$ 9,817**	**$ (5,369)**	**$ (318)**	**$ 6,119**

See notes to consolidated financial statements.

notes to consolidated financial statements

(Dollars in millions, except per share figures)

accounting policies

Principles of Consolidation The consolidated financial statements include Schering-Plough Corporation and its subsidiaries (the "Company"). Intercompany balances and transactions are eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and use assumptions that affect certain reported amounts and disclosures. Actual amounts may differ.

Cash and Cash Equivalents Cash and cash equivalents include operating cash and highly liquid investments, generally with original maturities of three months or less.

Inventories Inventories are valued at the lower of cost or market. Cost is determined by using the last-in, first-out method for a substantial portion of inventories located in the United States. The cost of all other inventories is determined by the first-in, first-out method.

Depreciation Depreciation is provided over the estimated useful lives of the properties, generally by use of the straight-line method. Average useful lives are 50 years for buildings, 25 years for building improvements and 12 years for equipment. Depreciation expense was $235, $208 and $191 in 2000, 1999 and 1998, respectively.

Intangible Assets Intangible assets principally include goodwill, licenses, patents and trademarks. Intangible assets are recorded at cost and amortized on the straight-line method over periods not exceeding 40 years. Accumulated amortization of intangible assets was $257 and $188 at December 31, 2000 and 1999, respectively. Intangible assets are reviewed to determine recoverability by comparing their carrying values to undiscounted expected future cash flows when events or circumstances warrant such a review.

Foreign Currency Translation The net assets of most of the Company's foreign subsidiaries are translated into U.S. dollars using current exchange rates. The U.S. dollar effects that arise from translating the net assets of these subsidiaries at changing rates are recorded in the foreign currency translation adjustment account, which is included in other comprehensive income. For the remaining foreign subsidiaries, non-monetary assets and liabilities are translated using historical rates, while monetary assets and liabilities are translated at current rates, with the U.S. dollar effects of rate changes included in income.

Exchange gains and losses arising from translating intercompany balances of a long-term investment nature are recorded in the foreign currency translation adjustment account. Other exchange gains and losses are included in income.

Net foreign exchange losses included in income were $8, $6 and $2 in 2000, 1999 and 1998, respectively.

Accumulated Other Comprehensive Income Accumulated other comprehensive income consists of the accumulated foreign currency translation adjustment account and accumulated unrealized gains and losses on securities classified for Statement of Financial Accounting Standards (SFAS) No. 115 purposes as held available for sale. At December 31, 2000 and 1999, the accumulated foreign currency translation adjustment account, net of tax, totaled $376 and $301, respectively, and accumulated unrealized gains, net of tax, totaled $58 and $68, respectively.

Revenue Recognition Revenues from the sale of products are recorded at the time goods are shipped to customers. Provisions for discounts, returns and other allowances are recorded in the same period the related sales are recognized.

Earnings Per Common Share Diluted earnings per common share are computed by dividing income by the sum of the weighted-average number of common shares outstanding plus the dilutive effect of shares issuable through deferred stock units and the exercise of stock options. Basic earnings per common share are computed by dividing income by the weighted-average number of common shares outstanding.

The shares used to calculate basic earnings per common share and diluted earnings per common share are reconciled as follows:

(shares in millions)	2000	1999	1998
Average shares outstanding for basic earnings per share	1,465	1,470	1,468
Dilutive effect of options and deferred stock units	11	16	20
Average shares outstanding for diluted earnings per share	1,476	1,486	1,488

As of December 31, 2000, there were 1 million options outstanding with exercise prices higher than the average price of the Company's common stock during 2000. Accordingly, these options are not included in the dilutive effects indicated above.

Recently Issued Accounting Standards In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended, is effective for the Company for reporting periods beginning after December 31, 2000. The statement requires all derivatives to be recorded on the balance sheet at fair value and establishes new accounting rules for hedging activities. Based on the Company's limited use of derivative financial instruments, the impact of adoption will not be material and its ongoing effects are not expected to be material.

In May 2000, the Emerging Issues Task Force (EITF) issued EITF No. 00-14, "Accounting for Certain Sales Incentives," which addresses the income statement classification of certain sales incentives. The Company adopted EITF Issue No. 00-14 in the fourth quarter of 2000 and, therefore, has reclassified the cost of certain sales incentives from selling, general and administrative expense to net sales. All prior periods are presented on a comparable basis. Net sales for 1999 and 1998 were reduced by $60 and $50, respectively. The adoption of EITF Issue No. 00-14 has no effect on net income.

financial instruments

The table below presents the carrying values and estimated fair values for the Company's financial instruments, including derivative financial instruments. Estimated fair values were determined based on market prices, where available, or dealer quotes.

	December 31, 2000		December 31, 1999	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
ASSETS:				
Cash and cash equivalents	$ 2,397	$ 2,397	$ 1,876	$ 1,876
Debt and equity investments	562	562	532	532
Interest rate swap contracts	16	14	6	(6)
Foreign currency option contracts	–	–	1	–
LIABILITIES:				
Short-term borrowings and current portion of long-term debt	994	994	728	728
Long-term debt	109	109	6	6
Equity swap contracts	16	16	(2)	(2)
Other financing instruments	219	211	208	193

Credit and Market Risk Most financial instruments expose the holder to credit risk for non-performance and to market risk for changes in interest and currency rates. The Company mitigates credit risk on derivative instruments by dealing only with financially sound counterparties. Accordingly, the Company does not anticipate loss for non-performance. The Company does not enter into derivative instruments to generate trading profits. Refer to "Market Risk Disclosures" in Management's Discussion and Analysis of Operations and Financial Condition for a discussion regarding the market risk of the Company's financial instruments.

Debt and Equity Investments Debt and equity investments, which are primarily included in other non-current assets, consist of a time deposit, equity securities of licensor companies and debt and equity securities held in non-qualified trusts to fund benefit obligations. Investments are primarily classified as available for sale and are carried at fair value, with unrealized gains and losses, net of tax, reported in accumulated other comprehensive income. Realized gains and losses are recorded in income.

Proceeds from the sale of available for sale securities were $43 in 2000, resulting in realized gains of $29. Such amounts for 1999 and 1998 were insignificant. An insignificant portion of the gains realized in 2000 was included in the accumulated unrealized gains balance at December 31, 1999.

Gross unrealized gains in 2000 and 1999 were $27 and $59, respectively; gross unrealized losses in 2000 were $9 and in 1999 were not material. Gross unrealized gains and losses in 1998 were not material.

Interest Rate Swap Contracts In 1991 and 1992, the Company utilized interest rate swaps as part of its international cash management strategy. The notional principal of the 1991 arrangement is $650 and the notional principal of the 1992 arrangement is $950. Both arrangements have 20-year terms. At December 31, 2000, the arrangements provide for the payment of interest based upon LIBOR and the receipt of interest based upon an annual election of various floating rates. As a result, the Company remains subject to a moderate degree of market risk through maturity of the swaps. These interest rate swaps are recorded at fair value, with changes in fair value recorded in earnings. Annual net cash flows for payments and receipts under these interest rate swap contracts are not material. The net asset or liability under these interest rate swaps is recorded in other current assets or other accrued liabilities, as applicable.

To hedge future variable interest receipts on a $200 time deposit purchased in 1999, the Company entered into an interest rate swap that matures in November 2003. Under the swap, the Company will receive 5.6 percent on a notional principal of $200 and will pay three-month LIBOR. The net amount paid or earned on this interest rate swap has been reflected as an adjustment to interest income in both 2000 and 1999.

Foreign Currency Option Contracts To hedge certain anticipated inventory purchases, the Company has, from time to time, acquired foreign currency option contracts. Gains, if any, realized on these contracts are included in cost of sales when the inventory is sold. Losses are limited to the premiums paid. At December 31, 2000, the terms of the option contracts outstanding permit the Company to deliver a total of 96 million South African rand in exchange for $12.4 at various dates during 2001. Contracts outstanding at December 31, 1999 all matured during 2000.

Equity Swap Contracts The Company has hedged the fair value of certain of its equity investments with equity swaps. The combined notional amount of all equity hedges at December 31, 2000 was $111. Realized and unrealized gains and losses on equity swaps are classified in the financial statements in the same manner as the hedged investment losses and gains.

borrowings

The Company has a $1 billion committed, multi-currency unsecured revolving credit facility expiring in 2001 from a syndicate of financial institutions. This facility is available for general corporate purposes and is considered as support for the Company's commercial paper borrowings. This line of credit does not require compensating balances; however, a nominal commitment fee is paid. At December 31, 2000, no funds had been drawn down under this facility. In addition, the Company's foreign subsidiaries had available $293 in unused lines of credit from various financial institutions at December 31, 2000. Generally, these foreign credit lines do not require commitment fees or compensating balances and are cancelable at the option of the Company or the financial institutions.

In general, short-term borrowings consist of commercial paper issued in the United States, bank loans, notes payable and amounts drawn down under the revolving credit facility. Commercial paper outstanding at December 31, 2000 and 1999 was $895 and $495, respectively. The weighted-average interest rate for short-term borrowings at December 31, 2000 and 1999 was 6.8 percent and 6.9 percent, respectively.

In connection with the Company's purchase of a research and office facility in 2000, the Company issued a note payable to the seller due in its entirety in 2003. The imputed interest rate on the note is 5.9 percent. The carrying amount of the note payable, which approximates its market value, at December 31, 2000, was $88. This obligation is included in other long-term liabilities.

The Company has a shelf registration statement on file with the Securities and Exchange Commission covering the issuance of up to $200 of debt securities. The terms of these securities will be determined at the time of sale. As of December 31, 2000, no debt securities have been issued pursuant to this registration.

other financing instruments

During 1999, a subsidiary of the Company issued $200 of equity-type securities. The securities bear a LIBOR-based yield that is substantially fixed through November 28, 2003; thereafter, the Company can elect to reset the rate annually or substantially fix the rate for the next five years. At December 31, 2000 and 1999, the rate was 5.0 percent and 5.6 percent, respectively. The Company can call the securities at any time after November 30, 2004, or earlier under certain circumstances. The holders can put the securities back to the Company at any time after November 30, 2027, or earlier under certain circumstances. Because of the put and call features, this obligation is included in other long-term liabilities.

commitments

Total rent expense amounted to $71 in 2000, $65 in 1999 and $58 in 1998. Future minimum rental commitments on non-cancelable operating leases as of December 31, 2000 range from $32 in 2001 to $8 in 2005, with aggregate minimum lease obligations of $28 due thereafter. The Company has commitments related to future capital expenditures totaling $223 as of December 31, 2000.

interest costs and income

Interest costs were as follows:

	2000	1999	1998
Interest cost incurred	$ 64	$ 41	$ 28
Less: amount capitalized on construction	20	12	9
Interest expense	$ 44	$ 29	$ 19
Cash paid for interest, net of amount capitalized	$ 50	$ 28	$ 19

Interest income for 2000, 1999 and 1998 was $159, $103 and $59, respectively. Interest income and interest expense are included in other (income) expense, net.

shareholders' equity

On September 22, 1998, the Board of Directors voted to increase the number of authorized common shares from 1.2 billion to 2.4 billion and approved a 2-for-1 stock split. Distribution of the split shares was made on December 2, 1998. All per share amounts herein reflect the effect of the stock split.

A summary of treasury share transactions follows:

(shares in millions)	2000	1999	1998
Share balance at January 1	558	558	282
Shares issued under stock incentive plans	(11)	(10)	(9)
Purchase of treasury shares	20	10	3
Effect of 2-for-1 stock split	–	–	282
Share balance at December 31	567	558	558

The Company has Preferred Share Purchase Rights outstanding that are attached to, and presently only trade with, the Company's common shares and are not exercisable. The rights will become exercisable only if a person or group acquires 20 percent or more of the Company's common stock or announces a tender offer which, if completed, would result in ownership by a person or group of 20 percent or more of the Company's common stock. Should a person or group acquire 20 percent or more of the Company's outstanding common stock through a merger or other business combination transaction, each right will entitle its holder (other than such acquirer) to purchase common shares of Schering-Plough having a market value of twice the exercise price of the right. The exercise price of the rights is $100.

Following the acquisition by a person or group of beneficial ownership of 20 percent or more but less than 50 percent of the Company's common stock, the Board of Directors may call for the exchange of the rights (other than rights owned by such acquirer), in whole or in part, at an exchange ratio of one common share or one two-hundredth of a share of Series A Junior Participating Preferred Stock per right. Also, prior to the acquisition by a person or group of beneficial ownership of 20 percent or more of the Company's common stock, the rights are redeemable for $.005 per right at the option of the Board of Directors. The rights will expire on July 10, 2007, unless earlier redeemed or exchanged. The Board of Directors is also authorized to reduce the 20 percent thresholds referred to above to not less than the greater of (i) the sum of .001 percent and the largest percentage of the outstanding shares of common stock then known to the Company to be beneficially owned by any person or group of affiliated or associated persons and (ii) 10 percent, except that, following the acquisition by a person or group of beneficial ownership of 20 percent or more of the Company's common stock, no such reduction may adversely affect the interests of the holders of the rights.

collaboration with Merck

In May 2000, the Company and Merck & Co., Inc. (Merck) entered into agreements to jointly develop and market, in the United States, new prescription medicines in the cholesterol-management and respiratory therapeutic areas. The agreements cover the development and marketing of:

- ezetimibe, the Company's novel cholesterol absorption inhibitor, as a once-daily fixed-combination tablet with *Zocor,* Merck's cholesterol-management medicine;
- ezetimibe as a once-daily monotherapy;
- co-administration of ezetimibe with statins; and
- a once-daily fixed-combination tablet containing CLARITIN and *Singulair* for the treatment of allergic rhinitis and asthma. *Singulair* is Merck's once-daily leukotriene receptor antagonist for the treatment of asthma.

At this time, all the products are in the development stage. The development costs are being shared equally by the two companies.

stock incentive plans

Under the terms of the Company's 1997 Stock Incentive Plan, 72 million of the Company's common shares may be granted as stock options or awarded as deferred stock units to officers and certain employees of the Company through December 2002. Option exercise prices equal the market price of the common shares at their grant dates. Options expire not later than 10 years after the date of grant. Standard options granted generally have a one-year vesting term. Other option grants vest over longer periods ranging from three to nine years. Deferred stock units are payable in an equivalent number of common shares; the shares are distributable in a single installment or in five equal annual installments generally commencing one year from the date of the award.

The following table summarizes stock option activity over the past three years under the current and prior plans:

(number of options in millions)	2000		1999		1998	
	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding at January 1	42	$ 27.34	42	$ 19.31	42	$ 12.20
Granted	14	42.03	9	52.86	11	39.06
Exercised	(9)	16.36	(8)	13.96	(10)	10.47
Canceled or expired	(1)	40.73	(1)	32.79	(1)	30.87
Outstanding at December 31	46	$ 33.77	42	$ 27.34	42	$ 19.31
Exercisable at December 31	26	$ 32.10	27	$ 21.16	25	$ 12.02

The Company accounts for its stock compensation arrangements using the intrinsic value method. If the fair value method of accounting was applied as defined in SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's pro forma net income would have been $2,369, $2,044 and $1,704 for 2000, 1999 and 1998, respectively. Pro forma diluted earnings per share would have been $1.60, $1.38 and $1.15 for 2000, 1999 and 1998, respectively, and pro forma basic earnings per share would have been $1.62, $1.39 and $1.16 for 2000, 1999 and 1998, respectively.

The weighted-average fair value per option granted in 2000, 1999 and 1998 was $13.82, $12.38 and $9.24, respectively. The fair values were estimated using the Black-Scholes option pricing model based on the following assumptions:

	2000	1999	1998
Dividend yield	1.7%	2.2%	2.4%
Volatility	32%	23%	24%
Risk-free interest rate	6.3%	5.1%	5.5%
Expected term of options (in years)	5	5	5

In 2000, 1999 and 1998, the Company awarded deferred stock units totaling 2.5 million, 2.4 million and 2.5 million, respectively. The expense recorded in 2000, 1999 and 1998 for deferred stock units was $76, $61 and $45, respectively.

inventories

Year-end inventories consisted of the following:

	2000	1999
Finished products	$ 459	$ 437
Goods in process	261	267
Raw materials and supplies	231	254
Total inventories	$ 951	$ 958

Inventories valued on a last-in, first-out basis comprised approximately 29 percent and 31 percent of total inventories at December 31, 2000 and 1999, respectively. The estimated replacement cost of total inventories at December 31, 2000 and 1999 was $995 and $972, respectively.

retirement plans and other post-retirement benefits

The Company has defined benefit pension plans covering eligible employees in the United States and certain foreign countries, and the Company provides post-retirement health care benefits to its eligible U.S. retirees and their dependents.

The components of net pension and other post-retirement benefit (income) expense were as follows:

	Retirement Plans			Post-retirement Health Care Benefits		
	2000	1999	1998	2000	1999	1998
Service cost	$ 45	$ 42	$ 41	$ 5	$ 5	$ 5
Interest cost	69	62	59	12	11	11
Expected return on plan assets	(110)	(101)	(89)	(20)	(18)	(17)
Amortization, net	(6)	(5)	(6)	(2)	(2)	(1)
Net	$ (2)	$ (2)	$ 5	$ (5)	$ (4)	$ (2)

The components of the changes in the benefit obligations were as follows:

	Retirement Plans		Post-retirement Health Care Benefits	
	2000	1999	2000	1999
Benefit obligations at January 1	$ 968	$ 987	$ 170	$ 177
Service cost	45	42	5	5
Interest cost	69	62	12	11
Assumption changes	–	(101)	–	(20)
Effects of exchange rate changes	(12)	(9)	–	–
Benefits paid	(45)	(41)	(12)	(11)
Actuarial losses	11	22	10	8
Plan amendments	–	6	–	–
Benefit obligations at December 31	$ 1,036	$ 968	$ 185	$ 170
Benefit obligations of overfunded plans	$ 825	$ 740	$ 185	$ 170
Benefit obligations of underfunded plans	211	228		

The components of the changes in plan assets were as follows:

	Retirement Plans		Post-retirement Health Care Benefits	
	2000	1999	2000	1999
Fair value of plan assets, primarily stocks and bonds, at January 1	$ 1,299	$ 1,145	$ 259	$ 228
Actual return on plan assets	5	188	(4)	42
Contributions	19	14	–	–
Effects of exchange rate changes	(10)	(9)	–	–
Benefits paid	(45)	(39)	(12)	(11)
Fair value of plan assets at December 31	$ 1,268	$ 1,299	$ 243	$ 259
Plan assets of overfunded plans	$ 1,218	$ 1,219	$ 243	$ 259
Plan assets of underfunded plans	50	80		

In addition to the plan assets indicated above, at December 31, 2000 and 1999, securities of $76 and $79, respectively, were held in non-qualified trusts designated to provide pension benefits for certain underfunded plans.

The following is a reconciliation of the funded status of the plans to the Company's balance sheet:

	Retirement Plans		Post-retirement Health Care Benefits	
	2000	1999	2000	1999
Plan assets in excess of benefit obligations	$ 232	$ 331	$ 58	$ 89
Unrecognized net transition assets	(29)	(37)	–	–
Unrecognized prior service costs	15	16	(4)	(5)
Unrecognized net actuarial (gain)	(70)	(189)	(50)	(85)
Net asset (liability) at December 31	$ 148	$ 121	$ 4	$ (1)

The weighted-average assumptions employed at December 31 were:

	Retirement Plans		Post-retirement Health Care Benefits	
	2000	1999	2000	1999
Discount rate	7.1%	7.0%	7.5%	7.5%
Long-term expected rate of return on plan assets	9.5%	9.5%	9.0%	9.0%
Rate of increase in future compensation	4.0%	3.9%		

The weighted-average assumed health care cost inflation rates used for post-retirement measurement purposes is 8.0 percent for 2001, trending down to 5.0 percent by 2004. A 1 percent increase or decrease in the assumed health care cost trend rate would increase or decrease combined post-retirement service and interest cost by $3 and the post-retirement benefit obligation by $24.

The Company has a defined contribution profit-sharing plan covering substantially all its full-time domestic employees who have completed one year of service. The annual contribution is determined by a formula based on the Company's income, shareholders' equity and participants' compensation. Profit-sharing expense totaled $84, $74 and $66 in 2000, 1999 and 1998, respectively.

income taxes

U.S. and foreign operations contributed to income before income taxes as follows:

	2000	1999	1998
United States	$ 2,365	$ 2,031	$ 1,609
Foreign	823	764	717
Total income before income taxes	$ 3,188	$ 2,795	$ 2,326

The components of income tax expense were as follows:

	2000	1999	1998
Current:			
Federal	$ 503	$ 464	$ 442
Foreign	178	185	184
State	27	13	14
Total current	708	662	640
Deferred:			
Federal and state	21	46	(19)
Foreign	36	(23)	(51)
Total deferred	57	23	(70)
Total income tax expense	$ 765	$ 685	$ 570

The difference between the U.S. statutory tax rate and the Company's effective tax rate was due to the following:

	2000	1999	1998
U.S. statutory tax rate	35.0%	35.0%	35.0%
Increase (decrease) in taxes resulting from:			
Lower rates in other jurisdictions, net	(12.2)	(10.5)	(10.6)
Research tax credit	(.8)	(.8)	(.8)
All other, net	2.0	.8	.9
Effective tax rate	24.0%	24.5%	24.5%

The lower rates in other jurisdictions, net, are primarily attributable to certain employment and capital investment actions taken by the Company. As a result, income from manufacturing activities in these jurisdictions is subject to lower tax rates through 2018.

As of December 31, 2000 and 1999, the Company had total deferred tax assets of $693 and $733, respectively, and deferred tax liabilities of $486 and $521, respectively. Valuation allowances are not significant. Significant deferred tax assets at December 31, 2000 and 1999 were for operating costs not currently deductible for tax purposes and totaled $353 and $389, respectively. Significant deferred tax liabilities at December 31, 2000 and 1999 were for depreciation differences, $232 and $222, respectively, and retirement plans, $82 and $67, respectively. Other current assets include deferred income taxes of $431 and $507 at December 31, 2000 and 1999, respectively.

Deferred taxes are not provided on undistributed earnings of foreign subsidiaries (considered to be permanent investments), which at December 31, 2000 approximated $6,400. Determining the tax liability that would arise if these earnings were remitted is not practicable.

As of December 31, 2000, the U.S. Internal Revenue Service has completed its examination of the Company's tax returns for all years through 1988, and there are no unresolved issues outstanding for those years.

Total income tax payments during 2000, 1999 and 1998 were $606, $502 and $458, respectively.

other matters

In February 2001, the Company reported that the FDA has been conducting inspections of the Company's manufacturing facilities in New Jersey and Puerto Rico, and has issued reports citing deficiencies concerning compliance with current Good Manufacturing Practices (GMPs), primarily relating to production processes, controls and procedures. The extent of the impact of these matters on 2001 and future operations will depend upon the timing and nature of a resolution of the manufacturing issues.

legal and environmental matters

The Company has responsibilities for environmental cleanup under various state, local and federal laws, including the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund. At several Superfund sites (or equivalent sites under state law), the Company is alleged to be a potentially responsible party (PRP). The Company estimates its obligations for cleanup costs for Superfund sites based on information obtained from the federal Environmental Protection Agency, an equivalent state agency and/or studies prepared by independent engineers, and on the probable costs to be paid by other PRPs. The Company records a liability for environmental assessments and/or cleanup when it is probable a loss has been incurred and the amount can be estimated reasonably.

The Company is also involved in various other claims and legal proceedings of a nature considered normal to its business, including product liability cases. The estimated costs the Company expects to pay in these cases are accrued when the liability is considered probable and the amount can be estimated reasonably. Consistent with trends in the pharmaceutical industry, the Company is self-insured for certain events.

The recorded liabilities for the above matters at December 31, 2000 and 1999 and the related expenses incurred during the three years ended December 31, 2000 were not material. Expected insurance recoveries have not been considered in determining the costs for environmental-related liabilities. Management believes that, except for the matters discussed in the following paragraphs, it is remote that any material liability in excess of the amounts accrued will be incurred.

Residents in the vicinity of a publicly owned waste-water treatment plant in Barceloneta, Puerto Rico, have filed two lawsuits against the plant operator and numerous companies that discharge into the plant, including a subsidiary of the Company, for damages and injunctive relief relating to odors coming from the plant and connecting sewers. One of these lawsuits is a class action claiming damages of $600. Both lawsuits are in the very early stages of discovery, and it is not possible to predict the outcome.

The Company is a defendant in approximately 100 antitrust actions commenced (starting in 1993) in state and federal courts by independent retail pharmacies, chain retail pharmacies and consumers. The plaintiffs allege price discrimination and/or conspiracy between the Company and other defendants to restrain trade by jointly refusing to sell prescription drugs at discounted prices to the plaintiffs.

One of the federal cases was a class action on behalf of approximately two-thirds of all retail pharmacies in the United States and alleged a price-fixing conspiracy. The Company, in February 1996, agreed to settle the federal class action for a total of $22, which has been paid in full. The United States District Court in Illinois approved the settlement of the federal class action in June 1996. In June 1997, the Seventh Circuit Court of Appeals dismissed all appeals from that settlement, and it is not subject to further review. The defendants that did not settle the class action proceeded to trial in September 1998. The trial ended in November 1998 with a directed verdict in the defendants' favor.

In April 1997, certain of the plaintiffs in the federal class action commenced another purported class action in the United States District Court in Illinois against the Company and the other defendants who settled the previous federal class action. The complaint alleges that the defendants conspired not to implement the settlement commitments following the settlement discussed above. The District Court has denied the plaintiffs' motion for a preliminary injunction hearing.

The Company has settled all the state retailer actions, except in California and Alabama. The settlement amounts were not material to the Company. In June 1999, the Alabama Supreme Court reversed the denial of a motion for judgment on the pleadings in the Alabama retailer case. The court held that the Alabama antitrust law did not apply to conspiracies alleged to be in interstate commerce. Based on that ruling, the Alabama retailer case has been dismissed. Subsequently, the District Attorney for the First Judicial Circuit filed a complaint on behalf of Alabama consumers under the State's Deceptive Trade Practices Act.

The Company has settled or otherwise disposed of all the state consumer cases. The settlement amounts were not material to the Company.

The Company has settled several other groups of similar federal antitrust cases brought by food and drug chain retailers and independent retailer stores comprising about 22 percent of the prescription drug retail market. The settlement amounts were not material to the Company.

Plaintiffs in these antitrust actions generally seek treble damages in an unspecified amount and an injunction against the allegedly unlawful conduct.

The Company believes all the antitrust actions are without merit and is defending itself vigorously.

In March 1996, the Company was notified that the United States Federal Trade Commission (FTC) was investigating whether the Company, along with other pharmaceutical companies, conspired to fix prescription drug prices. The Company believes that its actions have been lawful and proper and is cooperating in the investigation. However, it is not possible to predict the outcome of the investigation, which could result in the imposition of fines, penalties and injunctive or administrative remedies.

In October 1999, the Company received a subpoena from the U.S. Attorney's Office for the Eastern District of Pennsylvania, pursuant to the Health Insurance Portability and Accountability Act of 1996, concerning the Company's contracts with pharmacy benefit managers (PBMs) and managed care organizations to provide disease management services in connection with the marketing of its pharmaceutical products. It appears that the subpoena is one of a number addressed to industry participants as part of an inquiry into, among other things, pharmaceutical marketing practices. The government's inquiry appears to focus on whether the Company's disease management and other marketing programs and arrangements comply with federal health care laws and whether the value of its disease management programs and other marketing programs and arrangements should have been included in the calculation of rebates to the government. The Company is cooperating in the investigation. It is not possible to predict the outcome of the investigation, which could include the imposition of fines, penalties and injunctive or administrative remedies, nor can the Company predict whether the investigation will affect its marketing practices or sales.

In February 1998, Geneva Pharmaceuticals, Inc. (Geneva) submitted an Abbreviated New Drug Application (ANDA) to the U.S. Food and Drug Administration (FDA) seeking to market a generic form of CLARITIN in the United States several years before the expiration of the Company's patents. Geneva has alleged that certain of the Company's U.S. CLARITIN patents are invalid and unenforceable. The CLARITIN patents are material to the Company's business. In March 1998, the Company filed suit in federal court seeking a ruling that Geneva's ANDA submission constitutes willful infringement of the Company's patents and that its challenge to the Company's patents is without merit. The Company believes that it should prevail in the suit. However, as with any litigation, there can be no assurance that the Company will prevail.

During 1999, Copley Pharmaceutical, Inc., Teva Pharmaceuticals, Inc., Novex Pharma and Zenith Goldline Pharmaceuticals individually notified the Company that each had submitted an ANDA to the FDA seeking to market certain generic forms of CLARITIN in the United States before the expiration of certain of the Company's patents; and in 2000, Andrx Pharmaceuticals, L.L.C., Mylan Pharmaceuticals Inc., ESI Lederle, Inc. (Lederle) and Impax Laboratories, Inc. made similar submissions. Each has alleged that one or more of those patents are invalid and unenforceable. In each case, the Company has filed or will file suit in federal court seeking a ruling that the applicable ANDA submission and proposed marketing of a generic product constitute willful infringement of the Company's patent and that the challenge to the patent is without merit. The Company believes that it should prevail in these suits. However, as with any litigation, there can be no assurance that the Company will prevail.

In January 2000, Hoffmann-La Roche Inc. filed actions against the Company in the United States District Court in New Jersey, France and Germany alleging that the Company's PEG-INTRON (peginterferon alfa-2b) infringes Hoffmann-La Roche Inc.'s patents on certain pegylated interferons. The Company believes that it should prevail in these suits. However, as with any litigation, there can be no assurance that the Company will prevail.

The Company is responding to investigations by the Department of Health and Human Services, the Department of Justice and certain states into certain industry and Company practices regarding average wholesale price (AWP). These investigations include a Department of Justice review of the merits of a federal action filed by a private entity on behalf of the United States in the United States District Court for the Southern District of Florida, as well as an investigation by the United States Attorney's Office for the District of Massachusetts, regarding, inter alia, whether the AWP set by pharmaceutical companies for certain drugs improperly exceeds the average prices paid by dispensers and, as a consequence, results in unlawful inflation of certain government drug reimbursements that are based on AWP or wholesale acquisition cost. The United States Attorney's Office for the District of Massachusetts is also investigating whether the Company's sales of a product that was repackaged for sale by a managed care organization should have been included in the Company's Medicaid best price calculations. The Company is cooperating with these investigations. It is not possible to predict the outcome of these investigations, which could include the imposition of fines, penalties and injunctive or administrative remedies.

During the third quarter of 2000, the Company's generic subsidiary, Warrick Pharmaceuticals, was sued by the state of Texas. The lawsuit alleges that Warrick supplied the state with false reports of wholesale prices, which caused the state to pay Medicaid claims on prescriptions of Warrick's albuterol sulfate solution at a higher than justified level. The state seeks damages of $54 against Warrick, including treble damages and penalties. The Company is cooperating with the investigation. It is not possible to predict the outcome of the litigation, which could result in the imposition of fines, penalties and injunctive or administrative remedies.

The FTC is investigating possible anti-competitive effects of the settlement of patent lawsuits between the Company and Lederle and the Company and Upsher-Smith, Inc. (Upsher-Smith). The lawsuits that were settled related to generic versions of K-DUR, the Company's long-acting potassium chloride product, which was the subject of Abbreviated New Drug Applications filed by Lederle and Upsher-Smith. The investigation is ongoing. The Company believes that its actions have been lawful and proper, and is cooperating in the investigation. However, it is not possible to predict the outcome of the investigation, which could result in the imposition of fines, penalties and injunctive or administrative remedies.

In January 2000, a jury found that the Company's PRIME PAC® PRRS (Porcine Respiratory and Reproductive Syndrome) vaccine infringed a patent owned by Boehringer Ingelheim Vetmedica, Inc. An injunction was issued in August 2000 barring further sales of the Company's vaccine. The Company has filed post-trial motions, currently pending, for either a reversal of the jury's verdict or a new trial. The Company believes it should prevail, either through the post-trial motions or on appeal. However, as with any litigation, there can be no assurance that the Company will prevail.

On February 15, 2001, the Company stated in a press release that the FDA has been conducting inspections of the Company's manufacturing facilities in New Jersey and Puerto Rico and has issued reports citing deficiencies concerning compliance with current GMPs, primarily relating to production processes, controls and procedures. The next day, February 16, 2001, a lawsuit was filed in the United States District Court for the District of New Jersey against the Company and certain named officers alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The plaintiffs in the suit purport to represent classes of shareholders who purchased shares of Company stock between July 25, 2000 and February 15, 2001, the date of the press release. The litigation is in the very early stages. The Company believes that it has substantial defenses and intends to defend the suit vigorously.

segment information

Schering-Plough is a worldwide research-based pharmaceutical company engaged in the discovery, development, manufacturing and marketing of pharmaceutical products. Discovery and development efforts target the field of human health. However, application in the field of animal health can result from these efforts. The Company views animal health applications as a means to maximize the return on investments in discovery and development. The Company operates primarily in the prescription pharmaceutical marketplace. However, where appropriate, the Company has sought regulatory approval to switch prescription products to over-the-counter (OTC) status as a means of extending a product's life cycle. In this way, the OTC marketplace is yet another means of maximizing the return on investments in discovery and development.

Net Sales by Major Therapeutic Category

	2000	1999	1998
Allergy & Respiratory	$ 4,189	$ 3,850	$ 3,375
Anti-infective & Anticancer	2,015	1,738	1,263
Cardiovasculars	746	673	750
Dermatologicals	680	682	619
Other Pharmaceuticals	716	775	677
Animal Health	720	672	642
Foot Care	348	332	323
OTC	202	209	207
Sun Care	199	185	171
Consolidated net sales	$ 9,815	$ 9,116	$ 8,027
Consolidated income before income taxes	$ 3,188	$ 2,795	$ 2,326

Certain amounts in 1999 and 1998 have been reclassified from selling, general and administrative expense to net sales to comply with EITF Issue No. 00-14.

The Company has subsidiaries in more than 40 countries outside the United States. Sales outside the United States comprised 36 percent of consolidated net sales in 2000 and 1999, and 37 percent in 1998. No single foreign country accounted for more than 5 percent of consolidated net sales during the past three years.

Net Sales by Geographic Area

	2000	1999	1998
United States	$ 6,299	$ 5,794	$ 5,078
Europe and Canada	2,204	2,138	1,874
Latin America	694	614	578
Pacific Area and Asia	618	570	497
Consolidated net sales	$ 9,815	$ 9,116	$ 8,027

Certain amounts in 1999 and 1998 have been reclassified from selling, general and administrative expense to net sales to comply with EITF Issue No. 00-14.

Net sales are presented in the geographic area in which the Company's customers are located. During 2000, 1999 and 1998, 13 percent, 12 percent and 11 percent, respectively, of consolidated net sales were made to McKesson HBOC, Inc., a major pharmaceutical and health care products distributor.

Long-lived Assets by Geographic Location

	2000	1999	1998
United States	$ 2,123	$ 1,794	$ 1,567
Ireland	384	358	355
Singapore	323	272	281
Puerto Rico	207	175	162
Other	656	533	515
Total	$ 3,693	$ 3,132	$ 2,880

Long-lived assets shown by geographic location are primarily property.

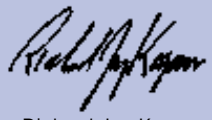
report by management

Management is responsible for the preparation and the integrity of the accompanying financial statements. These statements are prepared in accordance with generally accepted accounting principles and require the use of estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses. In management's opinion, the consolidated financial statements present fairly the Company's results of operations, financial position and cash flows. All financial information in this Annual Report is consistent with the financial statements.

The Company maintains, and management relies on, a system of internal controls and related policies and procedures that provide reasonable assurance of the integrity and reliability of the financial statements. The system provides, at appropriate cost and within the inherent limitations of all internal control systems, that transactions are executed in accordance with management's authorization and are properly recorded and reported in the financial statements, and that assets are safeguarded. The Company's internal control system provides for careful selection and training of supervisory and management personnel and requires appropriate segregation of responsibilities and delegation of authority. In addition, the Company maintains a corporate code of conduct for purposes of determining possible conflicts of interest, compliance with laws and confidentiality of proprietary information.

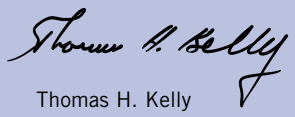
The Company's independent auditors, Deloitte & Touche LLP, audit the annual consolidated financial statements. They evaluate the Company's internal control system and perform tests of procedures and accounting records to enable them to express their opinion on the fairness of these statements. In addition, the Company has an internal audit function that regularly performs audits using programs designed to test compliance with Company policies and procedures and to verify the adequacy of internal controls and other financial policies. The internal auditors' and independent auditors' recommendations concerning the Company's system of internal controls have been considered, and appropriate action has been taken with respect to those recommendations.

The Finance, Compliance and Audit Review Committee of the Board of Directors is comprised solely of six independent directors. The Committee is appointed by the Board to assist the Board in its oversight function by monitoring, among other things, the Company's financial reporting process and the independence and performance of the Company's independent auditors and internal auditing department. The Committee's activities include meeting periodically with management, the internal auditors and the independent auditors to discuss their independence and to review audit results, financial reporting, internal controls and other financial matters. Both the independent auditors and internal auditors have full and free access to the Committee.



Richard Jay Kogan
Chairman of the Board and
Chief Executive Officer

Jack L. Wyszomierski
Executive Vice President and
Chief Financial Officer



Thomas H. Kelly
Vice President and
Controller

independent auditors' report

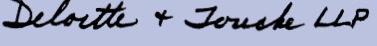
Deloitte & Touche

Schering-Plough Corporation, its Directors and Shareholders:

We have audited the accompanying consolidated balance sheets of Schering-Plough Corporation and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Schering-Plough Corporation and subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.



Parsippany, New Jersey
February 16, 2001

schering-plough corporation and subsidiaries

quarterly data (unaudited)

Three Months Ended	March 31		June 30		September 30		December 31	
(Dollars in millions, except per share figures)	2000	1999	2000	1999	2000	1999	2000	1999
Net sales	$ 2,389	$ 2,169	$ 2,626	$ 2,435	$ 2,383	$ 2,222	$ 2,418	$ 2,290
Cost of sales	457	432	489	472	468	438	489	458
Gross profit	1,932	1,737	2,137	1,963	1,915	1,784	1,929	1,832
Selling, general and administrative	841	777	977	947	828	800	840	850
Research and development	290	262	345	297	340	305	358	327
Other (income) expense, net	(25)	(15)	(19)	(7)	(30)	(7)	(20)	(15)
Income before income taxes	826	713	834	726	777	686	751	670
Income taxes	198	174	200	179	186	168	180	164
Net income	$ 628	$ 539	$ 634	$ 547	$ 591	$ 518	$ 571	$ 506
Diluted earnings per common share	$ .42	$ .36	$ .43	$ .37	$ .40	$ .35	$ .39	$ .34
Basic earnings per common share	.43	.37	.43	.37	.40	.35	.39	.35
Dividends per common share	.125	.11	.14	.125	.14	.125	.14	.125
Common share prices:								
High	48	58 7/8	50 1/2	60 3/4	51 3/8	56	59 1/8	56 7/8
Low	30 1/2	51 1/8	38 7/16	43 5/16	39 1/16	41 9/16	45 3/4	40 3/4
Average shares outstanding for diluted EPS (in millions)	1,479	1,491	1,476	1,486	1,474	1,484	1,474	1,483
Average shares outstanding for basic EPS (in millions)	1,468	1,472	1,464	1,470	1,463	1,469	1,462	1,470

Certain amounts in 1999 and the first three quarters of 2000 have been reclassified from selling, general and administrative expense to net sales to comply with EITF Issue No. 00-14.

The Company's common shares are listed and principally traded on the New York Stock Exchange. The approximate number of holders of record of common shares as of December 31, 2000 was 49,200.

schering-plough corporation and subsidiaries

six-year selected financial & statistical data

(Dollars in millions, except per share figures)	2000	1999	1998	1997	1996	1995
Operating Results						
Net sales	$ 9,815	$ 9,116	$ 8,027	$ 6,745	$ 5,627	$ 5,076
Income before income taxes	3,188	2,795	2,326	1,913	1,606	1,395
Income from continuing operations	2,423	2,110	1,756	1,444	1,213	1,053
Discontinued operations	–	–	–	–	–	(166)
Net income	2,423	2,110	1,756	1,444	1,213	887
Diluted earnings per common share from continuing operations	1.64	1.42	1.18	.97	.82	.70
Diluted earnings per common share	1.64	1.42	1.18	.97	.82	.59
Basic earnings per common share from continuing operations	1.65	1.44	1.20	.98	.82	.71
Discontinued operations	–	–	–	–	–	(.11)
Basic earnings per common share	1.65	1.44	1.20	.98	.82	.60
Investments						
Research and development	$ 1,333	$ 1,191	$ 1,007	$ 847	$ 723	$ 657
Capital expenditures	763	543	389	405	336	304
Financial Condition						
Property, net	$ 3,362	$ 2,939	$ 2,675	$ 2,526	$ 2,246	$ 2,099
Total assets	10,805	9,375	7,840	6,507	5,398	4,665
Long-term debt	109	6	4	46	46	87
Shareholders' equity	6,119	5,165	4,002	2,821	2,060	1,623
Net book value per common share	4.18	3.51	2.72	1.93	1.41	1.11
Financial Statistics						
Income from continuing operations as a percent of sales	24.7%	23.1%	21.9%	21.4%	21.6%	20.7%
Net income as a percent of sales	24.7%	23.1%	21.9%	21.4%	21.6%	17.5%
Return on average shareholders' equity	42.9%	46.0%	51.5%	59.2%	65.9%	55.5%
Effective tax rate	24.0%	24.5%	24.5%	24.5%	24.5%	24.5%
Other Data						
Cash dividends per common share	$ .545	$ .485	$ .425	$ .368	$ .32	$ .281
Cash dividends on common shares	802	716	627	542	474	416
Depreciation and amortization	299	264	238	200	173	157
Number of employees	28,100	26,500	25,100	22,700	20,600	20,100
Average shares outstanding for diluted earnings per common share (in millions)	1,476	1,486	1,488	1,480	1,487	1,498
Average shares outstanding for basic earnings per common share (in millions)	1,465	1,470	1,468	1,464	1,471	1,479
Common shares outstanding at year-end (in millions)	1,463	1,472	1,472	1,465	1,461	1,457

Certain amounts in 1995 through 1999 have been reclassified from selling, general and administrative expense to net sales to comply with EITF Issue No. 00-14.

board of directors, corporate officers, operating units and investor information

board of directors

Hans W. Becherer (1, 2, 3, 4)
Retired Chairman, Chief Executive Officer and Chief Operating Officer
Deere & Company
Manufacturer of Mobile Power Machinery and a Supplier of Financial and Health Care Services

Raul E. Cesan
President and Chief Operating Officer

Regina E. Herzlinger (1, 2, 5)
Nancy R. McPherson Professor of Business Administration
Harvard Business School

Richard Jay Kogan (1)
Chairman of the Board and Chief Executive Officer

David H. Komansky (5)
Chairman and Chief Executive Officer
Merrill Lynch & Co., Inc.
Securities and Investment Banking

Robert P. Luciano
Chairman Emeritus

Eugene R. McGrath (5)
Chairman, President and Chief Executive Officer
Consolidated Edison, Inc.
Energy Company

Donald L. Miller (3, 5)
Retired Chief Executive Officer and Publisher
Our World News
Newspapers

H. Barclay Morley (2, 3, 4)
Former Chairman and Chief Executive Officer
Stauffer Chemical Company
Producer of Chemicals

Carl E. Mundy, Jr. (4, 5)
Retired General and Former Commandant
U.S. Marine Corps

Richard de J. Osborne (1, 2, 3, 4)
Retired Chairman and Chief Executive Officer
ASARCO Incorporated
Producer of Non-ferrous Metals

Patricia F. Russo (3, 4)
Chairman
Avaya Inc.
Communications Systems and Services to Businesses Worldwide

Robert F. W. van Oordt (2, 4)
Chairman and Chief Executive Officer
Rodamco Continental Europe N.V.
Real Estate Investment Company

Arthur F. Weinbach (2)
Chairman and Chief Executive Officer
Automatic Data Processing, Inc.
Independent Computing Services

James Wood (1, 3, 5)
Chairman
The Great Atlantic & Pacific Tea Company Inc.
Supermarkets

(1) Executive Committee
(2) Finance, Compliance and Audit Review Committee
(3) Executive Compensation and Organization Committee
(4) Nominating and Corporate Governance Committee
(5) Pension Committee

corporate officers

Richard Jay Kogan
Chairman and Chief Executive Officer

Raul E. Cesan
President and Chief Operating Officer

Joseph C. Connors
Executive Vice President and General Counsel

Jack L. Wyszomierski
Executive Vice President and Chief Financial Officer

Geraldine U. Foster
Senior Vice President, Investor Relations and Corporate Communications

Daniel A. Nichols
Senior Vice President, Taxes

John P. Ryan
Senior Vice President, Human Resources

Douglas J. Gingerella
Vice President, Corporate Audits

Thomas H. Kelly
Vice President and Controller

Robert S. Lyons
Vice President, Corporate Information Services

E. Kevin Moore
Vice President and Treasurer

John E. Nine
Vice President and President, Technical Operations, Schering Laboratories

Joseph J. LaRosa
Staff Vice President, Secretary and Associate General Counsel

operating units

Roch F. Doliveux
President,
Schering-Plough International

Mark Kirn-Slaboszewicz
President,
Schering-Plough HealthCare Products

Raul E. Kohan
President,
Schering-Plough Animal Health

Thomas C. Lauda
Executive Vice President,
Schering-Plough Pharmaceuticals

Jonathan R. Spicehandler, M.D.
President,
Schering-Plough Research Institute

Richard W. Zahn
President, Schering Laboratories

investor information

The Annual Meeting of Shareholders of Schering-Plough Corporation will be held at Schering-Plough corporate headquarters, Kenilworth, N.J., on Tuesday, April 24, 2001, at 2 p.m.

Registrar, Transfer & Dividend Disbursing Agent
The Bank of New York,
Shareholder Relations Department-11E,
P.O. Box 11258,
Church Street Station,
New York, N.Y. 10286-1258.
Telephone: (800) 432-0140 or,
from outside the United States,
(610) 312-5303.

Certificates for transfer and address changes should be sent to:
The Bank of New York,
Receive and Deliver Department-11W,
P.O. Box 11002, Church Street Station,
New York, N.Y. 10286-1002.
Email: Shareowner-svcs@bankofny.com

Shares Listed
New York Stock Exchange
(Ticker Symbol: SGP)

Unlisted Trading
Boston Stock Exchange, Cincinnati Stock Exchange, Midwest Stock Exchange, Pacific Stock Exchange, Philadelphia Stock Exchange.

Executive Offices
2000 Galloping Hill Road,
Kenilworth, N.J. 07033-0530
Telephone: (908) 298-4000
The Company's Web site address is http://www.schering-plough.com

Auditors
Deloitte & Touche LLP,
Two Hilton Court,
Parsippany, N.J. 07054

10-K Report Available
The Corporation's 2000 annual report on Form 10-K filed with the Securities and Exchange Commission is available via the Company's Web site or by writing to the Investor Relations Department at the Company's corporate headquarters.

Schering-Plough Systematic Investment Program
A brochure describing the Company's Systematic Investment Program is available to shareholders. A copy may be obtained by calling or writing to The Bank of New York, Shareholder Relations Department. Through the program, shareholders of record may acquire shares of Schering-Plough common stock by reinvesting dividends or by cash purchases.

SCHERING-PLOUGH CORPORATION
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908 298 4000

http://www.schering-plough.com