*Building the **New** Schering-Plough*

To earn trust, every day.

Schering-Plough is a global pharmaceutical company with leading prescription, consumer and animal health products. The Company began a fundamental transformation under new leadership in 2003, changing from a decentralized holding company to a centralized global operation focused on meeting the needs of our customers. Today, we are building the foundation for long-term, sustainable growth, while remaining committed to business integrity, quality and compliance in everything we do. Our goal is to provide a steady flow of innovative, science-based medicines and services while earning the trust of the physicians, patients and customers we serve.

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< *Margaret van Heek, Ph.D.*

Scientific curiosity and basic research light the path to discovering new drugs. Dr. Margaret van Heek and her team of scientists were instrumental in determining how ZETIA, the Company's novel cholesterol absorption inhibitor, works *in vivo* to lower cholesterol. At her lab in Kenilworth, N.J., she is currently researching new and better ways to help patients lower their cholesterol as well as treat diabetes and other metabolic conditions.

To Our Stakeholders

Our core strategy is People, Products and Processes – and through this we are building the New Schering-Plough.

Our Company is now in the midst of a vast change process. We are working to transform Schering-Plough into a new Company that will become a high-performance competitor. We face enormous challenges. However, I am confident that we will succeed.

Already we are deep into a five-stage Action Agenda that is our map and blueprint for transformational change over the next six to eight years. 2003 was a tough year, and 2004 will be even more challenging. But we intend to bridge past these years and build the foundation for long-term financial strength.

To understand where we are going, and what we need to do to get there, it is important to know where we began. When I joined this Company in April 2003, the organization was suffering from an extraordinary confluence of serious business, regulatory and legal challenges.

The high-visibility issues were enormous. They included the U.S. loss of prescription CLARITIN, formerly the Company's largest profit-driving product; the new market volatility and competitive pressure on the Company's other largest product line – the hepatitis C franchise; a U.S. Food and Drug Administration (FDA) consent decree requiring sweeping, costly compliance actions of an unprecedented scale; and major legal actions by government prosecutors relating to sales and marketing activities of the past.

In conducting my own 360-degree review, we found other deep, systemic problems, including downward profit and earnings slopes for many of our other major profit-making products in addition to CLARITIN. Altogether, it was the most challenging situation I had encountered in my more than 30 years in the global pharmaceutical industry. However, I also saw underlying strengths on which we could build. These strengths included the dedicated force of some 30,500 Schering-Plough people around the world, a stable of fundamentally strong products, the exciting potential of a new treatment for cholesterol and an expanding pipeline of innovative compounds in early stages of development.

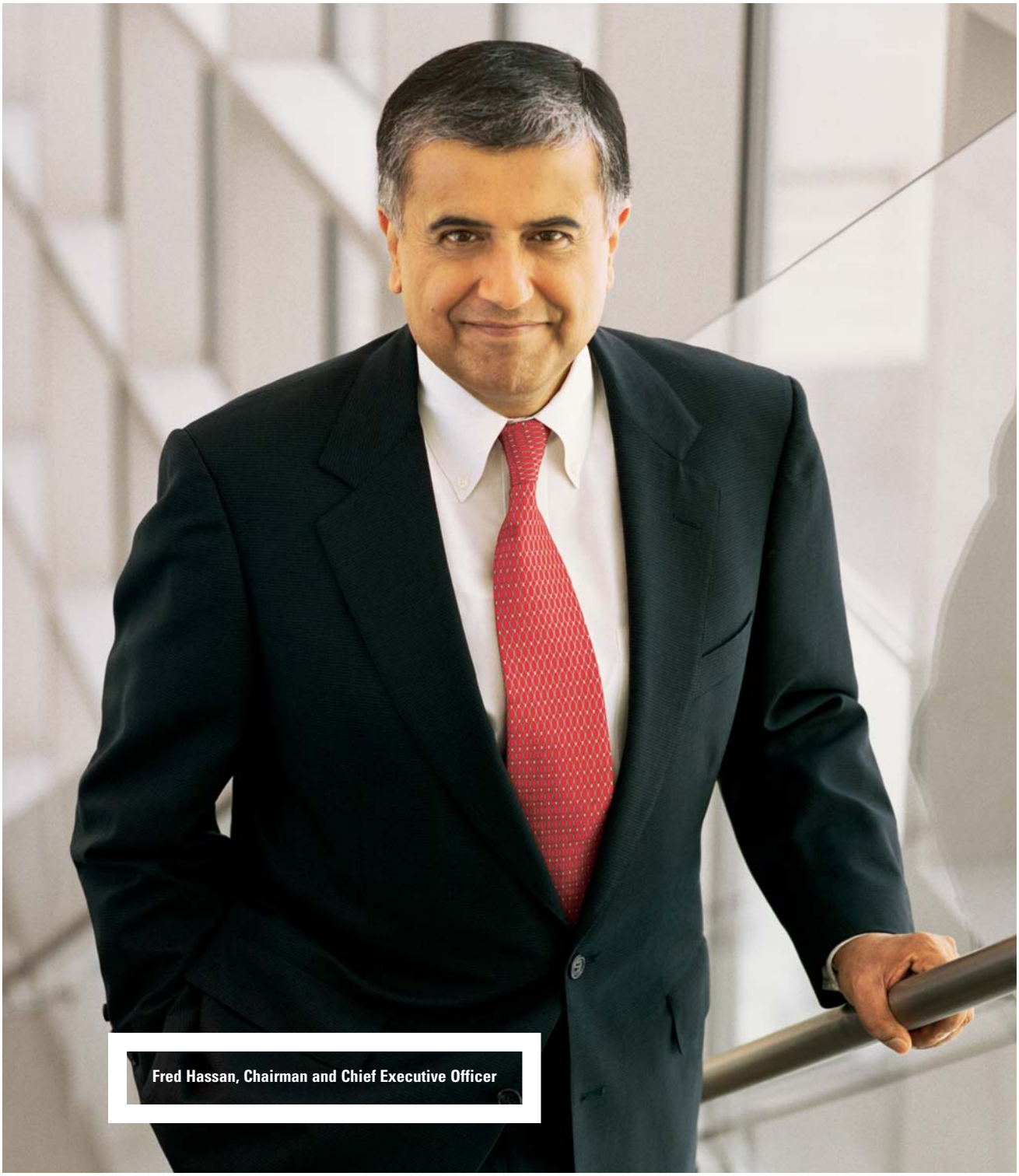
From my previous successful experience with change-management and turnaround actions, I also knew what can be achieved with clear direction and strong leadership.

And thus we began the journey to create a new Company. Within three days of my appointment, I held a global town hall meeting with employees to tell our people of my confidence in our future, and to engage them in our five-stage Action Agenda. First, we would Stabilize the volatile situation of our Company. Then we would Repair the damage. After that would come our Turnaround. From our Turnaround we would move to build long-term strength. And then, from a position of strength, we would take a decisive Breakout action to propel the new Company into a stronger position in our industry. We summarized this Action Agenda in a single phrase: New Thinking, New Capabilities, New Urgency.

Today, we are right on track with the Stabilization and Repair phases of this effort, which we expect to continue through 2004. Some of our stakeholders have asked why we must devote two years to Stabilization and Repair. The answer is that this is, in fact, a very short period in which to rebuild and revitalize the organization for long-term high performance.

We have moved with exceptional speed to re-engineer the Company and take major actions. We installed a global cost-reduction process called Value Enhancement Initiative (VEI). We reluctantly took the necessary step of reducing the quarterly dividend. We created strong global functions in Finance and Human Resources. We globalized the supply chain. We built a unified global pharmaceutical business with a new leadership team, replacing a constellation of fragmented units.

Already we are seeing signs of stabilization in the critical U.S. business. We are intently focused on driving a world-class launch of VYTORIN, our innovative new cholesterol product, with our partner, Merck. VYTORIN is currently under regulatory review. With the active ingredients of our innovative cholesterol medication ZETIA and Merck's statin *Zocor*, this product attacks cholesterol in two ways through a unique "dual-inhibition"



Fred Hassan, Chairman and Chief Executive Officer

mechanism. It will compete strongly with other treatments currently on the market. Together with ZETIA, VYTORIN has the potential to take an important share of the global $20 billion-plus cholesterol market.

We are very pleased that we are providing a new sense of direction to thousands of strong people from the existing organization, while at the same time attracting many of the best people from our larger competitors. We are installing a strong team at the top. Our philosophy is that people are the most important asset in a transformation. We are building great strength in this critical dimension.

It is thanks to our people that we are successfully tackling an unprecedented challenge. We are fulfilling our extremely demanding FDA consent decree obligations in our manufacturing supply chain, while at the same time producing the medicines our customers and patients need. No company in our industry has ever before attempted to execute these two actions in tandem on this scale. We are making good progress – even as we recognize that there may be temporary setbacks in such a complex undertaking. We are also determined to resolve our inherited legal issues, although this is one of the toughest tasks in our Action Agenda.

On top of all of these immediate actions, we are also devoting enormous energy to the creation of a new business culture for the new Company. In my experience, it is the culture that drives the "hard stuff" of high business performance. This is why our culture transformation has so much of my personal attention and that of our top management team.

At the heart of this new culture is the vision of Earning Trust among our stakeholders. We will strive to do this by operating in a cross-functional, collaborative and customer-focused fashion. These are not just words. Our people's compensation and evaluations will now be linked to turning these principles into daily behavior and business success. Embedded in this new culture is a commitment to Quality, Compliance and Business Integrity. After all the past issues this Company has suffered in these areas, we are now set on a path that will make us strong.

This new way of working in our Company is also setting us on a path of assuring that strong science is turned into commercial success. The process of "product flow" from lab bench to patient is growing ever more challenging. Our industry needs to achieve significant improvements in productivity as we all work to create treatments for the most challenging diseases, such as cancer and Alzheimer's disease.

At the New Schering-Plough, we are installing an unusual, collaborative process between our science and commercial units that will help us bring important new medicines to the people who need them – faster and better than anyone else. We are hard at work on new treatments for heart disease, for HIV, for cancer and for many other serious afflictions. We are excited by the progress we are seeing and the promise of the good things we can do for doctors and their patients in the future.

Looking ahead, there are a lot of uncertainties in our business environment that can have an unpredictable impact on our Company. We recognize that over the next few years we will be heavily reliant on our cholesterol franchise for driving growth. Consequently, we must work very hard to increase the breadth and strength of our product array. However, I believe that we are doing the right things with what is under our control. We are also focusing on the right areas to build where we need new strengths.

As we embark on the next stages of our journey to the New Schering-Plough, we thank all of our stakeholders for their faith and support. We thank our Board colleagues for their oversight of our Company. We are grateful for the contributions of David Komansky and Don Miller, who will both be retiring from the Board, and we welcome Dr. Phil Leder of Harvard Medical School as a new Board member. Most especially, we thank the people of Schering-Plough, whose passion, resilience and winning spirit are driving the dramatic change process under way in our Company.

Sincerely,

Fred Hassan
Chairman and Chief Executive Officer

February 19, 2004

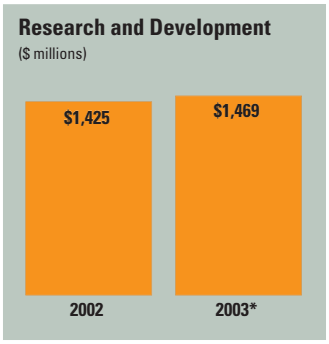
2003 Financial Highlights

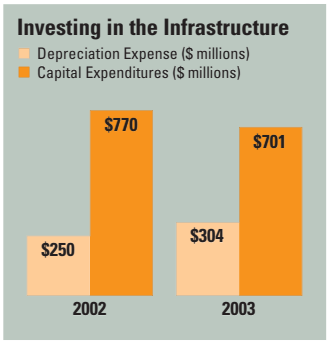
DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES	2003	2002	% Change
Operating Results			
Net sales	$ 8,334	$10,180	(18%)
(Loss)/income before income taxes*	(46)	2,563	N/M
Net (loss)/income*	(92)	1,974	N/M
Diluted (loss)/earnings per common share*	(0.06)	1.34	N/M
Investments			
Research and development	$ 1,469	$ 1,425	3%
Capital expenditures	701	770	(9%)
Financial Condition			
Total assets	$15,102	$14,136	
Shareholders' equity	7,337	8,142	
Other Data			
Cash dividends per common share	$ .565	$ .67	
Average shares outstanding for diluted EPS (in millions)	1,469	1,470	

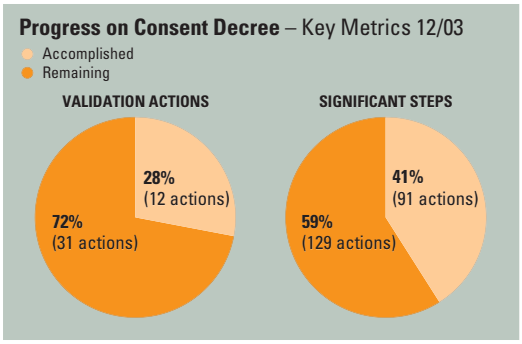
* INCLUDES SPECIAL CHARGES IN 2003 OF A $350 MILLION PROVISION TO INCREASE LITIGATION RESERVES AS WELL AS $179 MILLION OF EMPLOYEE TERMINATION COSTS, PRIMARILY RELATED TO A VOLUNTARY EARLY RETIREMENT PROGRAM IN THE UNITED STATES, AND $70 MILLION OF ASSET IMPAIRMENT CHARGES RELATED TO CERTAIN FIXED AND INTANGIBLE ASSETS, INCLUDING MANUFACTURING FACILITY ASSETS. INCLUDES SPECIAL CHARGES IN 2002 OF $150 MILLION TO INCREASE LITIGATION RESERVES. FOR FURTHER DETAILS, SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

N/M – NOT A MEANINGFUL PERCENTAGE.

Building the New Schering-Plough







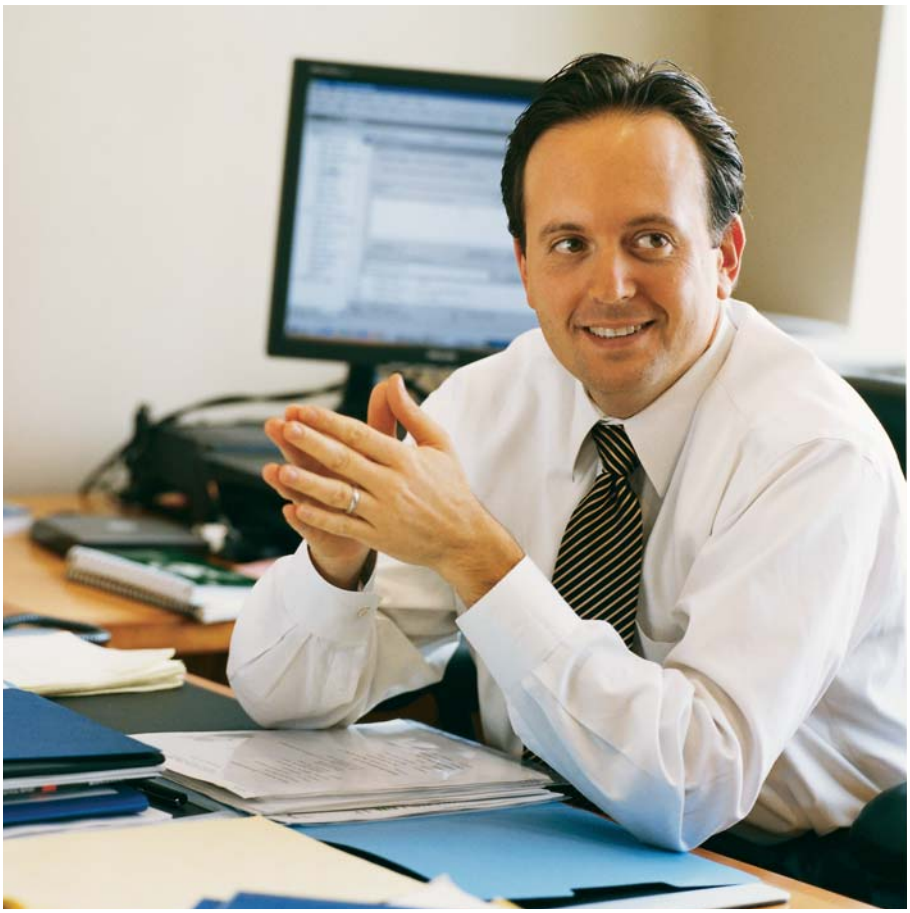
* BEGINNING IN 2003, R&D SPENDING OF $79 MILLION FOR THE COMPANY'S CHOLESTEROL JOINT VENTURE IS REPORTED IN "EQUITY INCOME FROM CHOLESTEROL JOINT VENTURE." FOR FURTHER DETAILS, SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

Champions for the doctor and patient.

We aspire to be champions for the people we serve. This means bringing to doctors, patients and customers a steady flow of innovative medicines and services that improve and save lives. It also means championing their needs in other ways: for example, in helping to fight for adequate funding for health care, and pressing for reforms to health care systems around the world to assure that patients and their doctors can choose the best treatments for their needs. Finally, we also recognize the enormous challenge of getting good health care to the least-advantaged populations. We are committed to doing our part in addressing this need with responsible, long-term solutions in partnership with others.

> *Pam Marshall, John M. Levey, M.D.*

Pam Marshall, a hepatitis sales representative, demonstrates the new PEG-Intron Redipen to Dr. John Levey, director of Gastrointestinal and Hepatobiliary Medicine at St. Vincent's Hospital at Worcester Medical Center, Worcester, Mass. The precision dosing pen makes it easier for hepatitis C patients to self-treat and reflects how Schering-Plough people strive to champion the needs of patients, physicians and customers.



< Brent Saunders

Brent Saunders, senior vice president, global compliance and business practices, is leading Schering-Plough's efforts to make high standards of corporate compliance and integrity part of the Company's "DNA."
In his new position, created in October 2003, he is responsible for developing global standards, training and enforcement programs, and privacy policies for all Company stakeholders.

> Micheline Ferrère, Pierre Verstraete

Working with groups supporting better therapies for patients is one of the ways we help improve health care systems around the world. In Paris, Pierre Verstraete, president of Schering-Plough France, confers with Micheline Ferrère, vice president of the Association Nationale de Defense Contre L'Arthrite Rhumatoïde, about patient access to treatments for rheumatoid arthritis.

< Angela Sansone, Pharm.D., Mark Laughlin, M.D.

Finding new treatments for patients with HIV that are safe and effective continues to be a major challenge for pharmaceutical researchers. Dr. Angela Sansone and Dr. Mark Laughlin are responsible for planning early stage clinical trials for a CCR5 receptor antagonist, the Company's promising new compound designed to block HIV from entering cells and prevent the virus from replicating.

< Debbie Alsup, Kirk Milam, Pharm.D.

Debbie Alsup knows the value of going the extra step for her customers. As customer business manager for Consumer Health Care, she oversees our OTC CLARITIN business at Wal-Mart and Sam's Club. To better understand customer needs and brand performance, Debbie regularly meets with store managers and pharmacists like Kirk Milam, Pharm.D., seen here at a Wal-Mart Neighborhood Market Pharmacy in Bentonville, Ark.

> Khalif Rashid

Producing small batches of medicines for clinical trials according to specific procedures is a critical part of the drug development process. Khalif Rashid, a 15-year Schering-Plough veteran, is a pilot plant foreman in Union, N.J., where the active ingredients for many experimental therapies are produced.

< Catherine D. Strader, Ph.D.

Biomedical innovation at Schering-Plough Research Institute (SPRI) begins in drug discovery, where scientists search for molecules that can one day become effective treatments for human disease. As executive vice president of Discovery Research, Dr. Catherine Strader orchestrates SPRI's drive to find novel therapeutic agents and bring them forward into development so they can improve people's health and extend lives.

< Satwant K. Narula, Ph.D.

Dr. Satwant Narula came to Schering-Plough in 1981 with a doctorate in molecular biology and began working on interferon and other biotech drugs. Today, she is vice president for biological research (inflammation and infection), with a mission to discover novel drugs for infectious diseases and debilitating chronic inflammatory diseases such as asthma, chronic obstructive pulmonary disease, arthritis, multiple sclerosis and other serious disorders.

> Stephen Farrand, Ph.D. (left), Chris Lee

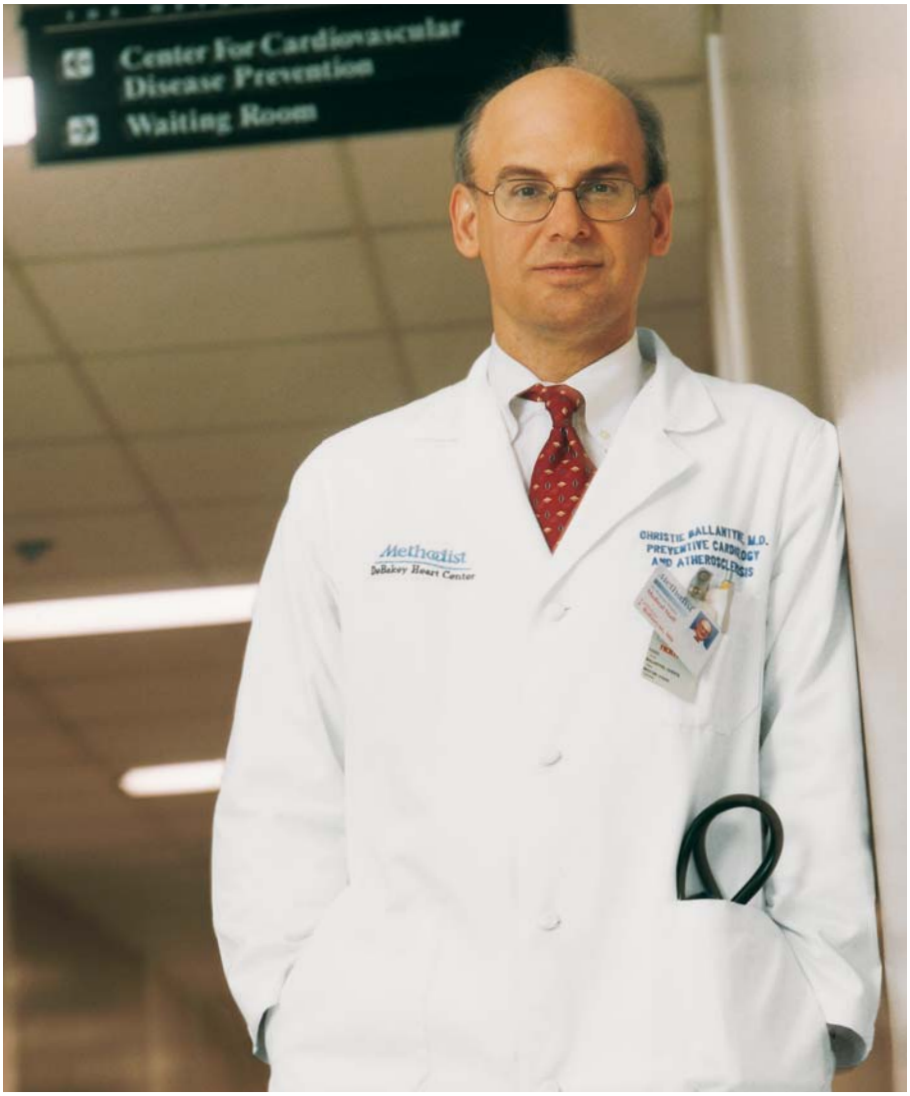
Dr. Stephen Farrand, general manager for biotech, and Chris Lee, principal technical services engineer, inspect new vessels for formulating drug products following final installation at the Company's biotech facility in Singapore. Schering-Plough has invested approximately $780 million to build new manufacturing and research facilities at its Singapore site, most recently dedicating two new plants in December 2003.

> Dale McElveen (left), Gavin R. Corcoran, M.D.

Discovered by Schering-Plough scientists, NOXAFIL is a promising new agent for treating serious and potentially fatal systemic fungal infections. Directing the compound's clinical submission to regulatory authorities is Dr. Gavin Corcoran, group director, anti-infectives clinical research. Dale McElveen, clinical research manager, works with project physicians to help ensure the quality and integrity of NOXAFIL clinical trials.

< Tom Condrasky (right), Darcie J. Stolz, V.M.D.

Listening to customers is a hallmark of an effective sales professional, something Tom Condrasky has been practicing for two decades with Schering-Plough Animal Health. At a family-owned dairy farm in Lancaster County, Pa., Condrasky discusses a mastitis product with Dr. Darcie J. Stolz, a veterinarian specializing in dairy-production medicine.



> Nicholas Lacamera

As senior director for U.S. respiratory marketing, Nicholas Lacamera knows the importance of bringing innovative products to our customers. Complementing this mission is a commitment to providing accurate, relevant and timely product information that can educate medical practitioners and their patients about the benefits of these therapies and their safe and effective use.

< Christie M. Ballantyne, M.D., FACP, FACC

Dr. Christie Ballantyne, director of Houston's Center for Cardiovascular Disease Prevention at the Methodist DeBakey Heart Center and Baylor College of Medicine, is a principal investigator in clinical trials for Zetia (ezetimibe), a novel cholesterol absorption inhibitor, and of Vytorin (ezetimibe/simvastatin), a dual-inhibition medicine also containing Merck's statin *Zocor* that is currently under regulatory review.

< Marco Hernandez (left), Jonathan Greene, Ph.D.

Marco Hernandez, senior principal scientist, and Dr. Jonathan Greene, group director, informatics at Schering-Plough Research Institute, employ high-performance computing in Kenilworth, N.J., to analyze data from the human genome. With this information, novel therapeutic targets can be identified and new understanding gained of the biology underlying various disease states.

> Eric J. Schenkel, M.D., Susan Hahn, Cole Hahn

Dr. Eric J. Schenkel, medical director of the Valley Allergy & Asthma Treatment Center in Easton, Pa., sees every day how allergies can limit the ability of patients to enjoy life to the fullest. Here he examines 6-year-old Cole Hahn while Cole's mother, Susan Hahn, looks on. One of Schering-Plough's leading prescription allergy medicines is NASONEX, a once-daily corticosteroid nasal spray that can be used in children as young as age 2 in the United States.

> Yoko Fujimura (left), Fumito Tsuji

Yoko Fujimura, assistant manager for regulatory affairs, and Fumito Tsuji, manager of clinical development, both for Schering-Plough K.K., are leading the regulatory filing process in Japan for ZETIA, the Company's novel cholesterol absorption inhibitor. Schering-Plough looks forward to introducing ZETIA in Japan, the world's second-largest pharmaceutical market.

An Interview with Fred Hassan

What is your strategy for transforming Schering-Plough and achieving long-term growth?

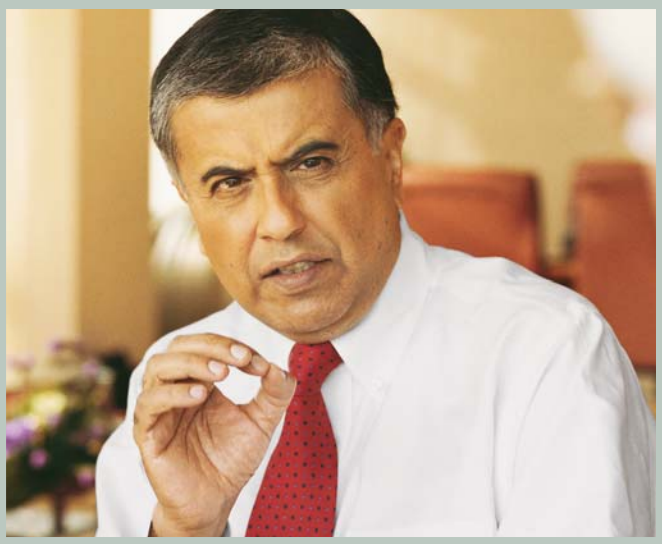
We have laid out our five-stage Action Agenda of Stabilize, Repair, Turnaround, Build the Base and Breakout. Our long-term strategy is on track to deliver on this agenda. We are focusing on three basics: people, products and processes.

It all starts with the people. You have to have very strong people who are competent at what they do, who understand the Company's direction, who work well as a team and who move together in the same direction. You need a flow of very good, innovative treatments that address important unmet medical needs. This is the essence of our business. For the medicines you already have, you've got to do more with them. For the future treatments in the R&D pipeline, you need to bring them into the marketplace. And then there are good innovations that you get externally through licensing and deals.

So with this three-pronged approach – marketed products, internal R&D and external innovation – you can maximize and grow your array of treatments. Also, processes are extremely important because that's how work gets done efficiently and correctly. Pharmaceutical companies have conventionally worked in relatively self-contained units, or silos. For example, R&D did not always have much to do with the commercial side, and manufacturing was its own silo. But this is not the way to get the best results. What gets the best results are cross-functional processes. Cross-functional work demands more of everyone, but the results are superior. So we are building a new culture in our Company that is committed to cross-functional work.

What about costs and cost reduction?

We are making the new Company into a lean and cost-conscious operation. We have launched a Value Enhancement Initiative (VEI) that is targeted to save more than $200 million in annual, ongoing costs. Much of these savings will be reinvested to drive growth – for example, into sales force expansion and support of our new products. We are using this initiative not only to achieve savings, but also to re-engineer every aspect of what we are doing so that we deliver executional excellence.



How can Schering-Plough attract and reward investors compared to the bigger global pharma companies?

In my opinion, investors expect solid, long-term growth. Investors are not looking for size. When we are delivering good growth, top line and bottom line, I think investors will be pleased with this Company. Right now, we are working through the Stabilization and Repair stages of our Action Agenda to build the foundation for long-term financial strength.

How can Schering-Plough compete in the marketplace against those bigger companies?

We believe that the Company is big enough to compete against the largest companies because we are focusing tightly on the key markets and key customers for our medicines. In those areas, we aspire to be No. 1 or No. 2. At the same time, we intend to operate with exceptional innovation, speed and flexibility. In a very fast-changing business environment, this will give us a special competitive edge.

How is Schering-Plough's pipeline? What are some of the exciting compounds that you see coming out of it?

The early pipeline is better than you'd expect from a company of our size. We have innovative compounds under investigation to treat HIV, to treat hepatitis C. We have an exciting treatment for serious fungal

infections. The late-stage pipeline includes VYTORIN, our dual-inhibition cholesterol treatment, but we need more products behind this.

We are implementing a "beyond ZETIA" strategy, which means we plan to develop four to six growth engines to diversify the Company's base. We do have a gap in the intermediate term pipeline. This is not unusual in this industry. We are focused on filling that gap. We plan to do so through partnerships and in-licensing.

Can you compete for the licensing deals that are becoming more and more expensive?

We believe we can because our potential partners do not always look for the highest auction price. They also look for partners that will really make the deal work. Our team has strong credibility and a strong track record on partnering and licensing. The fact that we put such an emphasis on earning trust, and on innovation, speed and flexibility, is an advantage over our competitors. For example, as CEO, I get personally involved in these important discussions.

Can you regain your strength in the hepatitis C market?

Hepatitis C is a core franchise. It has my attention, and it has the attention of our business people. We are committed to this area. We have made major moves already. We have reached out to the top 300 leaders around the world and assured them of our long-term commitment to this therapy area. We've launched a very important clinical trial that tests our hepatitis C treatment, PEG-INTRON, head-to-head against the leading competitor product, and we believe it will prove that our treatment is the best for patients. We are also now introducing in the United States a new PEG-INTRON REDIPEN device that gives patients increased convenience and dosing consistency in administering the medication. It is the most sophisticated device in this treatment area. We are determined to be the best in every aspect of treating this very serious disease. This is our plan to make us the global leader in hepatitis C treatment.

How is the joint venture with Merck doing on ZETIA? Are ZETIA and VYTORIN going to be the products that save Schering-Plough?

We believe that they are pivotal medicines for Schering-Plough because, together, we expect they will make us a leader in cholesterol treatment – and this is the largest

and one of the fastest-growing markets in the world, a $20 billion-plus market. However, we are also determined to drive growth of other fine medicines, including our respiratory treatments such as NASONEX and CLARINEX. Already we are seeing signs of renewed growth. And we plan to have a continuing flow of fresh innovations going forward.

Will you be able to invest in the community and corporate philanthropy as you transform the Company?

Community investment and corporate philanthropy will be important to the culture of the New Schering-Plough. They are part of what we mean by our commitment to earning trust, every day.

What would you say to people who are considering working for your Company?

I would tell them that the New Schering-Plough is becoming one of the more exciting and rewarding work opportunities in our industry – in any industry. Strong people with a passion for executional excellence and a passion for what they do will have a unique opportunity to be part of building a new Company with long-term strength. And there will be the knowledge that, by working here, you are doing wonderful things for the people who benefit from our medicines. This is what excites me personally about our Company each day.

Business and Science Review

For Schering-Plough, 2003 was a year of difficult challenges and sweeping positive changes. A top-to-bottom transformation of the Company began in April, when new leadership launched a five-stage Action Agenda and undertook the initial phases of Stabilization and Repair.

Coming off the 2002 expiration of U.S. patent protection for what had been our largest-selling product – the prescription nonsedating antihistamine CLARITIN (loratadine) – Schering-Plough in 2003 recorded a loss of $92 million or 6 cents per share, which includes special charges of $599 million. Sales declined 18 percent, with foreign currency exchange having a favorable impact of 5 percent. The lower sales were primarily due to the 2002 patent expiration for prescription CLARITIN, which was launched without exclusivity protection as an over-the-counter (OTC) product at year-end 2002, and to new competition for our hepatitis C franchise.

Today, a New Schering-Plough is being built, founded on a new business approach and philosophy and led by new management teams driving to bridge the difficult 2003-04 years toward anticipated growth beginning in 2005. Specific long-term goals have been set for the Company:

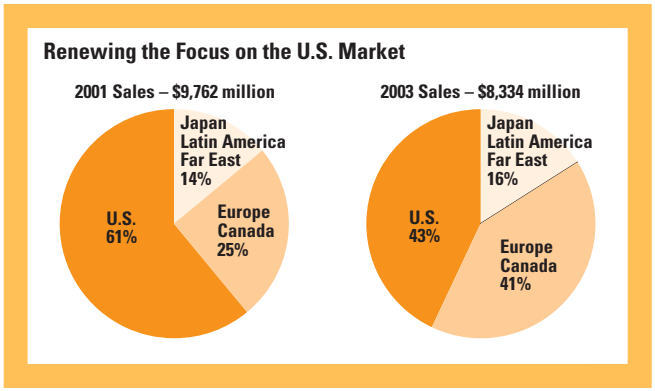
- Deliver steady product flow through diverse growth engines;
- Lead in the areas where we compete;
- Develop a superior supply chain infrastructure;
- Achieve attractive long-term growth in earnings per share and shareholder return; and
- Embed a culture of business integrity, quality and compliance.

The intrinsic vision underlying how we strive to conduct our business is simple: To earn trust, every day. We aspire to earn the trust of doctors, patients and our customers, to act as a champion for them, and as a company to provide them with a steady flow of innovative, science-based medicines. We know that by earning the trust of all our stakeholders, we will build growth.

The New Schering-Plough begins with a portfolio of pharmaceutical, consumer and animal health products that offer strength and durability in some of the world's most dynamic markets. To maximize these and future products, the Company in 2003 undertook fundamental changes in how it operates and is organized – adopting a customer-focused approach to all operations and applying this on a global basis.

Our pharmaceutical businesses were restructured into a globally integrated organization, with product portfolios organized according to customer groups rather than by therapeutic areas. Previously, Schering-Plough operated largely as a holding company, with decentralized business units organized by geographic and therapeutic categories. Our new approach provides a global outlook and global efficiencies, while allowing for the local focus to remain on our customers. In Primary Care, for example, products have been organized globally and according to the needs of primary care physicians and their patients. The same was done for Specialty Care. As a result, our products are managed and promoted on a global basis by dedicated employees who focus on the needs of their customers – the physicians, patients and other stakeholders who rely on our medicines.

This customer-focused approach is not limited just to the marketing of products, but extends across the organization, to include the interactions of our people with regulators, managed care customers, licensing partners and others. An outgrowth of this philosophy is our Customer-Centered Product Flow (CCPF) system, which is helping guide the discovery, development, licensing, manufacturing and marketing of future products by focusing on promising medicines that can address serious medical needs and provide value to our key physician customers.



The Company's most exciting new product today is ZETIA (ezetimibe), a novel cholesterol-absorption inhibitor discovered by Schering-Plough scientists and launched in the United States in November 2002. ZETIA competes in the more than $20 billion global cholesterol-management market, the largest and one of the fastest-growing therapeutic categories in the industry. Outside the United States, ZETIA is marketed as EZETROL.

Building on the early success of ZETIA, a U.S. marketing application was submitted in September 2003 for VYTORIN, a cholesterol-lowering product containing ezetimibe, the active ingredient in ZETIA, and simvastatin, the active ingredient in Merck's *Zocor*. The application was accepted for filing in November. Similar applications have been filed in other countries outside the United States. With U.S. approval expected in the 2004 second half, VYTORIN would become the only product able to inhibit both the absorption and production of cholesterol, and offer significant efficacy benefits in a single tablet. The ZETIA franchise is being developed and marketed by

Merck/Schering-Plough Pharmaceuticals, a joint venture formed with Merck & Co., Inc. Together, ZETIA and VYTORIN represent an exciting multibillion-dollar opportunity. Because of the importance of ZETIA and VYTORIN, a separate business unit – Strategic Partnerships – was formed to oversee the products' development and marketing.

The Company's portfolio of prescription respiratory and allergy products includes CLARINEX (desloratadine), a nonsedating antihistamine, and NASONEX (mometasone furoate monohydrate), a corticosteroid nasal spray. Both are established products with significant unrealized potential in the allergy/respiratory arena.

On the Specialty Care side, Schering-Plough ranks as one of the top biotechnology companies, with assets that include major biologics products such as PEG-INTRON (peginterferon alfa-2b), a once-weekly alpha interferon used with REBETOL (ribavirin) for treating hepatitis C; INTRON A (interferon alfa-2b, recombinant) Injection, for various cancers and viral diseases; and REMICADE (infliximab), a monoclonal antibody licensed from Centocor and marketed outside the United States for rheumatoid arthritis and other serious autoimmune diseases.

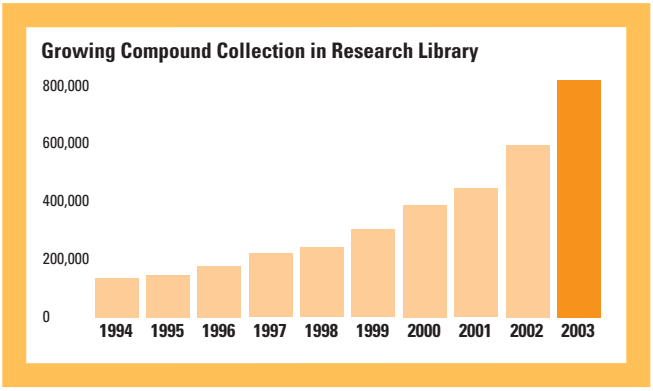
Success in the United States – the largest and most important pharmaceutical market – will be critical to achieving our long-term aspirations for Schering-Plough. To improve our competitiveness and prepare for the launch of VYTORIN, we have redeployed and refocused our sales representatives and are expanding our worldwide force. Our U.S. Primary Care sales force is being increased and selective additions will be made to our Specialty Care sales force. This increase in critical mass will help us capture the opportunities in our pipeline and in our existing growth drivers, and respond to competitive pressures in our hepatitis C business.

In conjunction with strengthening our sales forces, we have sharpened our overall marketing approach to deliver strong, efficacy-based value propositions for all our brands. This is enabling our sales forces to deliver more effective messages to our customers about the value of our products.

In research, Schering-Plough is building a solid new drug pipeline with strong innovation content. R&D spending totaled $1.5 billion in 2003, up 3 percent. We are supplementing our internal research efforts with external collaborations to gain access to additional compounds and technologies. Over the past 10 years, we have achieved a sevenfold increase in the number of compounds in our library, which is on its way toward having 1 million compounds.

Going into 2004, Schering-Plough continues to face complex and difficult challenges as it works to stabilize and recapture market shares for certain key products, strengthen its pipeline, launch new products and fulfill the manufacturing and compliance requirements of a 2002 consent decree agreement with the U.S. Food and Drug Administration (FDA).

In addressing the consent decree, the Company has invested heavily and hired hundreds of additional quality- and compliance-related people to improve operations and systems, implement enhanced quality standards and conduct product revalidation programs. We have made significant progress towards meeting the terms of the consent decree, but much work remains to be completed.



Following is a more detailed look at Schering-Plough's products and leading compounds in the research pipeline.

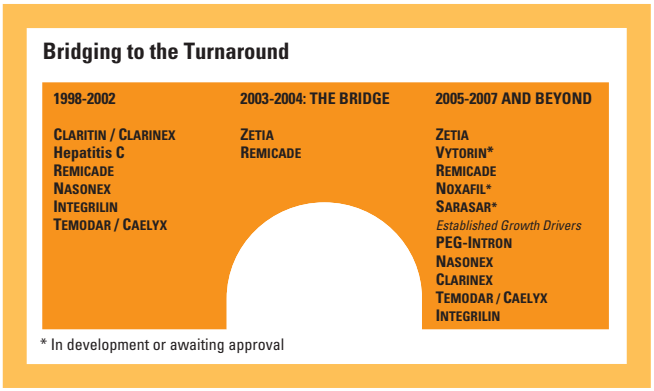
PRIMARY CARE

Allergy/Respiratory A long-time leader in the U.S. allergy and respiratory market, Schering-Plough experienced declining U.S. market shares during much of 2003 for its CLARINEX and NASONEX prescription allergy products. Worldwide CLARINEX sales rose 16 percent to $694 million while NASONEX sales were down 4 percent to $500 million. Working to re-energize and redirect the sales and marketing support for these promotion-sensitive medicines, the Company in late 2003 began to achieve a stabilization in U.S. market shares for these products.

CLARINEX is a nonsedating antihistamine launched in the United States in 2002 and marketed in other countries as AERIUS and NEOCLARITYN. The product offers the broadest range of indications of any U.S. prescription nonsedating antihistamine. NASONEX is the only corticosteroid nasal spray indicated for the prevention of seasonal allergic rhinitis (age 12 and up) as well as the treatment of allergic rhinitis (down to age 2). The Company expects to submit U.S. and European marketing applications for the treatment of nasal polyps in 2004. Future line extensions are also planned, including CLARINEX-D, CLARINEX Syrup and NASONEX Unscented.

In Japan, CLARITIN continues to do well following its launch as a prescription product in 2002 by Schering-Plough and co-marketing partner Shionogi & Co., Ltd.

ASMANEX TWISTHALER (mometasone furoate), an oral dry-powder corticosteroid inhaler for asthma, is helping broaden the Company's allergy/respiratory franchise. With a state-of-the-art delivery system, ASMANEX is currently sold in a number of European countries for the treatment of mild-to-severe asthma and remains under regulatory review in the United States.



Schering-Plough expanded its asthma product line by acquiring exclusive U.S. distribution and marketing rights in 2002 from Novartis Pharmaceuticals Corporation for FORADIL AEROLIZER (formoterol fumarate inhalation powder), a selective, long-acting beta$_2$-agonist indicated for asthma and chronic obstructive pulmonary disease (COPD). In April 2003, Schering-Plough and Novartis Pharma AG announced an agreement to jointly develop and market worldwide a new product combining ASMANEX and FORADIL to treat asthma and COPD.

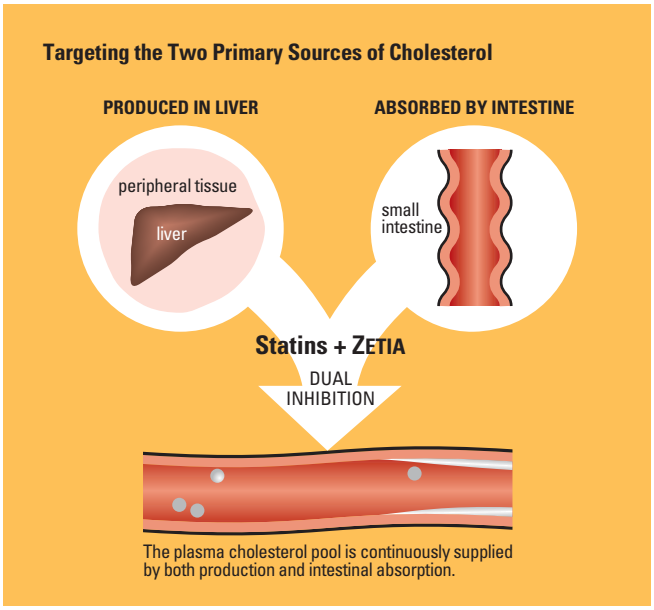
STRATEGIC PARTNERSHIPS

Cardiovascular Nowhere are the opportunities at Schering-Plough greater than in the cardiovascular market, where ZETIA in its first full year on the U.S. market became the largest-selling non-statin product and fourth most commonly prescribed product in the entire category. More than 5.4 million U.S. prescriptions have been written for ZETIA. Worldwide, ZETIA has been approved for marketing in 59 countries.

ZETIA is a breakthrough product discovered by Schering-Plough scientists and marketed and sold by Merck/Schering-Plough Pharmaceuticals, a joint venture formed in 2000 between Merck & Co., Inc. and Schering-Plough. Under the cholesterol joint venture with Merck, the Company does not record ZETIA sales, which totaled $471 million in 2003. Instead, profits and related R&D expenses are shared approximately equally with Merck and reported as a separate equity income line.

A once-daily tablet, ZETIA is the first agent to selectively inhibit the absorption of cholesterol and related phytosterols in the intestine, a new mechanism of action complementary to statins, which work in the liver to inhibit the production of cholesterol. Approved for use as monotherapy and in combination with statins, ZETIA added to ongoing statin therapy has been shown to provide a significant additional reduction of LDL cholesterol of about 25 percent compared with 4 percent with the addition of placebo, and to achieve this reduction while offering a side-effect profile similar to a statin alone. The Company is also looking forward to launching ZETIA in Japan.

The next major product in this joint venture is expected to be VYTORIN, a single tablet containing ZETIA (ezetimibe) and Merck's statin *Zocor* (simvastatin), the No. 2 best-selling pharmaceutical in the world. With a U.S. launch anticipated in the second half of 2004, VYTORIN will be the first and only once-daily medication to give patients the advantage of dual inhibition of cholesterol production and absorption in a single pill. Co-administration studies have shown that ezetimibe/simvastatin can lower LDL cholesterol in the range of 46 to 61 percent, giving VYTORIN the potential to deliver high efficacy levels and to compete effectively against the world's largest-selling statins.



The medical and commercial potential of ZETIA and VYTORIN stems from the prevalence and seriousness of hypercholesterolemia (elevated cholesterol), which is both the major identifiable as well as modifiable risk factor for the development of atherosclerosis and coronary heart disease (CHD). Excess cholesterol in the blood in the form of LDL cholesterol can cause a buildup of plaque in artery walls. This restricts blood flow and can cause heart attack or stroke. The higher the level of LDL cholesterol, the greater a patient's risk of heart disease. CHD affects more than 12 million U.S. men and women and accounts for approximately one in every five deaths, making it

America's No. 1 killer, according to the American Heart Association.

While an estimated 38 million Americans have elevated cholesterol levels, less than half are currently treating the condition. Of those undergoing treatment, almost 60 percent are still not reaching recommended cholesterol levels set by the National Institutes of Health (NIH). The NIH in 2001 implemented more aggressive cholesterol guidelines, calling for even lower cholesterol goals for many patients and expanding the number of patients eligible for treatment.

Longer term, Schering-Plough is continuing its research to discover new and more effective cardiovascular medicines. Late last year, Schering-Plough scientists achieved a major advance toward identifying the mechanism of action for ZETIA, identifying a long-sought protein essential to the process by which cholesterol is absorbed in the intestine.

SPECIALTY CARE

Anti-Infectives The Company's U.S. market share for its hepatitis C business declined substantially in 2003 due to the introduction of a new competitor to its combination therapy PEG-INTRON and REBETOL. PEG-INTRON is the only pegylated interferon approved for dosing according to patient body weight, an important factor that affects patient response to pegylated interferon treatment. The franchise is expected to be further challenged in 2004 with the anticipated U.S. introduction of generic competition for REBETOL. Sales of the INTRON franchise, which includes PEG-INTRON, REBETOL and INTRON A, declined 32 percent to $1.9 billion in 2003.

Schering-Plough is intensifying efforts to stabilize and recapture market share in order to regain global leadership in the hepatitis C marketplace. A new marketing campaign was begun in the fall of 2003 to reinforce the efficacy message of combination therapy with PEG-INTRON and REBETOL. The Company in September also announced the IDEAL head-to-head trial, a nearly 3,000-patient U.S. clinical trial at 100 academic centers where the PEG-INTRON/REBETOL combination dosing regimen is being directly compared with Hoffmann-La Roche Inc.'s combination dosing regimen therapy. The study population includes only those infected with the genotype 1 hepatitis C (HCV) virus, the most common and most difficult-to-treat form of the disease. The study is designed to prove which treatment is more efficacious in these patients.

Further demonstrating the Company's commitment to leadership in HCV treatment, PEG-INTRON REDIPEN injection gained U.S. approval in October 2003 and was launched in February 2004. The REDIPEN provides the proven efficacy of PEG-INTRON in an easy-to-use precision dosing pen that replaces a traditional vial and syringe. PEG-INTRON REDIPEN, launched in Europe in 2002, is the only pen delivery system approved for administering pegylated interferon therapy. PEG-INTRON uses proprietary technology licensed from Enzon, Inc.

Underscoring Schering-Plough's efforts to address unmet needs of HCV patients, the Company in January 2004 launched REBETOL Oral Solution and Capsules in the United States for pediatric patients as young as age 3. The Company has worldwide rights to market oral ribavirin for hepatitis C through an agreement with Valeant Pharmaceuticals International.

Hepatitis C represents a serious and widespread disease affecting millions of people worldwide. Of the approximately 4 million Americans infected with HCV, only 1 million have been diagnosed and, of that number, about half are going untreated. In the United States, chronic HCV infection accounts for 8,000 to 10,000 related deaths annually, according to The Centers for Disease Control and Prevention.

Japan is another very large hepatitis C market, with an estimated 2 million people infected with HCV. Schering-Plough is the market leader today in Japan with its INTRON A and REBETOL combination therapy, and is moving forward with plans to introduce the combination PEG-INTRON/REBETOL treatment for chronic hepatitis C.

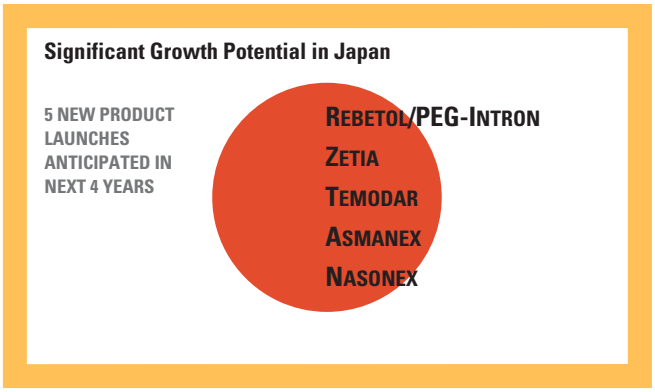
Schering-Plough is supporting hepatitis C patients with education and service programs as well as financial assistance for patients in need. The Company's patient-assistance programs are among the most comprehensive in the industry, providing 24-hour support and guidance to patients from the time of diagnosis through treatment, and ensuring that eligible patients have access to the Company's HCV products.

Schering-Plough's BE IN CHARGE patient-support program is designed to assist U.S. patients in managing the side effects associated with HCV therapy through the use of educational materials and one-on-one telephone support 24 hours a day with nurses specially trained in the management of hepatitis C.

SCHERING'S COMMITMENT TO CARE program seeks to ensure that eligible U.S. patients have access to Schering-Plough's cancer and hepatitis products, either by assisting patients in obtaining the reimbursement or assistance for which they qualify, or by providing products free of charge.

Schering-Plough employed state-of-the-art molecular design tools to develop a next-generation compound to treat HCV – a protease inhibitor that may be combined with current therapies to create the kind of multidrug cocktail that has proved to be so effective against HIV. The oral compound is in early clinical trials.

Important advances are also being achieved in other areas of anti-infective research. NOXAFIL (posaconazole) is an oral, broad-spectrum antifungal in Phase III trials for the treatment of life-threatening fungal infections. Discovered by Schering-Plough scientists, NOXAFIL has demonstrated successful clinical outcomes along with an acceptable safety profile in patients who have exhausted currently available treatment options.



Schering-Plough scientists are also engaged in breakthrough work in the field of HIV infection with our CCR5 receptor antagonist. The compound, which is one of a new class of drugs known as entry inhibitors, is expected to enter Phase II clinical trials in 2004. Unlike existing HIV drugs that work inside the cell, the CCR5 receptor antagonist blocks HIV before the virus has a chance to enter the cell and begin replicating. Schering-Plough has led the research field in demonstrating clinical activity with this new class of compound in lowering the viral load of HIV patients.

Anti-inflammatories One of the Company's primary growth engines for the near and longer term is expected to be REMICADE, a monoclonal antibody that has been shown to offer significant clinical benefits and improve the quality of life of patients with such debilitating diseases as rheumatoid arthritis, Crohn's disease and ankylosing spondylitis. REMICADE is the leading product in a potent new class of agents known as anti-tumor necrosis factor (anti-TNF) inhibitors, recording 60 percent higher sales in 2003 to total $540 million. Schering-Plough has marketing rights to REMICADE in all global markets except the United States, Japan and parts of the Far East through an agreement with Centocor, a Johnson & Johnson subsidiary.

REMICADE is approved in the European Union (EU) for treating rheumatoid arthritis (RA); Crohn's disease (CD), a serious gastrointestinal disorder; and ankylosing spondylitis (AS), a chronic disease that leads to stiffening and subsequent fusion of the spine. With the approval for AS in May 2003, REMICADE became the only biologic approved in the EU for treating all three of these debilitating conditions. REMICADE also received EU approval in May and October, respectively, for maintenance dosing to sustain clinical response in patients with CD and for fistulizing CD, a more progressive form of the disease.

Seeking to expand the eligible patient population and further drive sales of REMICADE, Schering-Plough is pursuing additional indications for the product, including early RA, psoriasis, psoriatic arthritis and ulcerative colitis.

Earlier in the pipeline, Schering-Plough's Discovery Group is seeking to discover novel anti-inflammatory agents by taking two approaches – exploring both small molecule and antibody pathways – in order to leverage our expertise in the area of chemokines.

Oncology With oncology a key focus in our growth plans, a number of important therapies are providing the nucleus for building a strong Schering-Plough presence in the worldwide anticancer marketplace.

Among products whose sales grew steadily last year were two licensed therapies: TEMODAR (temozolomide) Capsules, an oral chemotherapeutic agent marketed globally for certain types of brain tumors, and CAELYX (pegylated liposomal doxorubicin HCl), for use in treating women with advanced ovarian cancer who have failed first-line therapy, for the treatment of metastatic breast cancer in patients at increased cardiac risk, and for the treatment of AIDS-related Kaposi's sarcoma. Sales of TEMODAR rose 16 percent to $324 million in 2003, while those for CAELYX were 55 percent higher, totaling $111 million. TEMODAR is licensed from Cancer Research Technology Ltd. CAELYX (*Doxil*) is licensed for marketing outside the United States, except in Japan and Israel, from ALZA Corporation, a subsidiary of Johnson & Johnson.

INTRON A is another important member of our oncology portfolio, approved for several indications worldwide, including adjuvant treatment to surgery in patients with malignant melanoma. INTRON A sales are reported as part of the INTRON franchise.

A new agent in development is SARASAR (lonafarnib), discovered by Schering-Plough researchers. Currently in Phase II clinical trials for the treatment of leukemia and a variety of solid tumors, SARASAR is one of a promising new class of compounds that inhibit a key enzyme – farnesyl transferase – involved in transforming cells from nonmalignant to cancerous. A Phase III trial for non-small-cell lung cancer was discontinued in February 2004 due to lack of sufficient efficacy in this difficult-to-treat disease.

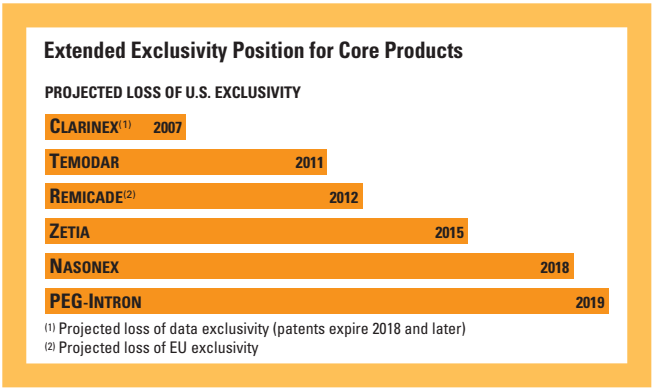
Earlier-stage discovery programs are focused on cell cycle and signal transduction kinases as novel antitumor targets.

Acute Coronary Care An important therapy for hospital physicians treating heart patients is INTEGRILIN (eptifibatide) Injection. The product posted slightly higher sales last

year of $306 million due to increased utilization and market penetration, offset by a decline in U.S. trade inventory levels. INTEGRILIN is the U.S. market leader and has the broadest labeling in its class. INTEGRILIN helps patients with acute coronary syndromes by preventing platelets from binding to fibrinogen and forming blood clots. Through a licensing agreement, Schering-Plough and Millennium Pharmaceuticals, Inc. market and sell the drug in the United States, while Schering-Plough markets the product outside the United States.

Work is also proceeding in our laboratories and in early clinical development on an oral thrombin receptor antagonist for the treatment of acute coronary syndromes.

Central Nervous System and Other Disorders Through both in-licensing and internal development, Schering-Plough has targeted a range of degenerative nervous system and cognitive diseases. The Company has late preclinical programs in the areas of Alzheimer's and Parkinson's diseases, neuropathic pain and psychiatric disorders.



A current focus is on adenosine 2a receptor antagonists (A2a) for Parkinson's disease, a progressive neuro-degenerative disorder afflicting more than 2.6 million patients globally.

A PDE5 inhibitor (dasantafil) is in early clinical trials for treating erectile dysfunction and has shown the potential for an improved safety profile.

CONSUMER HEALTH CARE

Sales of Consumer Health Care products, which include over-the-counter (OTC), sun care and foot care products, increased 35 percent to $965 million in 2003. The primary driver was OTC CLARITIN (loratadine), which was launched in December 2002 and is providing Consumer Health Care with a strong platform in the OTC market.

OTC Products Sales of OTC products rose dramatically in 2003 to $563 million, reflecting the late 2002 launch of OTC CLARITIN. In its first full year as an OTC product, OTC CLARITIN captured 37 percent of the OTC allergy market and became the industry's largest-ever prescription-to-OTC switch. Sales of OTC CLARITIN totaled $415 million in 2003.

Available in all five formulations at its original prescription strength, OTC CLARITIN continued to show market share leadership despite strong competition and deep discounts offered by private label brands. A number of line extensions are planned to keep the product ahead in its allergy class. The first of these is CLARITIN Hives Relief, approved by the FDA in November 2003.

Sales in 2003 were up slightly for CORICIDIN HBP, a family of cold, cough and flu relief products specially formulated for people with high blood pressure.

Sun Care Sales of sun care products declined 24 percent in 2003 to $127 million due to unfavorable summer weather, particularly in the important Northeast U.S. market. Despite this downturn, the COPPERTONE sun care line maintained its lead in the sun care category, launching COPPERTONE SPECTRA3, a high-protection sunscreen that deflects, absorbs and scatters UV rays.

Foot Care Sales of foot care products were essentially flat in 2003, totaling $275 million, due to a leveling of retailer inventory. Schering-Plough, with its DR. SCHOLL'S brand, remains the category leader in the North American foot care market. Insoles recorded significant sales growth.

ANIMAL HEALTH

Worldwide Animal Health sales increased 3 percent to $697 million in 2003, reflecting the favorable impact of foreign exchange. Global sales were led by the antibiotic NUFLOR (florfenicol) and benefited from new product introductions and the approval of additional product indications overseas.

In livestock products, NUFLOR, an antibiotic for respiratory disease in cattle and swine, continued to lead the animal health business, achieving strong sales and market share growth in the 2003 second half. To expand the product category in the United States, a family of antibiotic products for dairy cattle was acquired from Pfizer Inc. M+PAC (*Mycoplasma hyopneumoniae*) bacterin, a vaccine to control respiratory disease in swine, was launched in several countries.

In companion animals, ZUBRIN (tepoxalin), a novel dual-action anti-inflammatory for osteoarthritis in dogs, continued to be rolled out globally. Sales of HOMEAGAIN, a microchip for pet identification, grew dramatically in 2003, as the product helped reunite more than 59,000 pets with their owners during the year.

Key Products

Primary Care	*Key Products*	*Market Facts / 2003 Milestones*
Allergy/Respiratory	**CLARINEX** (desloratadine)	• 2003 sales: $694 million (+16%) • Has broadest range of indications of any U.S. prescription nonsedating antihistamine
	NASONEX (mometasone furoate monohydrate)	• 2003 sales: $500 million (-4%) • Only corticosteroid nasal spray in U.S. for treatment of year-round allergy symptoms, including congestion and prevention of seasonal allergies
	ASMANEX TWISTHALER (mometasone furoate)	• Orally inhaled corticosteroid for asthma delivered via novel dry-powder inhaler • Launched in international markets
	FORADIL AEROLIZER (formoterol fumarate inhalation powder) (U.S. marketing rights only)	• Long-acting beta$_2$-agonist for maintenance treatment of asthma and chronic obstructive pulmonary disease
Strategic Partnerships		
Cardiovascular	**ZETIA** (ezetimibe) (Joint venture with Merck & Co., Inc.)	• 2003 sales: $471 million (Company does not record ZETIA sales) • First agent to inhibit absorption of cholesterol in intestine
Specialty Care		
Hepatitis C	**INTRON Franchise**	• 2003 sales: $1.9 billion (-32%)
	INTRON A Injection (interferon alfa-2b, recombinant)	• Marketed for 16 major antiviral and anticancer indications worldwide
	PEG-INTRON (peginterferon alfa-2b)	• Only pegylated interferon product for hepatitis C approved for dosing according to patient body weight • U.S. approval for PEG-INTRON REDIPEN in October 2003
	REBETOL (ribavirin, USP)	• Oral antiviral agent for use in combination with PEG-INTRON or INTRON A for treating chronic hepatitis C
Anti-inflammatory	**REMICADE** (infliximab) (International marketing rights only)	• 2003 sales: $540 million (+60%) • Only biologic therapy in EU indicated for rheumatoid arthritis, Crohn's disease and ankylosing spondylitis
Oncology	**CAELYX** (pegylated liposomal doxorubicin HCl) (International marketing rights only)	• 2003 sales: $111 million (+55%) • Approved for certain advanced ovarian cancers and as monotherapy in metastatic breast cancer
	INTRON A Injection (interferon alfa-2b, recombinant)	• Marketed for 16 major antiviral and anticancer indications worldwide, including as adjuvant therapy for malignant melanoma
	TEMODAR Capsules (temozolomide)	• 2003 sales: $324 million (+16%) • Oral anticancer agent used in treating certain forms of brain tumors
Acute Coronary Care	**INTEGRILIN Injection** (eptifibatide)	• 2003 sales: $306 million (+1%) • In U.S., has broadest range of indications in its class and is most widely used GP IIb/IIIa inhibitor of platelet aggregation
Consumer Health Care		
	Total Consumer Health Care	• 2003 sales: $965 million (+35%)
	Total OTC **OTC CLARITIN** (loratadine) **Total Foot Care** **Total Sun Care**	• 2003 sales: $563 million • 2003 sales: $415 million • 2003 sales: $275 million (-1%) • 2003 sales: $127 million (-24%)
Animal Health		
	Total Animal Health	• 2003 sales: $697 million (+3%)
	NUFLOR (florfenicol)	• Single product therapy for treating all three major bacterial causes of bovine and swine disease
	ZUBRIN (tepoxalin)	• Controls pain and inflammation associated with canine osteoarthritis

Executive Summary

About the Company Schering-Plough is a worldwide pharmaceutical company committed to discovering, developing, manufacturing and marketing new therapies and treatments to enhance human health. The Company's primary business strategy is to continually discover or license human pharmaceutical products that are patent protected for an extended period of time. When a product's patent expires, generic competition occurs, resulting in a substantial decline in a product's average selling price. Schering-Plough also has leading consumer product brands in the over-the-counter (OTC), foot care and sun care markets and has a global animal health business.

Government regulatory agencies throughout the world regulate the Company's discovery, development, manufacturing and marketing efforts. The Food and Drug Administration in the United States (FDA) is a pivotal regulator of the Company's business.

In the United States, the pricing of the Company's pharmaceutical products is subject to competitive pressure as managed care organizations seek price discounts. Also in the United States, the Company is 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. In most international markets, the Company operates in an environment of government-mandated cost-containment programs.

The Company ships its pharmaceutical products to wholesalers and distributors, but markets these products to health care professionals, managed care organizations and, to a lesser extent, patients themselves. Key Performance Indicators (KPIs) for the Company are the percentage market shares for its products. Market shares for the Company's major products are discussed in the sections that follow.

The current state of the Company During the past three years, the Company experienced a confluence of negative events, which are summarized as follows:

- Since 2001, the Company has been working with the FDA to resolve issues involving the Company's compliance with current Good Manufacturing Practices (cGMP) at certain of its manufacturing sites in New Jersey and Puerto Rico. In 2002, the Company reached a formal agreement with the FDA for a consent decree. Under the terms of the consent decree, the Company agreed to make payments totaling $500 million and to revalidate the manufacturing processes at these sites. These manufacturing sites have remained opened throughout this period; however, the consent decree has placed significant additional controls on production and release of products from these sites, including review and third-party certification of production variances, and, for some products, review and third-party certification of batch production records. The third-party certifications and other cGMP improvement projects have resulted in higher costs as well as reduced output at these facilities. In addition, the Company has found it necessary to discontinue certain older products. The impact of the consent decree is discussed in more detail in the sections that follow.
- Certain of the Company's sales and marketing practices are under investigation by the U.S. Attorney's Offices in Pennsylvania and Massachusetts. These investigations pose significant risks to the Company and have caused the Company to significantly increase its litigation reserves. These matters are discussed in further detail in the sections that follow.
- In December 2002, the Company switched all formulations of CLARITIN in the United States from prescription to OTC status. This switch followed the loss of marketing exclusivity for the product. The average unit selling price for an OTC product is much lower than the price in the prescription market. Further, with the loss of marketing exclusivity, the Company faces additional competition from comparable brands and generics in the OTC marketplace.

  CLARITIN in the United States had been the Company's leading product in terms of sales, and even more so in terms of profit. As a result, the Company has experienced a rapid, sharp and material decline in earnings and cash flow beginning in 2003. The Company does not expect earnings to recover from the loss of sales of CLARITIN until such time as the Company introduces new products. Recovery may take several years.
- The Company's other leading franchise is the combination of pegylated interferon (PEG-INTRON) and ribavirin (REBETOL) to treat hepatitis C. In late 2002, a competitor entered the hepatitis C marketplace with its own versions of pegylated interferon and ribavirin. Prior to the introduction of these competing products, the Company held a leading position in the hepatitis C market. With the introduction of this competitor, the Company's market shares have fallen significantly. This decline in sales has exacerbated the overall earnings and cash flow decline.

  In addition, generic forms of REBETOL may be approved at any time in the important U.S. market. If this were to occur, the Company's market shares and sales would decline further.

The above matters have resulted in the following:

- Cash flow has declined significantly, particularly in the United States, where the majority of research is conducted and from where dividends are paid. Also, payments arising from the investigations being conducted by the U.S. Attorney's Offices could further reduce cash flow in the United States. In addition, the Company's credit ratings have been reduced. The impact of the lower credit ratings and the Company's overall liquidity is discussed in detail in the sections that follow.
- The Company's manufacturing sites operate well below optimum levels due to sales declines and the reduction in output related to the consent decree. At the same time, overall costs of operating the manufacturing sites have increased due to the consent decree activities. The impact of these facts is a reduction in profit margins. At this time, the major investments in manufacturing capacity are not impaired; however, the Company continues to review the carrying value of these assets for indications of impairment. Future events and decisions may lead to asset impairment losses and accelerated depreciation due to shortened asset lives.

In response to the above, the Company has initiated the following actions:

- A new management team has been appointed and has implemented many changes, some of which are described in the following sections.
- The quarterly dividend has been reduced to 5.5 cents from 17 cents per common share.
- A program entitled Value Enhancement Initiative (VEI) has commenced. VEI is a tool designed to enable the Company to save and spend wisely. The key cost-cutting initiatives implemented include:
  - Eliminating most employee bonuses for 2003 under the Company's standard plans.
  - Eliminating the payout under the Company's profit sharing plan.
  - Eliminating routine merit increases throughout 2004, with exceptions only where local contracts or practices prevent this action, for customer-contact employees, for employees dedicated to fulfillment of the Company's FDA consent decree obligations and other business-critical employees.
  - Targeting an overall reduction in payroll and related expenses of at least 10 percent, again excluding payroll expense associated with customer-contact employees and employees dedicated to fulfilling the Company's FDA consent decree obligations. The first step toward achieving this target was a Voluntary Early Retirement Program (VERP) in the United States. Approximately 900 employees elected to retire under this program.
  - Installing global procurement programs.
  - Exercising tight controls over new hires, cutting back in travel costs and reducing meeting expenses.

On a positive side, the Company is entering the cholesterol-reduction market with the launch of Zetia (ezetimibe) and the U.S. marketing application for ezetimibe/simvastatin combination, which was submitted for filing in September 2003. The cholesterol-reduction market is the single largest pharmaceutical market in the world. Management believes that these products have the potential of enabling the Company to move beyond the loss of Claritin and to build long-term financial strength.

In addition, the Company believes that it has several potentially valuable pharmaceutical compounds in its earlier stage research pipeline. The Company is also aggressively pursuing licensing opportunities with other research-based pharmaceutical companies.

Outlook Year-over-year comparisons between 2004 and 2003 will be negatively impacted by a number of factors, including the following:

- The Company experienced downward slopes in sales and market share of several of its key profit-generating products throughout much of 2003.
- The Company is making significant investments in sales and marketing support aimed at stabilizing market shares of its key profit-generating products.
- The Company expects generic competition for Rebetol in the U.S. market to begin in 2004.
- The contraction of the worldwide hepatitis C market that began in 2003 may continue in 2004.
- The absence of Losec revenues from Europe due to the end of the agreement with AstraZeneca in the third quarter of 2003. Losec revenues were $130 million in 2003.

The ability of the Company to rebuild its financial strength is highly dependent upon the success of the cholesterol joint venture with Merck & Co., Inc. (Merck). If this joint venture is highly successful, then the Company may be able to rebuild its financial strength and turn around its operating performance beginning in 2005. If the joint venture is not highly successful, then the Company must rely on the success of its early-stage pipeline drugs, licensing opportunities, a significant change in corporate strategy or some combination of these. The reader should note that there is significant uncertainty inherent in any of the factors that could enable the Company to rebuild its financial strength.

Net Sales Consolidated net sales in 2003 totaled $8.3 billion, a decrease of $1.8 billion or 18 percent compared with the same period in 2002. Consolidated net sales reflected a volume decline of 22 percent, a favorable foreign exchange rate impact of 5 percent and an unfavorable price impact of 1 percent. Net sales in the United States decreased 38 percent versus 2002 and net sales internationally advanced 8 percent. International sales included a favorable foreign exchange rate impact of 11 percent.

Consolidated 2002 net sales of $10.2 billion increased $418 million or 4 percent versus 2001, reflecting a price increase impact of 3 percent and a favorable foreign exchange rate impact of 1 percent. Sales volume in 2002 was unchanged versus 2001.

Net sales by major therapeutic category for the years ended December 31, 2003, 2002 and 2001 were as follows:

				% INCREASE (DECREASE)	
(DOLLARS IN MILLIONS)	2003	2002	2001	2003/2002	2002/2001
Anti-infective & Anticancer	$3,098	$ 3,733	$2,273	(17%)	64%
Allergy & Respiratory	2,003	3,304	4,217	(39)	(22)
Cardiovasculars	467	433	623	8	(30)
Dermatologicals	507	511	593	(1)	(14)
Other Pharmaceuticals	597	807	715	(26)	13
Global Pharmaceuticals	6,672	8,788	8,421	(24)	4
OTC	563	269	178	N/M	51
Foot Care	275	279	291	(1)	(4)
Sun Care	127	167	178	(24)	(5)
Consumer Health Care	965	715	647	35	11
Animal Health	697	677	694	3	(2)
Consolidated net sales	$8,334	$10,180	$9,762	(18%)	4%

N/M – NOT A MEANINGFUL PERCENTAGE.
CERTAIN PRIOR YEAR AMOUNTS HAVE BEEN RECLASSIFIED TO CONFORM TO CURRENT YEAR PRESENTATION.

Net sales of global anti-infective and anticancer products decreased 17 percent compared with 2002. Sales of the INTRON franchise, used primarily for the treatment of hepatitis C, decreased 32 percent to $1.9 billion due to market share declines, changes in U.S. trade inventory levels and lower sales in Japan. Market share of the INTRON franchise has been declining, reflecting the entrance of a competitor's new products in the hepatitis C market in 2003. Also, as previously reported, the Company anticipates potential generic competition in the United States for REBETOL in 2004. U.S. sales of REBETOL were $306 million in 2003. The INTRON franchise includes the anticancer/antiviral agent INTRON A Injection, as monotherapy and in combination with REBETOL Capsules for treating hepatitis C, and PEG-INTRON Powder for Injection, a longer-acting form of INTRON A, as monotherapy and in combination with REBETOL for treating hepatitis C.

Net sales in the anti-infective and anticancer therapeutic category benefited from international sales of REMICADE, for the treatment of rheumatoid arthritis, Crohn's disease and ankylosing spondylitis. Net sales of REMICADE were up $203 million or 60 percent to $540 million, primarily in Europe, due to increased patient utilization. Global sales of TEMODAR Capsules, for treating certain types of brain tumors, increased 16 percent to $324 million due to increased market penetration. International sales of CAELYX, a long-circulating pegylated liposomal formulation of doxorubicin hydrochloride, increased 55 percent to $111 million due to increased patient utilization coupled with the ongoing launch of a new indication for the treatment of metastatic breast cancer in patients who are at increased cardiac risk.

In 2002, net sales of global anti-infective and anticancer products rose 64 percent compared with 2001, led by the October 2001 market introduction of PEG-INTRON in combination with REBETOL for hepatitis C in the United States, the continued rollout of this combination therapy in European markets and the December 2001 launch of REBETOL in combination with INTRON A in Japan. Sales in the anti-infective and anticancer category in 2002 also benefited from higher international sales of REMICADE and global sales of TEMODAR, reflecting increased market penetration.

Global net sales of allergy and respiratory products decreased 39 percent in 2003 and 22 percent in 2002. This category of sales was negatively impacted by the rapid decline in sales of prescription CLARITIN, resulting from its loss of market exclusivity in the United States along with conversion from prescription to OTC status in December 2002. In 2003, global sales of prescription CLARITIN were $370 million, compared with $1.8 billion in 2002 and $3.2 billion in 2001. U.S. sales of prescription CLARITIN recognized in 2003 were $25 million versus sales of $1.4 billion in 2002 and $2.7 billion in 2001.

Global net sales of CLARINEX for the treatment of seasonal outdoor allergies and year-round indoor allergies were $694 million in 2003, an increase of 16 percent, reflecting the continued conversion of patients from prescription CLARITIN to CLARINEX, coupled with the launch of CLARINEX in several international markets. These factors were tempered by contraction of the U.S. prescription antihistamine market following the launch of OTC CLARITIN as well as by changes in U.S. trade inventory levels. CLARINEX continues to experience intense competition in the U.S. allergy market. Global sales of CLARINEX were $598 million in 2002. CLARINEX was launched in the United States in January 2002.

Net sales of NASONEX Nasal Spray, a once-daily corticosteroid nasal spray for allergies, decreased 4 percent to $500 million in 2003 due to changes in U.S. trade inventory levels and market share declines in the United States. NASONEX is experiencing intense competition in the U.S. allergy market. International sales of NASONEX grew 21 percent to $199 million due to market share gains. Net sales of NASONEX in 2002 were essentially flat versus 2001 due to market share declines in the United States, tempered by market share gains in international markets.

Global net sales of cardiovascular products increased 8 percent in 2003. Sales of INTEGRILIN Injection, a glycoprotein platelet aggregation inhibitor for the treatment of patients with acute coronary syndromes, increased 1 percent to $306 million due to increased patient utilization in the United States, tempered by a decline in U.S. trade inventory levels. In 2002, global net sales of cardiovascular products decreased 30 percent due to lower sales of K-DUR, a sustained-release potassium chloride supplement, which is subject to generic competition. Partially offsetting this decline were higher sales of INTEGRILIN due to increased patient utilization and increased market penetration.

Net sales of consumer health care products, which include OTC, foot care and sun care products, increased $250 million or 35 percent in 2003 and increased $68 million in 2002. OTC product net sales increased $294 million in 2003 and $91 million in 2002 due to the launch of OTC CLARITIN in December 2002. Sales of OTC CLARITIN were $415 million in 2003 and $105 million in 2002. During the third quarter of 2003, the Company began to face additional private-label competition for OTC CLARITIN, as the initial 180-day period of exclusivity expired for the first OTC generic competitor. The comparison of 2002 versus 2001 was negatively impacted by manufacturing issues for other OTC products. Net sales of foot care products decreased $4 million or 1 percent in 2003 due to the nonrecurrence of the 2002 launch of LOTRIMIN ULTRA, a topical antifungal. Foot care sales decreased 4 percent in 2002 due to increasing competition, tempered by the launch of LOTRIMIN ULTRA. Net sales of sun care products decreased $40 million or 24 percent in 2003, primarily due to unfavorable weather conditions in the United States. Sun care sales decreased 5 percent in 2002 due to lower sales of BAIN DE SOLEIL products.

Global net sales of animal health products increased 3 percent in 2003 to $697 million. Sales were favorably impacted by foreign exchange of 7 percent, offset by continued manufacturing supply issues, described in "Additional Factors Influencing Operations" below. Global net sales of animal health products decreased 2 percent in 2002 due to challenging global market conditions, coupled with manufacturing issues.

Summary of Costs, Expenses and Equity Income

				% INCREASE (DECREASE)	
(DOLLARS IN MILLIONS)	2003	2002	2001	2003/2002	2002/2001
Cost of sales	$2,833	$2,505	$2,078	13%	21%
% of net sales	34.0%	24.6%	21.3%		
Selling, general and administrative	$3,474	$3,681	$3,444	(6%)	7%
% of net sales	41.7%	36.2%	35.3%		
Research and development	$1,469	$1,425	$1,312	3%	9%
% of net sales	17.6%	14.0%	13.4%		
Other (income) expense, net	$ 59	$ (144)	$ (95)	N/M	51%
% of net sales	0.7%	(1.4%)	(1.0%)		
Special charges	$ 599	$ 150	$ 500	N/M	(70%)
% of net sales	7.2%	1.5%	5.1%		
Equity income from cholesterol joint venture	$ (54)	$ –	$ –	N/M	–
% of net sales	(0.7%)	–	–		

N/M – NOT A MEANINGFUL PERCENTAGE.
CERTAIN PRIOR YEAR AMOUNTS HAVE BEEN RECLASSIFIED TO CONFORM TO CURRENT YEAR PRESENTATION.

Cost of sales as a percentage of net sales in 2003 increased over 2002, primarily due to a change in product sales mix resulting from the loss of U.S. sales of prescription CLARITIN. The increase was also the result of higher unit manufacturing costs, including the effect of lower production volumes, coupled with increased spending for the Company's cGMP compliance efforts. Cost of sales as a percentage of net sales in 2002 increased over 2001, primarily due to a shift in sales towards products on which royalties are paid and higher costs associated with manufacturing issues.

Selling, general and administrative expenses decreased 6 percent to $3.5 billion in 2003 versus $3.7 billion in 2002. The decrease was mostly due to lower marketing expenses in the global pharmaceutical business, including zero payout of profit sharing and routine bonuses. In addition, field force incentives also declined. These decreases were tempered by higher promotion for OTC CLARITIN and foreign exchange. The ratio to net sales of 41.7 percent in 2003 was higher than the ratio of 36.2 percent in 2002, primarily due to lower overall sales reported in 2003. Selling, general and administrative expenses increased 7 percent in 2002, and the ratio to net sales increased to 36.2 percent from 35.3 percent in 2001 due to increased spending to support the continued rollout of new and recently introduced products in international markets.

Research and development spending increased 3 percent to $1.5 billion, representing 17.6 percent of net sales in 2003. Research and development expenses increased 9 percent to $1.4 billion and represented 14.0 percent of net sales in 2002. 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. The change in 2003 also reflects the presentation of research and development costs related to the cholesterol collaboration with Merck under the equity method of accounting, as discussed below.

In 2003, Other (income) expense, net included higher net interest expense. Other (income) expense, net in 2002 included $80 million of income related to the sale of the Company's U.S. marketing rights for SUBOXONE and SUBUTEX sublingual tablets for the treatment of opioid dependence. (See the "Other (Income) Expense, Net" footnote for additional information.)

Special Charges The components of special charges are as follows:

(DOLLARS IN MILLIONS)	2003	2002	2001
Employee termination costs	$179	$ –	$ –
Asset impairment losses	70	–	–
Litigation charges	350	150	–
Consent decree charge	–	–	500
	$599	$150	$500

Employee Termination Costs In August 2003, the Company announced a global workforce reduction initiative. The first phase of this initiative was a VERP in the United States. Under this program, eligible employees in the United States had until December 15, 2003, to elect early retirement and receive an enhanced retirement benefit. Approximately 900 employees elected to retire under the program, of which approximately 750 employees retired at or near year-end 2003 and approximately 150 employees have staggered retirement dates in the future. The total cost of this program is estimated to be $190 million, comprised of increased pension costs of $107 million, increased post-retirement health care costs of $57 million, vacation payments of $4 million and costs related to accelerated vesting of stock grants of $22 million. For employees with staggered retirement dates in the future, these amounts will be recognized as a special charge over the employees' remaining service periods. This delayed expense recognition follows the guidance in Statement of Financial Accounting Standards (SFAS) No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Amounts recognized in 2003 for this program were $164 million, and amounts expected to be recognized in 2004 and 2005 are $19 million and $7 million, respectively.

The expected cash expenditures associated with this program are $25 million and $7 million in 2004 and 2005, respectively.

Also included in employee termination costs in the above table are $15 million of other employee severance costs.

In December 2003, the Company announced that it is targeting an overall reduction in payroll and related expenses of at least 10 percent, excluding payroll expenses associated with customer-contact employees and employees dedicated to fulfilling the Company's FDA consent decree obligation. This target includes savings realized from the VERP. The Company expects to incur additional employee termination costs in 2004 associated with achieving its goal of reducing payroll and related expenses.

Savings expected to be realized from these actions approximate $150 million annually. The Company expects to reinvest a significant portion of these savings by expanding its sales forces to maximize the ZETIA and ezetimibe/simvastatin opportunities and further support NASONEX, REMICADE and the INTRON franchise.

Asset Impairment Losses Asset impairment losses have been recognized in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Asset impairment losses related to the following:

- The Company ceased production of certain products produced at one of its manufacturing sites operating under the FDA consent decree. The Company also announced the closure of its manufacturing site in England. All manufacturing at the site in England has substantially ceased. Sales of all the affected products have not been material. An asset impairment loss of $26 million based on discounted cash flows has been recognized related to the facilities and equipment at these two sites.
- The Company has ceased marketing a licensed cancer therapy drug that was sold in countries outside the United States. Sales of this product declined and are not material. The introduction of competing products has resulted in a decline in the market share of the Company's drug to the point where management concluded that it was no longer practical to continue to participate in this marketplace. An asset impairment loss of $27 million based on discounted cash flows has been recognized related to this intangible asset.
- One of the Company's sun care brands competes in the "high-end" segment of the overall sun care market. Two large cosmetics companies have entered this market segment, and sales of the Company's brand have declined. When the Company acquired this brand, a portion of the purchase price was allocated to the trade name based upon its fair value at that time. The Company performs periodic reviews of all values assigned to intangible assets and, in connection with those reviews, an impairment loss of $17 million related to the trade name has been recognized based on discounted cash flows. This reflects the change in market conditions since this brand was acquired. Sales of this sun care brand have not been material.

Litigation Charges In 2003 and 2002, litigation reserves have been increased by $350 million and $150 million, respectively, primarily as a result of the investigations into the Company's sales and marketing practices (see "Legal, Environmental and Regulatory Matters" footnote for additional information).

Consent Decree Charge In 2001, a provision of $500 million was recognized for payments to the federal government under a consent decree (see "Consent Decree" footnote for additional information).

Summary of Selected Special Charges The following summarizes the activity in the accounts related to employee termination costs and asset impairment losses:

(AMOUNTS IN MILLIONS)	EMPLOYEE TERMINATION COSTS	ASSET IMPAIRMENT LOSSES
2003 Special charges	$ 179	$ 70
Impairment write-off	–	(70)
Credit to retirement benefit plan liability	(144)	–
Cash disbursement	(6)	–
Special charges accrual balance at Dec. 31, 2003	$ 29	$ –

The balance at December 31, 2003, for employee termination costs represents the value of stock grants ($22 million), which will be distributed after year-end 2003, and severance and accrued vacation payments to be paid in 2004 ($7 million).

Equity Income from Cholesterol Joint Venture Effective in 2003, the Company is presenting its collaboration with Merck to jointly develop and market ZETIA and ezetimibe/simvastatin combination following the equity method of accounting. Under that method, the Company records its share of the operating profits less its share of research and development costs in Equity income from cholesterol joint venture. Included in this line for the full year 2003 are the Company's share of the operating profits of $113 million and a $20 million milestone receipt, less its share of research and development costs of $79 million. It should be noted that the Company incurs substantial costs, such as selling costs, that are not reflected in Equity income from cholesterol joint venture and are borne entirely by the Company. ZETIA was launched in the United States and several international markets in November 2002. Several additional market launches have occurred to date. Global sales of ZETIA were $471 million in 2003. Prior to 2003, the venture was in the research and development phase and the Company's share of research and development expenses in 2002 and 2001 of $69 million and $86 million, respectively, was reported in "Research and development" in the Statements of Consolidated Operations.

Net (Loss)/Income Net (loss)/income was a loss of ($92) million in 2003 versus income of $2.0 billion and $1.9 billion in 2002 and 2001, respectively. Net (loss)/income in 2003 includes special charges of $599 million, as described above. Net income in 2002 includes the $150 million pre-tax provision to increase litigation reserves, and 2001 includes the $500 million pre-tax provision for the consent decree payments. These provisions are both included in special charges.

Effective Tax Rate For the full year 2003, the effective tax rate was 15 percent excluding the $350 million non-tax deductible provision to increase litigation reserves. The effective tax rate was 23 percent for 2002 and 2001. The Company reduced its effective tax rate in 2003 due to the decrease in profits, primarily in the United States. For additional information, see the "Income Taxes" footnote in the Notes to Consolidated Financial Statements. The impact of the potential early termination of the swaps discussed in "Liquidity and Financial Resources" may result in a higher effective tax rate in 2004 and beyond.

(Loss)/Earnings Per Common Share Diluted (loss)/earnings per common share decreased to a loss of ($0.06) in 2003 and increased 2 percent to earnings of $1.34 in 2002. The weakening of the U.S. dollar against most foreign currencies increased growth in earnings per common share in 2003 and 2002. Diluted earnings per share in 2003 and 2002 reflect favorable exchange impacts of $0.05 and $0.01, respectively. The Company advises that the trend in earnings should be viewed with and without the aforementioned special charges and the impact of year-to-year changes in foreign exchange rates.

Liquidity and Financial Resources

Background The following background information may be useful to the reader in understanding the current state of the Company's liquidity and financial resources.

At December 31, 2003, approximately 86 percent of all cash and cash equivalents and short-term investments shown in the accompanying balance sheet was held by wholly owned, foreign-based subsidiaries. At the same time, substantially all of the debt shown in the accompanying balance sheet was owed by the parent company or wholly owned, U.S.-based subsidiaries.

In years prior to 2003, this geographic disparity between the location of the funds and the location of debt was not a pivotal issue for the Company. However, with the material decline in earnings following the loss of marketing exclusivity of CLARITIN in the United States, this geographic disparity has taken on more importance.

Cash and cash equivalents, plus short-term investments, exceeded total debt at December 31, 2003 by $1.4 billion. However, using the funds held by the foreign-based subsidiaries for the cash needs of the U.S.-based subsidiaries may result in U.S. income tax payments. The amount of any U.S. income tax payments would depend upon a number of factors, including the amount of the funds used and whether the U.S. operations were generating taxable profits or losses.

In 2003, the U.S. operations generated tax losses, primarily due to the decline of CLARITIN sales and the continued investment in research and development. For 2003, the entire amount of the U.S. tax losses will be used to recoup taxes paid in previous years (carryback benefit).

In 2004, management expects the U.S. operations to again generate tax losses. However, only a portion of these losses is expected to be used to recoup taxes paid in previous years because, under current law, the carryback benefit will be exhausted. The amount of the expected 2004 loss in excess of that used to recoup taxes paid in previous years becomes available to reduce taxable income in the future (carryforward benefit).

When the U.S. operations generate losses that cannot be used to recoup taxes paid in previous years, the Company has a choice. It can either use the carryforward benefits in future years, or utilize some or all of those losses to absorb taxable distributions to the U.S. of cash or other assets held by the foreign-based subsidiaries. Absorbing the U.S. operating losses in this manner allows a portion of the assets held by the foreign-based subsidiaries to become available for use in the U.S. operations without having to make U.S. income tax payments.

As discussed below, the Company expects to finance a portion of its cash needs in 2004 and possibly beyond by accessing some of the funds held by the foreign-based subsidiaries. The funds that the Company expects to access represent foreign earnings to be generated in 2004 and beyond. The Company does not expect to incur additional U.S. income taxes when accessing these funds because these taxable distributions will be absorbed by the expected U.S. operating losses. Further, as described below, the Company may make additional taxable distributions of funds held by the foreign-based subsidiaries to the U.S. operations because the Company has triggered the credit rating downgrade provisions in certain of its financing arrangements. The Company may incur additional U.S. income taxes because these additional distributions from the foreign-based subsidiaries may exceed the U.S. operating losses.

Discussion of Cash Flow Cash provided by operating activities totaled $601 million in 2003, $1,980 million in 2002 and $2,512 million in 2001. Cash provided by operating activities declined in 2003 due to lower sales of CLARITIN, lower sales of the products within the INTRON franchise and higher manufacturing costs. A portion of the cash flow impact of lower sales was mitigated by the collection of accounts receivable that followed the decline in sales.

Cash provided by operating activities in 2003 also includes the second payment of $250 million relating to the FDA consent decree.

In previous filings, the Company had reported that, for 2003 and possibly beyond, cash provided by operating activities would not be sufficient to fund working capital, capital expenditures and dividends, if these items remained at the then-current levels. In response to the decline in sales and earnings in 2003 as well as the likelihood of further declines in 2004, the Company announced on August 21, 2003, a reduction in the quarterly dividend from 17 cents to 5.5 cents per common share. This action saves approximately $170 million per quarter beginning with the fourth quarter of 2003. On that same day, the Company also announced accelerated and intensified cost-cutting actions, including a global workforce reduction effort.

As shown in the Statements of Consolidated Cash Flows for 2003, cash needs for working capital, capital expenditures and dividends exceeded cash from operations. This excess of cash needs over cash generation occurred entirely within the U.S. operations where the deficit was approximately $1,400 million. Foreign operations generated cash in excess of cash needs. In 2003, the Company borrowed additional funds in the United States to finance the U.S. operations while continuing to accumulate cash with the foreign-based subsidiaries.

In 2004, management expects its foreign operations to generate cash and its U.S. operations to have cash needs. However, excluding any potential payments arising from the litigation and investigations discussed below, the U.S. deficit in 2004 is expected to decline. For 2004, dividend payments will be approximately $500 million less than in 2003, and the Company expects to receive a tax refund in excess of $400 million for the carryback benefit described above. Approximately $600 million of cash was available in the U.S. at December 31, 2003 to pay down commercial paper balances or fund the U.S. operations.

The above discussion does not take into consideration any payments that may arise from the matters described in the "Legal, Environmental and Regulatory Matters" footnote included in the financial statements to this report. In particular, the Company has accrued material amounts with respect to the investigations being conducted by the U.S. Attorney's Offices in Pennsylvania and Massachusetts and with respect to the dispute with the IRS. At this time, management cannot estimate the ultimate amounts or timing of such potential payments with certainty. Any such payments would increase the cash needs of the U.S. operations and may necessitate additional financing, repatriation of funds held by foreign-based subsidiaries or a combination of the two. These matters may also affect the Company's credit ratings and its ability to access commercial paper.

If the Company's current cash management strategy and capital structure remain unchanged beyond 2004, management expects both the cash held by the foreign-based subsidiaries and the debt owed by the U.S.-based subsidiaries to increase. Management is in the process of evaluating whether the present strategies and structure are the most appropriate in light of the increasing debt levels as well as the changing portfolio of the Company's products.

Management believes the Company possesses sufficient financial resources to meet all of its financial needs. The Company has in excess of $4 billion in cash and cash equivalents and short-term investments, albeit held by foreign-based subsidiaries, as well as sizable lines of credit with commercial banks, as described below. Further, management believes the Company has continuing access to the capital markets.

Borrowings and Credit Facilities On November 26, 2003, the Company issued $1.25 billion aggregate principal amount of 5.3 percent senior unsecured notes due 2013 and $1.15 billion aggregate principal amount of 6.5 percent senior unsecured notes due 2033. Proceeds from this offering of $2.4 billion are being used for general corporate purposes, including to repay commercial paper outstanding in the United States. Upon issuance, the notes were rated A3 by Moody's Investors' Service (Moody's) and A+ (on CreditWatch with negative implications) by Standard & Poor's (S&P). The interest rates payable on the notes are subject to adjustment. If the rating assigned to the notes by either Moody's or S&P is downgraded below "A3" or "A-," respectively, the interest rate payable on that series of notes will increase. See the "Financial Instruments and Commitments" footnote included in the financial statements to this report for additional information.

The Company has three revolving credit facilities totaling $2 billion. The most recently negotiated facility (September 2003) is a $1 billion, 364-day credit facility from three major financial institutions that can be drawn down in the United States. This facility matures in September 2004. The other facilities are with a syndicate of financial institutions and provide for $500 million that can be drawn down in the United States through May 2004 with repayment due May 2005, and a second multi-currency facility for $500 million that can be drawn down in the United States and internationally through the maturity date in May 2006. At December 31, 2003, no funds were drawn under any of these facilities.

At December 31, 2003, short-term borrowings totaled $1,023 million. Approximately 92 percent of this was outstanding commercial paper. The commercial paper ratings discussed below have not significantly affected the Company's ability to issue or roll over its outstanding commercial paper borrowings at this time. However, the ability of commercial paper issuers, such as the Company, with one or more short-term credit ratings of "P-2" from Moody's, "A-2" from S&P and/or "F2" from Fitch Ratings (Fitch) to issue or roll over outstanding commercial paper can, at times, be less than that of companies with higher short-term credit ratings. In addition, the total amount of commercial paper capacity available to such issuers is

typically less than that of higher rated companies. The Company maintains sizable lines of credit with commercial banks, as well as cash and short-term investments held by foreign-based subsidiaries, to serve as alternative sources of liquidity and to support its commercial paper program.

Credit Ratings On December 17, 2003, S&P lowered the Company's corporate credit and long-term debt ratings to "A" from "A+" and said the outlook on the ratings was negative, noting a weakening in the Company's INTRON franchise and expected declines in earnings and cash flows. There was no change in the Company's short-term corporate credit and commercial paper rating, which was lowered to "A-1" from "A-1+" on July 29, 2003. On January 26, 2004, S&P placed the Company's corporate credit rating, short-term credit rating and senior unsecured debt rating on CreditWatch with negative implications. On February 18, 2004, S&P downgraded the Company's senior unsecured debt ratings to "A-" from "A." At the same time, S&P also lowered the Company's short-term corporate credit and commercial paper rating to "A-2" from "A-1." S&P removed the Company from CreditWatch, however, its outlook remains negative.

On October 9, 2003, Moody's lowered the Company's corporate credit rating to "A-3" from "A-1" and lowered its commercial paper rating to "P-2" from "P-1." Following this rating action, Moody's removed the Company from its Watchlist and revised its rating outlook to stable from negative. Moody's also stated that its credit rating assumed modest outflows to settle outstanding litigation or acquisitions and that a very large payment associated with litigation proceedings or acquisition activity could place pressure on the rating and/or outlook.

On November 20, 2003, Fitch downgraded the Company's senior unsecured and bank loan ratings to "A-" from "A+," and its commercial paper rating to "F2" from "F1." The Company's Rating Outlook remained negative. In announcing the downgrade, Fitch noted that the sales decline in the Company's leading product franchise, the INTRON franchise, was greater than anticipated, and that it was concerned that total Company growth is reliant on the performance of two key growth drivers, ZETIA and REMICADE, in the near term.

Financial Arrangements Containing Credit Rating Downgrade Triggers The Company has two separate arrangements that enable it to manage cash flows between its U.S. subsidiaries and its foreign-based subsidiaries. Both of these arrangements employ interest rate swaps, and both of these arrangements have similar credit rating downgrade triggers which allow the counterparty to call for early termination. The credit rating downgrade triggers require the Company to maintain a long-term debt rating of at least "A2" by Moody's or "A" by S&P. Both S&P's and Moody's current credit ratings are below this specified minimum. As a result, the counterparty to the interest rate swaps can elect early termination following a specified period, as described below.

One of the arrangements utilizes two long-term interest rate swap contracts, one between a foreign-based subsidiary and a bank and the other between a U.S. subsidiary and the same bank. The two contracts have equal and offsetting terms and are covered by a master netting arrangement. The contract involving the foreign-based subsidiary permits the subsidiary to prepay a portion of its future obligation to the bank, and the contract involving the U.S. subsidiary permits the bank to prepay a portion of its future obligation to the U.S. subsidiary. Interest is paid on the prepaid balances by both parties at market rates. Prepayments totaling $1.9 billion have been made under both contracts as of December 31, 2003. 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."

This arrangement provides that in the event the Company fails to maintain the required minimum credit ratings, the counterparty may terminate the transaction by designating an early termination date not earlier than 36 months following the date of such notice to terminate. However, if such notice is given, the early termination consequences discussed below would occur at the end of the three-year period.

Early termination requires repayment of all prepaid amounts, and repayment must occur in the original tax jurisdiction in which the prepaid amounts were made. Accordingly, early termination would require the Company's U.S. subsidiary to repay $1.9 billion to the bank and for the bank to repay $1.9 billion to the Company's foreign-based subsidiary.

The financial impact of early termination depends on the manner and extent to which the Company decides to finance its U.S. repayment obligation. The Company could finance its entire obligation by obtaining short- or long-term financing in the United States. (In this case, cash and debt would increase by equal amounts in the consolidated balance sheet.) However, the Company's ability to finance its obligation under the swaps will depend on the Company's credit ratings and business operations, as well as market conditions, at the time such financing is contemplated. Alternatively, the Company could repatriate to the United States some or all of the funds received by the foreign-based subsidiary. Repatriating funds could have U.S. income tax consequences depending primarily on profitability of the U.S. operations. Any such tax would be accrued against future earnings, and may result in the Company reporting a higher effective tax rate. Currently, the U.S. operations are generating tax

losses. However, future tax losses may be insufficient to absorb any or all of the potential tax should the Company repatriate some or all of the funds received by the foreign-based subsidiary.

As stated above, termination of the transaction cannot occur earlier than 36 months following the date on which the Company receives a termination notice from the counterparty. Accordingly, early termination is not imminent. Due to this fact, as well as the alternative courses of action available to the Company in the event of early termination, the potential of early termination does not impact current liquidity and financial resources.

The second arrangement utilizes long-term interest rate swap contracts, one entered into in 1991 with a notional principal of $650 million and a second entered into in 1992 with a notional principal of $950 million. 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 under both contracts 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 Internal Revenue Service has asserted that these transactions were not a sale but a loan on which additional U.S. income taxes are due. The Company expects to litigate this matter as described in the "Legal, Environmental and Regulatory Matters" footnote to the financial statements.)

The contracts allow the counterparty to effectively terminate the transaction if the Company fails to maintain the required minimum credit ratings and within 60 days does not restore at least one of the required minimum credit ratings. The Company's credit rating fell below the required minimum credit rating on February 18, 2004. It is unlikely the Company will restore at least one of its credit ratings in the allotted time. Early termination of these contracts due to a credit rating downgrade would most likely result in the U.S. parent company reacquiring the right to receive payments from its foreign-based subsidiary and terminating the transaction with the counterparty on a net basis.

The reacquisition of the rights to receive payments under the swap contracts would occur either by the U.S. parent company buying back the rights for their fair market value or by having the foreign-based subsidiary dividend the rights back to the U.S. parent company. Buying back the rights would necessitate funding in the United States, which the Company currently estimates would be approximately $450 million. In this case, cash and debt would increase by equal amounts in the consolidated balance sheet. Alternatively, having the foreign-based subsidiary dividend the rights back to the U.S. parent company could result in additional U.S. income taxes.

Presently, the U.S. operations of the Company are generating tax losses. These losses are expected to exceed the value of the intercompany dividend necessary to reacquire the rights. As a result, in the event of early termination, management has the alternative of reacquiring the rights and terminating the transaction with the counterparty without materially impacting liquidity or financial resources. Accordingly, management does not view early termination of this arrangement to be a material event impacting current liquidity and financial resources.

Contractual Obligations Payments due by period under the Company's known contractual obligations at December 31, 2003, are as follows:

		PAYMENTS DUE BY PERIOD			
(DOLLARS IN MILLIONS)	TOTAL	LESS THAN 1 YEAR	1–3 YEARS	3–5 YEARS	MORE THAN 5 YEARS
Long-term debt obligations[1]	$2,410	$ –	$ 14	$ 5	$2,391
Operating lease obligations	281	69	105	67	40
Purchase obligations:					
Advertising contracts	95	95	–	–	–
Research contracts[2]	132	132	–	–	–
Capital expenditure commitments	193	184	9	–	–
Other purchase orders[3]	925	880	45	–	–
Other recorded long-term liabilities[4]	517	29	23	19	446
Total	$4,553	$1,389	$196	$91	$2,877

(1) Long-term debt obligations include the $1,250 million aggregate principal amount of 5.3 percent senior, unsecured notes due 2013 and $1,150 million aggregate principal amount of 6.5 percent senior, unsecured notes due 2033. See "Financial Instruments and Commitments" footnote in the Notes to Consolidated Financial Statements for additional information.

(2) Research contracts do not include any potential milestone payments to be made since such payments are contingent on the occurrence of certain events. The table also excludes those research contracts that are cancelable by the Company without penalty.

(3) Other open purchase orders consist of both cancelable and noncancelable inventory and expense items.

(4) This caption includes obligations, based on undiscounted amounts, for estimated payments under certain of the Company's pension plans that do not hold qualified assets and estimated payments under the Company's deferred compensation plans.

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, Environmental and Regulatory 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, including the passage of laws permitting the importation of pharmaceuticals into the United States, 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 and pharmaceutical reimbursement policies cannot be reasonably estimated.

The Company cannot predict what net effect the Medicare prescription drug benefit will have on markets and sales. The program does not go into effect until 2006 and many of the Company's leading drugs are already covered under Medicare Part B (e.g. Temodar, Integrilin and Intron A). Others have a relatively small portion of their sales to the Medicare population (e.g. Clarinex, the hepatitis C franchise). The Company could experience expanded utilization of Zetia and new drugs in the Company's R&D pipeline. Of greater consequence for the Company may be the legislation's impact on pricing, rebates and discounts.

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

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

As noted in the "Legal, Environmental and Regulatory Matters" footnote included in the financial statements to this report, the Company has sued drug manufacturers that are marketing or seeking to market certain forms of generic loratadine prior to the expiration of the Company's compound patent for 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 infringement of the Company's patents and that the challenge to the patents is without merit. The compound patent for loratadine expired on June 19, 2002, and U.S. market exclusivity for Claritin expired on December 19, 2002. A patent covering the compound desloratadine, formulations thereof, and methods of treatment with desloratadine as it relates to Claritin is set to expire on April 21, 2004. Six months' U.S. market exclusivity would attach to the end of the desloratadine patent as it relates to Claritin and would expire on October 21, 2004. This six-month period of exclusivity was granted because the Company conducted pediatric clinical trials at the request of the FDA. On August 8, 2002, a federal district court in New Jersey ruled on motions for summary judgment, finding that certain of the desloratadine compound patent claims, which the Company believes protect Claritin, were anticipated by a prior patent and, thus, were not valid. On August 1, 2003, the district court's decision was sustained by the appellate court, and on October 28, 2003, the appellate court denied the Company's petition for rehearing. With these rulings, actions against the defendants for infringement of the desloratadine compound patent by manufacturers of loratadine will not proceed. The Company had also asserted that ANDAs filed by two manufacturers for generic versions of Claritin-D 24 Hour infringe the Company's patent

covering CLARITIN-D 24 Hour. The Company settled this litigation with Impax and ANDRX in October 2003 and has licensed them under this patent.

On November 27, 2002, the Company announced that all five formulations of the CLARITIN brand of non-drowsy allergy products had been approved at their original prescription strengths by the FDA as OTC medicines for the treatment of allergies. The Company also has been informed by the FDA that the New Drug Applications (NDAs) for these CLARITIN formulations, as well as for all indications (allergies and hives), will be transferred from the FDA's Pulmonary Division Office of Drug Evaluation II to the Division of Over-the-Counter Drug Products Office of Drug Evaluation V. The Company launched OTC CLARITIN in the United States in December 2002. Also in December 2002, a competing OTC loratadine product was launched in the United States. In the third quarter of 2003, the Company began to face additional private-label competition for its OTC CLARITIN line of nonsedating antihistamines, as the initial 180-day period of exclusivity expired for the first OTC generic competitor.

The Company continues to market CLARINEX (desloratadine) 5 mg Tablets for the treatment of allergic rhinitis, which combines the 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. The ability of the Company to capture and maintain market share for CLARINEX and OTC CLARITIN 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 among OTC CLARITIN, CLARINEX, other allergy treatments and generic OTC loratadine; the erosion rate of OTC CLARITIN and CLARINEX sales upon the entry of additional generic OTC loratadine products; and whether or not one or both of the other branded second-generation antihistamines are switched from prescription to OTC status. CLARINEX is experiencing intense competition in the prescription U.S. allergy market. The prescription allergy market has been shrinking since the OTC switch of CLARITIN in December 2002. The Company is implementing new marketing efforts to address market share performance for CLARINEX.

The switch of CLARITIN to OTC status and the introduction of competing OTC loratadine has resulted in a rapid, sharp and material decline in CLARITIN sales in the United States and the Company's results of operations. U.S. sales of prescription CLARITIN products were $25 million or 0.3 percent of the Company's consolidated global sales in 2003 and $1.4 billion or 14 percent in 2002. Sales of CLARINEX in the United States and abroad have also been materially adversely affected by the presence of generic OTC loratadine and OTC CLARITIN. In light of the factors described above, management believes that the Company's December 2002 introduction of OTC CLARITIN, as well as the introduction of a competing OTC loratadine product in December 2002 and additional entrants of generic OTC loratadine products in the market, have had a rapid, sharp and material adverse effect on the Company's results of operations and will likely continue for an indeterminate period of time.

As disclosed in filings with the U.S. Securities and Exchange Commission (SEC) and as noted in the "Legal, Environmental and Regulatory Matters" footnote included in the financial statements to this report, three drug manufacturers have submitted ANDAs to the FDA seeking to market generic forms of REBETOL (ribavirin) Capsules in the United States before the expiration of the Company's patents covering ribavirin formulations. The Company has sued those manufacturers in federal court for infringement. During 2003, the Company entered into separate licensing agreements with Three Rivers Pharmaceuticals, L.L.C. (Three Rivers), Geneva Pharmaceuticals, Inc. (Geneva) and Teva Pharmaceuticals USA, Inc. (Teva) that settled all patent litigation between the Company, Three Rivers, Geneva and Teva and granted those three companies each a non-exclusive, non-sublicensable license to the Company's U.S. ribavirin patents. These settlements do not affect Three Rivers', Geneva's or Teva's reported patent litigation with Ribapharm, Inc., a subsidiary of Valeant Pharmaceuticals International, (Ribapharm), relating to ribavirin patents. That litigation was dismissed upon defendants' motion for summary judgment on July 16, 2003. Ribapharm has appealed the summary judgment decision. Ribapharm has also petitioned the FDA to deny approval of the Three Rivers, Geneva and Teva products. The FDA has not acted on the Ribapharm petition. Generic forms of ribavirin are expected to enter the U.S. market in 2004, assuming FDA's approval of a generic ribavirin. The REBETOL patents are material to the Company's business. U.S. sales of REBETOL in 2003 were $306 million.

PEG-INTRON and REBETOL combination therapy for hepatitis C contributed substantially to sales in 2003 and 2002. During the fourth quarter of 2002, a competing pegylated interferon-based combination product, including a brand of ribavirin, received regulatory approval in most major markets, including the United States. The overall market share of the INTRON franchise has declined sharply, reflecting this new market competition. Management believes that the ability of PEG-INTRON and REBETOL combination therapy to maintain market share will continue to be adversely affected by new competition in the hepatitis C marketplace.

In October 2002, Merck/Schering-Plough Pharmaceuticals announced that the FDA approved ZETIA (ezetimibe) 10 mg for use either by itself or together with statins for the treatment of elevated cholesterol levels. In March 2003, the Company announced that ezetimibe (EZETROL, as marketed in Europe) had successfully completed the European Union (EU) mutual recognition procedure (MRP). With the completion of the MRP process, the 15 EU member states as well as Iceland and

Norway can grant national marketing authorization with unified labeling for EZETROL. EZETROL has been launched in many international markets. The Merck/Schering-Plough partnership is also pursuing the development and marketing of a once-daily tablet combining ezetimibe with simvastatin (*Zocor*), Merck's cholesterol-modifying medicine.

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 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, 2003. Additional information about cautionary factors that may affect future results is provided under the caption "Cautionary Factors That May Affect Future Results (Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)" in this Management's Discussion and Analysis of Operations and Financial Condition.

As noted in the "Consent Decree" footnote included in the financial statements to this report, on May 17, 2002, the Company announced that it had reached an agreement with the FDA for a consent decree to resolve issues involving the Company's compliance with current Good Manufacturing Practices at certain manufacturing facilities in New Jersey and Puerto Rico. The U.S. District Court for the District of New Jersey approved and entered the consent decree on May 20, 2002.

Under terms of the consent decree, the Company agreed to pay a total of $500 million to the U.S. government in two equal installments of $250 million; the first installment was paid in May 2002 and the second installment was paid in the second quarter of 2003. As previously reported, the Company accrued a $500 million provision for this consent decree in the fourth quarter of 2001.

The consent decree requires the Company to complete a number of actions. In the event certain actions agreed upon in the consent decree are not satisfactorily completed on time, the FDA may assess payments for each deadline missed. The consent decree required the Company to develop and submit for FDA's concurrence comprehensive cGMP Work Plans for the Company's manufacturing facilities in New Jersey and Puerto Rico that are covered by the decree. The Company received FDA concurrence with its proposed cGMP Work Plans on May 14, 2003. The cGMP Work Plans contain a number of Significant Steps whose timely and satisfactory completion are subject to payments of $15,000 per business day for each deadline missed. These payments may not exceed $25 million for 2002, and $50 million for each of the years 2003, 2004 and 2005. These payments are subject to an overall cap of $175 million.

In connection with its discussions with FDA regarding the Company's cGMP Work Plans, and pursuant to the terms of the decree, the Company and the FDA entered into a letter agreement dated April 14, 2003. In the letter agreement the Company and the FDA agreed to extend by six months the time period during which the Company may incur payments as described above with respect to certain of the Significant Steps whose proposed due dates are December 31, 2005. The letter agreement does not increase the yearly or overall caps on payments described above.

In addition, the decree requires the Company to complete programs of revalidation of the finished drug products and bulk active pharmaceutical ingredients manufactured at the covered manufacturing facilities. The Company is required under the consent decree to complete its revalidation programs for bulk active pharmaceutical ingredients by September 30, 2005, and for finished drugs by December 31, 2005. In general, the timely and satisfactory completion of the revalidations are subject to payments of $15,000 per business day for each deadline missed, subject to the caps described above. However, if a product scheduled for revalidation has not been certified as having been validated by the last date on the validation schedule, the FDA may assess a payment of 24.6 percent of the net domestic sales of the uncertified product until the validation is certified. Further, in general, if a product scheduled for revalidation under the consent decree is not certified within six months of its scheduled date, the Company must cease production of that product until certification is obtained. The completion of the Significant Steps in the Work Plans and the completion of the revalidation programs are subject to third-party expert certification, which must be accepted by the FDA.

The consent decree provides that if the Company believes that it may not be able to meet a deadline, the Company has the right, upon the showing of good cause, to request extensions of deadlines in connection with the cGMP Work Plans and revalidation programs. However, there is no guarantee that FDA will grant any such requests.

Although the Company believes it has made significant progress in meeting its obligations under the consent decree, it is possible that (1) the Company may fail to complete a Significant Step or a revalidation by the prescribed deadline; (2) the third party expert may not certify the completion of the Significant Step or revalidation; or (3) the FDA may disagree with an expert's certification of a Significant Step or revalidation. In such a case, it is possible that the FDA may assess payments as described above.

The Company would expense any payments assessed under the decree if and when incurred.

In addition, the failure to meet the terms of the consent decree could result in delays in approval of new products, seizure or recall of products, suspension or revocation of the authority necessary for the production and sale of products, fines and other civil or criminal sanctions.

In April 2003, the Company received notice of a False Claims Act complaint brought by an individual purporting to act on behalf of the U.S. government against it and approximately 25 other pharmaceutical companies in the U.S. District Court for the Northern District of Texas. The complaint alleges that the pharmaceutical companies, including the Company, have defrauded the United States by having made sales to various federal governmental agencies of drugs that were allegedly manufactured in a manner that did not comply with current Good Manufacturing Practices. The Company and the other defendants filed a motion to dismiss this action on July 23, 2003.

The Company is subject to pharmacovigilance reporting requirements in many countries and other jurisdictions, including the United States, the European Union (EU) and the EU member states. The requirements differ from jurisdiction to jurisdiction, but all include requirements for reporting adverse events that occur while a patient is using a particular drug in order to alert the manufacturer of the drug and the governmental agency to potential problems.

During pharmacovigilance inspections by officials of the British and French medicines agencies conducted at the request of the European Agency for the Evaluation of Medicinal Products (EMEA), serious deficiencies in reporting processes were identified. The Company is taking urgent actions to rectify these deficiencies as quickly as possible. The Company does not know what action, if any, the EMEA or national authorities will take in response to these findings. Possible actions include further inspections, demands for improvements in reporting systems, criminal sanctions against the Company and/or responsible individuals and changes in the conditions of marketing authorizations for the Company's products.

As described more specifically in the "Legal, Environmental and Regulatory Matters" footnote included in the financial statements to this report, to which the reader of this report is directed, the pricing, sales and 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 substantial fines, penalties and injunctive or administrative remedies, including exclusion from government reimbursement programs, and the Company also cannot predict whether any investigations will affect its marketing practices or sales. Any such result could have a material adverse effect on the Company, its financial condition 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 intercompany pricing matters;
- Impairment of intangible assets; and
- Accounting for legal and regulatory matters.

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. These rebates are estimated based on terms, historical experience, trend analysis and projected market conditions in the various markets served. 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 governmental inquiries focused in part on the calculation of rebates is contained in the "Legal, Environmental and Regulatory Matters" footnote in 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, 2003, taxes have not been provided on approximately $11.1 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, additional tax provisions may be necessary.

Also with regard to income taxes, certain of the Company's consolidated subsidiaries manufacture pharmaceutical ingredients at facilities located in low-tax jurisdictions. These manufacturing subsidiaries sell the pharmaceutical ingredients to other consolidated subsidiaries for further manufacturing and final sale to customers. Taxing authorities throughout the world can challenge the prices charged by the manufacturing subsidiaries. Management believes its pricing is based upon sound economic facts and circumstances. However, a successful challenge by a taxing authority, which management believes is unlikely, could result in additional income tax payments materially in excess of amounts accrued.

Intangible assets representing the capitalized costs of purchased goodwill, patents, licenses and other forms of intellectual property totaled $619 million at December 31, 2003. The value of these assets is subject to continuing scientific, medical and marketplace uncertainty. For example, if a marketed pharmaceutical product were to be withdrawn from the market for safety reasons or if marketing of a product could only occur with pronounced warnings, amounts capitalized for such a product may need to be reduced due to impairment. Events giving rise to impairment are an inherent risk in the pharmaceutical industry and cannot be predicted. Management regularly reviews intangible assets for possible impairment.

As discussed in the "Special Charges" section, the Company recognized asset impairment losses in 2003 for intangible assets. Asset impairment losses were recognized for an intangible asset related to a cancer therapy drug due to scientific advancements and for an intangible asset relating to the trade name of a sun care product due to marketplace competition.

Management judgments and estimates are also required in the accounting for legal and regulatory matters. In particular, the Company has recognized estimated minimum liabilities in connection with certain of the government investigations into its sales and marketing activities. See "Legal, Environmental and Regulatory Matters" footnote in the Notes to Consolidated Financial Statements.

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. In 2003, sales outside the United States accounted for approximately 57 percent of global 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 2003, changes in foreign exchange rates increased sales by 5 percent and increased 2003 diluted earnings per common share by $0.05.

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.

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 only financial assets exposed to changes in interest rates and/or equity prices are the debt and equity securities held in non-qualified trusts for employee benefits. These assets totaled $177 million at December 31, 2003. Due to the long-term nature of the liabilities that these trust assets will fund, the Company's exposure to market risk is deemed to be low.

The only financial obligations exposed to variability in interest expense are short-term borrowings. The Company maintains a cash and cash equivalent portfolio well in excess of the amount of short-term borrowings. Accordingly, the Company has no net exposure for changes in interest rates relating to its financial obligations.

The Company has long-term debt outstanding, on which a 10 percent decrease in interest rates would change the fair value of the debt by $130 million. However, the Company does not expect to refund this debt.

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 $1 million at December 31, 2003, and a liability of $1 million at December 31, 2002. It is estimated that a 10 percent change in interest rate structure could change the fair value of the swaps by less than $1 million.

Cautionary Factors That May Affect Future Results (Cautionary Statements Under the Private Securities Litigation Reform Act of 1995) Management's Discussion and Analysis of Operations and Financial Condition and other sections of this report and other written reports and oral statements made from time to time by the Company may contain "forward-looking statements" within the meaning of the Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations or forecasts of future events. They use words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "project," "intend," "plan," "potential," "will," and other words and terms of similar meaning in connection with a discussion of potential future events, circumstances or future operating or financial performance. You can also identify forward-looking statements by the fact that they do not relate strictly to historical or current facts.

In particular, forward-looking statements include statements relating to future actions, ability to access the capital markets, prospective products, the status of product approvals, future performance or results of current and anticipated products, sales efforts, development programs, expenses and programs to reduce expenses, the cost of and savings from the VERP, the outcome of contingencies such as litigation and investigations, growth strategy and financial results.

Any or all forward-looking statements here or in other publications may turn out to be wrong. Actual results may vary materially, and there are no guarantees about the performance of Schering-Plough stock. Schering-Plough does not assume the obligation to update any forward-looking statement.

Many factors could cause actual results to differ from Schering-Plough'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. Although it is not possible to predict or identify all such factors, they may include the following:

- A significant portion of net sales are made to major pharmaceutical and health care products distributors and major retail chains in the United States. Consequently, net sales and quarterly growth comparisons may be affected by fluctuations in the buying patterns of major distributors, retail chains and other trade buyers. These fluctuations may result from seasonality, pricing, wholesaler buying decisions or other factors.
- Competitive factors, including technological advances attained by competitors, patents granted to competitors, new products of competitors coming to the market, new indications for competitive products or generic prescription or OTC competition as Schering-Plough's products mature and patents expire on products.
- Increased pricing pressure both in the United States and abroad from managed care organizations, institutions and government agencies and programs. In the United States, among other developments, consolidation among customers may increase pricing pressures and may result in various customers having greater influence over prescription decisions through formulary decisions and other policies.

- Government laws and regulations (and changes in laws and regulations) affecting domestic and international operations including health care reform initiatives and drug importation legislation in the United States at the state and federal level and in other countries, as well as laws and regulations relating to trade, antitrust, monetary and fiscal policies, taxes, price controls and possible nationalization.
- Patent positions can be highly uncertain and patent disputes are not unusual. An adverse result in a patent dispute can preclude commercialization of products or negatively impact sales of existing products or result in injunctive relief and payment of financial remedies.
- Uncertainties of the FDA approval process and the regulatory approval and review processes in other countries, including, without limitation, delays in approval of new products.
- Failure to meet Good Manufacturing Practices established by the FDA and other governmental authorities can result in delays in the approval of products, release of products, seizure or recall of products, suspension or revocation of the authority necessary for the production and sale of products, fines and other civil or criminal sanctions. The resolution of manufacturing issues with the FDA discussed in Schering-Plough's 10-Ks, 10-Qs and 8-Ks are subject to substantial risks and uncertainties. These risks and uncertainties, including the timing, scope and duration of a resolution of the manufacturing issues, will depend on the ability of Schering-Plough to assure the FDA of the quality and reliability of its manufacturing systems and controls, and the extent of remedial and prospective obligations undertaken by Schering-Plough.
- Difficulties in product development. Pharmaceutical product development is highly uncertain. Products that appear promising in development may fail to reach market for numerous reasons. They may be found to be ineffective or to have harmful side effects in clinical or pre-clinical testing, they may fail to receive the necessary regulatory approvals, they may turn out not to be economically feasible because of manufacturing costs or other factors or they may be precluded from commercialization by the proprietary rights of others.
- Efficacy or safety concerns with respect to marketed products, whether or not scientifically justified, leading to recalls, withdrawals or declining sales.
- Major products such as CLARITIN, CLARINEX, INTRON A, PEG-INTRON, REBETOL Capsules, REMICADE and NASONEX accounted for a material portion of Schering-Plough's 2003 revenues. If any major product were to become subject to a problem such as loss of patent protection, OTC availability of the Company's product or a competitive product (as has been disclosed for CLARITIN and its current and potential OTC competition), previously unknown side effects; if a new, more effective treatment should be introduced; generic availability of competitive products; or if the product is discontinued for any reason, the impact on revenues could be significant. Further, such information about important new products, such as ZETIA, or important products in our pipeline, may impact future revenues.
- Unfavorable outcomes of government (local and federal, domestic and international) investigations, litigation about product pricing, product liability claims, other litigation and environmental concerns could preclude commercialization of products, negatively affect the profitability of existing products, materially and adversely impact Schering-Plough's financial condition and results of operations, or contain conditions that impact business operations, such as exclusion from government reimbursement programs.
- Economic factors over which Schering-Plough has no control, including changes in inflation, interest rates and foreign currency exchange rates.
- Instability, disruption or destruction in a significant geographic region – due to the location of manufacturing facilities, distribution facilities or customers – regardless of cause, including war, terrorism, riot, civil insurrection or social unrest; and natural or man-made disasters, including famine, flood, fire, earthquake, storm or diseases.
- Changes in tax laws including changes related to taxation of foreign earnings.
- Changes in accounting standards promulgated by the American Institute of Certified Public Accountants, the Financial Accounting Standards Board or the SEC, or the Public Company Accounting Oversight Board that would require a significant change to Schering-Plough's accounting practices.

For further details and a discussion of these and other risks and uncertainties, see Schering-Plough's past and future SEC filings.

STATEMENTS OF CONSOLIDATED OPERATIONS

(AMOUNTS IN MILLIONS, EXCEPT PER SHARE FIGURES)	FOR THE YEARS ENDED DECEMBER 31, 2003	2002	2001
Net sales	$8,334	$10,180	$9,762
Cost of sales	2,833	2,505	2,078
Selling, general and administrative	3,474	3,681	3,444
Research and development	1,469	1,425	1,312
Other (income) expense, net	59	(144)	(95)
Special charges	599	150	500
Equity income from cholesterol joint venture	(54)	–	–
(Loss)/income before income taxes	(46)	2,563	2,523
Income taxes	46	589	580
Net (loss)/income	$ (92)	$ 1,974	$1,943
Diluted (loss)/earnings per common share	$ (.06)	$ 1.34	$ 1.32
Basic (loss)/earnings per common share	$ (.06)	$ 1.35	$ 1.33

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

STATEMENTS OF CONSOLIDATED CASH FLOWS

(AMOUNTS IN MILLIONS)	FOR THE YEARS ENDED DECEMBER 31, 2003	2002	2001
Operating Activities:			
Net (loss)/income	$ (92)	$1,974	$1,943
Depreciation and amortization	417	372	320
Accounts receivable	603	7	(434)
Inventories	(152)	(248)	(69)
Prepaid expenses and other assets	(259)	(242)	(153)
Accounts payable and other liabilities	(509)	(33)	405
Special charges	593	150	500
Net cash provided by operating activities	601	1,980	2,512
Investing Activities:			
Capital expenditures	(701)	(770)	(759)
Purchases of investments	(153)	(482)	(162)
Reduction of investments	70	303	33
Other, net	(6)	(19)	25
Net cash used for investing activities	(790)	(968)	(863)
Financing Activities:			
Cash dividends paid to common shareholders	(830)	(983)	(911)
Common shares repurchased	–	–	(34)
Net change in short-term borrowings	(399)	770	(419)
Issuance of long-term debt	2,369	–	8
Other, net	(258)	13	29
Net cash provided by (used for) financing activities	882	(200)	(1,327)
Effect of exchange rates on cash and cash equivalents	4	(7)	(3)
Net increase in cash and cash equivalents	697	805	319
Cash and cash equivalents, beginning of year	3,521	2,716	2,397
Cash and cash equivalents, end of year	$4,218	$3,521	$2,716

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED BALANCE SHEETS

(AMOUNTS IN MILLIONS, EXCEPT PER SHARE FIGURES)	AT DECEMBER 31, 2003	2002
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 4,218	$ 3,521
Short-term investments	587	481
Accounts receivable, less allowances: 2003, $116; 2002, $134	1,329	1,808
Inventories	1,651	1,300
Deferred income taxes	472	625
Prepaid expenses and other current assets	890	537
Total current assets	9,147	8,272
Property, at cost:		
Land	78	61
Buildings and improvements	3,009	2,459
Equipment	2,911	2,377
Construction in progress	819	1,311
Total	6,817	6,208
Less accumulated depreciation	2,290	1,972
Property, net	4,527	4,236
Goodwill	218	232
Other intangible assets, net	401	429
Other assets	809	967
Total assets	$15,102	$14,136
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,030	$ 1,063
Short-term borrowings and current portion of long-term debt	1,023	1,423
U.S., foreign and state income taxes	812	628
Accrued compensation	315	429
Other accrued liabilities	1,429	1,186
Total current liabilities	4,609	4,729
Long-term Liabilities:		
Long-term debt	2,410	21
Deferred income taxes	234	358
Other long-term liabilities	512	886
Total long-term liabilities	3,156	1,265
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	1,272	1,203
Retained earnings	10,918	11,840
Accumulated other comprehensive income	(426)	(477)
Total	12,779	13,581
Less treasury shares: 2003, 559; 2002, 562; at cost	5,442	5,439
Total shareholders' equity	7,337	8,142
Total liabilities and shareholders' equity	$15,102	$14,136

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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 January 1, 2001	$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)
Other					3	3
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
Comprehensive income:						
Net income			1,974			1,974
Foreign currency translation					5	5
Minimum pension liability, net of tax					(18)	(18)
Realized gain reclassified to income, net of tax					(28)	(28)
Other					(13)	(13)
Total comprehensive income						1,920
Cash dividends on common shares			(983)			(983)
Stock incentive plans		91		(11)		80
Balance December 31, 2002	1,015	1,203	11,840	(5,439)	(477)	8,142
Comprehensive income:						
Net loss			(92)			(92)
Foreign currency translation					218	218
Minimum pension liability, net of tax					(178)	(178)
Unrealized gain on investments available for sale, net of tax					13	13
Other					(2)	(2)
Total comprehensive income						(41)
Cash dividends on common shares			(830)			(830)
Stock incentive plans		69		(3)		66
Balance December 31, 2003	$1,015	$1,272	$10,918	$(5,442)	$(426)	$7,337

SEE NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

Summary of Significant 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 13 years for equipment. Depreciation expense was $304, $250 and $213 in 2003, 2002 and 2001, 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.

Accumulated Other Comprehensive Income Accumulated other comprehensive income primarily consists of the accumulated foreign currency translation adjustment account, unrealized gains and losses on securities classified for Statement of Financial Accounting Standards (SFAS) No. 115 purposes as available for sale and a minimum pension liability adjustment.

The components of accumulated other comprehensive income at December 31 were:

	2003	2002
Accumulated foreign currency translation	$(238)	$(456)
Accumulated unrealized gains (losses) on investments available for sale, net of tax	8	(6)
Minimum pension liability, net of tax	(196)	(18)
Other	–	3
Total	$(426)	$(477)

Gross unrealized pre-tax gains in 2003 were $20; unrealized losses were immaterial. Gross unrealized gains and losses in 2002 were immaterial.

Revenue Recognition Revenues from the sale of products are recognized when goods are shipped to customers and reliable estimates of product returns can be made. Reliable estimates of product returns can be made when business conditions permit the Company to make reasonable estimates of expected demand.

Following the approval of CLARITIN as an over-the-counter (OTC) product in the fourth quarter of 2002, revenue from U.S. sales of the prescription form of CLARITIN was recognized when the product was used to fill patient prescriptions because reliable estimates of product returns could not be made at the time of shipment. Further, since the expiration of the initial 180-day period of exclusivity for the first generic competitor of the OTC form of CLARITIN, the Company has experienced additional private-label competition. As a result, revenues from the sales of OTC CLARITIN are recognized at the time of shipment, but only to the extent that the Company can make reasonable estimates of product returns.

Provisions for discounts and rebates are recorded in the same period the related sales are recorded. For purposes of revenue recognition, at the end of each quarter the Company estimates the applicable commercial and governmental rebates that will

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

be paid for products sold and reduces recorded sales by those estimated amounts. These rebates are estimated based on terms, historical experience, trend analysis and projected market conditions in the various markets served.

Earnings Per Common Share In 2002 and 2001, 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. In 2003, diluted loss per common share excludes the effect of shares issuable through deferred stock units and through the exercise of stock options because including these would have the effect of decreasing the loss per share. 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)	2003	2002	2001
Average shares outstanding for basic earnings per share	1,469	1,466	1,463
Dilutive effect of options and deferred stock units	–	4	7
Average shares outstanding for diluted earnings per share	1,469	1,470	1,470

The equivalent of 77 million, 47 million and 35 million common shares issuable under the Company's stock incentive plans were excluded from the computation of diluted earnings per share as of December 31, 2003, 2002 and 2001, respectively, because their effect would have been antidilutive.

Goodwill Effective January 1, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." 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 Company has performed the required annual goodwill impairment tests and has found that recorded goodwill is not impaired. Accordingly, the adoption of SFAS No. 142 did not result in an adjustment to recorded goodwill. Goodwill amortization expense was $5 in 2001. Diluted and basic earnings per common share in 2001 would have been unchanged if goodwill amortization were excluded from net income on a pro forma basis. The Company's goodwill is primarily related to the Animal Health business.

Other Intangible Assets The components of the balance sheet caption "Other intangible assets, net" are as follows:

	DECEMBER 31, 2003			DECEMBER 31, 2002		
	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET
Patents and licenses	$614	$318	$296	$658	$293	$365
Trademarks and other	143	38	105	98	34	64
Total other intangible assets	$757	$356	$401	$756	$327	$429

These intangible assets are amortized on the straight-line method over their respective useful lives. In 2003, 2002 and 2001, the Company paid $11, $84 and $121, respectively, for patent and licensing rights; these costs will be amortized over approximately nine years. The residual value of intangible assets is estimated to be zero. Amortization expense related to other intangible assets in 2003, 2002 and 2001 was $55, $66 and $65, respectively. Other intangible assets are reviewed to determine their recoverability by comparing their carrying values to their expected undiscounted future cash flows when events or circumstances warrant such a review. Full year amortization expense in each of the next five years is estimated to be approximately $50 per year based on the intangible assets recorded as of December 31, 2003.

Accounting for Stock-Based Compensation The Company accounts for its stock compensation arrangements using the intrinsic value method. Under the intrinsic value method, the difference between the amount the employee will pay the Company for stock acquired under the Company's incentive plans and the stock's fair value on the date of grant is charged to expense. Since employees must pay the Company the grant-date fair value for stock options, no expense is recorded for stock options. Alternatively, since employees do not pay for stock issued for deferred stock units granted, their grant date fair value is recorded as expense.

The following table reconciles net (loss)/income and (loss)/earnings per common share (EPS), as reported, to pro forma net (loss)/income and EPS, as if the Company had expensed the grant-date fair value of both stock options and deferred stock units as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." These pro forma amounts may not be representative of the initial impact of adopting SFAS No. 123 since, as amended, it permits alternative methods of adoption.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

	2003	2002	2001
Net (loss)/income, as reported	$ (92)	$1,974	$1,943
Add back: Expense included in reported net income for deferred stock units, net of tax	66	69	56
Deduct: Pro forma expense as if both stock options and deferred stock units were charged against net income, net of tax	(143)	(150)	(137)
Pro forma net (loss)/income using the fair value method	$(169)	$1,893	$1,862
Diluted (loss)/earnings per share:			
Diluted (loss)/earnings per share, as reported	$ (.06)	$ 1.34	$ 1.32
Pro forma diluted (loss)/earnings per share using the fair value method	(.12)	1.29	1.27
Basic (loss)/earnings per share:			
Basic (loss)/earnings per share, as reported	$ (.06)	$ 1.35	$ 1.33
Pro forma basic (loss)/earnings per share using the fair value method	(.12)	1.29	1.27

The weighted-average fair value of options granted in 2003, 2002 and 2001 was $5.29, $11.25 and $13.35, respectively. These fair values were estimated using the Black-Scholes option pricing model, based on the following assumptions:

	2003	2002	2001
Dividend yield	1.4%	1.3%	1.5%
Volatility	34%	35%	35%
Risk-free interest rate	2.9%	4.3%	4.9%
Expected term of options (in years)	5	5	5

Other Recently Issued Accounting Standards In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." In the normal course of business, the Company does not issue guarantees to third parties; accordingly, this interpretation has no effect on the Company's financial statements.

In April 2003, the FASB issued SFAS No.149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." The adoption of SFAS No. 149 had no effect on the Company's financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," which requires certain financial instruments to be classified as a liability (or an asset in some circumstances). The adoption of SFAS No. 150 had no effect on the Company's financial statements.

In December 2003, the FASB issued FASB Interpretation No. 46 (revised), "Consolidation of Variable Interest Entities" (FIN 46). The adoption of FIN 46 had no effect on the Company's financial statements.

In January 2004, the FASB issued Staff Position No. FAS 106-1, titled "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" (FSP). The act, signed into law in December 2003, introduces a prescription drug benefit under Medicare as well as a federal subsidy, under certain conditions, to sponsors of retiree health care benefit plans. Presently, authoritative guidance on the accounting for the subsidy has not been issued. The Company has elected a one-time deferral of the accounting for the effects of the act, as permitted by the FSP. This deferral continues to apply until authoritative guidance on the accounting for the federal subsidy is issued.

Special Charges The components of special charges are as follows:

	2003	2002	2001
Employee termination costs	$179	$ –	$ –
Asset impairment losses	70	–	–
Litigation charges	350	150	–
Consent decree charge	–	–	500
	$599	$150	$500

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

Employee Termination Costs In August 2003, the Company announced a global workforce reduction initiative. The first phase of this initiative was a Voluntary Early Retirement Program in the United States. Under this program, eligible employees in the United States had until December 15, 2003, to elect early retirement and receive an enhanced retirement benefit. Approximately 900 employees elected to retire under the program, of which approximately 750 employees retired at or near year-end 2003 and approximately 150 employees have staggered retirement dates in the future. The total cost of this program is estimated to be $190, comprised of increased pension costs of $107, increased post-retirement health care costs of $57, vacation payments of $4 and costs related to accelerated vesting of stock grants of $22. For employees with staggered retirement dates in the future, these amounts will be recognized as a special charge over the employees' remaining service periods. This delayed expense recognition follows the guidance in SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." Amounts recognized in 2003 for this program are $164 and amounts expected to be recognized in 2004 and 2005 are $19 and $7, respectively.

Asset Impairment Losses Asset impairment losses have been recognized in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Asset impairment losses related to the following:

- The Company ceased production of certain products produced at one of its manufacturing sites operating under the FDA consent decree. The Company also announced the closure of its manufacturing site in England. All manufacturing at the site in England has substantially ceased. Sales of all the affected products have not been material. An asset impairment loss of $26 based on discounted cash flows has been recognized related to the facilities and equipment at these two sites.
- The Company has ceased marketing a licensed cancer therapy drug that was sold in countries outside the United States. Sales of this product declined and are not material. The introduction of competing products has resulted in a decline in the market share of the Company's drug to the point where management concluded that it was no longer practical to continue to participate in this marketplace. An asset impairment loss of $27 based on discounted cash flows has been recognized related to this intangible asset.
- One of the Company's sun care brands competes in the "high-end" segment of the overall sun care market. Two large cosmetics companies have entered this market segment, and sales of the Company's brand have declined. When the Company acquired this brand, a portion of the purchase price was allocated to the trade name based upon its fair value at that time. The Company performs periodic reviews of all values assigned to intangible assets and, in connection with those reviews, an impairment loss of $17 related to the trade name has been recognized based on discounted cash flows. This reflects the change in market conditions since this brand was acquired. Sales of this sun care brand have not been material.

Litigation Charges In 2003 and 2002, litigation reserves have been increased by $350 and $150, respectively, primarily as a result of the investigations into the Company's sales and marketing practices (see "Legal, Environmental and Regulatory Matters" footnote for additional information).

Consent Decree Charge In 2001, a provision of $500 was recognized for payments to the federal government under a consent decree (see "Consent Decree" footnote for additional information).

Summary of Selected Special Charges The following summarizes the activity in the accounts related to employee termination costs and asset impairment losses:

	EMPLOYEE TERMINATION COSTS	ASSET IMPAIRMENT LOSSES
2003 Special charges	$179	$70
Impairment write-off	–	(70)
Credit to retirement benefit plan liability	(144)	–
Cash disbursement	(6)	–
Special charges accrual balance at Dec. 31, 2003	$ 29	$ –

The balance at December 31, 2003, for employee termination costs represents the value of stock grants ($22), which will be distributed after year-end 2003, and severance and accrued vacation payments to be paid in 2004 ($7).

Financial Instruments and Commitments SFAS No. 133, as amended, requires all derivatives to be recorded on the balance sheet at fair value. This statement also provides that the effective portion of qualifying cash flow hedges be recognized in income when the hedged item affects income; that 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, be recognized as they occur; and that changes in the

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

fair value of derivatives that do not qualify for hedge treatment, as well as the ineffective portion of qualifying hedges, be 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. 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, 2003		DECEMBER 31, 2002	
	CARRYING VALUE	ESTIMATED FAIR VALUE	CARRYING VALUE	ESTIMATED FAIR VALUE
Assets:				
Cash and cash equivalents	$4,218	$4,218	$3,521	$3,521
Short-term investments	587	587	481	481
Long-term investments	177	182	168	168
Interest rate swap contracts	–	–	53	53
Liabilities:				
Short-term borrowings and current portion of long-term debt	1,023	1,023	1,423	1,423
Long-term debt	2,410	2,496	21	21
Other financing instruments	–	–	241	258
Interest rate swap contracts	1	1	1	1

Long-term Investments Long-term investments, which are included in other non-current assets, primarily consist of debt and equity securities held in non-qualified trusts to fund long-term employee benefit obligations, which are included as liabilities in the Consolidated Balance Sheets. These assets can only be used to fund the related liabilities.

Long-term investments are primarily classified as available for sale and are carried at fair value. Realized gains from the sale of securities classified as available for sale were $0 in 2003, $43 in 2002 and $35 in 2001. Proceeds from these sales totaled $0, $80 and $51, respectively. Realized gains are recorded in other (income) expense, net.

Interest Rate Swap Contracts

Assets To hedge the variable rate risk associated with a $200 variable rate time deposit purchased in 1999, the Company entered into an interest rate swap, which matured in November 2003. Under the terms of the swap, the Company received a fixed rate of approximately 5.6 percent and paid a three-month LIBOR rate on a notional amount of $200. This swap was designated as a cash flow hedge, with the effective portion of the swap deferred until the transaction being hedged was recorded in earnings. The interest rate swap's maturity value was $58; the swap's fair value at December 31, 2002 was $53.

Liabilities 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, 2003, 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. The fair value of these swaps was a liability of $1 at December 31, 2003. The Company has triggered the credit rating downgrade provisions in these swap arrangements and, as a result, the counterparty can terminate the swaps. The impact of terminating these swaps is not material.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

Borrowings In general, short-term borrowings consist of commercial paper issued in the United States, bank loans and notes payable. In connection with the Company's purchase of a research and office facility in 2000, the Company issued a $100 note which was paid in full in March 2003. The imputed interest rate on this note was 6.5 percent. Commercial paper outstanding at December 31, 2003 and 2002 was $939 and $1,188, respectively. The weighted-average interest rate for short-term borrowings at December 31, 2003 and 2002 was 1.8 percent and 3.3 percent, respectively.

On November 26, 2003, the Company issued $1,250 aggregate principal amount of 5.3 percent senior unsecured notes due 2013 and $1,150 aggregate principal amount of 6.5 percent senior unsecured notes due 2033. Interest is payable semi-annually. The net proceeds from this offering were $2,369. Upon issuance, the notes were rated A3 by Moody's Investors Service, Inc. (Moody's), and A+ (on CreditWatch with negative implications) by Standard & Poor's Rating Services (S&P). The interest rates payable on the notes are subject to adjustment as follows: If the rating assigned to the notes by Moody's changes to one of the ratings set forth below, the interest rate payable on that series of notes will increase by the additional interest rate set forth below; similarly, if the rating assigned to the notes by S&P changes to one of the ratings set forth below, the interest rate payable on that series of notes will increase again by additional interest rate set forth below:

ADDITIONAL INTEREST RATE	MOODY'S RATING	S&P RATING
0.25%	Baa1	BBB+
0.50%	Baa2	BBB
0.75%	Baa3	BBB-
1.00%	Ba1 or below	BB+ or below

In no event will the interest rate for any of the notes increase by more than 2 percent above the initial coupon rates of 5.3 percent and 6.5 percent, respectively. If either Moody's or S&P subsequently upgrades its ratings, the interest rates will be correspondingly reduced, but not below 5.3 percent or 6.5 percent, respectively. Furthermore, the interest rate payable on a particular series of notes will return to 5.3 percent and 6.5 percent, respectively, and the rate adjustment provisions will permanently cease to apply if, following a downgrade by both Moody's and S&P below A3 or A-, respectively, both Moody's and S&P raise their rating to A3 and A-, respectively, or better.

The notes are redeemable in whole or in part, at the Company's option at any time, at a redemption price equal to the greater of (1) 100 percent of the principal amount of such notes and (2) the sum of the present values of the remaining scheduled payments of principal and interest discounted using the rate of treasury notes with comparable remaining terms plus 25 basis points for the 2013 notes or 35 basis points for the 2033 notes.

The fair value of these combined notes was $2,473 at December 31, 2003.

The Company has three revolving credit facilities totaling $2,000. The most recently negotiated facility (September 2003) is a $1,000 364-day credit facility from three major financial institutions that can be drawn down in the United States. This facility matures in September 2004. The other facilities are with a syndicate of financial institutions and provide for $500 that can be drawn down in the United States through May 2004 with repayment due May 2005, and a second multi-currency facility for $500 that can be drawn down in the United States and internationally through the maturity date in 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, 2003, no funds were drawn under any of these facilities. In addition, the Company's foreign subsidiaries had approximately $327 available in unused lines of credit from various financial institutions at December 31, 2003.

Credit Ratings

Changes in Credit Ratings On December 17, 2003, S&P lowered the Company's corporate credit and long-term debt ratings to "A" from "A+" and said the outlook on the ratings was negative, noting a weakening in the Company's INTRON franchise and expected declines in earnings and cash flows. There was no change in the Company's short-term corporate credit and commercial paper rating, which was lowered to "A-1" from "A-1+" on July 29, 2003. On January 26, 2004, S&P placed the Company's corporate credit rating, short-term credit rating and senior unsecured debt rating on CreditWatch with negative implications. On February 18, 2004, S&P downgraded the Company's senior unsecured debt ratings to "A-" from "A." At the same time, S&P also lowered the Company's short-term corporate credit and commercial paper rating to "A-2" from "A-1." S&P removed the Company from CreditWatch, however, its outlook remains negative.

On October 9, 2003, Moody's lowered the Company's corporate credit rating to "A-3" from "A-1" and lowered its commercial paper rating to "P-2" from "P-1." Following this rating action, Moody's removed the Company from its Watchlist and revised its rating outlook to stable from negative. Moody's also stated that its credit rating assumed modest outflows to settle

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outstanding litigation or acquisitions, and that a very large payment associated with litigation proceedings or acquisition activity could place pressure on the rating and/or outlook.

On November 20, 2003, Fitch Ratings (Fitch) downgraded the Company's senior unsecured and bank loan ratings to "A-" from "A+," and its commercial paper rating to "F2" from "F1." The Company's Rating Outlook remained negative. In announcing the downgrade, Fitch noted that the sales decline in the Company's leading product franchise, the INTRON franchise, was greater than anticipated, and that it was concerned that total Company growth is reliant on the performance of two key growth drivers, ZETIA and REMICADE, in the near term.

Other Financing Instruments During 1999, a subsidiary of the Company issued $200 of equity-type securities. These securities had certain put and call features. Because of the put and call features, this obligation was included in other long-term liabilities at December 31, 2002. The securities bore a LIBOR-based yield that was substantially fixed through November 28, 2003. At December 31, 2002, the rate was 5.2 percent. The Company exercised its call option and fully redeemed these securities in November 2003.

Commitments Total rent expense amounted to $91 in 2003, $81 in 2002 and $72 in 2001. Future minimum rental commitments on non-cancelable operating leases as of December 31, 2003, range from $69 in 2004 to $32 in 2008, with aggregate minimum lease obligations of $41 due thereafter. As of December 31, 2003, the Company has commitments totaling $184 related to capital expenditures to be made in 2004.

Insurance Coverage The Company maintains insurance coverage with such deductibles and self-insurance as management believes adequate for its needs under current circumstances. Such coverage reflects market conditions (including cost and availability) existing at the time it is written, and the relationship of insurance coverage to self-insurance varies accordingly. As a result of recent external events, the availability of insurance has become more restrictive. Management considers the impact of these changes as it continually assesses the best way to provide for its insurance needs in the future. The Company now self-insures a higher proportion of risk than in the past (especially as it relates to products' liability).

Other (Income) Expense, Net The components of other (income) expense, net are as follows:

	2003	2002	2001
Interest cost incurred	$92	$ 52	$65
Less: amount capitalized on construction	(11)	(24)	(25)
Interest expense	81	28	40
Interest income	(57)	(75)	(121)
Foreign exchange (gains) losses	1	(2)	4
Other, net	34	(95)	(18)
Total	$59	$(144)	$(95)

Other, net in 2002 includes a gain of $80 from the sale of U.S. marketing rights for SUBOXONE and SUBUTEX. Cash paid for interest, net of amounts capitalized, was $46, $26 and $47 in 2003, 2002 and 2001, respectively.

Shareholders' Equity A summary of treasury share transactions follows:

(SHARES IN MILLIONS)	2003	2002	2001
Share balance at January 1	562	565	567
Shares issued under stock incentive plans	(3)	(3)	(3)
Purchase of treasury shares	–	–	1
Share balance at December 31	559	562	565

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.

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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.

Equity Income from Cholesterol Joint Venture The Company and Merck & Co., Inc. (Merck) have agreements to jointly develop and market ZETIA (ezetimibe) as a once-daily monotherapy, as co-administration of ZETIA with statins, and ezetimibe as a once-daily fixed-combination tablet with simvastatin *(Zocor)*, Merck's cholesterol-modifying medicine. The agreements also involve the development and marketing of a once-daily, fixed-combination tablet containing CLARITIN and *Singulair*. *Singulair* is Merck's once-daily leukotriene receptor antagonist for the treatment of asthma and seasonal allergic rhinitis. 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 agreements generally provide for equal sharing of development costs and for co-promotion of approved products by each company in the United States and in most other countries of the world, except Japan. In Japan, no agreement exists. In general, co-promotion provides that each company will provide equal physician marketing efforts and that each company will bear the cost of its own sales force in marketing the products. In general, the agreement provides that the venture will operate in a "virtual" mode to the maximum degree possible by relying on the respective infrastructures of the two companies. However, the companies have agreed to share certain costs, but these costs are limited to a portion of the costs of manufacturing, the cost of a specialty sales force and certain specially identified promotion costs. It should be noted that the Company incurs substantial costs, such as selling costs, that are not reflected in Equity income from cholesterol joint venture and are borne entirely by the Company. The agreements do not provide for any jointly owned facilities and, as such, products resulting from the collaboration will be manufactured in facilities owned by either Merck or the Company.

During 2003, the Company earned a milestone of $20 that relates to certain European approvals of ZETIA. Under certain other conditions, Merck could pay additional milestones to the Company totaling $132.

Prior to 2003, the venture was in the research and development phase and the Company's share of research and development expense in 2002 and 2001 of $69 and $86, respectively, was reported in "Research and development" in the Statements of Consolidated Operations. The venture has now moved beyond the research and development phase. ZETIA was launched in late 2002, and a U.S. marketing application for the combination of ezetimibe/simvastatin was submitted to the FDA in September 2003. To reflect the venture's first full year of commercial operations, the Company adopted the equity method of accounting effective as of the beginning of 2003. Under that method, the Company records its share of the operating profits less its share of the research and development costs in "Equity income from cholesterol joint venture" in the Statements of Consolidated Operations. Prior year amounts have not been affected.

Equity income from cholesterol joint venture for the year ended December 31, 2003 was $54. Included in this amount are the Company's share of operating profits of $113, the $20 milestone receipt, less its share of research and development costs of $79.

Stock Incentive Plans Under the terms of the Company's 2002 Stock Incentive Plan, which was approved by the Company's shareholders, 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 2007. As of December 31, 2003, 45 million options and deferred stock units remain available for future year grants under the 2002 Stock Incentive Plan. 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 in 2003 and prior generally had 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 three or five equal annual installments generally commencing one year from the date of the award.

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The following table summarizes stock option activity over the past three years under the current and prior plans, all of which have been approved by the Company's shareholders:

(NUMBER OF OPTIONS IN MILLIONS)	NUMBER OF OPTIONS	2003 WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	2002 WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	2001 WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at January 1	54	$35.40	50	$35.18	46	$33.77
Granted	23	17.57	8	34.21	8	40.15
Exercised	(1)	9.40	(1)	11.64	(2)	16.81
Canceled or expired	(5)	33.19	(3)	40.31	(2)	38.61
Outstanding at December 31	71	$30.15	54	$35.40	50	$35.18
Exercisable at December 31	43	$34.94	35	$34.48	30	$33.11

Summarized information about stock options outstanding and exercisable at December 31, 2003 is as follows:

	OUTSTANDING			EXERCISABLE	
(NUMBER OF OPTIONS IN MILLIONS)	NUMBER OF OPTIONS	WEIGHTED-AVERAGE REMAINING TERM IN YEARS	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER OF OPTIONS	WEIGHTED-AVERAGE EXERCISE PRICE
Exercise Price Range					
Under $15	6	1.7	$12.58	6	$12.44
$15 to $25	26	8.4	17.79	4	18.99
$25 to $40	19	6.2	36.34	18	36.55
$40 to $50	13	6.9	42.64	9	41.39
Over $50	7	5.2	53.16	6	53.10
	71			43	

In 2003, 2002 and 2001, the Company awarded deferred stock units totaling 3.2 million, 2.9 million and 2.7 million, respectively.

Inventories Year-end inventories consisted of the following:

	2003	2002
Finished products	$ 664	$ 540
Goods in process	648	449
Raw materials and supplies	339	311
Total inventories	$1,651	$1,300

Inventories valued on a last-in, first-out basis comprised approximately 19 percent and 21 percent of total inventories at December 31, 2003 and 2002, respectively. The estimated replacement cost of total inventories at December 31, 2003 and 2002 was $1,704 and $1,346, 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 measurement date for the majority of these plans is December 31.

Net pension expense in 2003 was $117 compared with net pension expense in 2002 of $23. The increase of $94 is principally due to costs associated with the Voluntary Early Retirement Program (see "Special Charges" footnote for additional information). It is estimated that a one-half percent reduction in the expected long-term rate of return on consolidated plan assets would increase pension expense by approximately $7. It is estimated that a one-half percent reduction in the discount rate would increase pension expense by approximately $14.

Also, at December 31, 2003, the Company has an unrecognized net pension loss of $628. Gains and losses arise primarily from plan assets earning more or less than the long-term expected rate of return and from changes in pension discount rates. If there were no gains in the future to offset the $628 net unrecognized loss, amortization of these losses would ultimately increase annual pension expense by approximately $25.

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

	RETIREMENT PLANS			POST-RETIREMENT HEALTH CARE BENEFITS		
	2003	2002	2001	2003	2002	2001
Service cost	$ 71	$ 60	$ 48	$ 9	$ 7	$ 5
Interest cost	85	79	73	18	15	14
Expected return on plan assets	(118)	(114)	(119)	(18)	(19)	(21)
Amortization, net	(1)	(2)	(3)	–	(1)	(2)
Termination benefits[1]	70	–	–	9	–	–
Curtailment[1]	8	–	–	46	–	–
Settlement[1]	2	–	–	–	–	–
Net pension and other post-retirement benefits expense (income)	$ 117	$ 23	$ (1)	$ 64	$ 2	$ (4)

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

	RETIREMENT PLANS		POST-RETIREMENT HEALTH CARE BENEFITS	
	2003	2002	2003	2002
Benefit obligations at January 1	$1,378	$1,167	$265	$220
Service cost	71	60	9	7
Interest cost	85	79	18	15
Assumption changes	43	60	–	23
Effects of exchange rate changes	48	32	–	–
Benefits paid	(98)	(51)	(15)	(14)
Actuarial losses	138	31	97	14
Plan amendments	63	–	–	–
Termination benefits[1]	83	–	11	–
Curtailment[1]	8	–	46	–
Settlement[1]	3	–	–	–
Benefit obligations at December 31	$1,822	$1,378	$431	$265
Benefit obligations of overfunded plans	$ 17	$ 12	$ –	$ –
Benefit obligations of underfunded plans	1,805	1,366	431	265

[1] Termination benefits, Curtailment and Settlement costs in 2003 primarily relate to the matters discussed in the "Special Charges" footnote.

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

	RETIREMENT PLANS		POST-RETIREMENT HEALTH CARE BENEFITS	
	2003	2002	2003	2002
Fair value of plan assets, primarily stocks and bonds, at January 1	$1,090	$1,140	$176	$212
Actual gain (loss) on plan assets	192	(99)	39	(22)
Contributions	99	75	–	–
Effects of exchange rate changes	36	25	–	–
Benefits paid	(98)	(51)	(15)	(14)
Fair value of plan assets at December 31[1]	$1,319	$1,090	$200	$176
Plan assets of overfunded plans	$ 18	$ 14	$ –	$ –
Plan assets of underfunded plans	1,301	1,076	200	176

[1] The fair value of plan assets for domestic pension plans was $957 and $827 at December 31, 2003 and 2002, respectively.

In addition to the plan assets indicated above, at December 31, 2003 and 2002, securities of $79 and $74, respectively, were held in non-qualified trusts designated to provide pension benefits for certain underfunded plans.

At December 31, 2003 and 2002, the accumulated benefit obligation for the retirement plans was $1,531 and $1,105, respectively. The aggregated accumulated benefit obligation and fair value of plan assets for retirement plans with an

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accumulated benefit obligation in excess of plan assets is $1,245 and $995, respectively, at December 31, 2003, and $195 and $63, respectively, at December 31, 2002.

Presently, the Company does not anticipate making any contributions in 2004 to fund the U.S. retirement plan and the post-retirement health care plan.

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	
	2003	2002	2003	2002
Benefit obligations in excess of plan assets	$(503)	$(288)	$(231)	$(89)
Unrecognized net transition assets	(2)	(11)	–	–
Unrecognized prior service costs	75	15	(2)	(3)
Unrecognized net actuarial loss	628	499	175	97
Net assets at December 31	$ 198	$ 215	$ (58)	$ 5

Amounts recognized in the balance sheet consist of:

	RETIREMENT PLANS		POST-RETIREMENT HEALTH CARE BENEFITS	
	2003	2002	2003	2002
Prepaid benefit cost	$ 107	$ 332	$ –	$ 5
Accrued benefit cost	(258)	(151)	(58)	–
Intangible assets	48	5	–	–
Accumulated other comprehensive income	301	29	–	–
Net assets at December 31	$ 198	$ 215	$ (58)	$ 5

The Company recognized an additional minimum pension liability of $349 and $34 in 2003 and 2002, respectively, primarily related to domestic retirement plans. This resulted in an adjustment to accumulated other comprehensive income, net of tax, of $178 and $18 in 2003 and 2002, respectively.

The consolidated weighted-average assumptions used to determine benefit obligations at December 31 were:

	RETIREMENT PLANS		POST-RETIREMENT HEALTH CARE BENEFITS	
	2003	2002	2003	2002
Discount rate	5.7%	6.3%	6.0%	6.7%
Rate of increase in future compensation	3.9%	3.9%	N/A	N/A

The consolidated weighted-average assumptions used to determine net cost for the years ended December 31 were:

	RETIREMENT PLANS		POST-RETIREMENT HEALTH CARE BENEFITS	
	2003	2002	2003	2002
Discount rate	6.3%	6.7%	6.7%	7.0%
Long-term expected rate of return on plan assets[1]	8.5%	9.5%	8.0%	9.0%
Rate of increase in future compensation	3.9%	4.0%	N/A	N/A

(1) The long-term expected rate of return on plan assets for domestic retirement plans was 9.0 percent and 10.0 percent for the years ended December 31, 2003 and 2002, respectively.

The long-term expected rate of return on plan assets is derived proportionally from return assumptions determined for each of the major asset classes, principally equities, fixed income and real estate. The return expectations for each of these asset classes are based largely on assumptions about economic growth and inflation, which are supported by long-term historical data.

The weighted-average assumed health care cost inflation rate used for post-retirement measurement purposes is 9 percent for 2004, trending down to 4.5 percent by 2009. A 1 percent increase in the assumed health care cost trend rate would increase combined post-retirement service and interest cost by $7 and the post-retirement benefit obligation by $64. A 1 percent decrease in the assumed health care cost trend rate would decrease combined post-retirement service and interest cost by $6 and post-retirement benefit obligation by $52. In 2003, the Medicare Prescription Drug, Improvement and Modernization Act (the "Act")

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was signed into law in the United States. The Company has elected to defer the accounting for the effect of the Act as permitted by FASB Staff Position No. FAS 106-1 and, therefore, the benefit obligations reported herein for the Company's post-retirement benefit plans do not reflect the impact of the Act. Specific authoritative guidance on the accounting for the federal subsidy related to the Act is pending and, when issued, could require the Company to change previously reported information.

U.S. Plan Assets at Fair Value The asset allocation for the U.S. retirement plan at December 31, 2003 and 2002, and the target allocation for 2004 are as follows:

	TARGET ALLOCATION	PERCENTAGE OF PLAN ASSETS AT DECEMBER 31	
ASSET CATEGORY	2004	2003	2002
Equity Securities	65%	69%	60%
Debt Securities	25	22	30
Real Estate	10	9	10
Total	100%	100%	100%

The asset allocation for the post-retirement health care benefit trusts at December 31, 2003 and 2002, and the target allocation for 2004 are as follows:

	TARGET ALLOCATION	PERCENTAGE OF PLAN ASSETS AT DECEMBER 31	
ASSET CATEGORY	2004	2003	2002
Equity Securities	70%	78%	66%
Debt Securities	30	22	34
Total	100%	100%	100%

The Company's investments related to these plans are broadly diversified, consisting primarily of equities and fixed income securities, with an objective of generating long-term investment returns that are consistent with an acceptable level of overall portfolio market value risk.

The Company had a defined contribution profit-sharing plan covering substantially all its full-time domestic employees who have completed one year of service. The annual contribution was determined by a formula based on the Company's income, shareholders' equity and participants' compensation. Profit-sharing expense totaled $98 and $80 in 2002 and 2001, respectively. There was no profit-sharing contribution in 2003 as determined by the formula described above. The Company will no longer make contributions to this plan effective for 2004.

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

	2003	2002	2001
United States	$(1,169)	$ 642	$1,076
Foreign	1,123	1,921	1,447
Total (loss)/income before income taxes	$ (46)	$2,563	$2,523

The components of income tax expense/(benefit) were as follows:

	2003	2002	2001
Current:			
Federal	$(299)	$273	$397
Foreign	187	263	203
State	21	40	27
Total current	(91)	576	627
Deferred:			
Federal and state	126	4	(47)
Foreign	11	9	–
Total deferred	137	13	(47)
Total income tax expense	$ 46	$589	$580

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The difference between income taxes based on the U.S. statutory tax rate and the Company's income tax expense was due to the following:

	2003	2002	2001
Income tax expense/(benefit) at U.S. statutory tax rate	$ (16)	$897	$883
Increase (decrease) in taxes resulting from:			
Lower rates in other jurisdictions, net	(308)	(378)	(305)
Non-deductible litigation reserve	123	–	–
Reserve for tax litigation	200	–	–
Research tax credit	(13)	(12)	(13)
State income tax	13	36	17
Permanent differences	28	–	14
All other, net	19	46	(16)
Income tax expense at effective tax rate	$ 46	$589	$580

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 2020.

Due to the tax loss in 2003, the Company has recorded a $450 tax refund receivable as of December 31, 2003.

As of December 31, 2003 and 2002, the Company had total deferred tax assets of $862 and $834, respectively, and deferred tax liabilities of $622 and $552, respectively. Valuation allowances are $61 as of December 31, 2003; valuation allowances were not significant as of December 31, 2002. Significant deferred tax assets at December 31, 2003 and 2002 were for operating costs and employee termination costs not currently deductible for tax purposes and totaled $523 and $555, respectively. Significant deferred tax liabilities at December 31, 2003 and 2002 were for depreciation differences, $318 and $286, respectively, and retirement plans, $76 and $101, respectively.

Deferred taxes are not provided on undistributed earnings of foreign subsidiaries, considered to be permanent investments, which at December 31, 2003, approximated $11,100. Determining the tax liability that would arise if these earnings were remitted is not practicable.

Net consolidated income tax payments during 2003, 2002 and 2001 were $196, $584 and $592, respectively.

As of December 31, 2003, 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. The IRS examination of years 1989 through 1992 is expected to be completed during 2004, at which time it is anticipated the IRS will commence the examination of years 1993 through 1996.

See "Legal, Environmental and Regulatory Matters" footnote regarding a tax matter which the Company believes that litigation is probable.

Consent Decree On May 17, 2002, the Company announced that it had reached an agreement with the FDA for a consent decree to resolve issues involving the Company's compliance with current Good Manufacturing Practices (cGMP) at certain manufacturing facilities in New Jersey and Puerto Rico. The U.S. District Court for the District of New Jersey approved and entered the consent decree on May 20, 2002.

Under terms of the consent decree, the Company agreed to pay a total of $500 to the U.S. government in two equal installments of $250; the first installment was paid in May 2002, and the second installment was paid in May 2003. As previously reported, the Company accrued a $500 provision for this consent decree in the fourth quarter of 2001.

The consent decree requires the Company to complete a number of actions. In the event certain actions agreed upon in the consent decree are not satisfactorily completed on time, the FDA may assess payments for each deadline missed. The consent decree required the Company to develop and submit for FDA's concurrence comprehensive cGMP Work Plans for the Company's manufacturing facilities in New Jersey and Puerto Rico that are covered by the decree. The Company received FDA concurrence with its proposed cGMP Work Plans on May 14, 2003. The cGMP Work Plans contain a number of Significant Steps whose timely and satisfactory completion are subject to payments of $15 thousand per business day for each deadline missed. These payments may not exceed $25 for 2002, and $50 for each of the years 2003, 2004 and 2005. These payments are subject to an overall cap of $175.

In connection with its discussions with FDA regarding the Company's cGMP Work Plans, and pursuant to the terms of the decree, the Company and FDA entered into a letter agreement dated April 14, 2003. In the letter agreement, the Company and FDA agreed to extend by six months the time period during which the Company may incur payments as described above with

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respect to certain of the Significant Steps whose proposed due dates are December 31, 2005. The letter agreement does not increase the yearly or overall caps on payments described above.

In addition, the decree requires the Company to complete programs of revalidation of the finished drug products and bulk active pharmaceutical ingredients manufactured at the covered manufacturing facilities. The Company is required under the consent decree to complete its revalidation programs for bulk active pharmaceutical ingredients by September 30, 2005, and for finished drugs by December 31, 2005. In general, the timely and satisfactory completion of the revalidations are subject to payments of $15 thousand per business day for each deadline missed, subject to the caps described above. However, if a product scheduled for revalidation has not been certified as having been validated by the last date on the validation schedule, the FDA may assess a payment of 24.6 percent of the net domestic sales of the uncertified product until the validation is certified. Further, in general, if a product scheduled for revalidation under the consent decree is not certified within six months of its scheduled date, the Company must cease production of that product until certification is obtained. The completion of the Significant Steps in the Work Plans and the completion of the revalidation programs are subject to third-party expert certification, which must be accepted by the FDA.

The consent decree provides that if the Company believes that it may not be able to meet a deadline, the Company has the right, upon the showing of good cause, to request extensions of deadlines in connection with the cGMP Work Plans and revalidation programs. However, there is no guarantee that FDA will grant any such requests.

Although the Company believes it has made significant progress in meeting its obligations under the consent decree, it is possible that (1) the Company may fail to complete a Significant Step or a revalidation by the prescribed deadline; (2) the third party expert may not certify the completion of the Significant Step or revalidation; or (3) the FDA may disagree with an expert's certification of a Significant Step or revalidation. In such a case, it is possible that the FDA may assess payments as described above.

The Company would expense any payments assessed under the decree if and when incurred.

Also, as noted in the "Legal, Environmental and Regulatory Matters" footnote below, the Company has received notice of a False Claims complaint brought by an individual purporting to act on behalf of the U.S. government against it and approximately 25 other pharmaceutical companies alleging that the pharmaceutical companies defrauded the United States by having made sales to various federal governmental agencies of drugs that were allegedly manufactured in a manner that did not comply with current Good Manufacturing Practices. The Company and the other defendants filed a motion to dismiss this action.

Segment Information The Company has three reportable segments: Prescription Pharmaceuticals, Consumer Health Care and Animal Health. The segment sales and profit data that follow are consistent with the Company's current management reporting structure, established in the second quarter of 2003. Prior period information presented herein has been restated to be on a comparable basis. The Prescription Pharmaceuticals segment discovers, develops, manufactures and markets human ethical pharmaceutical products. The Consumer Health Care segment develops, manufactures and markets OTC, foot care and sun care products. The Animal Health segment discovers, develops, manufactures and markets animal health products.

Net Sales by Segment

	YEAR ENDED DECEMBER 31,		
	2003	2002	2001
Prescription Pharmaceuticals	$6,672	$ 8,788	$8,421
Consumer Health Care	965	715	647
Animal Health	697	677	694
Consolidated net sales	$8,334	$10,180	$9,762

Profit by Segment

	YEAR ENDED DECEMBER 31,		
	2003	2002	2001
Prescription Pharmaceuticals	$ 496	$2,543	$2,764
Consumer Health Care	194	174	140
Animal Health	86	93	141
Corporate and other[1]	(822)	(247)	(522)
Consolidated (loss)/profit before tax	$ (46)	$2,563	$2,523

(1) In 2003, Corporate and other includes charges of $164 related to the Voluntary Early Retirement Program (see "Special Charges" footnote for additional information). It is estimated that the charges relate to the reportable segments as follows: Prescription Pharmaceuticals – $103, Consumer Health Care – $8, Animal Health – $4 and Corporate and other – $49.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

Corporate and other also includes provisions to increase the litigation reserves, asset impairment charges, interest income and expense, foreign exchange gains and losses, headquarters expenses and other miscellaneous items. The accounting policies used for segment reporting are the same as those described in the "Summary of Significant Accounting Policies."

Net Sales by Major Therapeutic Category

	2003	2002	2001
Anti-infective & Anticancer	$3,098	$ 3,733	$2,273
Allergy & Respiratory	2,003	3,304	4,217
Cardiovasculars	467	433	623
Dermatologicals	507	511	593
Other Pharmaceuticals	597	807	715
Prescription Pharmaceuticals	6,672	8,788	8,421
OTC (includes OTC CLARITIN sales in 2003 and 2002 of $415 and $105, respectively)	563	269	178
Foot Care	275	279	291
Sun Care	127	167	178
Consumer Health Care	965	715	647
Animal Health	697	677	694
Consolidated net sales	$8,334	$10,180	$9,762

The Company has subsidiaries in more than 40 countries outside the United States. Sales outside the United States comprised 57 percent ($4,775) of consolidated net sales in 2003, 43 percent ($4,419) in 2002 and 39 percent ($3,789) in 2001. No single foreign country, except for France, Japan and Italy, accounted for 5 percent or more of consolidated net sales during the past three years. France accounted for 8 percent ($691), 6 percent ($613) and 5 percent ($459) of consolidated net sales in 2003, 2002 and 2001, respectively. Japan accounted for 5 percent ($414), 5 percent ($524) and 3 percent ($320) of consolidated net sales in 2003, 2002 and 2001, respectively. Italy accounted for 5 percent ($436), 3 percent ($339) and 3 percent ($266) of consolidated net sales in 2003, 2002 and 2001, respectively.

Net Sales by Geographic Area

	2003	2002	2001
United States	$3,559	$ 5,761	$5,973
Europe and Canada	3,410	2,923	2,457
Latin America	716	740	782
Pacific Area and Asia	649	756	550
Consolidated net sales	$8,334	$10,180	$9,762

Net sales are presented in the geographic area in which the Company's customers are located. During 2003, 2002 and 2001, 8 percent ($667), 21 percent ($2,092) and 16 percent ($1,568), respectively, of consolidated net sales were made to McKesson Corporation, a major pharmaceutical and health care products distributor. Also, during 2003, 2002 and 2001, 9 percent ($771), 11 percent ($1,101) and 12 percent ($1,160), respectively, of consolidated net sales were made to AmerisourceBergen Corporation, a major pharmaceutical and health care products distributor.

Long-lived Assets by Geographic Location

	2003	2002	2001
United States	$2,507	$2,477	$2,297
Ireland	444	430	420
Singapore	828	668	507
Puerto Rico	317	300	258
Other	726	613	546
Total	$4,822	$4,488	$4,028

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

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

Sales of products comprising 10 percent or more of the Company's U.S. or international sales for the year ended December 31, 2003, were as follows:

	U.S.	INTERNATIONAL
INTRON franchise	$884	$966
CLARINEX	498	196
OTC CLARITIN	415	–
REMICADE	–	540

The Company does not disaggregate assets on a segment basis for internal management reporting and, therefore, such information is not presented.

Legal, Environmental and Regulatory Matters

Background 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 (EPA), 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 Company adjusts its accrued liabilities to reflect the current best estimate of its probable loss exposure. Where no best estimate is determinable, the Company accrues the minimum amount within the most probable range of its liability.

The recorded liabilities for the above matters at December 31, 2003, and the related expenses incurred during the 12 months ended December 31, 2003, 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 remainder of this section, it is remote at this time that any material liability in excess of the amounts accrued will be incurred. With respect to the matters discussed in the remainder of this section, except where noted, it is not practicable to estimate a range of reasonably possible loss; where it is, a reserve has been included in the financial statements. Resolution of any or all of the matters discussed in the remainder of this section, individually or in the aggregate, could have a material adverse effect on the Company's results of operations or financial condition.

Management reviews the status of the matters discussed in the remainder of this section on an ongoing basis and from time to time may settle or otherwise resolve them on such terms and conditions as management believes are in the best interests of the Company. The Company is aware that settlements of matters of the types set forth in the remainder of this section, and in particular under "Investigations," frequently involve fines and/or penalties that are material to the financial condition and the results of operations of the entity entering into the settlement. There are no assurances that the Company will prevail in any of these matters, that settlements can be reached on acceptable terms (including the scope of release provided) or in amounts that do not exceed the amounts reserved. Even if an acceptable settlement were to be reached, there can be no assurance that further investigations or litigations will not be commenced raising similar type issues, potentially exposing the Company to additional material liabilities. Further, the Company cannot predict the timing of the resolution of these matters or their outcomes.

Environmental 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. No trial date has been set for these cases, but the matter has been submitted to mediation.

On November 20, 2003, we received a General Notice of Potential Liability from EPA addressed to Arno/Scholl's Adhesive Tapes, Inc., a former subsidiary of the Company, relating to the Lake Culmet Cluster Site in Chicago, Illinois. There are several hundred other potentially responsible parties for the site.

In 2003, Schering-Plough responded to an information request from the New Jersey Department of Environmental Protection relating to contamination of the Lower Passaic River Basin. Schering-Plough denied having any connection to the contamination. In late September, the Department directed 66 PRPs at 18 contaminated sites to assess and restore natural

resource damage to the Lower Passaic River Basin. The Department did not name Schering-Plough as a PRP. However, the Department sent Schering-Plough a letter, received September 24, 2003, stating that the Company "may be legally responsible for damages to natural resources" in the state. The Department has not adopted regulations covering how such liability is to be calculated, making it difficult to accurately predict the ultimate extent of the Company's exposure.

Patent Matters

CLARITIN Patents In February 1998, Geneva Pharmaceuticals, Inc. (Geneva) submitted an Abbreviated New Drug Application (ANDA) to the U.S. FDA seeking to market generic CLARITIN tablets before the expiration in 2004 of the Company's desloratadine compound patent, which the Company believes protects CLARITIN. Geneva alleged that the desloratadine compound patent is invalid. This patent is 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 infringement of the Company's desloratadine compound patent and that its challenge to this patent is without merit. In addition to Geneva, from 1998 through 2003, the following companies made similar ANDA submissions for generic CLARITIN tablets: Zenith Goldline Pharmaceuticals, Mylan Pharmaceuticals Inc., Teva Pharmaceuticals USA, Inc. (Teva), Ranbaxy Pharmaceuticals, Inc. (Ranbaxy), Genpharm Incorporated, and L. Perrigo Company (Perrigo). The following companies made similar ANDA submissions for generic CLARITIN syrup: Teva, Copley Pharmaceuticals, Inc., Novex Pharma, Alpharma USPD Inc., Taro Pharmaceuticals USA, Inc., Morton Grove Pharmaceuticals, Inc., and Perrigo. Andrx Pharmaceuticals, L.L.C. (Andrx) and Impax Laboratories Inc. (Impax) made similar ANDA submissions for generic CLARITIN-D 12 Hour and CLARITIN-D 24 Hour formulations. Ranbaxy made a similar ANDA submission for a generic CLARITIN-D 24 Hour formulation. ESI Lederle, Inc. (Lederle), a subsidiary of Wyeth, made a similar ANDA submission for a generic CLARITIN REDITAB formulation. The following companies submitted "paper" New Drug Applications ("paper" NDAs) under Section 505 (b)(2) of the Federal Food, Drug and Cosmetic Act seeking to market a generic OTC form of CLARITIN prior to the expiration of the Company's desloratadine compound patent: Whitehall-Robins Healthcare, a division of Wyeth (for an OTC REDITAB formulation), McNeil Consumer Healthcare (McNeil) (for OTC tablets), and Perrigo (for OTC tablets). In each case, the Company 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 constitutes infringement of the Company's desloratadine compound patent, and that the challenge to the patent is without merit. On August 8, 2002, a federal district court in New Jersey ruled on motions for summary judgment, finding that certain claims of the desloratadine compound patent were anticipated by a prior patent and, thus, were not valid. On August 1, 2003, the district court's decision was sustained by the appellate court, and on October 28, 2003, the appellate court denied the Company's petition for rehearing. With these rulings, actions against the defendants for infringement of the desloratadine compound patent by manufacturers of loratadine will not proceed. The Company had also asserted that Impax's and Andrx's ANDAs for their generic CLARITIN-D 24 Hour formulations infringe the Company's patent covering its CLARITIN-D 24 Hour formulation. In October 2003, the Company settled this litigation with Impax and Andrx and has licensed them under this patent.

REBETOL Patents In August 2001, Geneva Pharmaceuticals Technology Corp. (Geneva Pharmaceuticals) and Three Rivers Pharmaceuticals, L.L.C. (Three Rivers), and in January 2002, Teva, 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, Three Rivers and Teva 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, October 2001 and March 2002, the Company filed suits in federal court seeking rulings that the ANDA submissions by Geneva Pharmaceuticals, Three Rivers and Teva, respectively, constitute infringement of the Company's patents and that the challenges to the Company's patents are without merit. During 2003, the Company entered into separate licensing agreements with Three Rivers, Geneva Pharmaceuticals and Teva that settled all patent litigation between the Company, Three Rivers, Teva and Geneva Pharmaceuticals, and granted Three Rivers, Geneva Pharmaceuticals and Teva each a non-exclusive, non-sublicensable license to the Company's U.S. ribavirin patents. The agreements were subject to dismissal of Three Rivers', Geneva Pharmaceuticals' or Teva's reported patent litigation with Ribapharm, Inc., a subsidiary of Valeant Pharmaceuticals International, (Ribapharm). That litigation was dismissed upon defendants' motion for summary judgment on July 16, 2003. Ribapharm has appealed the summary judgment decision. Ribapharm has also petitioned the FDA to deny approval of the Three Rivers, Geneva Pharmaceuticals and Teva products. The FDA has not acted on the Ribapharm petition as of the date of this report.

PRIME PAC PRRS Patent 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 appealed, and the verdict was affirmed by the appellate court in February 2003. Litigation of the damages phase of the case is ongoing. A trial to determine damages has been scheduled for May 3, 2004.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

Investigations

Pennsylvania Investigation 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 was one of a number addressed to industry participants as part of an inquiry into, among other things, pharmaceutical marketing practices. The government's inquiry has focused on, among other things, 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 has been cooperating with the investigation. In March 2002, the U.S. Attorney's Office began issuing grand jury subpoenas. The grand jury investigation appears to be focused on one or more transactions with managed care organizations where the government believes the Company offered or provided deeply discounted pharmaceutical products (known as "nominally priced" products, which are generally excluded from Medicaid rebate calculations), free or discounted disease management services, and other marketing programs and arrangements that delivered value, in order to place or retain one or more of the Company's major pharmaceutical products on the managed care organization's formulary. The grand jury appears to be investigating, among other things, (i) whether the transactions described above and conduct relating thereto violated federal anti-kickback statutes; and (ii) whether the value of the items and services described above should have been included in the Company's calculation of Medicaid rebates. The outcome of the investigations could include the commencement of civil and/or criminal proceedings involving substantial fines, penalties and injunctive or administrative remedies, including exclusion from government reimbursement programs, and the Company cannot predict whether the investigations will affect its marketing practices or sales. During the 2003 third quarter, the Company increased its litigation reserves related to this investigation and the investigations described below by the U.S. Attorney's Office for the District of Massachusetts by $350. This increase in reserves reflects maturing discussions in these offices, particularly with the Eastern District of Pennsylvania and an adjustment to the Company's estimate of its minimum liability relating to those investigations, in compliance with U.S. generally accepted accounting principles (GAAP). Under GAAP, companies are required to estimate and recognize a minimum liability when a loss is probable but no better estimate of the loss can be made. In the fourth quarter of 2002, the Company increased its litigation reserves by $150 for the same matters. The Company cannot predict the timing of the resolution of these matters. The Company notes that its total reserves reflect an estimate and that any final settlement or adjudication of any of these matters could possibly be less than or could materially exceed the aggregate liability accrued by the Company and could have a materially adverse effect on the operations or financial condition of the Company.

AWP Investigations The Company is responding to investigations by the Department of Health and Human Services, the Department of Justice, the Committee on Energy and Commerce of the U.S. House of Representatives 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 U.S. District Court for the Southern District of Florida, as well as an investigation by the U.S. 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. 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. The outcome of these investigations could include the imposition of substantial fines, penalties and injunctive or administrative remedies.

Massachusetts Investigation The U.S. Attorney's Office for the District of Massachusetts is also investigating whether the Company's sales of a product manufactured under a private label arrangement with a managed care organization should have been included in the Company's Medicaid best price calculations. In early November 2002, the Company was served with two additional grand jury subpoenas by the U.S. Attorney for the District of Massachusetts. Among other information, the subpoenas seek a broad range of information concerning the Company's sales, marketing and clinical trial practices and programs with respect to INTRON A, REBETRON and TEMODAR; the Company's sales and marketing contacts with managed care organizations and doctors; and the Company's offering or provision of grants, honorariums or other items or services of value to managed care organizations, physician groups, doctors and educational institutions. The Company understands that this investigation is focused on whether certain sales, marketing and clinical trial practices and conduct related thereto, which in certain instances relate to the use of one or more of the above-mentioned products for indications for which FDA approval had not been obtained – so-called "off-label" uses – were in violation of federal laws and regulations with respect to off-label promotional activities. The investigation also appears to focus on whether drug samples, clinical trial grants and other items or services of value were given to providers to incentivize them to prescribe one or more of the above-mentioned products, including for "off-label" uses, in violation of the federal health care anti-kickback laws. The Company has implemented certain

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changes to its sales, marketing and clinical trial practices and is continuing to review those practices to ensure compliance with relevant laws and regulations. The Company is cooperating with these investigations. Future sales of INTRON A, REBETRON and TEMODAR may be adversely affected, but the Company cannot at this time predict the ultimate impact, if any, on such sales. The outcome of these investigations could include the commencement of civil and/or criminal proceedings involving the imposition of substantial fines, penalties and injunctive or administrative remedies, including exclusion from government reimbursement programs. During the 2003 third quarter, the Company increased its litigation reserves related to the investigations by the U.S. Attorney's Office for the District of Massachusetts described in this paragraph and the paragraph immediately preceding it and the investigation described above by the U.S. Attorney's Office for the Eastern District of Pennsylvania, by $350. The increased litigation reserves reflect an adjustment to the Company's estimate of its minimum liability relating to those investigations, in compliance with GAAP. Under GAAP, companies are required to estimate and recognize a minimum liability when a loss is probable but no better estimate of the loss can be made. In the fourth quarter of 2002, the Company increased its litigation reserves by $150 for the same matters. The Company notes that its total reserves reflect an estimate and that any final settlement or adjudication of any of these matters could possibly be less than or could materially exceed the aggregate liability accrued by the Company and could have a materially adverse effect on the operations or financial condition of the Company. The Company cannot predict the timing of resolution of these matters or their outcomes.

As reported in the 8-K filed May 30, 2003, Schering-Plough has disclosed that, in connection with the above-described investigations by the U.S. Attorney's Office for the District of Massachusetts into its sales, marketing and clinical trial practices, among other matters, on May 28, 2003, Schering Corporation, a wholly owned and significant operating subsidiary of Schering-Plough, received a letter (the "Boston Target Letter") from that Office advising that Schering Corporation (including its subsidiaries and divisions) is a target of a federal criminal investigation with respect to four areas:

1. Providing remuneration, such as drug samples, clinical trial grants and other items or services of value, to managed care organizations, physicians and others to induce the purchase of Schering pharmaceutical products for which payment was made through federal health care programs;
2. Sale of misbranded or unapproved drugs, which the Company understands to mean drugs promoted for indications for which approval by the U.S. FDA had not been obtained (so-called "off-label uses");
3. Submitting false pharmaceutical pricing information to the government for purposes of calculating rebates required to be paid to the Medicaid program, by failing to include prices of products under a repackaging arrangement with a managed care customer as well as the prices of free and nominally priced goods provided to that customer to induce the purchase of Schering products; and
4. Document destruction and obstruction of justice relating to the government's investigation.

A "target" is defined in Department of Justice guidelines as a person as to whom the prosecutor or the grand jury has substantial evidence linking him or her to the commission of a crime and who, in the judgment of the prosecutor, is a putative defendant (U.S. Attorney's Manual, Section 9-11.151).

Consumer Products Matter The U.S. Department of Justice, Antitrust Division, is investigating whether the Company's Consumer Products Division entered into an agreement with another company to lower the commission rate of a consumer products broker. In February 2003, the Antitrust Division served a grand jury subpoena on the Company seeking documents for the first time. The Company is cooperating with the investigation.

NITRO-DUR Investigation In August 2003, the Company received a civil investigative subpoena issued by the Office of Inspector General of the U.S. Department of Health and Human Services, seeking documents concerning the Company's classification of NITRO-DUR for Medicaid rebate purposes, and the Company's use of nominal pricing and bundling of product sales. The Company is cooperating with the investigation. It appears that the subpoena is one of a number addressed to pharmaceutical companies concerning an inquiry into issues relating to the payment of government rebates.

Securities and Class Action Litigation 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 U.S. 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. These complaints were consolidated into one action in the U.S. 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 and purporting to represent a class of shareholders who purchased shares of Company stock from May 9, 2000, through

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

February 15, 2001. The Company's motion to dismiss the consolidated amended complaint was denied on May 24, 2002. On October 10, 2003, the Court certified the shareholder class. Discovery is ongoing.

In addition to the lawsuits described in the immediately preceding paragraph, two lawsuits were filed in the U.S. 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 Pharmaceuticals (Warrick), the Company's generics subsidiary, all of which are described herein. 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 U.S. District Court for the District of New Jersey have been consolidated into one action, which is in its very early stages. On January 2, 2002, the Company 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 engaged independent outside counsel to advise it and issued a report on the findings of its investigation to the independent directors of the Board in late October 2002. That report determined that the shareholder demand should be refused, and finding no liability on the part of any officers or directors. In November 2002, the full Board adopted the recommendation of the Evaluation Committee.

On August 9, 2001, the Prescription Access Litigation project (PAL), 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. In February 2002, the Company filed a motion to dismiss this case. In May 2002, the court dismissed the complaint in its entirety for failure to state a claim. After the plaintiffs' appeal was denied by the New Jersey state court, the plaintiffs requested that the New Jersey Supreme Court hear the case. That request has been denied, ending the litigation.

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 laxatives or phenylpropanolamine-containing cough/cold remedies ("PPA products") they purchased. Other pharmaceutical manufacturers are co-defendants in some of these lawsuits. In general, plaintiffs claim that they would not have purchased or would have paid less for these products had they known of certain defects or medical risks attendant with their use. In the litigation of the claims relating to the Company's PPA products, courts in the national class action suit and several state class action suits have denied certification and dismissed the suits. A similar application to dismiss in New Jersey, the only remaining statewide class action suit involving the Company, is pending. Approximately 122 individual lawsuits relating to the laxative products, PPA products and recalled albuterol/ VANCERIL/VANCENASE inhalers are also pending against the Company seeking recovery for personal injuries or death. In a number of these lawsuits punitive damages are claimed.

On March 31, 2003, the Company was served with a putative class action complaint filed in the U.S. District Court in New Jersey alleging that the Company, Richard Jay Kogan (who resigned as Chairman of the Board November 13, 2002, and retired as Chief Executive Officer, President and Director of the Company April 20, 2003) and the Company's Employee Savings Plan (Plan) administrator breached their fiduciary obligations to certain participants in the Plan. The allegations primarily relate to disclosures about the Company's Good Manufacturing Practices issues (which are discussed earlier in this "Securities and Class Action Litigation" section in relation to the Company's disclosures about its consent decree with FDA and related matters) and disclosures about the meetings with investors the week of September 30, 2002 and other communications (discussed under "SEC Inquiry and Related Litigation" below). In May 2003, the Company was served with a second putative class action complaint filed in the same court with allegations nearly identical to the complaint filed March 31, 2003. On October 6, 2003, a consolidated amended complaint was filed, which names as additional defendants the following directors: Eugene McGrath, Donald Miller, Carl Mundy, Patricia Russo, Kathryn Turner; two former directors: James Wood and Regina Herzlinger; and

other corporate officers. The consolidated amended complaint also contains allegations associated with the Boston Target Letter described under the "Investigations" section in this footnote. The Company has filed a motion to dismiss this complaint.

On August 18, 2003, a lawsuit filed in the New Jersey Superior Court, Chancery Division, Union County, was served on the Company (as a nominal defendant) and the Company's outside directors, alleging breach of fiduciary duty by the directors relating to the Company's receipt of the Boston Target Letter described under the "Investigations" section in this footnote. This action has been temporarily stayed pending adjudication of a separate but related action framed as a shareholder request for access to the Company's books and records and seeking documents and other information relating to the Massachusetts investigation.

Antitrust and FTC Matters 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. The Company, in February 1996, agreed to settle a federal class action on behalf of approximately two-thirds of all retail pharmacies in the United States for a total of $22, which has been paid in full. The U.S. District Court in Illinois approved the settlement of the federal class action in 1996. In 1997, the Seventh Circuit Court of Appeals dismissed all appeals from that settlement, and it is not subject to further review.

In April 1997, certain of the plaintiffs in the federal class action commenced another purported class action in the U.S. 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 either settled or had dismissed on motion all the state court retailer and consumer actions. The settlement amounts were not material to the Company.

The Federal Court in Illinois remanded the conspiracy portion of the cases of those retailers that opted out of the class action back to the district courts where they were filed. These cases have now been consolidated in Federal District Court in Brooklyn, New York. The Federal Court in Illinois has jurisdiction over the Robinson-Patman portion of these cases. A trial of the conspiracy claims is set to begin in October 2004.

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

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. In June 2002, the administrative law judge overseeing the case issued a decision that the patent litigation settlements complied with the law in all respects and dismissed all claims against the Company. An appeal of this decision to the full Commission was filed by the FTC staff. On December 18, 2003, the full Commission issued an opinion that reversed a 2002 decision of an Administrative Law Judge who had found no violation of the antitrust laws, ruling instead that the Company's settlements did in fact violate those laws. The FTC's decision does not involve a monetary penalty. The Company has appealed the decision to a federal court of appeals. K-Dur is a potassium chloride supplement used by cardiac patients.

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. A motion to dismiss these actions is pending.

Pricing Matters During the third quarter of 2000, Warrick Pharmaceuticals (Warrick), the Company's generics subsidiary, was sued by the state of Texas. In June 2002, the Company and its subsidiary, Schering Corporation, were added as defendants. 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 and inhaler at a higher-than-justified level. The state seeks damages of approximately $106 against Warrick, including treble damages and penalties. A trial date of April 12, 2004 has been set. The outcome of the litigation could result in the imposition of fines, penalties and injunctive remedies. If this case goes to trial, there are no assurances that the damages sought by the state will not exceed the amount set forth in the state's petition.

In December 2001, PAL filed a class action suit in Federal Court in Massachusetts against the Company. In September 2002, a consolidated complaint was filed in this court as a result of the coordination by the Multi-District Litigation Panel of all federal court AWP cases from throughout the country. The consolidated complaint alleges that the Company and Warrick conspired with providers to defraud consumers by reporting fraudulently high AWPs for prescription medications reimbursed by Medicare or third-party payers. The complaint seeks a declaratory judgment and unspecified damages, including treble damages.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

Included in the PAL litigation described in the prior paragraph are lawsuits that allege that the Company and Warrick reported inflated AWPs for prescription pharmaceuticals and thereby caused state and federal entities and third-party payers to make excess reimbursements to providers. Some of these actions also allege that the Company and Warrick failed to report accurate prices under the Medicaid Rebate Program and thereby underpaid rebates to some states. These actions, which began in October 2001, have been brought by state Attorneys General, private plaintiffs, nonprofit organizations and employee benefit funds. They allege violations of federal and state law, including fraud, antitrust, Racketeer Influenced Corrupt Organizations Act (RICO) and other claims. In addition, Warrick and the Company are defendants in a number of such lawsuits in state courts. The actions are generally brought by states and/or political subdivisions and seek unspecified damages, including treble and punitive damages.

SEC Inquiries and Related Litigation The SEC is investigating compliance by Polish subsidiaries of certain pharmaceutical companies with the U.S. Foreign Corrupt Practices Act of 1977 pursuant to an order dated November 13, 2003. The Company has voluntarily produced documents related to our Polish subsidiary and subsidiaries in other countries. The Company continues to cooperate with the SEC's requests. The Company is also cooperating with inquiries from the police in Katowice, Poland asking for related information.

On September 9, 2003, the SEC and the Company announced settlement of the SEC enforcement proceeding against the Company and Richard Jay Kogan, former Chairman and Chief Executive Officer, regarding meetings held with investors the week of September 30, 2002 and other communications. Without admitting or denying the allegations, the Company agreed not to commit future violations of Regulation FD and related securities laws and paid a civil penalty of $1 (million). Mr. Kogan paid a civil penalty of $50 thousand.

The federal putative class actions filed against the Company and Mr. Kogan regarding the meetings held with investors the week of September 30, 2002, and other communications were consolidated and, pursuant to that consolidation, an amended complaint dated March 13, 2003, was filed, alleging violations of Sections 10(b), 20(a) and 20(A) of the Securities Exchange Act of 1934 relating to the alleged disclosures made during the meetings mentioned in the paragraph above. The Company filed a motion to dismiss these class actions May 6, 2003, and the plaintiffs have sought leave of the court, and thereafter filed a second amended complaint. On October 14, 2003, the Company moved to dismiss the second amended complaint.

On September 25, 2003, a lawsuit was filed in New Jersey Superior Court, Union County, against Richard Jay Kogan and the Company's outside Directors alleging breach of fiduciary duty, fraud and deceit and negligent misrepresentation, all relating to the alleged disclosures made during the meetings mentioned above. The Company removed this case to federal court. A motion to remand to state court is pending.

Other Matters The Company is subject to pharmacovigilance reporting requirements in many countries and other jurisdictions, including the United States, the European Union (EU) and the EU member states. The requirements differ from jurisdiction to jurisdiction, but all include requirements for reporting adverse events that occur while a patient is using a particular drug in order to alert the manufacturer of the drug and the governmental agency to potential problems.

During pharmacovigilance inspections by officials of the British and French medicines agencies conducted at the request of the European Agency for the Evaluation of Medicinal Products (EMEA), serious deficiencies in reporting processes were identified. The Company is taking urgent actions to rectify these deficiencies as quickly as possible. The Company does not know what action, if any, the EMEA or national authorities will take in response to these findings. Possible actions include further inspections, demands for improvements in reporting systems, criminal sanctions against the Company and/or responsible individuals and changes in the conditions of marketing authorizations for the Company's products.

In April 2003, the Company received notice of a False Claims Act complaint brought by an individual purporting to act on behalf of the U.S. government against it and approximately 25 other pharmaceutical companies in the U.S. District Court for the Northern District of Texas. The complaint alleges that the pharmaceutical companies, including the Company, have defrauded the United States by having made sales to various federal governmental agencies of drugs that were allegedly manufactured in a manner that did not comply with current Good Manufacturing Practices. The Company and the other defendants filed a motion to dismiss this action on July 23, 2003.

Tax Matters 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 interest. Depending upon the Court the Company chooses to litigate the case, it may be required to pay the tax, and possibly interest prior to litigation. The Company estimates the interest to be approximately $280. Should the Company prevail in the litigation, any amounts paid prior to the litigation would be returned to the Company, plus accrued interest. The Company could also choose to litigate the case in a Court that would not require payment of tax or interest prior to the litigation. Management believes that it is probable that this matter will be litigated. Management also believes that its tax reserves are sufficient to absorb any loss resulting from an unfavorable outcome of this litigation.

Report by Management

We are 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 our opinion, the consolidated financial statements present fairly in all material respects the Company's results of operations, financial condition and cash flows. Based on our knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make it not misleading. All financial information in this Annual Report is consistent with the financial statements.

We are responsible for establishing and maintaining disclosure controls and procedures for the Company. We have evaluated the Company's disclosure controls and procedures as of December 31, 2003, and found them to be effective in ensuring that material information relating to the Company and its consolidated subsidiaries is made known to us by others within the Company.

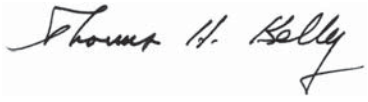
The Company maintains, and management relies on, a system of internal control and related policies and procedures that provide reasonable assurance of the integrity and reliability of the financial statements. We believe the system provides, in a cost-effective manner and subject to the inherent limitations of 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 control have been reviewed, and appropriate action has been taken with respect to those recommendations.

The Audit Committee of the Board of Directors is comprised solely of 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 internal auditing department. The Committee is directly responsible for the appointment, compensation and oversight of the work of the independent auditors. 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.

Fred Hassan
Chairman, Chief Executive Officer and President

Robert J. Bertolini
Executive Vice President and Chief Financial Officer



Thomas H. Kelly
Vice President and Controller

Independent Auditors' Report

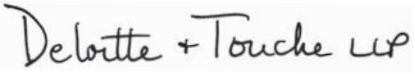
Deloitte.

To the Board of Directors and Shareholders of Schering-Plough Corporation

We have audited the accompanying consolidated balance sheets of Schering-Plough Corporation and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Corporation'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 as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.



Deloitte & Touche LLP
Parsippany, New Jersey
February 19, 2004

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

Six-Year Selected Financial & Statistical Data

	2003	2002	2001	2000	1999	1998
Operating Results						
Net sales	$ 8,334	$10,180	$ 9,762	$ 9,775	$ 9,075	$ 7,991
(Loss)/income before income taxes[1]	(46)	2,563	2,523	3,188	2,795	2,326
Net (loss)/income[1]	(92)	1,974	1,943	2,423	2,110	1,756
Diluted (loss)/earnings per common share[1]	(0.06)	1.34	1.32	1.64	1.42	1.18
Basic (loss)/earnings per common share[1]	(0.06)	1.35	1.33	1.65	1.44	1.20
Investments						
Research and development	$ 1,469	$ 1,425	$ 1,312	$ 1,333	$ 1,191	$ 1,007
Capital expenditures	701	770	759	763	543	389
Financial Condition						
Property, net	$ 4,527	$ 4,236	$ 3,814	$ 3,362	$ 2,939	$ 2,675
Total assets	15,102	14,136	12,174	10,805	9,375	7,840
Long-term debt	2,410	21	112	109	6	4
Shareholders' equity	7,337	8,142	7,125	6,119	5,165	4,002
Net book value per common share	4.99	5.55	4.86	4.18	3.51	2.72
Financial Statistics						
Net (loss)/income as a percent of sales	(1.1)%	19.4%	19.9%	24.8%	23.3%	22.0%
Return on average shareholders' equity	(1.2)%	25.9%	29.3%	42.9%	46.0%	51.5%
Effective tax rate	[2]	23.0%	23.0%	24.0%	24.5%	24.5%
Other Data						
Cash dividends per common share	$ .565	$ .67	$ .62	$ .545	$ .485	$ .425
Cash dividends on common shares	830	983	911	802	716	627
Depreciation and amortization	417	372	320	299	264	238
Number of employees	30,500	30,500	29,800	28,100	26,500	25,100
Average shares outstanding for diluted earnings per common share (in millions)	1,469	1,470	1,470	1,476	1,486	1,488
Average shares outstanding for basic earnings per common share (in millions)	1,469	1,466	1,463	1,465	1,470	1,468
Common shares outstanding at year-end (in millions)	1,471	1,468	1,465	1,463	1,472	1,472

[1] 2003, 2002 and 2001 include Special Charges of $599, $150 and $500, respectively. See "Special Charges" footnote in the Notes to Consolidated Financial Statements for additional information.

[2] For 2003, the effective tax rate is 15.0 percent excluding the $350 non-tax deductible provision to increase litigation reserves.

(DOLLARS IN MILLIONS, EXCEPT PER SHARE FIGURES)

Quarterly Data (Unaudited)

THREE MONTHS ENDED	MARCH 31		JUNE 30		SEPTEMBER 30		DECEMBER 31	
	2003	2002	2003	2002	2003	2002	2003	2002
Net sales[1]	$2,082	$2,556	$2,308	$2,833	$1,998	$2,421	$1,948	$2,370
Cost of sales	658	579	784	675	652	644	739	607
Gross profit	1,424	1,977	1,524	2,158	1,346	1,777	1,209	1,763
Selling, general and administrative	843	919	938	995	873	870	821	897
Research and development[1]	322	305	369	357	382	354	395	409
Other (income) expense, net[1]	13	(26)	(4)	(16)	41	(4)	10	(98)
Special charges	–	–	20	–	350	–	229	150
Equity (income)/loss from cholesterol joint venture[1]	30	–	(26)	–	(24)	–	(33)	–
(Loss)/income before income taxes	216	779	227	822	(276)	557	(213)	405
Income tax (benefit)/expense	43	179	45	189	(11)	128	(32)	92
Net (loss)/income	$ 173	$ 600	$ 182	$ 633	$ (265)	$ 429	$ (181)	$ 313
Diluted (loss)/earnings per common share	$ .12	$ .41	$ .12	$ .43	$ (.18)	$ .29	$ (.12)	$ .21
Basic (loss)/earnings per common share	.12	.41	.12	.43	(.18)	.29	(.12)	.21
Dividends per common share	.17	.16	.17	.17	.17	.17	.055	.17
Common share prices:								
High	23.68	36.00	20.47	30.77	19.35	25.50	17.39	23.25
Low	15.45	30.94	16.82	23.30	14.95	20.75	14.52	17.30
Average shares outstanding for diluted EPS (in millions)	1,470	1,471	1,471	1,470	1,469	1,469	1,470	1,469
Average shares outstanding for basic EPS (in millions)	1,468	1,466	1,469	1,466	1,469	1,466	1,470	1,467

[1] Effective for 2003, the Company is presenting its collaboration with Merck & Co., Inc. (Merck) following the equity method of accounting. Under that method, the Company records its share of the operating profits less its share of research and development costs in "Equity (income)/loss from cholesterol joint venture." The operating profits of the venture that had been included in net sales as alliance revenue in the first three quarters of 2003 have been reclassified to "Equity (income)/loss from cholesterol joint venture." Also, the Company's share of the venture's research and development costs, which had been reported in "Research and development" in the previous quarters of 2003, have been reclassified to "Equity (income)/loss from cholesterol joint venture." Further, in the second quarter of 2003, the Company earned a milestone from Merck of $20 that had been reported in "Other (income) expense, net" in the second quarter. This amount has also been reclassified to "Equity (income)/loss from cholesterol joint venture." Prior years have not been affected by this new presentation. See "Equity Income from Cholesterol Joint Venture" footnote in the Notes to Consolidated Financial Statements for additional information.

See "Special Charges" footnote in the Notes to Consolidated Financial Statements for additional information relating to Special Charges.

Cost of sales in the 2002 fourth quarter includes a favorable adjustment of $92 to reflect the settlement of arbitration relating to, among other things, royalty payments to Biogen. The full year impact is not material because the fourth quarter adjustment is partially offset by related accruals made in the previous three quarters of 2002. Other (income) expense, net in the 2002 fourth quarter includes a gain of $80 from the sale of U.S. marketing rights for SUBOXONE and SUBUTEX.

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 January 31, 2004, was 44,000.

Certification

I, Fred Hassan, Chairman of the Board, Chief Executive Officer and President, certify that:

1. I have reviewed this annual report on Form 10-K of Schering-Plough Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) [paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986];
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2004

Fred Hassan
Chairman of the Board, Chief Executive Officer and President

Certification

I, Robert J. Bertolini, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Schering-Plough Corporation (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) [paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986];
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2004

Robert J. Bertolini
Executive Vice President and Chief Financial Officer

Certification

I, Fred Hassan, Chairman of the Board, Chief Executive Officer and President of Schering-Plough Corporation, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Annual Report on Form 10-K for the year ended December 31, 2003 (the "Annual Report") which this statement accompanies, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of Schering-Plough Corporation.

Dated: February 26, 2004

Fred Hassan
Chairman of the Board, Chief Executive Officer and President

Certification

I, Robert J. Bertolini, Executive Vice President and Chief Financial Officer of Schering-Plough Corporation, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Annual Report on Form 10-K for the year ended December 31, 2003 (the "Annual Report") which this statement accompanies, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
2. information contained in the Annual Report fairly presents, in all material respects, the financial condition and results of operations of Schering-Plough Corporation.

Dated: February 26, 2004

Robert J. Bertolini
Executive Vice President and Chief Financial Officer

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

Hans W. Becherer (1, 2, 3, 4, 5)
Retired Chairman,
Chief Executive Officer
and Chief Operating Officer
Deere & Company
Manufacturer of Mobile Power
Machinery and Supplier of
Financial and Health Care
Services

Fred Hassan (1)
Chairman of the Board and
Chief Executive Officer
Schering-Plough Corporation

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

Philip Leder, M.D. (6)
Chairman,
Department of Genetics,
Harvard Medical School

Eugene R. McGrath (2, 6)
Chairman, President and Chief
Executive Officer
Consolidated Edison, Inc.
Energy Company

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

Carl E. Mundy, Jr. (4, 5, 6)
Retired General and Former
Commandant
U.S. Marine Corps

Richard de J. Osborne (1, 3, 4, 5)
Retired Chairman and
Chief Executive Officer
ASARCO Incorporated
Producer of Non-ferrous Metals

Patricia F. Russo (1, 3, 4)
Chairman and
Chief Executive Officer
Lucent Technologies Inc.
Communications

Kathryn C. Turner (4, 5, 6)
Chairperson, Chief Executive
Officer and President
Standard Technology, Inc.
Management and Technology
Solutions Firm

Robert F. W. van Oordt (1, 2, 4, 6)
Chairman of the Supervisory
Board
Rodamco Europe N.V.
Real Estate Investment Company

Arthur F. Weinbach (1, 2, 3, 7)
Chairman and
Chief Executive Officer
Automatic Data Processing, Inc.
Independent Computing
Services

(1) Executive Committee
(2) Audit Committee
(3) Compensation Committee
(4) Nominating and Corporate Governance Committee
(5) Finance Committee
(6) Business Practices Oversight Committee
(7) Designated Audit Committee financial expert

* RETIRING FROM THE BOARD AS OF THE 2004 ANNUAL MEETING OF SHAREHOLDERS.

Senior Management

Stanley F. Barshay (3)
Chairman,
Consumer Health Care

Robert J. Bertolini (1, 2, 3)
Executive Vice President and
Chief Financial Officer

Alfredo M. Blanco (3)
President, Latin America and
Far East Region

Richard Bowles III, Ph.D. (3)
Senior Vice President,
Global Quality Operations

C. Ron Cheeley (1, 2, 3)
Senior Vice President,
Global Human Resources

Steven Chellevold (3)
Chairman, Global Supply Chain

Joseph C. Connors (1, 2, 3)
Executive Vice President and
General Counsel

Carrie S. Cox (1, 2, 3)
Executive Vice President
and President,
Global Pharmaceuticals

Michael J. DuBois (3)
Senior Vice President,
Global Licensing

Margriet Gabriel-Regis (3)
Senior Vice President,
Specialty Care Customer Group

Ellen Geisel (3)
Senior Vice President,
Primary Care Customer Group

Douglas J. Gingerella (1, 3)
Vice President,
Corporate Audits

Fred Hassan (1, 2, 3)
Chairman and
Chief Executive Officer

Apet G. Iskendarian (3)
President, Europe, Canada,
Middle East and Africa Region

Peder Jensen, M.D. (3)
Executive Vice President,
Worldwide Clinical
Development

Thomas H. Kelly (1, 3)
Vice President and Controller

Thomas P. Koestler, Ph.D. (3)
Executive Vice President,
Global Regulatory Affairs
and Global Project
Management

Raul E. Kohan (2, 3)
Group Head, Global Specialty
Operations, and President,
Animal Health

John B. Landis, Ph.D. (3)
Senior Vice President,
Pharmaceutical Sciences and
Compliance & Clinical Release

Joseph J. LaRosa (1)
Staff Vice President, Secretary
and Associate General Counsel

Thomas C. Lauda (3)
President, Japan, Latin America
and Far East Region

James S. MacDonald, Ph.D. (3)
Executive Vice President,
Chemical, Pharmaceutical and
Safety Sciences

Sean McNicholas (3)
Senior Vice President,
Strategic Partnerships
and U.S. Managed Markets

E. Kevin Moore (1, 3)
Vice President and Treasurer

James Nelson (3)
Staff Vice President,
Patents and Trademarks,
and Associate General Counsel

Daniel A. Nichols (1, 3)
Senior Vice President, Taxes

Cecil B. Pickett, Ph.D. (1, 2, 3)
Vice President and President,
Schering-Plough Research
Institute

Bruce R. Reid (3)
Senior Vice President,
Global Business Operations

Brent Saunders (1, 2, 3)
Senior Vice President,
Global Compliance and
Business Practices

Catherine D. Strader, Ph.D. (3)
Executive Vice President,
Discovery Research

(1) Corporate Officer
(2) Executive Management Team
(3) Operations Management Team

CORPORATE INFORMATION

Investor Information:
The Annual Meeting of Shareholders of Schering-Plough Corporation will be held at the Sheraton Crossroads, One International Boulevard, Mahwah, N.J., on Tuesday, April 27, 2004, 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) 382-7833.

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: www.stockbny.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.

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.

Executive Offices:
The Company's corporate headquarters is located at: 2000 Galloping Hill Road, Kenilworth, N.J. 07033-0530. Telephone: (908) 298-4000

Corporate Web Site:
The Company's Web site address is http://www.schering-plough.com. Information of interest to shareholders is available in the Investor Relations section of the Web site, including news releases, investor frequently asked questions, Securities and Exchange Commission filings, corporate governance guidelines and the charters of Committees of the Board of Directors.

Schering-Plough's Web site also offers links to other Web sites providing information on Company products and treatment categories as well as patient assistance and support programs.

Media Inquiries:
Information for the media can be found in the News & Media section of the Company's Web site, http://www.schering-plough.com, or journalists can call (908) 298-7400.

10-K Report Available:
The Corporation's 2003 annual report on Form 10-K filed with the Securities and Exchange Commission is available without charge via the Company's Web site or by writing to the Investor Relations Department at the Executive Offices address shown above.

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Kenilworth, New Jersey 07033-0530
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