SCHERING-PLOUGH CORPORATION 2001 ANNUAL REPORT

SCHERING-PLOUGH CORPORATION

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Cover: Linda Salomon, shown with her 5-year-old son Jake, is sales director for Schering-Plough's southwest region. Schering-Plough's sales force represents one of its most effective resources for informing physicians and the medical community about the attributes and appropriate use of the Company's prescription medicines. Jake uses Schering-Plough allergy and respiratory products to help control his asthma and allergy symptoms.

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 subsidiaries, which are engaged in the discovery, development, manufacturing and marketing of pharmaceutical products worldwide.

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. The Company has achieved success over the years through innovative research, effective marketing and solid financial management.

2001 HIGHLIGHTS

CLARINEX nonsedating antihistamine approved in United States and launched in 23 countries.

PEG-INTRON combination therapy with REBETOL for hepatitis C approved in United States and European Union; INTRON A combination therapy with REBETOL approved for hepatitis C in Japan.

ZETIA, a new cholesterol-management therapy, submitted for U.S. approval under global partnership with Merck & Co., Inc.

Dividend increased for 18th time since 1986.

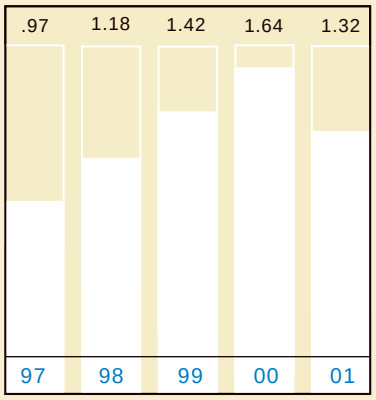
Significant progress made toward resolving manufacturing compliance issues.

12 marketing applications filed for major products or indications.

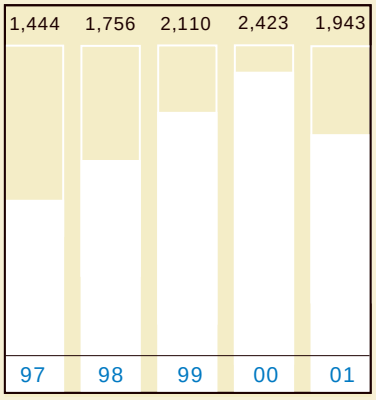
FINANCIAL HIGHLIGHTS

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)	2001	2000	Percent Change
Operating Results			
Net sales	$ 9,802	$ 9,815	–
Income before income taxes*	2,523	3,188	(21%)
Net income*	1,943	2,423	(20%)
Diluted earnings per common share**	1.32	1.64	(20%)
Investments			
Research and development	$ 1,312	$ 1,333	(2%)
Capital expenditures	759	763	(1%)
Financial Condition			
Return on average shareholders' equity	29.3%	42.9%	
Total assets	$ 12,174	$ 10,805	
Shareholders' equity	7,125	6,119	
Other Data			
Cash dividends per common share	$ .62	$ .545	
Number of employees	29,800	28,100	
Average shares outstanding for diluted EPS (in millions)	1,470	1,476	

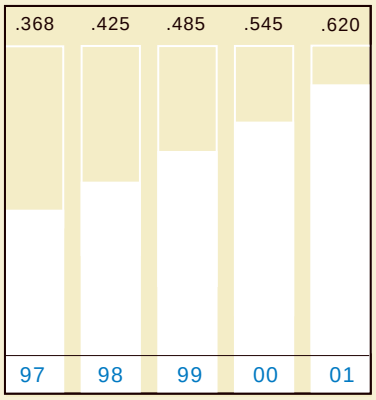
DILUTED EARNINGS PER COMMON SHARE**
dollars



NET INCOME*
dollars in millions



DIVIDENDS PER COMMON SHARE
dollars



* 2001 includes a one-time $500 provision for a consent decree payment.
** Excluding the provision for the consent decree payment, diluted earnings per share declined 4 percent to $1.58 for 2001.

LETTER TO SHAREHOLDERS

For Schering-Plough, 2001 was a year marked by difficult challenges as well as gratifying achievements.

The Company believes it made significant progress toward resolving manufacturing compliance issues, as identified by the U.S. Food and Drug Administration (FDA) and announced in February 2001. In December, we reported on negotiations with FDA for a consent decree, which would serve to clearly set forth the additional actions we need to take to meet the FDA's expectations.

The Company also gained approvals in the United States and key international markets for 10 major new products and indications, including for CLARINEX, our new nonsedating antihistamine. We continued to advance product candidates in our research pipeline and filed marketing applications for important new therapies.

In 2001, diluted earnings per share, excluding a one-time, $500 million provision for a consent decree payment, declined to $1.58 versus $1.64 in the prior year. Including the provision for a consent decree payment, diluted earnings per share were $1.32 in 2001. Net income, excluding the consent decree provision, totaled $2.3 billion in 2001 versus $2.4 billion in 2000. Including the consent decree provision, 2001 net income totaled $1.9 billion. Consolidated worldwide sales for the year totaled $9.8 billion, essentially flat versus 2000. Although U.S. sales declined 5 percent, sales in international markets grew 8 percent (13 percent excluding exchange). International sales represented 39 percent of total Company sales.

Schering-Plough in 2001 undertook important changes to remake our Company as a stronger, more effective and efficient organization. To enhance our expanding manufacturing and quality operations, we hired nearly 500 additional employees in those areas, including senior level executives. To realize the potential of our product lines, particularly as they expand internationally, we increased our sales and marketing forces by approximately 800 people, with the majority supporting our international markets. We also added approximately 200 employees in research and development. Our employees deserve tremendous credit for having worked so hard and accomplished so much during the past year to prepare the Company for future growth and success.

RICHARD JAY KOGAN

[MANUFACTURING ISSUES] Schering-Plough in February 2001 announced that FDA inspection reports on the Company's New Jersey and Puerto Rico manufacturing facilities had cited deficiencies in compliance with current Good Manufacturing Practices (GMPs). To address these issues, we have completed major structural and organizational changes, and made substantial investments in quality-related and validation projects to improve our manufacturing systems and operations. These efforts are ongoing.

[RESEARCH ACHIEVEMENTS] A commitment to research and development has been the cornerstone of Schering-Plough's success for more than 50 years. In 2001, we filed 12 marketing applications for major products or indications and recommended that six new compounds move into development. Research and development spending totaled $1.3 billion in 2001.

Schering-Plough focuses its research efforts on developing key drugs that may offer important medical benefits and

have significant market potential. Foremost among these is Zetia, a novel cholesterol absorption inhibitor discovered by Schering-Plough scientists, which forms the basis of our cholesterol-management partnership with Merck & Co., Inc. The partnership is seeking to market Zetia as a once-daily tablet for use as monotherapy or co-administered with a statin (the most widely used therapy for high cholesterol), and as a once-daily combination tablet with simvastatin (*Zocor*), Merck's cholesterol-modifying medicine. A U.S. marketing application for Zetia as monotherapy and co-administered with a statin was filed in December 2001. Also in December, the partnership, formerly limited to the United States, was expanded worldwide, excluding Japan. The cholesterol-management market is estimated at $18 billion worldwide and, by 2007, is expected to exceed $30 billion.

[ADVANCES IN MARKETING] Products approved in 2001 promise to be key contributors to Schering-Plough's future results. Clarinex, the Company's new once-daily, nonsedating antihistamine, gained approval for seasonal allergic rhinitis in the European Union (EU) in January and in the United States in December. Broader U.S. indications were approved in February 2002.

Clarinex joins Schering-Plough's successful line of allergy/respiratory products, which includes Claritin, the world's largest-selling nonsedating antihistamine, and Nasonex, the world's fastest-growing nasal-inhaled steroid for allergies.

PEG-Intron and Rebetol combination therapy for hepatitis C was launched in the EU in March 2001 and in the United States in October. This important new therapy continues Schering-Plough's leadership in developing and bringing to market significant advances in treating hepatitis C, a serious world health problem. In December, we launched Rebetol for use with Intron A in Japan for hepatitis C.

Other products posting higher sales in 2001 include Remicade, a treatment sold internationally for rheumatoid arthritis and Crohn's disease; Temodar, an oral chemotherapeutic agent for certain types of brain cancer; and Integrilin, a cardiovascular agent for patients with acute coronary syndromes.

Sales for Schering-Plough's animal health business were lower in 2001, affected by manufacturing compliance issues and difficult market conditions in Europe.

Sun care products recorded higher sales in 2001, led by the Coppertone and Bain de Soleil lines. Our Dr. Scholl's brand of foot care products is also the leader in its market. The Company's over-the-counter products include some of the best-known U.S. brands.

[CORPORATE DEVELOPMENTS] We believe that our products deliver quality and value to patients and the medical community. Schering-Plough has a long-standing tradition of philanthropy that recognizes our role as a corporate citizen on local and national levels. Schering-Plough's philanthropic contributions in 2001 totaled $8.5 million. In response to the tragedies of September 11, 2001, Schering-Plough and employees contributed $1.4 million to assist people affected by the terrorist attacks.

The Board of Directors in April 2001 authorized Schering-Plough's 18th increase in the quarterly dividend since 1986, raising the quarterly payment by 14 percent to 16 cents per share.

We are pleased to welcome Kathryn C. Turner, chairperson, chief executive officer and president of Standard Technology of Falls Church, Va., who was elected to the Board of Directors in June 2001.

In October, Robert P. Luciano, chairman emeritus of Schering-Plough, resigned from the Board. His contributions to the Board and to the Company's success have been many and profound over the years. Two other Board members will be retiring in April 2002, having reached the mandatory retirement age. H. Barclay Morley joined the Board in January 1979, and James Wood has been a member since January 1987. We thank all of them for their leadership and wise counsel through the years, and they will be missed.

Raul E. Cesan in July 2001 resigned as president and chief operating officer and as a member of the Board. We are grateful to Mr. Cesan for his many contributions to Schering-Plough.

Roch F. Doliveux, president, Schering-Plough International, and Richard W. Zahn, president, Schering Laboratories, were elected corporate vice presidents in December.

Schering-Plough is a strong, capable and flexible organization, with smart and dedicated employees. We remain committed to seeking to reward our investors and employees by strengthening the Company, resolving manufacturing compliance issues, and advancing products in the pipeline and marketplace.

Richard Jay Kogan
Chairman, Chief Executive Officer and President

February 15, 2002

WORLDWIDE PHARMACEUTICALS AND RESEARCH

Innovative research and vigorous marketing initiatives are enabling Schering-Plough to expand its product lines and geographic presence in the highly competitive and rapidly changing global pharmaceutical marketplace.

Schering-Plough's consolidated worldwide sales totaled $9.8 billion in 2001, essentially unchanged from the prior year. U.S. sales, which represented 61 percent of total worldwide sales, declined 5 percent, while international sales grew 8 percent (13 percent excluding exchange). Pharmaceutical products represented 85 percent of the Company's sales. Schering-Plough's animal health business and its consumer lines of foot care, over-the-counter and sun care products accounted for the remainder of sales.

Schering-Plough's research strategy aims to discover and develop new products that offer significant medical benefits and commercial potential. The Company believes that it can best realize this goal by concentrating on specific therapeutic categories, including allergic and inflammatory disorders, infectious diseases, oncology, cardiovascular disease, and central nervous system and metabolic disorders.

Schering-Plough seeks to grow its pipeline of compounds in development through internal research and discovery programs supplemented by external agreements for new therapies or scientific technologies. R&D spending in 2001 totaled $1.3 billion. In 2001, discovery researchers at Schering-Plough Research Institute recommended that six new compounds advance into development.

ALLERGY AND RESPIRATORY

[MARKETED PRODUCTS] Supported by new and established product lines, allergy/respiratory is Schering-Plough's largest therapeutic product category. Worldwide sales increased 1 percent to $4.2 billion in 2001.

Schering-Plough is a leader in the U.S. allergy/respiratory market and is capturing increased shares in international markets. New and established products are supporting the Company's drive to expand its U.S. leadership position to worldwide markets.

Strengthening Schering-Plough's successful line of allergy/respiratory products is CLARINEX (desloratadine), a new once-daily, nonsedating antihistamine approved for the treatment of seasonal allergic rhinitis (SAR) in the European Union (EU) in January 2001 and in the United States in December. A highly potent H1 receptor antagonist, CLARINEX taken once daily provides 24-hour relief from nasal and non-nasal symptoms of SAR, enabling patients to wake up with their allergy symptoms under control.

The launch of CLARINEX in the United States began in January 2002. The product was launched internationally beginning in February 2001 and has achieved positive acceptance in major markets, including Germany and the United Kingdom. In February 2002, CLARINEX received U.S. approval for the treatment of allergic rhinitis (AR), which combines SAR and perennial allergic rhinitis (PAR), establishing the product as the first and only nonsedating antihistamine indicated for the treatment of both SAR and PAR. The product was also approved for chronic idiopathic urticaria (CIU), or hives of unknown cause. With the U.S. approval for AR and CIU, CLARINEX has the broadest labeling of any nonsedating antihistamine. In the EU, CLARINEX is also approved for the treatment of CIU. International sales of CLARINEX are included in the worldwide CLARITIN (loratadine) sales line.

U.S. and EU marketing applications have been submitted for other CLARINEX formulations and indications, including a rapidly disintegrating tablet, a twice-daily version with a decongestant and a pediatric syrup formulation. U.S. approvable letters for these formulations were received in October.

In December, the EU's marketing authority recommended approval of the rapidly disintegrating tablet formulation of CLARINEX for the treatment of SAR and CIU in adults and children 12 years of age and older, and of the pediatric syrup formulation in adults and children 2 years of age and older.

The CLARITIN family of nonsedating antihistamine products led sales for the allergy/respiratory category in 2001, increasing 5 percent to $3.2 billion. Sales totaled $2.7 billion in the United States, where the antihistamine market is expanding but increasingly competitive. Decongestant formulations represented 28 percent of worldwide CLARITIN sales, or $875 million. CLARITIN is undergoing regulatory review in Japan.

Schering-Plough owns or has licensed several loratadine-related patents. In August 2000, the U.S. Food and Drug Administration (FDA) granted CLARITIN six months of additional

Discussing the U.S. launch of CLARINEX, a new once-daily, nonsedating antihistamine, are marketing team members **NANCY PHELAN**, director, and **CHRIS BARRETT**, senior director. CLARINEX was approved for treating seasonal allergic rhinitis in the European Union in January 2001 and in the United States in December. Broader U.S. indications for CLARINEX were approved in February 2002.

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 commences at the expiration dates of all patents covering CLARITIN. The six-month period provides U.S. marketing exclusivity for the loratadine compound patent through December 2002 and for the desloratadine compound patent through October 2004. A fluoroloratadine patent expires in 2008, and a formulation patent for CLARITIN-D 24 Hour expires in 2012.

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

In May 2001, an FDA advisory panel made a non-binding recommendation that loratadine has a safety profile acceptable for over-the-counter (OTC) marketing. Schering-Plough is on record with FDA as opposing the switch of prescription medications to OTC status without the consent of the sponsor holding the New Drug Application (NDA). In a January 2002 press release, the Company stated that it recognizes that the medical, public policy and business environment in which it operates is not static. As a matter of business practice, Schering-Plough continually considers options regarding its products to give it the flexibility to maximize its business opportunities in light of the changing environment.

Supporting Schering-Plough's drive to expand its global allergy/respiratory franchise is NASONEX (mometasone furoate monohydrate), a potent, once-daily nasal spray for allergies that offers a favorable side-effect profile and low systemic absorption. Sold in more than 60 countries, the product is the fastest-growing nasal-inhaled steroid in world markets. Worldwide sales of NASONEX increased 26 percent in 2001 to $524 million. NASONEX continues to capture U.S. market share formerly held by VANCENASE (beclomethasone dipropionate), the Company's predecessor nasal-inhaled steroid product.

Reviewing marketing plans for a new treatment advance for hepatitis C are **ALFREDO M. BLANCO** (left), president, Latin America & Far East, and **RICHARD KIM**, senior product manager, PEG-INTRON/REBETOL. The PEG-INTRON and REBETOL combination therapy underscores Schering-Plough's leadership in developing and bringing to market new treatments for hepatitis C, a serious and prevalent disease worldwide.

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 or perennial allergic rhinitis. In certain EU markets, NASONEX is indicated for use in children as young as age 3.

The increased incidence of asthma, particularly among children, is a growing public health concern in major world markets. ASMANEX (mometasone furoate), an orally inhaled steroid, is the Company's next-generation treatment for asthma. ASMANEX may offer improved pharmacological benefits, low systemic absorption and the convenience of once-daily dosing.

ASMANEX TWISTHALER is a dry powder inhaled formulation for the control and management of mild, moderate or severe asthma in patients 12 years of age and older. The product has been approved in 13 countries and in December received EU mutual recognition approval. 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. The product is under regulatory review in the United States, with a U.S. approvable letter received in October 1999.

The Company's other asthma products include VANCERIL (beclomethasone dipropionate), an orally inhaled steroid for asthma, and PROVENTIL and other albuterol products. In 2001, U.S. sales of certain respiratory products, including VANCERIL, were affected by manufacturing issues. 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 treatments to prevent or block the body's allergic and immunological responses.

Phase III studies for various CLARINEX 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. In January 2002, the partnership reported on results of Phase III clinical trials of a fixed-combination tablet containing the two products, which did not demonstrate sufficient added benefits in the treatment of seasonal allergic rhinitis. These results are being further evaluated, and additional studies may be conducted.

A metered-dose, CFC-free 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 tissues, thus offering promise as a long-acting anti-inflammatory agent.

In February 2001, Schering-Plough and Genome Therapeutics Corp., collaborating with researchers at the University of Southampton, UK, reported the discovery of a novel asthma gene, marking the first identification of a susceptibility gene for asthma using a positional cloning platform for a large patient population. The research collaboration, established in 1996 and extended in January 2002, enables Schering-Plough to use Genome Therapeutics' high-throughput positional cloning, bioinformatics and genomics sequencing capabilities to identify asthma-susceptibility genes that may be useful in developing novel asthma therapies.

ANTI-INFECTIVE AND ANTICANCER

[MARKETED PRODUCTS] Focused research and development activities in the anti-infective and anticancer therapy area have enabled Schering-Plough to discover and develop new treatments for various cancers and chronic infections. Sales for this product group increased 13 percent in 2001 to total $2.3 billion.

Much of Schering-Plough's success in this product category can be attributed to ongoing research and development of alpha interferon, which has led to increasingly effective formulations and applications. The Company's first interferon product was the anticancer/antiviral agent INTRON A (interferon alfa-2b recombinant) Injection. The broad medical utility of alpha interferon, used as monotherapy, in combination with other agents and most recently in a longer-acting formulation known as PEG-INTRON (peginterferon alfa-2b) Powder for Injection, has continued to evolve, creating a major franchise for the Company and driving sales higher.

PEG-INTRON uses proprietary technology developed by Enzon, Inc. to optimize the balance between antiviral activity and elimination half-life. This long-acting formulation allows hepatitis C patients to reduce treatment injections from three times a week with INTRON A to once-weekly with PEG-INTRON. Schering-Plough holds an exclusive worldwide license from Enzon to this technology for PEG-INTRON.

Another key product in the INTRON franchise is REBETOL (ribavirin, USP) Capsules, an oral formulation of the antiviral ribavirin. When used in combination with INTRON A or PEG-INTRON, REBETOL has been shown to improve sustained virologic response rates in patients with chronic hepatitis C. Schering-Plough has exclusive worldwide rights to market oral ribavirin for hepatitis C through a licensing agreement with ICN Pharmaceuticals, Inc.

In the United States, Schering-Plough markets REBETRON Combination Therapy, which contains INTRON A and REBETOL in a single package for treating chronic hepatitis C. Worldwide sales of the INTRON franchise, which includes INTRON A, PEG-INTRON, REBETOL and REBETRON Combination Therapy, totaled $1.4 billion in 2001, up 6 percent.

A major advance in the treatment of hepatitis C came in August with U.S. approval of PEG-INTRON for use in combination with REBETOL for previously untreated patients with chronic hepatitis C. The PEG-INTRON and REBETOL treatment regimen is the first and only pegylated interferon-based combination therapy approved in the United States. PEG-INTRON as monotherapy for hepatitis C was approved in the United States in January 2001. U.S. approval of REBETOL as a separately marketed product was granted in July.

The October U.S. launch of PEG-INTRON and REBETOL combination therapy represented the most successful new product introduction in the history of the Company. To support this effort, Schering-Plough initiated the PEG-INTRON Access Assurance program, which is designed to assure access to a full, uninterrupted course of therapy.

Patients who enroll in the PEG-INTRON Access Assurance program also are given the option to enroll in the Company's BE IN CHARGE patient support program, which provides support services to

hepatitis patients on Schering-Plough interferon therapies. Schering-Plough also offers patients reimbursement assistance through its COMMITMENT TO CARE program, which helps patients with access to insurance obtain the reimbursement to which they are entitled, while providing free product to qualifying patients who otherwise might not have access to therapy.

Schering-Plough's extensive research into the use of interferon alfa-2b 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 more than 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.

In the European Union (EU), sales of PEG-INTRON and REBETOL have grown steadily following the March 2001 approval of the combination therapy for chronic hepatitis C.

In Japan, Schering-Plough received marketing approval in November for REBETOL for use only in combination with INTRON A to treat chronic hepatitis C. INTRON A and REBETOL represent the first combination therapy for hepatitis C approved in Japan, the world's second-largest pharmaceutical market. Hepatitis C is estimated to affect some 2 million people in Japan.

In August 2001, Schering-Plough entered into a licensing agreement with F. Hoffmann-La Roche Ltd and Hoffmann-La Roche Inc. that settles all patent disputes relative to the companies' respective peginterferon products.

Schering-Plough owns or has certain rights to seven ribavirin-related U.S. patents. In May, the FDA granted REBETOL six months of additional data exclusivity for having completed pediatric clinical trials. The six-month exclusivity is added to the expiration dates of all patent periods and data exclusivity covering the approved product. REBETOL has data exclusivity in the EU extending to May 2009 and in Japan extending to November 2007.

INTRON A is also approved for several cancer indications worldwide, including use as an adjuvant treatment to surgery in patients with malignant melanoma. Malignant melanoma accounts for 3 to 4 percent of all cancers and is the most serious and life-threatening type of skin cancer.

The anticancer product TEMODAR (temozolomide) Capsules is an oral cytotoxic chemotherapeutic agent marketed in the United States and EU for certain types of brain tumors. Sales of TEMODAR were $180 million in 2001, up 49 percent due to increased utilization. Studies are being conducted to further evaluate TEMODAR in various cancers. Schering-Plough has exclusive worldwide rights to market temozolomide through a licensing agreement with Cancer Research Campaign Technology, Ltd.

Another cancer therapy is CAELYX (pegylated liposomal doxorubicin HCl), a long-circulating pegylated liposomal formulation of the cancer drug doxorubicin. CAELYX is approved for the treatment of advanced ovarian cancer in women who have failed standard first-line therapy and for the treatment of AIDS-related Kaposi's sarcoma. Schering-Plough has exclusive international marketing rights to CAELYX, except in Japan and certain other countries, through a distribution agreement with ALZA, a wholly owned subsidiary of Johnson & Johnson.

TEQUIN (gatifloxacin), a broad-spectrum fluoroquinolone antibiotic, is co-promoted by Schering-Plough and Bristol-Myers Squibb in the United States for acute bacterial exacerbation of chronic bronchitis (ABECB), acute sinusitis and community-acquired pneumonia. TEQUIN was approved by the FDA in December 1999 and, in November 2001, was approved as a short-course (five-day) regimen in the treatment of ABECB.

REMICADE (infliximab) is a monoclonal antibody and the first in a novel class of agents for the treatment of Crohn's disease and rheumatoid arthritis (RA). In February 2001, EU regulatory authorities approved a broader RA indication for REMICADE.

Schering-Plough has international marketing rights to REMICADE, excluding Japan and parts of the Far East, from Centocor, Inc., a Johnson & Johnson subsidiary. International sales of REMICADE totaled $166 million for 2001.

REMICADE is marketed for the RA indication in 33 countries outside the United States and for Crohn's disease in 44 countries, including most EU-member countries, Canada and major Latin American markets.

[PRODUCTS IN DEVELOPMENT] Through focused research efforts, Schering-Plough is strengthening its position as a worldwide leader in oncology, immunology and infectious disease.

NOXAFIL (posaconazole) is an orally available broad-spectrum triazole antifungal discovered by Schering-Plough Research Institute. The agent is currently in Phase III clinical studies for treating serious opportunistic fungal infections, such as those occurring in cancer and HIV patients whose immune systems have been seriously compromised. An intravenous formulation of the compound is also in development. There is an unmet medical need worldwide for better and safer management of severe invasive fungal infections, especially given the increased incidence of fungal resistance to currently available treatments. NOXAFIL has shown clinical activity in patients with invasive fungal infections resistant to other antifungal agents, while providing a favorable safety profile.

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, Schering-Plough 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.

Another pipeline compound with a novel approach to treating disease is an orally available CCR5 receptor antagonist for treating HIV infection. The compound is in early phase clinical studies. Targeting the CCR5 receptor as anti-HIV therapy was initially suggested by a finding that individuals who lack a functional CCR5 receptor are largely resistant to HIV infection. Scientists have succeeded in developing an orally available compound that efficiently blocks the ability of HIV to infect the cell.

TENOVIL, an injectable form of interleukin-10 (IL-10), a cytokine cloned and expressed at DNAX Research Institute, is in early phase development for inflammatory disorders.

In the United States, post-marketing studies with PEG-INTRON and REBETOL in hepatitis C are ongoing to better define optimal treatment regimens using these therapies and to further explore their use in treating specific patient populations. Among these is the largest prospective hepatitis C study undertaken to date, which is expected to enroll more than 4,000 U.S. patients. In Japan, Phase III clinical studies with PEG-INTRON in patients with chronic hepatitis C are ongoing.

PEG-INTRON is also being studied for treating certain cancers. The product is in Phase III development for malignant melanoma as well as in early stage clinical trials for various solid tumors.

TEMODAR, approved in the United States and Europe as a monotherapy for advanced brain tumors, is being studied in new administration schedules, combinations with other chemotherapies and new solid tumor targets in multiple Phase II studies.

CAELYX, approved in the EU for treating advanced ovarian cancer and AIDS-related Kaposi's sarcoma, is in late-stage development for treating breast cancer.

Research efforts in the anticancer area include a farnesyl protein transferase (FPT) inhibitor that takes a novel approach to treating cancer by inhibiting an enzyme found to activate many types of cancer. The compound could potentially be used in combination with other cancer therapies without increasing toxicity. The FPT inhibitor is in Phase II clinical studies as an oral therapy for a variety of difficult-to-treat solid tumors as well as leukemia.

In April, the Company discontinued development of a p53 gene therapy that had been in Phase II clinical studies for ovarian

The drug development process and role of clinical trials are fundamental to bringing new therapies to the marketplace. **CATHERINE HARDALO, M.D.** (left), group director, and **DENISE WASHINGTON, R.N., B.S.N.**, project leader, clinical research, are members of the anti-infectives therapy team working on Phase III clinical studies of NOXAFIL, a promising new agent for serious fungal infections.

One of the leading researchers responsible for the development of ZETIA, Schering-Plough's novel cholesterol absorption inhibitor, is **RICK VELTRI, M.D.**, vice president, clinical research and medical & safety services. ZETIA is being developed in a worldwide partnership (excluding Japan) with Merck & Co., Inc. Schering-Plough has retained all rights to the compound in Japan.

cancer. Schering-Plough is committed to the field of gene therapy and has several novel compounds in preclinical development.

REMICADE, approved in the EU for treating Crohn's disease and critical aspects of later-stage RA, is in Phase III studies for treating early RA and in Phase II studies for treating a debilitating form of spinal RA.

CARDIOVASCULARS

[MARKETED PRODUCTS] Schering-Plough's presence in the worldwide cardiovascular marketplace is growing through the strength of its internal development programs and strategic licensing agreements. While sales for the cardiovascular category declined in 2001, important progress was made during the year through the Company's partnership with Merck & Co., Inc., formed in May 2000 and expanded in December 2001, to develop and market worldwide (excluding Japan) cholesterol-management products.

Sales for the cardiovascular product group decreased 17 percent to $623 million in 2001, affected by generic competition for certain products. The sales decline for the category was moderated by higher sales of INTEGRILIN (eptifibatide) Injection, a platelet receptor glycoprotein (GP) IIb/IIIa inhibitor for treating cardiovascular patients with acute coronary syndromes. Worldwide sales of INTEGRILIN grew to $231 million, up 34 percent in 2001.

INTEGRILIN, which helps prevent platelets from binding to fibrinogen and forming blood clots, is the most widely used GP IIb/IIIa inhibitor in the United States. One-year results of a major clinical trial named ESPRIT, reported in May, demonstrated that patients who received INTEGRILIN during coronary stent procedures continued to benefit from a statistically significant reduction in the combined incidence of death or heart attack at one year compared to patients who received placebo.

Based on the results of the ESPRIT study, the U.S. Food and Drug Administration (FDA) in June approved revised prescribing information for INTEGRILIN to include a new dosing regimen for patients undergoing percutaneous coronary intervention (PCI),

also known as angioplasty, and specific reference for patients undergoing intracoronary stenting. INTEGRILIN has the broadest U.S. labeling in its class.

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 PCI.

Schering-Plough, through a licensing agreement with COR Therapeutics, Inc. (merged with Millennium Pharmaceuticals, Inc.), markets INTEGRILIN in Europe and co-promotes the product with COR in the United States.

Sales of K-DUR, a sustained-release potassium chloride supplement, decreased 26 percent to $216 million in 2001, primarily due to generic competition. Sales of IMDUR (isosorbide mononitrate), a once-daily, long-acting oral nitrate for angina, declined in 2001, primarily due to generic competition.

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

Merck/Schering-Plough Pharmaceuticals, the partnership formed with Merck in May 2000, filed a U.S. application in December 2001 for ZETIA (ezetimibe), Schering-Plough's cholesterol absorption inhibitor, to be administered as monotherapy and in co-administration with a statin (the most widely prescribed medicine for treating high cholesterol) for the reduction of elevated cholesterol levels (hypercholesterolemia). If approved, ZETIA would be the first in a new class of lipid-lowering compounds that selectively inhibits the intestinal absorption of cholesterol. Statins act primarily to inhibit the production of cholesterol in the liver. Combination use of ZETIA with a statin may offer a novel approach to cholesterol management, with the potential to achieve high levels of cholesterol reduction through two complementary mechanisms of action while maintaining a good safety profile.

The partnership is developing ZETIA as a once-daily tablet to be administered alone and in co-administration with a statin, and as a once-daily combination tablet with simvastatin (*Zocor*), Merck's cholesterol-modifying medicine.

In December, the partnership was expanded to include all territories outside the United States, excluding Japan. The expanded partnership draws upon the research and marketing expertise of each company in pursuing the development of certain products to compete in the worldwide cholesterol-management market. In Japan, Schering-Plough retains all rights to develop and market ezetimibe.

The results of two large randomized Phase III clinical studies of ZETIA as monotherapy were reported in 2001, demonstrating a significant reduction in low-density lipoprotein cholesterol (LDL-C) levels (bad cholesterol), significantly raised good cholesterol levels and improvements in several other lipid parameters. ZETIA has been studied in co-administration with all the commercially available statins at various statin doses in typical patients with high cholesterol levels and has demonstrated consistently significant cholesterol reduction. In addition, a clinical study of ZETIA in co-administration with a statin in patients who lack liver LDL clearance receptors (the most difficult patients to treat) has been completed. The partnership also has initiated early phase clinical trials with ZETIA and simvastatin as a once-daily combination tablet for the treatment of elevated cholesterol levels.

The cholesterol-management market is one of the world's largest and fastest growing, with total sales expected to exceed $30 billion by 2007. Recent changes to the National Cholesterol Education Program guidelines, which broadened the eligible patient population for cholesterol control medicines, suggest the potential for a threefold increase in the untreated and treatment-eligible patient population in the United States, from 13 million to 40 million.

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

In October, AtheroGenics, Inc. reacquired rights to AGI-1067, its novel orally available cardiovascular compound, ending Schering-Plough's collaboration with the company.

DERMATOLOGICALS

[MARKETED PRODUCTS] Schering-Plough has been a leader in world dermatological markets for approximately 50 years, marketing a range of high- and medium-potency topical steroid products as well as topical antifungal treatments.

Worldwide dermatological product sales decreased 13 percent to $593 million in 2001, primarily due to lower sales of the topical antifungal/corticosteroid LOTRISONE (clotrimazole/betamethasone dipropionate), reflecting the impact of generic competition for the product's cream formulation.

ELOCON (mometasone furoate), Schering-Plough's medium-potency topical steroid, continues to be the market leader in its category. Worldwide sales of ELOCON increased 12 percent in 2001 to $190 million, reflecting market share gains in an expanding market.

CENTRAL NERVOUS SYSTEM AND OTHER DISORDERS

[MARKETED PRODUCTS] Worldwide sales for the Company's other pharmaceutical product category were $663 million in 2001, down 7 percent.

Schering-Plough has exclusive worldwide rights, excluding several Far East countries, to market a line of buprenorphine hydrochloride products for opiate addiction through a distribution agreement with Reckitt Benckiser plc (formerly 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 certain international countries 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 FDA.

[PRODUCTS IN DEVELOPMENT] Schering-Plough is pursuing a focused approach to research in the central nervous system area, seeking to discover and develop medications that can treat cognitive disorders and degenerative nervous system diseases. Dedicated research in this area is targeting a number of conditions, including Alzheimer's disease, depression, anxiety, psychotic disorders, arthritis pain and Parkinson's disease.

A pure anti-estrogen oral compound is in Phase II trials in post-menopausal studies.

In June 2001, the Company discontinued the clinical development of ecopipam, which was under investigation for the management of obesity.

ANIMAL HEALTH

[MARKETED PRODUCTS] Worldwide animal health sales decreased 4 percent to $694 million in 2001, affected by manufacturing compliance issues and difficult market conditions in Europe. The sales decline was tempered by the June 2000 acquisition of the animal health business of Takeda Chemical Industries, Ltd. in Japan.

Sales of NUFLOR (florfenicol), a bovine antibiotic solution used to treat respiratory disease, decreased in the United States due to manufacturing compliance issues. Despite difficult international livestock markets, NUFLOR sales were higher internationally, led by the full-year impact of the Takeda acquisition as well as growth in certain markets.

Higher 2001 sales were recorded for certain poultry products, including CLINACOX, a chemical feed additive; PARACOX, an anti-coccidial vaccine; and COCCIVAX, a treatment for coccidiosis, a parasitic intestinal disease.

FOOT CARE

[MARKETED PRODUCTS] Foot care sales declined 7 percent in 2001 to $323 million due to overall market weakness and increased competition.

The decline in sales was moderated by several new product introductions during the year, including DR. SCHOLL'S Extra Support insoles and DR. SCHOLL'S STEPWELL insoles.

In 2001, LOTRIMIN AF and TINACTIN antifungal products continued to maintain their No. 1 and No. 2 positions, respectively, in unit share in the total antifungal market.

LOTRIMIN ULTRA (butenafine hydrochloride) cream was approved by the FDA in December for over-the-counter use in treating tinea corporis (ringworm), tinea pedis (athlete's foot) and tinea cruris (jock itch).

OTC PRODUCTS

[MARKETED PRODUCTS] Sales of over-the-counter (OTC) products declined 2 percent in 2001 to $196 million as a result of manufacturing compliance issues.

Sales in 2001 were higher for CORICIDIN HBP, a line of products for cold, cough and flu relief specially formulated for people with high blood pressure. Due to the severity and length of the 2001 cold season, higher sales were recorded for the CORICIDIN and DRIXORAL lines of cold and flu products. Also posting higher sales was the CHLOR-TRIMETON family of allergy and decongestant tablets.

SUN CARE

[MARKETED PRODUCTS] Schering-Plough continues to strengthen its leadership position in the sun care category with the introduction of new products and various line extensions.

Sales of sun care products increased 10 percent to $220 million in 2001, benefiting from new sunless-tanning products in the United States, including the COPPERTONE ENDLESS SUMMER line of products.

Also contributing to sales in this category was the BAIN DE SOLEIL line of premium sun care products.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

NET SALES

Consolidated net sales in 2001 totaled $9.8 billion, essentially flat versus 2000, reflecting volume declines of 2 percent and unfavorable foreign exchange of 2 percent, offset by price increases of 4 percent. Net sales were negatively impacted by manufacturing issues, discussed in "Additional Factors Influencing Operations," beginning on page 15. Net sales in the United States decreased 5 percent versus 2000 and advanced 8 percent internationally. Foreign exchange negatively impacted the international sales growth by 5 percent.

Consolidated 2000 net sales of $9.8 billion advanced 8 percent over 1999, reflecting volume growth of 8 percent and price increases of 2 percent, tempered by unfavorable foreign exchange of 2 percent.

Net sales by major therapeutic category for the years ended December 31, 2001, 2000 and 1999 were as follows:

(DOLLARS IN MILLIONS)				% INCREASE (DECREASE)	
	2001	2000	1999	2001/2000	2000/1999
Allergy & Respiratory	$ 4,217	$ 4,189	$ 3,850	1%	9%
Anti-infective & Anticancer	2,273	2,015	1,738	13	16
Cardiovasculars	623	746	673	(17)	11
Dermatologicals	593	680	682	(13)	–
Other Pharmaceuticals	663	716	775	(7)	(8)
Animal Health	694	720	672	(4)	7
Foot Care	323	348	332	(7)	5
Over-the-Counter (OTC)	196	202	209	(2)	(4)
Sun Care	220	199	185	10	8
Consolidated net sales	$ 9,802	$ 9,815	$ 9,116	–	8%

Worldwide net sales of allergy and respiratory products increased 1 percent in 2001 and 9 percent in 2000, led by continued growth for the CLARITIN line of nonsedating antihistamines and NASONEX, a once-daily corticosteroid for seasonal allergic rhinitis. Worldwide net sales of the CLARITIN brand totaled $3.2 billion in 2001, $3.0 billion in 2000 and $2.7 billion in 1999. The increase in the CLARITIN brand in 2001 and 2000 was due primarily to the continued expansion of the U.S. antihistamine market, tempered by market share declines.

Reported U.S. CLARITIN sales for any one or more calendar quarters through the end of 2002 and for the full year ending December 31, 2002, could be significantly lower than prescription demand due to reductions in trade inventory levels. In addition, in any quarter or calendar year where there is a trade inventory reduction of CLARITIN, neither sales increases of products other than CLARITIN nor expense reductions in amounts to offset the trade inventory reductions can be predicted with any certainty due in part to the manufacturing issues described in "Additional Factors Influencing Operations" below. In the absence of sales increases of products other than CLARITIN and expense reductions, trade inventory reductions of CLARITIN could negatively impact pretax profits in the aggregate by as much as $175 million to $250 million. The impact would vary depending on the season of the year and the level of trade inventories held at that time. In addition, as described in "Additional Factors Influencing Operations," the introduction of generic prescription or OTC loratadine or OTC CLARITIN would likely materially and adversely affect sales of CLARITIN.

Sales of NASONEX increased $109 million or 26 percent due to increases in market share in the U.S. and international markets coupled with continued share conversion from VANCENASE in the United States. Sales of NASONEX increased in 2000 due to U.S. market expansion and its launch in most major international markets. Sales of VANCENASE allergy products decreased $173 million in 2001 due to conversion to NASONEX and manufacturing issues. Sales of VANCENASE decreased $41 million in 2000 primarily due to conversion to NASONEX. Sales of VANCERIL, an orally inhaled steroid for asthma, declined $45 million in 2001 and $52 million in 2000, both due primarily to manufacturing issues.

Net sales of worldwide anti-infective and anticancer products rose 13 percent compared with 2000. Worldwide sales of the INTRON franchise [consisting of INTRON A, PEG-INTRON, a longer-acting form of INTRON A (as monotherapy for treating hepatitis C and in combination with REBETOL Capsules), and REBETRON Combination Therapy, containing REBETOL Capsules and INTRON A Injection] totaled $1.4 billion, an increase of 6 percent. The higher INTRON franchise sales were due to the launch of PEG-INTRON in combination with REBETOL, tempered by contraction in the U.S. hepatitis C market earlier in the year attributable to anticipated approval of newer therapies. Sales in this category also benefited from higher international sales of REMICADE, marketed for Crohn's disease and rheumatoid arthritis, and worldwide sales of TEMODAR, a chemotherapy agent for treating certain types of brain tumors. Sales of REMICADE were up $109 million and sales of TEMODAR rose $59 million or 49 percent, reflecting higher utilization. These sales increases were moderated by lower sales of EULEXIN, a prostate cancer therapy, due to generic and branded competition. In 2000, worldwide net sales of anti-infective and anticancer products increased 16 percent, led by worldwide sales of the INTRON franchise, the U.S. and international launches of TEMODAR, and the international launch of REMICADE. This increase was moderated by lower sales of EULEXIN due to branded competition.

Worldwide net sales of cardiovascular products decreased 17 percent in 2001. Sales of K-DUR, a sustained-release potassium chloride supplement, decreased $74 million or 26 percent primarily due to generic competition that began in September 2001. Sales of IMDUR, an oral nitrate for angina, declined $68 million or 57 percent due to continued generic competition in the United States. Partially offsetting these declines were higher sales of INTEGRILIN, a platelet receptor glycoprotein IIb/IIIa inhibitor for the treatment of patients with acute coronary syndromes, which increased $59 million or 34 percent, due mainly to increased utilization. In 2000, worldwide net sales of cardiovascular products increased 11 percent, led by higher sales of INTEGRILIN and K-DUR, tempered by lower sales of IMDUR due to generic competition.

Dermatological products' worldwide net sales decreased 13 percent in 2001 versus the prior year and were unchanged in 2000 versus 1999. The decrease was due to lower sales of Lotrisone, a topical antifungal/anti-inflammatory, which decreased $105 million or 55 percent, primarily due to generic competition.

Worldwide sales of animal health products decreased 4 percent in 2001. The sales decrease was due to manufacturing issues, coupled with the impact of bovine spongiform encephalopathy (BSE or Mad Cow disease) and foot and mouth disease (FMD) in Europe. The sales decrease in 2001 was tempered by the June 2000 acquisition of the animal health business of Takeda Chemical Industries, Ltd. (Takeda) in Japan coupled with sales of new poultry products. Sales of animal health products increased 7 percent in 2000, primarily due to the Takeda acquisition.

Foot care product sales decreased 7 percent in 2001, mainly due to increasing competition. Sales of foot care products rose 5 percent in 2000, led by increases in the Dr. Scholl's insoles product line resulting from new product introductions and line extensions.

OTC product sales decreased 2 percent in 2001 mainly due to manufacturing issues. OTC sales decreased 4 percent in 2000 due to the 1999 sale of the PAAS product line.

Sun care sales increased 10 percent in 2001 due to the success of new sunless tanning products in the United States and higher sales in Japan. Sales of sun care products increased 8 percent in 2000, benefiting from the 1999 acquisition of the Bain de Soleil product line.

SUMMARY OF COSTS AND EXPENSES:

(DOLLARS IN MILLIONS)				% INCREASE (DECREASE)	
	2001	2000	1999	2001/2000	2000/1999
Cost of sales	$ 2,078	$ 1,902	$ 1,800	9%	6%
% of net sales	21.2%	19.4%	19.7%		
Selling, general and administrative	$ 3,484	$ 3,485	$ 3,374	–	3%
% of net sales	35.5%	35.5%	37.0%		
Research and development	$ 1,312	$ 1,333	$ 1,191	(2%)	12%
% of net sales	13.4%	13.6%	13.1%		
Other (income) expense, net	$ 405	$ (93)	$ (44)	N/M	N/M
% of net sales	4.1%	(.9%)	(.5%)		

N/M – NOT A MEANINGFUL PERCENTAGE

Cost of sales as a percentage of net sales in 2001 increased over 2000, primarily due to costs associated with manufacturing issues described in "Additional Factors Influencing Operations" below and unfavorable foreign exchange impacts. Cost of sales as a percentage of net sales in 2000 decreased versus 1999, due to favorable sales mix and foreign exchange impacts.

Selling, general and administrative expenses in 2001 were unchanged as a percentage of sales, as lower promotional spending was tempered by the impact of international field force expansions of approximately 500 people. Selling, general and administrative expenses in 2000 decreased as a percentage of sales because sales growth outpaced investments in field force expansions, promotional and selling-related spending.

Research and development spending decreased 2 percent, representing 13.4 percent of sales in 2001. Research and development expenses grew 12 percent to $1.3 billion and represented 13.6 percent of sales in 2000. The changes in spending in both years reflect the timing of 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.

Other (income) expense, net in 2001 includes a one-time $500 million provision for a consent decree payment related to manufacturing issues described in "Additional Factors Influencing Operations" below.

INCOME BEFORE INCOME TAXES

Income before income taxes totaled $2.5 billion in 2001, a decrease of 21 percent from 2000. Excluding the $500 million provision for a consent decree payment, income before income taxes totaled $3.0 billion in 2001, a decrease of 5 percent from 2000. In 2000, income before income taxes totaled $3.2 billion, up 14 percent over $2.8 billion in 1999.

INCOME TAXES

The Company's effective tax rate was 23.0 percent for 2001, 24.0 percent for 2000 and 24.5 percent for 1999. 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 the "Income Taxes" footnote in the Notes to Consolidated Financial Statements.

NET INCOME

Net income in 2001 decreased 20 percent to $1.9 billion. Excluding the $500 million provision for a consent decree payment, net income in 2001 decreased 4 percent to $2.3 billion. Net income in 2000 increased 15 percent over 1999.

EARNINGS PER COMMON SHARE

Diluted earnings per common share decreased 20 percent in 2001 to $1.32 and increased 15 percent in 2000 to $1.64. Excluding the $500 million provision for a consent decree payment, diluted earnings per common share in 2001 decreased 4 percent to $1.58. The strengthening of the U.S. dollar against most foreign currencies decreased growth in earnings per common share in both periods. Excluding the impact of exchange rate fluctuations, diluted earnings per common share decreased 17 percent in 2001 and increased 16 percent in 2000. Basic earnings per common share decreased 19 percent in 2001 to $1.33 and increased 15 percent in 2000 to $1.65.

EURO

On January 1, 1999, certain member countries of the European Union (EU) 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. Effective

January 1, 2002, the new euro currency replaced the legacy currencies in each of the participating countries. 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 conversion to 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 the "Legal and Environmental Matters" footnote 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 groups seek price discounts. In most international markets, the Company operates in an environment of government-mandated cost-containment programs. In the U.S. market, the Company and other pharmaceutical manufacturers are required to provide statutorily defined rebates to various government agencies in order to participate in Medicaid, the veterans health care program and other government-funded 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 or 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 groups concerning formularies, pharmaceutical reimbursement policies and availability of the Company's pharmaceutical products cannot be reasonably estimated.

A significant portion of net sales is 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.

As noted in the "Legal and Environmental Matters" footnote included in the Notes to Consolidated Financial Statements, the Company has sued 15 drug manufacturers that are seeking to market certain forms of generic prescription or OTC loratadine prior to the expiration of certain of the Company's U.S. patents, including the compound patents for loratadine and desloratadine. In each case, the Company has filed suit in federal court seeking a ruling that the applicable Abbreviated New Drug Application (ANDA) or "paper" New Drug Application submission and proposed marketing of a generic product constitute willful infringement of the Company's patents and that the challenge to the patents is without merit. The compound patent for loratadine is set to expire on June 19, 2002. U.S. market exclusivity for Claritin was extended by the Food and Drug Administration (FDA) to December 19, 2002, because the Company conducted pediatric clinical trials at the request of the FDA. The compound patent for desloratadine is set to expire on April 21, 2004. U.S. market exclusivity was extended by the FDA to October 21, 2004, because the Company conducted pediatric clinical trials at the request of the FDA. If the Company does not prevail in those suits, it is reasonably possible that generic forms of loratadine could enter the market as early as December 20, 2002. Two generic manufacturers are claiming that the loratadine compound patent is invalid and/or unenforceable. If either prevails on those contentions, it is possible that the generic loratadine could be available before December 20, 2002. The Company believes it is unlikely that generic loratadine would be available before December 20, 2002. Further, on May 11, 2001, the FDA held a joint meeting of its Nonprescription Drugs Advisory Committee and its Pulmonary-Allergy Drugs Advisory Committee to consider a citizens' petition filed with the FDA by a health insurance company requesting that loratadine and two other antihistamines marketed by other companies be switched from prescription to OTC status. The panel voted 19-4 in a non-binding recommendation that loratadine has a safety profile acceptable for OTC marketing. The panel also had serious concerns regarding appropriate OTC labeling. Additional issues on the lack of use studies as well as patient access were also noted. Based in part on that recommendation, the FDA may consider whether it can require a switch of loratadine from prescription to OTC status with or without the consent of the Company. While the Company is on record with the FDA as opposing the switch of prescription medications to OTC status without the consent of the company that holds the New Drug Application, management recognizes that the medical, public policy and business environment in which it operates is not static. Accordingly, as a matter of business practice, it is continually considering its options regarding its products in order to give the Company the flexibility to maximize its business opportunities in light of the changing environment.

In December 2001, the Company received marketing clearance from the FDA for Clarinex (desloratadine) 5 mg tablets for the treatment of seasonal allergic rhinitis in adults and children 12 years of age and older. In February 2002, the FDA broadened the labeling of Clarinex to include the treatment of allergic rhinitis, which combines the product's initial indication of seasonal allergic rhinitis with the indication of perennial allergic rhinitis, as well as the treatment of chronic idiopathic urticaria, or hives of unknown cause, in both cases for the same age group. Clarinex is the Company's next-generation nonsedating antihistamine (NSA) allergy treatment. The ability of the Company to capture and maintain market share for its NSA products in the U.S. market will depend on a number of factors, including: additional entrants in the market for allergy treatments; clinical differentiation of Clarinex from other allergy treatments and the perception of the extent of such differentiation in the marketplace; the pricing differentials that may exist among Claritin, Clarinex, other allergy treatments and generic prescription or OTC loratadine upon their introduction in the market, which could be substantial; the date of launch of generic loratadine; the erosion rate of Claritin and Clarinex sales upon the entry of generic loratadine; and whether or not Claritin and one or both of the other branded second-generation antihistamines are switched from prescription to OTC status.

Management believes that the introduction of generic prescription or OTC loratadine and/or the switch of CLARITIN to OTC status would likely result in a rapid, sharp and material decline in CLARITIN sales in the United States. In 2001, U.S. sales of CLARITIN products were $2.7 billion, or 28 percent of the Company's consolidated worldwide sales. Management believes that the magnitude of the sales erosion of CLARITIN upon the introduction of generic loratadine could be similar to the sales erosion of Eli Lilly and Company's drug *Prozac®* when it became subject to generic competition in August 2001. According to published reports, *Prozac* prescriptions eroded approximately 80 percent in the first two months following generic entrants. This was an unprecedented level of sales erosion for a category-leading drug, which management believes illustrates the strength of managed care, mail order pharmacies and other market forces to drive utilization to generics. The category of drug may also affect the rate of erosion, and there are no assurances that the erosion rate for CLARITIN, which is labeled for the treatment of seasonal allergies and hives of unknown origin, will be greater or less than the erosion rate of *Prozac*, which is labeled for the treatment of depression, among other things. Further, management believes that sales of CLARINEX could also be materially adversely affected by the presence of generic prescription or OTC loratadine or OTC CLARITIN in the market, although the extent of that adverse effect cannot be predicted accurately. In light of the factors described above, management believes that either the introduction of generic prescription or OTC loratadine or OTC CLARITIN in the U.S. market would likely have a rapid, sharp and material adverse effect on the Company's results of operations beginning at the occurrence of such an event and extending for an indeterminate period of time thereafter. That effect on the Company's results of operations may be mitigated if the Company is successful in its patent litigation described in the "Legal and Environmental Matters" footnote to the Notes to Consolidated Financial Statements of this report.

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 of regulatory approval processes on operations 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 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, such as those noted below relating to the Company's current manufacturing 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, discontinuance of products, fines and other civil or criminal sanctions. Any such result could have a material adverse effect on the Company's financial position and its results of operations. Additional information regarding government regulation and cautionary factors that may affect future results is provided in Part I, Item I, "Business," in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, which is incorporated by reference herein.

Due to the overwhelming response to PEG-INTRON and REBETOL combination therapy since its U.S. launch in October, the Company has implemented an Access Assurance program. Under this program, a temporary wait list for newly enrolling patients has been established in order to assure uninterrupted access for those patients already on PEG-INTRON therapy. Under the program, all patients initiating therapy will have access to a full, uninterrupted course of PEG-INTRON. PEG-INTRON was granted EU marketing approval in May 2000 and REBETOL received EU approval in 1999. These products subsequently received marketing approval in several additional international markets. The Company believes that there is an adequate supply of PEG-INTRON to meet current demand for the product in the international markets.

In February 2001, the Company reported that manufacturing process and control issues would lead to reduced sales of certain products in the U.S. marketplace, with the result that first quarter and full-year 2001 sales and earnings would be lower than expected and that the extent of this impact would depend upon the timing and nature of a resolution of the manufacturing issues. The Company said the FDA had been conducting inspections of the Company's manufacturing facilities in New Jersey and Puerto Rico and had issued reports citing deficiencies concerning compliance with current Good Manufacturing Practices (GMPs), primarily relating to production processes, controls and procedures.

In April 2001, the Company reported on its efforts to complete a new, comprehensive GMP Work Plan that takes a broad, systemic approach that will encompass all FDA-regulated manufacturing sites and address six key areas: quality assurance, facilities and equipment, materials management, production, laboratories, and packaging and labeling. That GMP Work Plan was submitted to the FDA on May 1, 2001. In June 2001, the Company reported that the FDA had completed additional inspections at the Company's New Jersey and Puerto Rico manufacturing facilities and had issued new inspection reports, which cited some continuing and some additional GMP deficiencies. 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.

On December 21, 2001, the Company announced that it is in negotiations with the FDA for a consent decree to resolve issues involving the Company's compliance with current GMPs at manufacturing facilities in New Jersey and Puerto Rico. Although the Company notes that a number of issues are being discussed and that it cannot assure that a negotiated agreement will be reached or what the terms of that agreement would be, the Company believes that it is probable that a consent decree will ultimately be entered into with the FDA. Any agreement would be subject to approval by the U.S. District Court for the District of New Jersey. The Company has made a provision of $500 million for a payment to the federal government under a consent decree.

As part of its effort to improve manufacturing and quality-control functions, the Company will continue to invest in new equipment and process and system improvements. In addition, the Company is making extensive improvements to its operations, including:

- In quality and manufacturing, close to 500 people have been added to strengthen these areas, including a number of senior level executives from outside the Company. The Company continues to evaluate personnel requirements to meet its needs and hire additional people as necessary;
- In the area of equipment requalification and revalidation of products, the Company has recruited highly qualified executives, scientists and

consultants to improve revalidation studies and set up a global validation review board to oversee the requalification of manufacturing equipment and the revalidation of processes and support systems;
- In certain production areas where appropriate, equipment and manufacturing lines are being upgraded, notably in aerosol production and tablet manufacturing;
- Improved electronic document management and laboratory information systems are being installed; and
- A GMP Review Board has been formed, which includes three prominent former FDA officials. This Board is overseeing progress on the Company's GMP compliance efforts.

While the Company continues to take extensive measures intended to enhance its manufacturing processes and controls, the Company notes that, although it believes that progress has been made, additional improvements are required.

Under certain circumstances, the Company may deem it advisable to initiate product recalls. In 2001, the Company initiated voluntary recalls of batches of several human and animal health products. The cost of the recalls did not have a significant impact on the financial results of the Company.

As described more specifically in the footnote entitled "Legal and Environmental Matters" included in the Notes to Consolidated Financial Statements of this report, the pricing, marketing programs and arrangements, and related business practices of the Company and other participants in the health care industry are under increasing scrutiny from federal and state regulatory, investigative, prosecutorial and administrative entities. These entities include the Department of Justice and its U.S. Attorney's Offices, the Office of Inspector General of the Department of Health and Human Services, the FDA, the Federal Trade Commission (FTC) and various state Attorneys General offices. Many of the health care laws under which certain of these governmental entities operate, including the federal and state "anti-kickback" statutes and statutory and common law "false claims" laws, have been construed broadly by the courts and permit the government entities to exercise significant discretion. In the event that any of those governmental entities believes that wrongdoing has occurred, one or more of them could institute civil or criminal proceedings, which, if instituted and resolved unfavorably, could subject the Company to fines, penalties and administrative remedies, including exclusion from government reimbursement programs. Any such result could have a material adverse effect on the Company, its financial position or its results of operations.

CRITICAL ACCOUNTING POLICIES

The following accounting policies are considered significant because changes to certain judgments and assumptions inherent in these policies could affect the Company's financial statements:

- Accrual of rebates on sales of pharmaceuticals in the United States;
- Provision for income taxes for undistributed foreign earnings; and
- Determination of functional currencies of the Company's foreign subsidiaries.

Pharmaceutical products are sold to direct purchasers (e.g., wholesalers, retailers and certain health maintenance organizations), and the Company invoices those entities when the products are shipped. In addition, the Company has commercial rebate and discount arrangements with certain indirect purchasers and other market participants (e.g., managed care organizations that indemnify beneficiaries of health plans for their pharmaceutical costs, and pharmacy benefit managers) based upon the purchase or utilization of Company products. The Company also has governmental rebate obligations under certain federal and state programs. For purposes of revenue recognition, the Company at the end of each quarter estimates the applicable commercial and governmental rebates that will be paid for products sold during the quarter and nets those estimated amounts from the total direct sales. In the case of the governmental rebate programs, the Company's payments involve interpretations of relevant statutes and regulations. These interpretations are subject to challenges and changes in interpretive guidance by governmental authorities. The result of such a challenge or change could affect whether the estimated governmental rebate amounts are ultimately sufficient to satisfy the Company's obligations. Additional information on a governmental inquiry focused in part on the calculation of rebates is contained in the "Legal and Environmental Matters" footnote to the Notes to Consolidated Financial Statements of this report. In addition, it is possible that as a result of governmental challenges or changes in interpretive guidance, actual rebates could materially exceed amounts accrued.

As of December 31, 2001, taxes have not been provided on approximately $7.6 billion of undistributed earnings of foreign subsidiaries. Management has determined that the assets associated with these earnings have been permanently reinvested in the Company's overseas operations. If future events require that certain assets associated with these earnings be repatriated to the United States, it is likely that additional tax provisions would be required. Any such events are unforeseen at this time. Due to complexities in tax laws and the assumptions that would have to be made, it is not practicable to estimate what such a provision would be.

Based on the criteria provided for in Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation," management has determined that the "functional currency" of the Company's foreign operating subsidiaries is the same as the currency of the country in which the subsidiaries operate. If these subsidiaries were considered to have the U.S. dollar as their functional currency, results of operations could be affected; however, it is probable that the Company would have taken alternative actions to mitigate the effects of currency exchange rate changes on such U.S. dollar designations. Therefore, it is impracticable to determine what the results might be under this alternative treatment.

LIQUIDITY AND FINANCIAL RESOURCES

A combination of cash from operations and short-term borrowings represents the primary sources of funds to finance working capital, capital expenditures, shareholder dividends and common share repurchases. Management believes that these sources of funds will continue to be sufficient to finance future operations.

Cash provided by operating activities totaled $2,512 million in 2001, $2,511 million in 2000 and $2,020 million in 1999. Capital expenditures amounted to $759 million in 2001, $763 million in 2000 and $543 million in 1999. It is expected that capital expenditures will exceed $775 million in 2002. Commitments for future capital expenditures totaled $269 million at December 31, 2001.

Cash flow related to financing activities included equity proceeds as well as proceeds from short-term borrowings. Common shares repurchased in 2001 were 0.7 million shares for $34 million. In 2000, 19.8 million shares were repurchased at a cost of $855 million and, in 1999, 9.9 million shares were repurchased for $504 million. In February 2000, the Board of Directors authorized the repurchase of $1.5 billion of the Company's common shares. As of December 31, 2001, this program was approximately 36 percent complete. The Company suspended its repurchase activity in the first quarter of 2001 and intends to restart that program when it is deemed prudent to do so. Dividend payments of $911 million were made in 2001, compared with $802 million in 2000 and $716 million in 1999. Dividends per common share were $0.62 in 2001, up from $0.545 in 2000 and $0.485 in 1999.

Cash and cash equivalents totaled $2,716 million, $2,397 million and $1,876 million at December 31, 2001, 2000 and 1999, respectively. Short-term borrowings and current portion of long-term debt totaled $565 million at year-end 2001, $994 million in 2000 and $728 million in 1999.

Payments due by period under long-term debt, other financing instruments and commitments are as follows:

(DOLLARS IN MILLIONS)

	Total	Within 1 year	Within 2 to 3 years	Within 4 to 5 years	After 5 years
Long-term debt, net of current portion	$ 112	$ –	$ 93	$ 16	$ 3
Other financing instruments	230	–	–	–	230
Operating lease commitments	266	57	92	71	46
Capital expenditure commitments	269	269	–	–	–
Total	$ 877	$ 326	$ 185	$ 87	$ 279

The Company's liquidity and financial resources continued to be sufficient to meet its operating needs. In May 2001, the Company renegotiated its $1 billion committed, multi-currency, unsecured, revolving credit facility into two unsecured, revolving credit facilities from a syndicate of financial institutions totaling $1 billion. Under one facility, up to $500 million can be drawn down through May 2002, with repayment due by May 2003. Under a second multi-currency facility, an additional $500 million can be drawn down through the maturity date of May 2006. 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, 2001. 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.

Following is a discussion of the cash management strategies employed by the Company:

Certain of the Company's consolidated subsidiaries manufacture pharmaceutical ingredients at facilities located in low-tax jurisdictions ("manufacturing subsidiaries"). These manufacturing subsidiaries sell the pharmaceutical ingredients to other consolidated subsidiaries for further manufacturing and final sale to customers. Intercompany sales of product among the subsidiaries are eliminated in the preparation of the consolidated financial statements.

To balance the cash requirements of all its subsidiaries, the Company employs a number of strategies, the most common of which are short- and long-term intercompany financing between consolidated subsidiaries and third-party financing directly to a subsidiary. Any such third-party financing typically is guaranteed by the Company, and this third-party financing is reported in the consolidated balance sheet of the Company. The Company has not engaged in any off-balance-sheet financing involving unconsolidated entities.

In addition to the above, the Company has two separate arrangements that enable it to balance the cash flows between its U.S. subsidiaries and its foreign-based subsidiaries. The first arrangement utilizes two long-term interest rate swap contracts. One contract is between a foreign-based subsidiary and a bank, and the other contract is between a U.S. subsidiary and the same bank. The contracts have equal and offsetting terms, thus eliminating any market risk arising from changes in interest rates.

These interest rate swap contracts permit the foreign-based subsidiary to prepay a portion of its future swap obligation to the bank and for the bank to prepay an identical portion of its future swap obligation to the U.S. subsidiary. As of December 31, 2001, the foreign-based subsidiary had prepaid $1.4 billion of its obligation to the bank and the bank had prepaid $1.4 billion of its obligation to the U.S. subsidiary. In addition, the foreign-based subsidiary has the right to withdraw amounts it has prepaid to the bank through November 2007. The bank, however, does not have a corresponding right of withdrawal. The interest rate on these prepayments is reset annually based upon LIBOR, and the prepayments are repayable by the U.S. subsidiary and the bank over 15 years beginning in 2007.

These interest rate swap contracts are accounted for as derivative instruments under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as interpreted by Derivatives Implementation Group (DIG) Issue No. A9, "Definition of a Derivative: Prepaid Interest Rate Swaps." The prepaid amounts have been netted in the preparation of the consolidated balance sheet in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts." The FASB is considering amending Statement 133 to require separation of the financing portion of a derivative forward contract and to account for the financing portion as an asset or liability. If this conclusion becomes final, the Company may be precluded from reporting these contracts on a net basis. The Company could be required to report its prepayment to the bank as a long-term investment and to report the bank's prepayment as long-term debt.

Further, the interest rate swap contracts contain two different credit rating downgrade triggers allowing the bank to elect early termination. One trigger provides for early termination if at any time during the life of the contract the Company fails to maintain a long-term debt rating of at least A2 by Moody's or A by Standard & Poor's. This trigger provides the Company with a 36-month period in which to restore its credit rating before early termination can occur. The second trigger is effective only on the 10th anniversary of the transaction (November 17, 2007). It provides for early termination if on November 17, 2007, either Moody's or Standard & Poor's has lowered its

credit ratings to the levels mentioned above. Instead of providing a period of time in which to restore the credit rating, this second trigger permits the bank on November 17, 2007, to give a 12-month notice of its intent to terminate the contracts.

Early termination under either credit rating trigger requires repayment of all prepaid amounts. The repayment must occur in the original tax jurisdiction in which the prepaid amounts were made. Early termination would require the Company's U.S. subsidiary to repay $1.4 billion to the bank and the bank to repay $1.4 billion to the Company's foreign-based subsidiary.

The impact of early termination on liquidity and financial resources depends on the extent to which the Company decides to finance its repayment obligation. The Company could finance its entire obligation by obtaining short- or long-term financing in the United States. If this were the case, cash and equivalents would increase by $1.4 billion as a result of the bank's repayment to the foreign-based subsidiary, and debt would increase by $1.4 billion as a result of the Company financing its repayment obligation in the United States. Alternatively, the Company could repatriate to the United States some or all of the funds received by the foreign-based subsidiary. Repatriating funds would most likely have U.S. income tax consequences. While it is not practical to estimate the amount of U.S. income tax arising from any future repatriation, any such amount would not exceed $375 million, assuming the entire $1.4 billion were repatriated and assuming current tax rates prevail in the future.

Management does not believe that the potential change in financial reporting for prepaid swaps will have a material impact on the Company's liquidity or financial resources. The addition to the balance sheet of a long-term investment and long-term debt in equal amounts has no impact on net cash, which is the customary measure of liquidity for a multinational pharmaceutical company.

Further, management does not expect a credit rating downgrade to the level that would allow the bank to elect early termination. Even if this were to occur, the Company has the ability to fund its repayment obligation in the United States by external financing or by repatriating funds from its foreign operations. Any tax cost of repatriation would not impair the Company's liquidity.

The second arrangement employed by the Company to balance the cash flows between its U.S. and foreign operations involves long-term interest rate swap contracts that were entered into in 1991 and 1992. (Refer to "Market Risk Disclosures" below for a discussion regarding the market risk and the accounting for these interest rate swaps.) The terms of these contracts enable the Company to sell the right to receive payments while retaining the obligation to make payments. In 1991 and 1992, the U.S. parent company sold the rights to receive payments to a foreign-based subsidiary in return for approximately $700 million (fair value). This intercompany transaction has been eliminated in the preparation of the consolidated financial statements.

The IRS has asserted that this transaction between the U.S. parent company and its foreign-based subsidiary was not a sale but was a loan on which additional U.S. income taxes of $195 million are due. The Company and its tax advisers believe that there is no merit to the IRS' position. Further, these interest rate swap contracts contain credit rating downgrade triggers allowing the original counterparty to terminate the contracts if at any time during the life of the contracts the Company fails to maintain a long-term credit rating of at least Aa3 by Moody's or AA- by Standard & Poor's. Termination due to a credit rating downgrade would effectively negate this cash management strategy and would most likely result in the Company owing the additional U.S. income taxes.

With respect to the assertion by the IRS, the Company intends to defend its position vigorously. With respect to the credit rating downgrade triggers, management does not expect this to occur. In any event, the most likely impact on liquidity and financial resources of an unfavorable outcome would be additional income taxes and possibly related interest and penalties. Any such amounts would not impair the Company's liquidity.

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 and equity prices. The following describes the nature of these risks.

Foreign Currency Exchange Risk The Company has subsidiaries in more than 40 countries worldwide. In 2001, sales outside the United States accounted for approximately 39 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 2001, changes in foreign exchange rates reduced sales by 2 percent and reduced 2001 diluted earnings per common share by 3 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. The risk of adverse exchange rate change is also mitigated by the fact that the Company's foreign operations are widespread. The widespread nature of these foreign operations is the primary reason that overall economic weakness in certain Latin American countries is not expected to significantly impact future operations of the Company.

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/or equity prices include debt and equity securities held in non-qualified trusts for employee benefits, equity securities acquired in connection with in-licensing arrangements and an equity-type security that was issued in 1999.

The trust investments totaled approximately $180 million at December 31, 2001. Due to the long-term nature of the liabilities that these trust assets fund, the Company's exposure to market risk is low.

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, 2001, was $107 million. See "Unrealized gain (loss) on investments held available for sale, net of tax" in the Statements of Consolidated Shareholders' Equity and "Equity Swap Contracts" in the "Financial Instruments and Commitments" 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 the "Financial Instruments and Commitments" footnote 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 less than $1 million at December 31, 2001. The fair value of these swaps at December 31, 2000, was a liability 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 $1 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 at December 31, 2001, was an asset of $40 million. The fair value of this swap was a $15 million asset at December 31, 2000. It is estimated that a 10 percent change in interest rate structure could change the fair value of the swap by approximately $2 million.

STATEMENT OF FINANCIAL ACCOUNTING STANDARDS 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 was not material and its ongoing effects are not expected to be material.

RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting, thereby eliminating the pooling-of-interests method. SFAS No. 142 eliminates the amortization of goodwill after January 1, 2002, and requires periodic testing of goodwill for impairment. If goodwill is deemed impaired, it will be written down to its estimated fair value. The impact of adoption of SFAS No. 142 will not result in an adjustment to recorded goodwill. Goodwill amortization expense was $5 million in 2001, $8 million in 2000 and $6 million in 1999.

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. The forward-looking statements are based on current expectations. 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, 2001, 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. Further, the Company has issued cautionary statements in the Disclosure Notices attached to its press releases discussing matters described in this report. The Company's press releases for 2001 and 2002 to date are available on the Company's Web site on the World Wide Web at schering-plough.com. The reader of this report is urged to read those cautionary statements, which are incorporated by reference herein.

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

(AMOUNTS IN MILLIONS, EXCEPT PER SHARE FIGURES)	FOR THE YEARS ENDED DECEMBER 31, 2001	2000	1999
Net sales	$ 9,802	$ 9,815	$ 9,116
Costs and Expenses:			
Cost of sales	2,078	1,902	1,800
Selling, general and administrative	3,484	3,485	3,374
Research and development	1,312	1,333	1,191
Other (income) expense, net	405	(93)	(44)
Total costs and expenses	7,279	6,627	6,321
Income before income taxes	2,523	3,188	2,795
Income taxes	580	765	685
Net income	$ 1,943	$ 2,423	$ 2,110
Diluted earnings per common share	$ 1.32	$ 1.64	$ 1.42
Basic earnings per common share	$ 1.33	$ 1.65	$ 1.44

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

STATEMENTS OF CONSOLIDATED CASH FLOWS

(AMOUNTS IN MILLIONS)	FOR THE YEARS ENDED DECEMBER 31, 2001	2000	1999
Operating Activities:			
Net income	$ 1,943	$ 2,423	$ 2,110
Depreciation and amortization	320	299	264
Accounts receivable	(434)	(418)	(352)
Inventories	(69)	(17)	(150)
Prepaid expenses and other assets	(153)	(30)	(76)
Accounts payable and other liabilities	905	254	224
Net cash provided by operating activities	2,512	2,511	2,020
Investing Activities:			
Capital expenditures	(759)	(763)	(543)
Purchases of investments	(162)	(104)	(338)
Reduction of investments	33	60	215
Other, net	25	(41)	3
Net cash used for investing activities	(863)	(848)	(663)
Financing Activities:			
Cash dividends paid to common shareholders	(911)	(802)	(716)
Common shares repurchased	(34)	(855)	(504)
Net change in short-term borrowings	(419)	280	187
Issuance (repayment) of long-term debt	8	106	(2)
Other, net	29	133	297
Net cash used for financing activities	(1,327)	(1,138)	(738)
Effect of exchange rates on cash and cash equivalents	(3)	(4)	(2)
Net increase in cash and cash equivalents	319	521	617
Cash and cash equivalents, beginning of year	2,397	1,876	1,259
Cash and cash equivalents, end of year	$ 2,716	$ 2,397	$ 1,876

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN MILLIONS, EXCEPT PER SHARE FIGURES)	AT DECEMBER 31, 2001	2000
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,716	$ 2,397
Accounts receivable, less allowances: 2001, $123; 2000, $96	1,789	1,413
Inventories	945	951
Prepaid expenses, deferred income taxes and other current assets	1,069	959
Total current assets	6,519	5,720
Property, at cost:		
Land	58	56
Buildings and improvements	2,182	2,072
Equipment	2,062	1,861
Construction in progress	1,265	938
Total	5,567	4,927
Less accumulated depreciation	1,753	1,565
Property, net	3,814	3,362
Goodwill, net	219	238
Other intangible assets, net	441	389
Other assets	1,181	1,096
	$ 12,174	$ 10,805
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,075	$ 1,031
Short-term borrowings and current portion of long-term debt	565	994
U.S., foreign and state income taxes	588	589
Accrued compensation	343	312
Other accrued liabilities	1,346	719
Total current liabilities	3,917	3,645
Long-term Liabilities:		
Deferred income taxes	302	214
Other long-term liabilities	830	827
Total long-term liabilities	1,132	1,041
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	1,112	974
Retained earnings	10,849	9,817
Accumulated other comprehensive income	(423)	(318)
Total	12,553	11,488
Less treasury shares: 2001, 565; 2000, 567; at cost	5,428	5,369
Total shareholders' equity	7,125	6,119
	$ 12,174	$ 10,805

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, 1998	$ 1,015	$ 365	$ 6,802	$ (3,942)	$ (238)	$ 4,002
Comprehensive income:						
Net income			2,110			2,110
Foreign currency translation					(54)	(54)
Unrealized gain (loss) on investments held available for sale, net of tax					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					(75)	(75)
Unrealized gain (loss) on investments held available for sale, net of tax					(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
Comprehensive income:						
Net income			1,943			1,943
Foreign currency translation					(85)	(85)
Realized gain reclassified to income, net of tax					(23)	(23)
Unrealized gain (loss) on investments held available for sale, net of tax					(5)	(5)
Deferred gain (loss) on cash flow hedges, net of tax					8	8
Total comprehensive income						1,838
Cash dividends on common shares			(911)			(911)
Stock incentive plans		138		(25)		113
Common shares repurchased				(34)		(34)
Balance December 31, 2001	$ 1,015	$ 1,112	$ 10,849	$ (5,428)	$ (423)	$ 7,125

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

SUMMARY OF 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 $213, $209 and $191 in 2001, 2000 and 1999, respectively.

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 $4, $8 and $6 in 2001, 2000 and 1999, respectively.

Accumulated Other Comprehensive Income Accumulated other comprehensive income primarily consists of the accumulated foreign currency translation adjustment account and unrealized gains and losses on unhedged securities classified for Statement of Financial Accounting Standards (SFAS) No. 115 purposes as held available for sale. At December 31, 2001 and 2000, the accumulated foreign currency translation adjustment account totaled $461 and $376, respectively, and accumulated unrealized gains, net of tax, totaled $30 and $58, respectively. Gross unrealized gains recorded in accumulated other comprehensive income in 2000 and 1999 were $27 and $59, respectively; gross unrealized gains in 2001 were nil. Gross unrealized losses recorded in accumulated other comprehensive income were $7 in 2001, $9 in 2000 and in 1999 were not material.

Revenue Recognition Revenues from the sale of products are recorded at the time goods are shipped to customers. Provisions for discounts, returns, rebates 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 through 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 and diluted earnings per common share are reconciled as follows:

(SHARES IN MILLIONS)	2001	2000	1999
Average shares outstanding for basic earnings per share	1,463	1,465	1,470
Dilutive effect of options and deferred stock units	7	11	16
Average shares outstanding for diluted earnings per share	1,470	1,476	1,486

As of December 31, 2001, there were 35 million options outstanding that were excluded from the computation of diluted earnings per share because their effect would have been antidilutive.

Goodwill and Other Intangible Assets In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method of accounting, thereby eliminating the pooling-of-interests method. Effective January 1, 2002, SFAS No. 142 eliminates the requirement to amortize goodwill and instead requires periodic testing of goodwill for impairment. If goodwill is impaired, it will be written down to its estimated fair value. The impact of adoption of SFAS No. 142 will not result in an adjustment to recorded goodwill. Goodwill amortization expense was $5 in 2001, $8 in 2000 and $6 in 1999.

Other intangible assets principally include licenses, patents and trademarks. All other intangible assets are recorded at cost and are being amortized on the straight-line method over their useful lives. Amortization expense related to other intangible assets in 2001, 2000 and 1999 was $65, $50 and $43, respectively. Accumulated amortization of other intangible assets was $274 and $214 at December 31, 2001 and 2000, respectively. Other intangible assets are reviewed to determine recoverability by comparing their carrying values to their expected undiscounted future cash flows when events or circumstances warrant such a review.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

Other Recently Issued Accounting Standards In April 2001, the Emerging Issues Task Force (EITF) issued EITF No. 00-25, "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products," which addresses the income statement classification of certain credits, allowances, adjustments and payments given to customers for the services or benefits provided. EITF No. 00-25 will require the Company to reclassify the cost of this consideration from selling, general and administrative expense to net sales beginning in 2002. The amount of expense to be reclassified to net sales is immaterial and EITF No. 00-25 will have no effect on net income.

FINANCIAL INSTRUMENTS AND COMMITMENTS

Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The effect of adoption was not material.

SFAS No. 133, as amended, requires all derivatives to be recorded on the balance sheet at fair value. The effective portion of qualifying cash flow hedges is recognized in income when the hedged item affects income. Changes in the fair value of derivatives that qualify as fair value hedges, along with the change in the fair value of the hedged risk, are recognized in other (income) expense, net as they occur. Changes in the fair value of derivatives that do not qualify for hedge treatment, as well as the ineffective portion of qualifying hedges, are recognized in income as they occur.

Risks, Policy and Objectives The Company is exposed to market risk primarily from changes in foreign currency exchange rates and, to a lesser extent, from interest rate and equity price changes. From time to time, the Company will hedge selective foreign currency risks with derivatives. Generally, however, 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. Furthermore, the risk of adverse exchange rate change is mitigated by the fact that the Company's foreign operations are widespread.

The Company uses derivative instruments to hedge the fair value of certain securities acquired in connection with its in-licensing research and development activities and, on a limited basis, the Company will hedge selective exposures to interest rate risks.

The Company mitigates credit risk on derivative instruments by dealing only with counterparties considered to be financially sound. Accordingly, the Company does not anticipate loss for non-performance. The Company does not enter into derivative instruments to generate trading profits.

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, 2001		December 31, 2000	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
ASSETS:				
Cash and cash equivalents	$ 2,716	$ 2,716	$ 2,397	$ 2,397
Debt and equity investments	584	584	562	562
Interest rate swap contracts	40	40	16	14
LIABILITIES:				
Short-term borrowings and current portion of long-term debt	565	565	994	994
Long-term debt	112	117	109	109
Equity swap contracts	6	6	16	16
Other financing instruments	230	235	219	211

Debt and Equity Investments and Equity Swap Contracts 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 employee benefit obligations. Investments are primarily classified as available for sale and are carried at fair value. To mitigate the market price risk to which the equity investments are subject, the Company has hedged certain of these investments with equity swaps. These swaps are designated as fair value hedges. The amount of hedge ineffectiveness and the amount excluded from the assessment of effectiveness in the 12-month period ended December 31, 2001, were not material.

Realized gains from the sale of securities classified as available for sale were $35 in 2001 and $29 in 2000. Proceeds from these sales totaled $51 and $43, respectively. Such amounts for 1999 were insignificant. Realized gains are recorded in other (income) expense, net.

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, 2001, 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 swaps are not designated as hedging instruments and, accordingly, the changes in fair value are 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.

During 1999, the Company purchased a $200 variable rate, three-month time deposit. The Company intends to roll over this time deposit every three months until November 2003. To hedge the variable rate risk, the Company has entered into an interest rate swap that matures in November 2003. Under the swap the Company receives a fixed rate of approximately 5.6 percent and pays a three-month LIBOR rate on a notional amount of $200. This swap is designated as a cash flow hedge with the effective portion of the swap deferred until the transaction being hedged is recorded in earnings. The amount of hedge ineffectiveness and the impact on comprehensive

income and accumulated other comprehensive income in the 12-month period ended December 31, 2001, were not material to the Company's financial statements. The amount of the gain or loss expected to be reclassified to earnings within the next 12 months is not material to the Company's financial statements.

Borrowings In May 2001, the Company renegotiated its $1,000 committed, multi-currency unsecured revolving credit facility into two unsecured revolving credit facilities from a syndicate of financial institutions totaling $1,000. Under one facility, up to $500 can be drawn down through May 2002, with repayment due by May 2003. Under a second multi-currency facility, an additional $500 can be drawn down through the maturity date of May 2006. These facilities are available for general corporate purposes and are considered as support for the Company's commercial paper borrowings. These facilities do not require compensating balances; however, a nominal commitment fee is paid. At December 31, 2001, no funds had been drawn down under these facilities. In addition, the Company's foreign subsidiaries have approximately $388 available in unused lines of credit from various financial institutions at December 31, 2001.

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, 2001 and 2000 was $465 and $895, respectively. The weighted-average interest rate for short-term borrowings at December 31, 2001 and 2000 was 4.0 percent and 6.8 percent, respectively.

In connection with the Company's purchase of a research and office facility in 2000, the Company issued a $100 note payable to the seller due in its entirety in 2003. The imputed interest rate on the note is 6.5 percent. The carrying amount of the note payable at December 31, 2001, was $92. 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, 2001, 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, 2001 and 2000, the rate was 4.8 percent and 5.0 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 $72 in 2001, $71 in 2000 and $65 in 1999. Future minimum rental commitments on non-cancelable operating leases as of December 31, 2001, range from $57 in 2002 to $34 in 2006, with aggregate minimum lease obligations of $46 due thereafter. As of December 31, 2001, the Company has commitments totaling $269 related to capital expenditures to be made in 2002.

INTEREST COSTS AND INCOME

Interest costs were as follows:

	2001	2000	1999
Interest cost incurred	$ 65	$ 64	$ 41
Less: amount capitalized on construction	25	20	12
Interest expense	$ 40	$ 44	$ 29
Cash paid for interest, net of amount capitalized	$ 47	$ 50	$ 28

Interest income for 2001, 2000 and 1999 was $121, $159 and $103, respectively. Interest income and interest expense are included in other (income) expense, net.

SHAREHOLDERS' EQUITY

A summary of treasury share transactions follows:

(SHARES IN MILLIONS)	2001	2000	1999
Share balance at January 1	567	558	558
Shares issued under stock incentive plans	(3)	(11)	(10)
Purchase of treasury shares	1	20	10
Share balance at December 31	565	567	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-modifying 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.

In December 2001, Merck/Schering-Plough Pharmaceuticals submitted a New Drug Application to the U.S. Food and Drug Administration (FDA) seeking approval for ZETIA (ezetimibe) tablets. Also, in December 2001, the cholesterol-management agreements were expanded to include all countries of the world except Japan. At this time, all the products are in the development stage and the development costs are being shared equally by the two companies. In January 2002, Schering-Plough/Merck Pharmaceuticals reported on results of Phase III clinical trials of a fixed-combination tablet containing CLARITIN and *Singulair*, which did not demonstrate sufficient added benefits in the treatment of seasonal allergic rhinitis. The partnership also reported that it intends to further evaluate those results and may conduct additional studies.

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)	2001		2000		1999	
	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	46	$ 33.77	42	$ 27.34	42	$ 19.31
Granted	8	40.15	14	42.03	9	52.86
Exercised	(2)	16.81	(9)	16.36	(8)	13.96
Canceled or expired	(2)	38.61	(1)	40.73	(1)	32.79
Outstanding at December 31	50	$ 35.18	46	$ 33.77	42	$ 27.34
Exercisable at December 31	30	$ 33.11	26	$ 32.10	27	$ 21.16

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 $1,862, $2,369 and $2,044 for 2001, 2000 and 1999, respectively. Pro forma diluted earnings per share would have been $1.27, $1.60 and $1.38 for 2001, 2000 and 1999, respectively, and pro forma basic earnings per share would have been $1.27, $1.62 and $1.39 for 2001, 2000 and 1999, respectively.

The weighted-average fair value per option granted in 2001, 2000 and 1999 was $13.35, $13.82 and $12.38, respectively. The fair values were estimated using the Black-Scholes option pricing model based on the following assumptions:

	2001	2000	1999
Dividend yield	1.5%	1.7%	2.2%
Volatility	35%	32%	23%
Risk-free interest rate	4.9%	6.3%	5.1%
Expected term of options (in years)	5	5	5

In 2001, 2000 and 1999, the Company awarded deferred stock units totaling 2.7 million, 2.5 million and 2.4 million, respectively. The expense recorded in 2001, 2000 and 1999 for deferred stock units was $89, $76 and $61, respectively.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

INVENTORIES

Year-end inventories consisted of the following:

	2001	2000
Finished products	$ 299	$ 459
Goods in process	346	261
Raw materials and supplies	300	231
Total inventories	$ 945	$ 951

Inventories valued on a last-in, first-out basis comprised approximately 23 percent and 29 percent of total inventories at December 31, 2001 and 2000, respectively. The estimated replacement cost of total inventories at December 31, 2001 and 2000 was $975 and $995, 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 benefits (income) were as follows:

	Retirement Plans			Post-retirement Health Care Benefits		
	2001	2000	1999	2001	2000	1999
Service cost	$ 48	$ 45	$ 42	$ 5	$ 5	$ 5
Interest cost	73	69	62	14	12	11
Expected return on plan assets	(119)	(110)	(101)	(21)	(20)	(18)
Amortization, net	(3)	(6)	(5)	(2)	(2)	(2)
Net pension and other post-retirement benefits (income)	$ (1)	$ (2)	$ (2)	$ (4)	$ (5)	$ (4)

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

	Retirement Plans		Post-retirement Health Care Benefits	
	2001	2000	2001	2000
Benefit obligations at January 1	$ 1,036	$ 968	$ 185	$ 170
Service cost	48	45	5	5
Interest cost	73	69	14	12
Assumption changes	68	–	20	–
Effects of exchange rate changes	(5)	(12)	–	–
Benefits paid	(56)	(45)	(12)	(12)
Actuarial losses	8	11	8	10
Plan amendments	(5)	–	–	–
Benefit obligations at December 31	$ 1,167	$ 1,036	$ 220	$ 185
Benefit obligations of overfunded plans	$ 842	$ 825	$ –	$ 185
Benefit obligations of underfunded plans	325	211	220	–

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

	Retirement Plans		Post-retirement Health Care Benefits	
	2001	2000	2001	2000
Fair value of plan assets, primarily stocks and bonds, at January 1	$ 1,268	$ 1,299	$ 243	$ 259
Actual return (loss) on plan assets	(88)	5	(19)	(4)
Contributions	27	19	–	–
Effects of exchange rate changes	(4)	(10)	–	–
Plan amendments	(7)	–	–	–
Benefits paid	(56)	(45)	(12)	(12)
Fair value of plan assets at December 31	$ 1,140	$ 1,268	$ 212	$ 243
Plan assets of overfunded plans	$ 1,005	$ 1,218	$ –	$ 243
Plan assets of underfunded plans	135	50	212	–

In addition to the plan assets indicated above, at December 31, 2001 and 2000, securities of $74 and $76, respectively, were held in non-qualified trusts designated to provide pension benefits for certain underfunded plans.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

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	
	2001	2000	2001	2000
Plan assets in excess of (less than) benefit obligations	$ (27)	$ 232	$ (8)	$ 58
Unrecognized net transition assets	(19)	(29)	–	–
Unrecognized prior service costs	16	15	(4)	(4)
Unrecognized net actuarial (gain) loss	199	(70)	20	(50)
Net assets at December 31	$ 169	$ 148	$ 8	$ 4

The weighted-average assumptions employed at December 31 were:

	Retirement Plans		Post-retirement Health Care Benefits	
	2001	2000	2001	2000
Discount rate	6.7%	7.1%	7.0%	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%	4.0%	N/A	N/A

The weighted-average assumed health care cost inflation rates used for post-retirement measurement purposes is 8.0 percent for 2002, trending down to 5.0 percent by 2006. 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 $4 and the post-retirement benefit obligation by $30.

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 $80, $84 and $74 in 2001, 2000 and 1999, respectively.

INCOME TAXES

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

	2001	2000	1999
United States	$ 1,628	$ 2,365	$ 2,031
Foreign	895	823	764
Total income before income taxes	$ 2,523	$ 3,188	$ 2,795

The components of income tax expense were as follows:

	2001	2000	1999
Current:			
Federal	$ 397	$ 503	$ 464
Foreign	203	178	185
State	27	27	13
Total current	627	708	662
Deferred:			
Federal and state	(47)	21	46
Foreign	–	36	(23)
Total deferred	(47)	57	23
Total income tax expense	$ 580	$ 765	$ 685

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

	2001	2000	1999
U.S. statutory tax rate	35.0%	35.0%	35.0%
Increase (decrease) in taxes resulting from:			
Lower rates in other jurisdictions, net	(12.1)	(12.2)	(10.5)
Research tax credit	(.5)	(.8)	(.8)
All other, net	.6	2.0	.8
Effective tax rate	23.0%	24.0%	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, 2001 and 2000, the Company had total deferred tax assets of $782 and $693, respectively, and deferred tax liabilities of $518 and $486, respectively. Valuation allowances are not significant. Significant deferred tax assets at December 31, 2001 and 2000 were for operating costs not currently deductible for tax purposes and totaled $521 and $353, respectively. Significant deferred tax liabilities at December 31, 2001 and 2000 were for depreciation differences, $241 and $232, respectively, and retirement plans, $94 and $82, respectively. Other current assets include deferred income taxes of $573 and $431 at December 31, 2001 and 2000, respectively.

Deferred taxes are not provided on undistributed earnings of foreign subsidiaries, considered to be permanent investments, which at December 31, 2001, approximated $7,600. Determining the tax liability that would arise if these earnings were remitted is not practicable.

As of December 31, 2001, the U.S. Internal Revenue Service (IRS) 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 2001, 2000 and 1999 were $592, $606 and $502, respectively.

In October 2001, IRS auditors asserted in reports that the Company is liable for additional tax for the 1990 through 1992 tax years. The reports allege that two interest rate swaps that the Company entered into with an unrelated party should be recharacterized as loans from affiliated companies resulting in additional tax on income. The tax sought by the IRS auditors relating to recharacterization is approximately $195, plus penalties and interest for the period stated above. The Company and its tax advisers believe there is no merit to the IRS' position. The Company intends to defend its position vigorously; however, there can be no assurance that the Company will prevail.

CONSENT DECREE

On December 21, 2001, the Company announced that it is in negotiations with the FDA for a consent decree to resolve issues involving the Company's compliance with current Good Manufacturing Practices (GMPs) at manufacturing facilities in New Jersey and Puerto Rico. Although the Company notes that a number of issues are being discussed and that it cannot assure that a negotiated agreement will be reached or what the terms of the agreement would be, the Company believes that it is probable that a consent decree will ultimately be entered into with the FDA. Any agreement would be subject to approval by the U.S. District Court for the District of New Jersey. A one-time provision of $500 for a payment to the federal government under a consent decree is included in other (income) expense, net, for this matter. The related liability is included in other accrued liabilities.

CONCENTRATIONS

CLARITIN (loratadine) sales in the United States, in all formulations, accounted for 28 percent of the Company's consolidated worldwide sales in 2001, and a larger percentage of the Company's consolidated earnings. The Company has sued 15 drug manufacturers that are seeking to market certain forms of prescription generic or OTC loratadine prior to the expiration of certain of the Company's U.S. patents, including the compound patents for loratadine and desloratadine. In each case, the Company has filed suit in federal court seeking a ruling that the applicable Abbreviated New Drug Application (ANDA) or "paper" New Drug Application submission and proposed marketing of a generic prescription or OTC product constitute willful infringement of the Company's patents and that the challenge to the patents is without merit. The compound patent for loratadine is set to expire on June 19, 2002. U.S. market exclusivity for CLARITIN was extended by the FDA to December 19, 2002, because the Company conducted pediatric clinical trials at the request of the FDA. The compound patent for desloratadine is set to expire on April 21, 2004. U.S. market exclusivity was extended by the FDA to October 21, 2004, because the Company conducted pediatric clinical trials at the request of the FDA. If the Company does not prevail in those suits, it is reasonably possible that generic forms of loratadine could enter the market as early as December 20, 2002.

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 reasonably estimated.

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 reasonably estimated. Consistent with trends in the pharmaceutical industry, the Company is self-insured for certain events. Although the Company's self-insurance levels are expected to increase in 2002, adequate insurance coverage continues to be available to the Company. Cost increases are not expected to be material.

The recorded liabilities for the above matters at December 31, 2001, and the related expenses incurred during the year ended December 31, 2001, 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 owner and operator, and numerous companies that discharge into the plant, including a subsidiary of the Company, for damages and injunctive relief relating to odors allegedly 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 numerous 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 court retailer actions, except one in 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 Federal Court in Illinois recently remanded the cases of those retailers that opted out of the class action back to the District Courts where they were filed.

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 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. 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, including the compound patents for loratadine and desloratadine. In 2000, Andrx Pharmaceuticals, L.L.C. (Andrx), Mylan Pharmaceuticals Inc., ESI Lederle, Inc. (Lederle) and Impax Laboratories, Inc. made similar submissions. In 2001, Alpharma USPD Inc., Ranbaxy Pharmaceuticals, Inc., Taro Pharmaceuticals USA, Inc., and Genpharm Incorporated have made similar submissions, and Andrx submitted another ANDA to the FDA to market a second formulation of generic Claritin. Also in 2001, McNeil Consumer Healthcare (McNeil) submitted a "paper" New Drug Application ("paper" NDA) under Section 505 (b)(2) of the Federal Food, Drug and Cosmetic Act seeking to market a generic OTC form of Claritin before the expiration of the Company's patents. In 2002, Whitehall-Robins Healthcare, a division of American Home Products, made a similar "paper" NDA submission. Each has alleged that one or more of those patents are invalid and unenforceable. In each case, the Company has filed suit in federal court seeking a ruling that the applicable ANDA or "paper" NDA submission and proposed marketing of a generic prescription or OTC product constitute willful infringement of the Company's patents and that the challenge to the patents 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.

The Company is a co-defendant in a litigation commenced in October 2001 by Housey Pharmaceuticals against 11 pharmaceutical companies in which Housey has alleged infringement of several patents relating to laboratory research methods. The Company believes that it has substantial defenses and will defend itself vigorously. 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. The U.S. 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. In March 2001, the Company received a subpoena from the Massachusetts Attorney General's office seeking documents concerning the use of AWP and other pricing and/or marketing practices. 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 (Warrick), 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. 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.

In October 2001, the West Virginia Attorney General filed a lawsuit against Warrick alleging that Warrick falsely "inflated" the AWP for albuterol sulfate solution knowing that the state Medicaid programs and other state programs relied on AWP to pay providers for the drugs. The complaint alleges that Warrick caused the state to pay excessive reimbursement to the distributors of the drug. The complaint demands unspecified damages, including treble damages and attorneys' fees. The Company believes that the claims are without merit and will defend itself vigorously. However, as with any litigation, there can be no assurance that the Company will prevail.

In November 2001, a private plaintiff filed complaints in Arizona state court against the Company and Warrick. These complaints, which are alleged to be suitable for class action status, allege that the Company and Warrick engaged in a conspiracy to fraudulently report "fictitious" AWPs regarding prescription pharmaceuticals. The "inflated" AWPs were allegedly supplied to Medicaid, Medicare and private insurers. These lawsuits seek unspecified damages, including treble damages and attorneys' fees. The Company believes that the claims are without merit and will defend itself vigorously. However, as with any litigation, there can be no assurance that the Company will prevail.

In January 2002, the Nevada Attorney General filed a lawsuit against Warrick alleging that Warrick engaged in a scheme to fraudulently report "fictitious" AWPs for prescription pharmaceuticals that were covered by Medicare and Medicaid, thus inflating those reimbursements and patients' co-payments. The lawsuit also alleges that Warrick failed to report accurate prices under the Medicaid Rebate Program and thereby underpaid the Medicaid rebates that it was required to pay to Nevada. The lawsuit seeks injunctive relief and unspecified damages, including treble and punitive damages. The Company believes that the claims are without merit and will defend itself vigorously. However, as with any litigation, there can be no assurance that the Company will prevail.

On January 25, 2002, Warrick was served with a lawsuit filed in the United States District Court for the District of Nevada by the Twin Cities Bakery Workers Health and Welfare Fund, and another plaintiff. The case alleges to be a class action on behalf of all direct and indirect "end-payers" for Medicare-covered pharmaceuticals sold by Warrick. The case alleges violations of Section 2 of The Sherman Act, and Federal Rico, Statutory Fraud and Unjust Enrichment laws for alleged overpayments as a result of "inflated" AWPs and alleged giving of free samples and expecting that the samples would be billed to Medicare and the "end-payers." The complaint seeks treble and punitive damages and injunctive relief. The Company believes the claims are without merit and will defend itself vigorously. However, as with any litigation, there can be no assurance that the Company will prevail.

On April 2, 2001, the FTC started an administrative proceeding against the Company, Upsher-Smith, Inc. (Upsher-Smith) and Lederle. The complaint alleges anti-competitive effects from the settlement of patent lawsuits between the Company and Lederle, and the Company and 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 ANDAs filed by Lederle and Upsher-Smith. The administrative hearing began in January 2002. The Company believes that its actions have been lawful and proper, and intends to defend itself vigorously. However, it is not possible to predict the outcome of the proceeding, which could result in the imposition of injunctive or administrative remedies.

Following the commencement of the FTC administrative proceeding, alleged class action suits were filed on behalf of direct and indirect purchasers of K-Dur against the Company, Upsher-Smith and Lederle in federal and state courts. These suits all allege essentially the same facts and claim violations of federal and state antitrust laws, as well as other state statutory and/or common law causes of action. The Company believes that it has substantial defenses and intends to defend itself vigorously.

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's post-trial motions for either a reversal of the jury's verdict or a new trial were denied in September 2001. The Company has appealed. 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 had been conducting inspections of the Company's manufacturing facilities in New Jersey and Puerto Rico and had issued reports citing deficiencies concerning compliance with current Good Manufacturing Practices, 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. Additional lawsuits of the same tenor followed. The plaintiffs in the suits purport to represent classes of shareholders who purchased shares of Company stock between dates as early as March 2, 2000, and February 15, 2001, the date of the press release. In April 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 substantially the same violations of the Securities Exchange Act of 1934 as alleged in the putative class actions described above in this paragraph, as well as alleging violations of Section 11 of the Securities Act of 1933 and failure to disclose information which is the subject matter of the FTC administrative proceeding described above and purporting to represent a class of shareholders who purchased shares of Company stock between July 25, 2000, and March 30, 2001, the last business day before the Company issued a press release relating to the FTC administrative proceeding. This complaint and all of the previously filed complaints were consolidated into one action in the United States District Court for the District of New Jersey, and a lead plaintiff, the Florida State Board of Administration, was appointed by the Court on July 2, 2001. On October 11, 2001, a consolidated amended complaint was filed, alleging the same violations described in the second sentence of this paragraph (but not a Section 11 claim) and purporting to represent a class of shareholders who purchased shares of Company stock from May 9, 2000, through February 15, 2001. The Company has moved to dismiss the consolidated amended complaint. The Company believes that it has substantial defenses and intends to defend the consolidated action vigorously.

In addition to the lawsuits described in the immediately preceding paragraph, two lawsuits were filed in the United States District Court for the District of New Jersey and two lawsuits were filed in New Jersey state court against the Company (as a nominal defendant) and certain officers, directors and a former director seeking damages on behalf of the Company including disgorgement of trading profits made by defendants allegedly obtained on the basis of material non-public information. The complaints in each of those four lawsuits relate to the issues described in the Company's February 15, 2001, press release, and allege a failure to disclose material information and breach of fiduciary duty by the directors. One of the federal court lawsuits also includes allegations related to the investigations by the U.S. Attorney's Offices for the Eastern District of Pennsylvania and the District of Massachusetts, the FTC's administrative proceeding against the Company, and the lawsuit by the state of Texas against Warrick, all of which are described above. Each of these lawsuits is a shareholder derivative action that purports to assert claims on behalf of the Company, but as to which no demand was made on the Board of Directors and no decision has been made on whether the Company can or should pursue such claims. In August 2001, the plaintiffs in each of the New Jersey state court shareholder derivative actions moved to dismiss voluntarily the complaints in those actions, which motions were granted. The two shareholder derivative actions pending in the United States District Court for the District of New Jersey have been consolidated into one action, which is in its very early stages. This consolidated action is being coordinated for pre-trial purposes with the consolidated action described in the immediately preceding paragraph. On January 2, 2002, the Corporation received a demand letter dated December 26, 2001, from a law firm not involved in the derivative actions described above, on behalf of a shareholder who also is not involved in the derivative actions, demanding that the Board of Directors bring claims on behalf of the Company based on allegations substantially similar to those alleged in the derivative actions. On January 22, 2002, the Board of Directors adopted a board resolution establishing an Evaluation Committee, consisting of three directors, to investigate, review and analyze the facts and circumstances surrounding the allegations made in the demand letter and the consolidated amended derivative action complaint described above, but reserving to the full Board authority and discretion to exercise its business judgment in respect of the proper disposition of the demand. The Committee has engaged independent outside counsel to advise it.

The Company is a party to an arbitration commenced in July 2001 by Biogen, Inc. (Biogen) relating to, among other things, Biogen's claims that the Company owes U.S. alpha interferon royalty payments to Biogen for a period of time that the Company does not believe such royalties are owed, and to preempt future royalty disputes. Biogen's claims relate to the Company's sale of INTRON A and PEG-INTRON. A second arbitration was commenced by Biogen against the Company in August 2001 relating to Biogen's claim that the Company owed royalties on INTRON A provided without charge or at a reduced charge to indigent patients participating in SCHERING'S COMMITMENT TO CARE program. In October 2001, ICN Pharmaceuticals, Inc. (ICN) also notified the Company of its intention to begin an alternative resolution dispute proceeding against the Company seeking the payment of royalties on REBETOL provided by the Company without charge or at a reduced charge to indigent patients participating in SCHERING'S COMMITMENT TO CARE program. The Company believes that Biogen's claims in both proceedings and ICN's claims are without merit and will defend itself vigorously. However, as with any arbitration or alternative dispute proceeding, there can be no assurance that the Company will prevail.

On August 9, 2001, the Prescription Access Litigation (PAL) project, a Boston-based group formed in 2001 to litigate against drug companies, issued a press release stating that PAL members filed a lawsuit in New Jersey state court against the Company. In December 2001, the Company was served with an amended complaint in the case. The suit, which PAL purports to be a class action, alleges, among other things, that the Company's direct-to-consumer advertising falsely depicts the benefits of CLARITIN in violation of the New Jersey Consumer Fraud Act. The Company believes that the claims are without merit and will defend itself vigorously. However, as with any litigation, there can be no assurance that the Company will prevail.

In December 2001, PAL filed a class action suit in Federal Court in Massachusetts against the Company. The complaint alleges that the Company conspired with other drug companies to defraud consumers by reporting fraudulently high AWPs for prescription medications covered by Medicare. The complaint seeks a declaratory judgment and unspecified damages, including treble damages. The Company believes that the claims are without merit and will defend itself vigorously. However, as with any litigation, there can be no assurance that the Company will prevail.

The Company received notice that, in August 2001, Geneva Pharmaceuticals Technology Corp. (Geneva Pharmaceuticals) and Three Rivers Pharmaceuticals, L.L.C. (Three Rivers) submitted separate ANDAs with the FDA seeking to market generic forms of 200 mg REBETOL (ribavirin) capsules in the United States before the expiration of the Company's patents covering ribavirin formulations. Geneva Pharmaceuticals and Three Rivers have asserted that they do not infringe the Company's REBETOL patents and/or the patents are invalid. The REBETOL patents are material to the Company's business. In September 2001 and October 2001, the Company filed suits in federal court seeking rulings that the ANDA submissions by Geneva Pharmaceuticals and Three Rivers, respectively, constitute infringement of the Company's patents and that the challenges to the Company's patents are without merit. The Company believes that it should prevail in the suits. However, as with any litigation, there can be no assurance that the Company will prevail.

The Company is a defendant in a number of purported nationwide or state class action lawsuits in which plaintiffs seek a refund of the purchase price of the phenylpropanolamine-containing cough/cold remedies, laxatives or recalled albuterol/VANCERIL inhalers they purchased. Other pharmaceutical manufacturers are co-defendants in some of these lawsuits. In general, plaintiffs claim that they would not have purchased these products had they known of certain medical risks attendant with their use or would only have purchased the products at a reduced price had they known these risks. All of these lawsuits are in the early stages of discovery; plaintiffs' theories for recovery have yet to be legally tested and the Courts have not yet agreed that these cases should go forward as class actions. A number of lawsuits have also been filed against the Company seeking recovery for personal injuries or death. In several of these lawsuits punitive damages are claimed. 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.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

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. Occasionally, 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

	2001	2000	1999
Allergy & Respiratory	$ 4,217	$ 4,189	$ 3,850
Anti-infective & Anticancer	2,273	2,015	1,738
Cardiovasculars	623	746	673
Dermatologicals	593	680	682
Other Pharmaceuticals	663	716	775
Animal Health	694	720	672
Foot Care	323	348	332
OTC	196	202	209
Sun Care	220	199	185
Consolidated net sales	$ 9,802	$ 9,815	$ 9,116
Consolidated income before income taxes	$ 2,523	$ 3,188	$ 2,795

The Company has subsidiaries in more than 40 countries outside the United States. Sales outside the United States comprised 39 percent of consolidated net sales in 2001 and 36 percent in both 2000 and 1999. No single foreign country accounted for more than 5 percent of consolidated net sales during the past three years.

Net Sales by Geographic Area

	2001	2000	1999
United States	$ 6,001	$ 6,299	$ 5,794
Europe and Canada	2,428	2,204	2,138
Latin America	783	694	614
Pacific Area and Asia	590	618	570
Consolidated net sales	$ 9,802	$ 9,815	$ 9,116

Net sales are presented in the geographic area in which the Company's customers are located. During 2001, 2000 and 1999, 16 percent, 13 percent and 12 percent, respectively, of consolidated net sales were made to McKesson Corporation, a major pharmaceutical and health care products distributor. Also, during 2001, 2000 and 1999, 12 percent, 13 percent and 12 percent, respectively, of consolidated net sales were made to AmerisourceBergen Corporation, a major pharmaceutical and health care products distributor.

Long-lived Assets by Geographic Location

	2001	2000	1999
United States	$ 2,297	$ 2,123	$ 1,794
Ireland	420	384	358
Singapore	507	323	272
Puerto Rico	258	207	175
Other	684	656	533
Total	$ 4,166	$ 3,693	$ 3,132

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

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

REPORT BY MANAGEMENT

Management is responsible for the preparation and the integrity of the accompanying consolidated financial statements. These statements are prepared in accordance with accounting principles generally accepted in the United States and require the use of estimates and assumptions that affect the reported amounts of assets, liabilities, net 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.

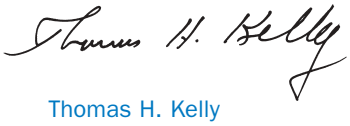
The Company maintains, and management relies on, a system of internal controls and related policies and procedures that provide reasonable assurance of the integrity and reliability of the financial statements. The system provides, at appropriate cost and within the inherent limitations of all internal 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 as described in their report. They obtain an understanding of the Company's internal control system to enable them to plan their audit and determine audit procedures to be performed. 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,
Chief Executive Officer and
President

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, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

Parsippany, New Jersey
February 15, 2002

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

SIX-YEAR SELECTED FINANCIAL & STATISTICAL DATA

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)	2001	2000	1999	1998	1997	1996
Operating Results						
Net sales	$ 9,802	$ 9,815	$ 9,116	$ 8,027	$ 6,745	$ 5,627
Income before income taxes	2,523	3,188	2,795	2,326	1,913	1,606
Net income	1,943	2,423	2,110	1,756	1,444	1,213
Diluted earnings per common share	1.32	1.64	1.42	1.18	.97	.82
Basic earnings per common share	1.33	1.65	1.44	1.20	.98	.82
Investments						
Research and development	$ 1,312	$ 1,333	$ 1,191	$ 1,007	$ 847	$ 723
Capital expenditures	759	763	543	389	405	336
Financial Condition						
Property, net	$ 3,814	$ 3,362	$ 2,939	$ 2,675	$ 2,526	$ 2,246
Total assets	12,174	10,805	9,375	7,840	6,507	5,398
Long-term debt	112	109	6	4	46	46
Shareholders' equity	7,125	6,119	5,165	4,002	2,821	2,060
Net book value per common share	4.86	4.18	3.51	2.72	1.93	1.41
Financial Statistics						
Net income as a percent of sales	19.8%	24.7%	23.1%	21.9%	21.4%	21.6%
Return on average shareholders' equity	29.3%	42.9%	46.0%	51.5%	59.2%	65.9%
Effective tax rate	23.0%	24.0%	24.5%	24.5%	24.5%	24.5%
Other Data						
Cash dividends per common share	$ .62	$ .545	$ .485	$ .425	$ .368	$ .32
Cash dividends on common shares	911	802	716	627	542	474
Depreciation and amortization	320	299	264	238	200	173
Number of employees	29,800	28,100	26,500	25,100	22,700	20,600
Average shares outstanding for diluted earnings per common share (in millions)	1,470	1,476	1,486	1,488	1,480	1,487
Average shares outstanding for basic earnings per common share (in millions)	1,463	1,465	1,470	1,468	1,464	1,471
Common shares outstanding at year-end (in millions)	1,465	1,463	1,472	1,472	1,465	1,461

QUARTERLY DATA (UNAUDITED)

THREE MONTHS ENDED	March 31		June 30		September 30		December 31	
(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)	2001	2000	2001	2000	2001	2000	2001	2000
Net sales	$ 2,319	$ 2,389	$ 2,630	$ 2,626	$ 2,382	$ 2,383	$ 2,471	$ 2,418
Cost of sales	470	457	535	489	486	468	588	489
Gross profit	1,849	1,932	2,095	2,137	1,896	1,915	1,883	1,929
Selling, general and administrative	852	841	967	977	835	828	830	840
Research and development	289	290	334	345	310	340	378	358
Other (income) expense, net*	(25)	(25)	(29)	(19)	(30)	(30)	489	(20)
Income before income taxes	733	826	823	834	781	777	186	751
Income taxes	169	198	189	200	180	186	43	180
Net income	$ 564	$ 628	$ 634	$ 634	$ 601	$ 591	$ 143	$ 571
Diluted earnings per common share	$ .38	$ .42	$ .43	$ .43	$ .41	$ .40	$ .10	$ .39
Basic earnings per common share	.39	.43	.43	.43	.41	.40	.10	.39
Dividends per common share	.14	.125	.16	.14	.16	.14	.16	.14
Common share prices:								
High	54.25	48.00	43.76	50.50	39.85	51.38	39.12	59.13
Low	34.20	30.50	35.10	38.44	32.65	39.06	34.00	45.75
Average shares outstanding for diluted EPS (in millions)	1,472	1,479	1,470	1,476	1,470	1,474	1,470	1,474
Average shares outstanding for basic EPS (in millions)	1,463	1,468	1,463	1,464	1,464	1,463	1,464	1,462

* Other (income) expense, net includes a one-time provision of $500 in the fourth quarter of 2001 for a payment to the federal government under a consent decree. See Notes to Consolidated Financial Statements for additional information.

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, 2001, was 47,900.

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

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

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

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

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)
President and
Chief Executive Officer
Lucent Technologies Inc.
Communications

Kathryn C. Turner (4, 5)
Chairperson, Chief Executive Officer and President
Standard Technology, Inc.
Management and Technology Solutions Firm

Robert F. W. van Oordt (2, 4)
Chairman of the Supervisory Board
Rodamco 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)
Retired 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, Chief Executive Officer and President

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

Roch F. Doliveux
Vice President and President,
Schering-Plough International

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

Richard W. Zahn
Vice President and President,
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 the Sheraton at Woodbridge Place, 515 Route One South, Iselin, N.J., on Tuesday, April 23, 2002, at 2 p.m.

Registrar, Transfer & Dividend Disbursing Agent:
The Bank of New York,
Shareholder Relations Department,
P.O. Box 11258,
Church Street Station,
New York, N.Y. 10286-1258.
Telephone: (877) 429-1240 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,
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:
The Company's corporate headquarters is located at:
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 2001 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, or via the Schering-Plough corporate Web site. Through the program, shareholders of record may acquire shares of Schering-Plough common stock by reinvesting dividends or by cash purchases.

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Kenilworth, New Jersey 07033-0530
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http://www.schering-plough.com