FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **2004-02-26** | Period of Report: **2003-12-31**
SEC Accession No. 0000950123-04-002379

FILER

SCHERING PLOUGH CORP
CIK:**310158**| IRS No.: **221918501** | State of Incorp.:**NJ** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **001-06571** | Film No.: **04629734**
SIC: **2834** Pharmaceutical preparations

Business Address
ONE GIRALDA FARMS
MADISON NJ 07940-1000
9738227000

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003 Commission File No. 1-6571

SCHERING-PLOUGH CORPORATION

(Exact name of registrant as specified in charter)

New Jersey	I.R.S. Employer Identification No. 22-1918501
(State of incorporation)	
2000 Galloping Hill Road Kenilworth, N.J. 07033	(908)298-4000
(Address of principal executive offices)	(Registrant' s telephone number)

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, $.50 par value	New York Stock Exchange
Preferred Share Purchase Rights*	New York Stock Exchange

*At the time of filing, the Rights were not traded separately from the Common Shares.

Indicate by check mark whether the registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant' s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). YES [X] NO [ ]

Aggregate market value of common shares held by non-affiliates computed by reference to the price at which the common shares were last sold as of June 30, 2003 (the last business day of the registrant' s most recently completed second fiscal quarter): $27,309,591,713

Common shares outstanding as of January 31, 2004: 1,471,196,309

Documents incorporated by reference	Part of Form 10-K incorporated into
Schering-Plough Corporation Proxy Statement for the Annual Meeting of Shareholders on April 27, 2004	Part III

TABLE OF CONTENTS

Part I

Item 1. Business

The terms “Schering-Plough” and the “Company,” as used herein, refer to Schering-Plough Corporation and its subsidiaries, except as otherwise indicated by the context. Schering-Plough Corporation was incorporated in 1970. The trademarks indicated by CAPITAL LETTERS in this Form 10-K are the property of, licensed to, promoted or distributed by Schering-Plough Corporation, its subsidiaries or related companies.

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

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 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.

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.

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 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.

Additional prescription products sold by the Company include: ASMANEX, CELESTAMINE, FORADIL, NASONEX, POLARAMINE and PROVENTIL, allergy/respiratory; CAELYX, CEDAX, ETHYOL, EULEXIN, GARAMYCIN, INTRON A, PEG-INTRON, REBETOL (ribavirin), REMICADE and TEMODAR, anti-infective and anticancer; DIPROLENE, DIPROSONE, ELOCON, LOTRISONE, QUADRIDERM and VALISONE, dermatologicals; INTEGRILIN, K-DUR and NITRO-DUR, cardiovasculars; and CELESTONE, DIPROSPAN and SUBUTEX and TEMGESIC, other pharmaceuticals.

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.

Animal health products include: CEPRAVIN and NUFLOR, antimicrobials; BANAMINE and ZUBRIN, non-steroidal anti-inflammatories; RALGRO, a growth promotant implant; OTOMAX, an otic product; a broad range of vaccines for many species; parasiticides, sutures, bandages and nutritional products.

Foot care, OTC and sun care products include: CLEAR AWAY wart remover; DR. SCHOLL' S foot care products; LOTRIMIN and TINACTIN antifungals; A & D ointment; AFRIN nasal decongestant; CHLOR-TRIMETON antihistamine; CLARITIN allergy; CORICIDIN and DRIXORAL cold and decongestant products; CORRECTOL laxative; BAIN DE SOLEIL, COPPERTONE and SOLARCAINE sun care products.

Recent Developments

In response to the decline in sales and earnings, the Company has initiated a number of actions including:

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.

Table of Contents

Net Sales by Major Product and Therapeutic Category
(Dollars in millions)

	For the years ended December 31,			
	2003	2002	Percent Change 2003 vs 2002	2001
ANTI-INFECTIVE & ANTICANCER	**$ 3,098**	$ 3,733	(17)%	$ 2,273
CAELYX	**111**	71	55	51
INTRON FRANCHISE*	**1,851**	2,736	(32)	1,447
REMICADE	**540**	337	60	166
TEMODAR	**324**	278	16	180
OTHER ANTI-INFECTIVE & ANTICANCER	**272**	311	(13)	429
ALLERGY & RESPIRATORY	**2,003**	3,304	(39)	4,217
CLARINEX	**694**	598	16	**
CLARITIN Rx	**370**	1,802	(79)	3,159
NASONEX	**500**	523	(4)	524
PROVENTIL	**125**	128	(2)	230
OTHER ALLERGY & RESPIRATORY	**314**	253	24	304
CARDIOVASCULARS	**467**	433	8	623
INTEGRILIN	**306**	304	1	231
OTHER CARDIOVASCULARS	**161**	129	25	392
DERMATOLOGICALS	**507**	511	(1)	593
OTHER PHARMACEUTICALS	**597**	807	(26)	715
WORLDWIDE PHARMACEUTICALS	**6,672**	8,788	(24)	8,421
OTC	**563**	269	N/M	178
OTC CLARITIN	**415**	105	N/M	–
OTHER OTC	**148**	164	(10)	178
FOOT CARE	**275**	279	(1)	291
SUN CARE	**127**	167	(24)	178
ANIMAL HEALTH	**697**	677	3	694
CONSOLIDATED NET SALES	**$ 8,334**	$ 10,180	(18)	$ 9,762

N/M – Not Meaningful

* The INTRON franchise consists of INTRON A, PEG-INTRON and REBETOL.

**In 2001, sales of CLARINEX, launched in international markets only, are included in CLARITIN Rx sales.

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:
(Dollars in millions)

	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:
(Dollars in millions)

	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 million related to the Voluntary Early Retirement Program (see "Special Charges" footnote under Item 8, Financial Statements and Supplementary Data, in this Form 10-K for additional information). It is estimated that the charges relate to the reportable segments as follows: Prescription Pharmaceuticals - $103 million, Consumer Health Care - $8 million, Animal Health - $4 million and Corporate and other - $49 million.

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."

The Company has subsidiaries in more than 40 countries outside the United States. Sales outside the United States comprised 57 percent ($4,775 million) of consolidated net sales in 2003, 43 percent ($4,419 million) in 2002 and 39 percent ($3,789 million) 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 million), 6 percent ($613 million) and 5 percent ($459 million) of consolidated net sales in 2003, 2002 and 2001, respectively. Japan accounted for 5 percent ($414 million), 5 percent ($524 million) and 3 percent ($320 million) of consolidated net sales in 2003, 2002 and 2001, respectively. Italy accounted for 5 percent ($436 million), 3 percent ($339 million) and 3 percent ($266 million) of consolidated net sales in 2003, 2002 and 2001, respectively.

Net Sales by Geographic Area
(Dollars in millions)

	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 million), 21 percent ($2,092 million) and 16 percent ($1,568 million), 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 million), 11 percent ($1,101 million) and 12 percent ($1,160 million), respectively, of consolidated net sales were made to AmerisourceBergen Corporation, a major pharmaceutical and health care products distributor.

Long-lived Assets by Geographic Location
(Dollars in millions)

	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.

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: (Dollars in millions)

	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.

Prescription drugs are introduced and made known to physicians, pharmacists, hospitals, managed care organizations and buying groups by trained professional sales representatives, and are sold to hospitals, certain managed care organizations, wholesale distributors and retail pharmacists. Prescription products are also introduced and made known through journal advertising, direct mail advertising, by distributing samples to physicians and through television, radio, internet, print and other advertising media.

Animal health products are promoted to veterinarians, distributors and animal producers.

Foot care, OTC and sun care products are sold through wholesale and retail drug, food chain and mass merchandiser outlets, and are promoted directly to the consumer through television, radio, internet, print and other advertising media.

The pharmaceutical industry is highly competitive and includes other large companies with substantial resources for research, product development, advertising, promotion and field selling support. There are numerous domestic and international competitors in this industry. Some of the principal competitive techniques used by the Company for its products include research and development of new and improved products, high product quality, varied dosage forms and strengths and switching prescription products to non-prescription status. In the United States, many of the Company' s products are subject to increasingly competitive pricing as managed care groups, institutions, federal and state government entities and agencies and buying groups seek price discounts and rebates. Governmental and other pressures toward the dispensing of generic products may significantly reduce the sales of certain products when they become no longer protected by patents or data exclusivity arrangements with the FDA.

The Company' s subsidiaries own (or have licensed rights under) a number of patents and patent applications, both in the United States and abroad. Patents and patent applications relating to the Company' s significant products, including, without limitation, CLARINEX, the CLARITIN family of products, INTRON A, PEG-INTRON, REBETOL, NASONEX and ZETIA, are of material importance to the Company. 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. In addition, generic forms of ribavirin are expected to enter the U.S. market in 2004, assuming FDA' s approval of a generic ribavirin. These patents are subject to litigation as described in Item 3, Legal Proceedings, of this Form 10-K.

Worldwide, the Company' s products are sold under trademarks. Trademarks are considered in the aggregate to be of material importance to the business and are protected by registration or common law in the United States and most other markets where the products are sold.

Raw materials essential to the Company are available in adequate quantities from a number of potential suppliers. Energy is expected to be available to the Company in sufficient quantities to meet operating requirements.

Seasonal patterns do not have a pronounced effect on the consolidated operations of the Company.

Foreign Operations

Foreign activities are carried out primarily through wholly-owned subsidiaries wherever market potential is adequate and circumstances permit. In addition, the Company is represented in some markets through licensees or other distribution arrangements. There are approximately 17,000 employees outside the United States.

Foreign operations are subject to certain risks, which are inherent in conducting business overseas. These risks include possible nationalization, expropriation, importation limitations, pricing restrictions, and other restrictive governmental actions or economic destabilization. Also, fluctuations in foreign currency exchange rates can impact the Company' s consolidated financial results. For additional information on foreign operations, see Item 7, Management' s Discussion and Analysis of Operations and Financial Condition, and the segment information described above in this Form 10-K.

Research and Development

The Company' s research activities are primarily aimed at discovering and developing new and enhanced prescription products of medical and commercial significance. Company sponsored research and development expenditures were $1,469 million, $1,425 million and $1,312 million in 2003, 2002 and 2001, respectively. Research expenditures represented approximately 18 percent of consolidated net sales in 2003, 14 percent of consolidated net sales in 2002 and approximately 13 percent of consolidated net sales in 2001. In addition, the Company' s share of research and development costs relating to the cholesterol joint venture with Merck was $79

million for 2003 (included in “Equity income from cholesterol joint venture” in the Statements of Consolidated Operations).

The Company’ s research activities are concentrated in the therapeutic areas of allergic and inflammatory disorders, infectious diseases, oncology, cardiovascular diseases, and central nervous system disorders. The Company also has substantial efforts directed toward biotechnology, gene therapy and immunology. Research activities include expenditures for both internal research efforts and research collaborations with various partners.

While several pharmaceutical compounds are in varying stages of development, it cannot be predicted when or if these compounds will become available for commercial sale.

Government Regulation

Pharmaceutical companies are subject to extensive regulation by a number of national, state and local agencies. Of particular importance is the FDA. It has jurisdiction over all the Company’ s businesses and administers requirements covering the testing, approval, safety, effectiveness, manufacturing, labeling and marketing of the Company’ s products. The FDA also regulates the conversion of pharmaceuticals from prescription to OTC status. The extent of FDA requirements and/or reviews affects the amount of resources necessary to develop new products and bring them to market in the United States.

On an ongoing basis, the FDA regulates the facilities and procedures used to manufacture pharmaceutical products in the United States or for sale in the United States. All products made in such facilities are to be manufactured in accordance with Good Manufacturing Practices (GMPs) established by the FDA. The FDA periodically inspects the Company’ s facilities and procedures to evaluate compliance.

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 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 May 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 thousand 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 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 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.

Failure to comply with governmental regulations can result in delays in the release of products, delays in the approvals 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.

The Company' s activities outside the United States are also subject to regulatory requirements governing the testing, approval, safety, effectiveness, manufacturing, labeling and marketing of the Company' s products. These regulatory requirements vary from country to country. Whether or not FDA approval or approval of the European Medicines Evaluation Agency has been obtained for a product, approval of the product by comparable regulatory authorities of countries outside of the United States or the European Union, as the case may be, must be obtained prior to marketing the product in those countries. The approval process may be more or less rigorous from country to country and the time required for approval may be longer or shorter than that required in the United States. Approval in one country does not assure that such product will be approved in another country.

In most international markets, the Company operates in an environment of government-mandated, cost-containment programs. Several governments have placed restrictions on physician prescription levels and patient reimbursements, emphasized greater use of generic drugs and enacted across-the-board price cuts as methods of cost control.

In recent years, various legislative proposals have been offered in Congress and in many state legislatures that would effect major changes in the affected health care systems. One such change that could be material to the Company is the addition of an outpatient prescription drug benefit to Medicare. Some states have passed legislation, and further federal and state legislative and administrative proposals are possible. These could include price or patient reimbursement constraints on medicines, mandated discounts, supplemental rebates, expansion of existing governmental programs for new patient populations and restrictions on access to certain products. Similar issues have also arisen in many countries outside of the United States. It is not possible to predict the outcome of such initiatives and their effect on operations and cash flows 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.

The Company is also subject to the jurisdiction of various other federal and state regulatory and enforcement departments and agencies, such as the Federal Trade Commission (FTC), the Department of Justice and the Department of Health and Human Services in the United States. The Company is, therefore, subject to possible administrative and legal proceedings and actions by those organizations. Such actions may result in the imposition of civil and criminal sanctions, which may include fines, penalties and injunctive or administrative remedies.

Environment

To date, compliance with federal, state and local environmental protection laws has not had a materially adverse effect on the Company. The Company has made and will continue to make necessary expenditures for environmental protection. Worldwide capital expenditures during 2003 included approximately $9 million for environmental control purposes. It is anticipated that continued compliance with such environmental regulations will not significantly affect the Company' s financial statements or its competitive position. For additional information on environmental matters, see Item 3, Legal Proceedings, in this form 10-K.

Employees

There were approximately 30,500 people employed by the Company at December 31, 2003.

Available information

The Company makes its annual report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed with the SEC available free of charge, on its Web site, as soon as reasonably practicable after such materials are electronically filed with the SEC. The Company' s address on the World Wide Web is schering-plough.com. Since the Company began this practice in the third quarter 2002, each such report has been available on the Company' s Web site within 24 hours of filing. Reports filed by the Company with the SEC may be read and copied at the SEC' s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet site at www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Item 2. Properties

The Company' s corporate headquarters is located in Kenilworth, New Jersey. Principal manufacturing facilities are located in Kenilworth, New Jersey; Miami, Florida; Omaha, Nebraska; Cleveland, Tennessee; Puerto Rico, Argentina, Belgium, Canada, France, Germany, Ireland, Italy, Japan, Mexico, Singapore and Spain.

The Company' s principal research facilities are located in Kenilworth and Union, New Jersey; Palo Alto and San Diego, California; and Elkhorn, Nebraska.

On May 17, 2002, the Company announced that it reached an agreement with the FDA to enter into a consent decree to resolve issues involving the Company' s compliance with cGMP at certain manufacturing facilities in New Jersey and Puerto Rico. Refer to the "Government Regulation" section within Item 1 of this Form 10-K for additional information regarding the consent decree.

All properties are owned by the Company. These properties are generally well maintained, insured and in generally good operating condition. The Company' s manufacturing facilities have capacities considered appropriate to meet the Company' s needs.

Item 3. Legal Proceedings

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 million. 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.

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 million. 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 million 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 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 million. 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 million 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 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 million, 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 million 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.

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 million, 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 million. 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.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Executive Officers of the Registrant

The following information regarding executive officers is included herein in accordance with Part III, Item 10. Corporate officers are also listed.

Officers are elected to serve for one year and until their successors shall have been duly elected.

Name and Current Position	Business Experience	Age
Robert J. Bertolini * Executive Vice President and Chief Financial Officer	Present position 2003; Partner, PricewaterhouseCoopers 1993-2003	42
C. Ron Cheeley * Senior Vice President, Global Human Resources	Present position 2003; Group Vice President, Global Compensation and Benefits, Pharmacia Corporation 1998-2003	53
Joseph C. Connors * Executive Vice President and General Counsel	Present position 1996	55
Carrie S. Cox * Executive Vice President and President, Global Pharmaceuticals	Present position 2003; Executive Vice President and President, Global Prescription Business, Pharmacia Corporation 1999-2003; Senior Vice President and Head of Global Business Management, Pharmacia & Upjohn 1997-1999	46
Douglas J. Gingerella Vice President, Corporate Audits	Present position 1999; Staff Vice President, Corporate Audits 1995 -1998	45
Fred Hassan * Chairman, Chief Executive Officer and President	Present position 2003; Chairman of the Board and Chief Executive Officer, Pharmacia Corporation 2001-2003; Chief Executive Officer, Pharmacia Corporation 2000-2001; Chief Executive Officer, Pharmacia & Upjohn 1997-2000	58

Name and Current Position	Business Experience	Age
Thomas H. Kelly * Vice President and Controller	Present position 1991	54
Joseph J. LaRosa Staff Vice President, Secretary and Associate General Counsel	Present position 2001; Staff Vice President, Commercial Law 1999 - 2000; Senior Legal Director 1997 -1999; Legal Director 1995 - 1997	45
E. Kevin Moore Vice President and Treasurer	Present position 1996	51
Daniel A. Nichols Senior Vice President, Taxes	Present position 1991	63
Cecil B. Pickett, Ph.D. * Vice President and President, Schering-Plough Research Institute	Present position 2002; Executive Vice President, Discovery Research, Schering-Plough Research Institute 1994-2002	58
Brent Saunders * Senior Vice President, Global Compliance and Business Practices	Present position 2003; Partner, PricewaterhouseCoopers 2000-2003; Chief Risk Officer, Coventry Health Care 1998-1999	34

* Officers as defined in Rule 16a-1(f) under the Securities Exchange Act of 1934.

Part II

Item 5. Market for Registrant' s Common Equity and Related Stockholder Matters

The common share dividends, share price data and the approximate number of holders of record are set forth under Item 8, Financial Statements and Supplementary Data, in this Form 10-K.

Item 6. Selected Financial Data

(Dollars in millions, except per share figures)	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 under Item 8, Financial Statements and Supplementary Data, in this Form 10-K 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.

Item 7. Management' s Discussion and Analysis of Financial Condition and Results of Operation

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:

(Dollars in millions)

				% Increase (Decrease)	
	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
(Dollars in millions)

				% Increase (Decrease)	
	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 expense 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:

(Dollars in millions)

	Payments due by period				
	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 Financial Condition and Results of Operations 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.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

See the Market Risk Disclosures as set forth in Item 7, Management' s Discussion and Analysis of Operations and Financial Condition and Results of Operation, in this Form 10-K.

Item 8. Financial Statements and Supplementary Data

Index to Financial Statements

Statements of Consolidated Operations for the Years Ended December 31, 2003, 2002 and 2001

Statements of Consolidated Cash Flows for the Years Ended December 31, 2003, 2002 and 2001

Consolidated Balance Sheets at December 31, 2003 and 2002

Statements of Consolidated Shareholders' Equity for the Years Ended December 31, 2003, 2002 and 2001

Notes to Consolidated Financial Statements

Independent Auditors' Report

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

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.

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

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.

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

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

	At December 31, 2003	2002
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.

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

(Amounts in millions)	Common Shares	Paid-in Capital	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance 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 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.

	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	**$ (0.06)**	$ 1.34	$ 1.32
Pro forma diluted (loss)/earnings per share using the fair value method	**(0.12)**	1.29	1.27
Basic (loss)/earnings per share:			
Basic (loss)/earnings per share, as reported	**$ (0.06)**	$ 1.35	$ 1.33
Pro forma basic (loss)/earnings per share using the fair value method	**(0.12)**	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

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 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.

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 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.

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.

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)	2003 Number of Options	2003 Weighted-Average Exercise Price	2002 Number of Options	2002 Weighted-Average Exercise Price	2001 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:

(Number of options in millions)

	Outstanding			Exercisable	
Exercise Price Range	Number of Options	Weighted-Average Remaining Term in Years	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
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.

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 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 the post-retirement benefit obligation by $52. In 2003, the Medicare Prescription Drug, Improvement and Modernization Act (the “Act”) 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:

Asset Category	Target Allocation 2004	Percentage of Plan Assets at December 31 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:

Asset Category	Target Allocation 2004	Percentage of Plan Assets at December 31 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.

INCOME TAXES

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

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 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.

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.

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.

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 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 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.

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.

INDEPENDENT AUDITORS' REPORT

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. Our audits also included the financial statement schedule listed at Item 15. These financial statements and financial statement schedule are the responsibility of the Corporation' s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule 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. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/DELOITTE & TOUCHE LLP
Parsippany, New Jersey
February 19, 2004

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

QUARTERLY DATA (UNAUDITED)

Three Months Ended	March 31		June 30		September 30		December 31	
(Dollars in millions, except per share figures)	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.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Management, including the chief executive officer and the chief financial officer, has evaluated the Company' s disclosure controls and procedures as of the end of the period covered by this Form 10-K and has concluded that the Company' s disclosure controls and procedures are effective. They also concluded that there were no changes in the Company' s internal control over financial reporting that occurred during the Company' s most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company' s internal control over financial reporting.

Part III

Item 10. Directors and Executive Officers of the Registrant

The information concerning directors and nominees for directors as set forth under the captions "Election of Directors" and "Stock Ownership" in the Company' s Proxy Statement for the annual meeting of shareholders on April 27, 2004 is incorporated herein by reference.

Information required as to executive officers is included in Part I of this filing under the caption "Executive Officers of the Registrant."

The Company' s Board of Directors has determined that the Company has at least one audit committee financial expert serving on its audit committee. The financial expert is Arthur F. Weinbach, and he is independent as defined in the New York Stock Exchange Listing standards, the more restrictive Schering-Plough Board Independence Standard found in the Schering-Plough Corporate Governance Guidelines (available on the Web site and also included in the Proxy Statement) and as required under Rule 10A-3(b)(1) under the Securities Exchange Act of 1934, as amended.

The Company has adopted a Code of Ethics for Senior Financial Officers that applies to the Company' s chief executive officer, chief financial officer and controller. The Code of Ethics for Senior Financial Officers is filed as Exhibit 14 to this Form 10-K.

A written copy of the Code of Ethics for Senior Financial Officers, as well as the Business Conduct Policy for all employees and the Directors' Code of Conduct and Ethics, will be provided at no charge by writing to the Corporate Secretary, Schering-Plough Corporation, 2000 Galloping Hill Road, Mail Stop K-1-4525, Kenilworth, New Jersey 07033. Also, the Code of Ethics for Senior Financial Officers, the Business Conduct Policy for all employees and the Directors' Code of Conduct and Ethics are available on the Schering-Plough Web site at http://phx.corporate-ir.net/phoenix.zhtml?c=89839&p=irol-govConduct.

Item 11. Executive Compensation

Executive compensation information as set forth under the caption "Executive Compensation" in the Company' s Proxy Statement for the annual meeting of shareholders on April 27, 2004 is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information concerning security ownership of certain beneficial owners and management as set forth under the caption "Stock Ownership" in the Company' s Proxy Statement for the annual meeting of shareholders on April 27, 2004 is incorporated herein by reference.

Equity Compensation Plan Information − The following information relates to plans under which equity securities of the Company may be issued to employees or directors. The Company has no plans under which equity securities may be issued to non-employees (except that under the 2002 Stock Incentive Plan and predecessor plans, certain stock options may be transferable to family members of the employee-optionee or related trusts).

Plan Category	Column A Number of securities to be issued upon exercise of outstanding options, warrants and rights	Column B Weighted-average exercise price of outstanding options, warrants and rights	Column C Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in Column A)
Equity compensation plans approved by security holders			
2002 Stock Incentive Plan and Predecessor Plans	71,000,000	$ 30.15	45,000,000
Equity compensation plans not approved by security holders			
Directors Stock Award Plan*	N/A	N/A	562,008

Schering-Plough (Ireland) Share Purchase Scheme**	N/A	N/A	**
Non-plan inducement awards not approved by security holders	300,000 restricted shares***	N/A	0
Total			45,562,008

---

*The Plan provides an annual grant of 2,500 shares of common stock to each non-employee director. Directors may defer awards into stock units that pay out in shares of common stock when the deferral period ends.

**The Plan permits employees who reside in Ireland to enjoy tax advantages by having some or all of their Christmas bonus and between 1% and 5% of their pay passed to a trustee. The trustee purchases shares of common stock in the open market and allocates the shares to the employees' accounts. No more than 10,000 Irish pounds by an employee may be deferred in a year. Employees may not sell or withdraw shares allocated to their accounts for two to three years.

***Represents restricted shares awarded pursuant to Restricted Shares Agreements outside of any equity compensation plan adopted by the Company. Mr. Hassan was awarded 200,000 restricted shares upon the commencement of his employment in April 2003. Ms. Cox was awarded 100,000 restricted shares upon the commencement of her employment in May 2003. Both awards of restricted shares vest upon the third anniversary of the award date. Such non-plan awards were authorized by the Compensation Committee of the Board but have not been approved by the stockholders of the Company.

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions as set forth under the caption "Certain Transactions" in the Company' s Proxy Statement for the annual meeting of shareholders on April 27, 2004 is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

Information concerning principal accountant fees and services as set forth under the caption "Ratification of Designation of Independent Auditors" in the Company' s Proxy Statement for the annual meeting of shareholders on April 27, 2004 is incorporated herein by reference.

Part IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)1. The financial statements are set forth under Item 8 of this Annual Report on Form 10-K.

(a)2.Financial Statement Schedules

Schedules not included have been omitted because they are not applicable or not required or because the required information is set forth in the financial statements or the notes thereto. Columns omitted from schedules filed have been omitted because the information is not applicable.

Financial statements of fifty percent or less owned companies accounted for by the equity method have been omitted because, considered individually or in the aggregate, they do not constitute a significant subsidiary.

(a)3. Exhibits

Exhibit Number	Description
3 (a)	A complete copy of the Certificate of Incorporation as amended and currently in effect. Incorporated by reference to Exhibit 3(i) to the Company' s Quarterly Report for the period ended June 30, 1995 on Form 10-Q; Certificate of Amendment of Certificate of Incorporation incorporated by reference to Exhibit 3 to the Company' s Quarterly Report for the period ended June 30, 1997 on Form 10-Q; Certificate of Amendment of Certificate of Incorporation incorporated by reference to Exhibit 3(a) to the Company' s Quarterly Report for the period ended March 31, 1999 on Form 10-Q, File No. 1-6571.
3 (b)	A complete copy of the By-Laws as amended and currently in effect. Incorporated by reference to Exhibit 4(2) to the Company' s Registration Statement on Form S-3, File No. 333-853; amendment to By-Laws effective September 22, 1998 incorporated by reference to Exhibit 4 to the Company' s Quarterly Report for the period ended September 30, 1998 on Form 10-Q; amendment to By-Laws effective April 24, 2001 incorporated by reference to Exhibit 4 to the Company' s Quarterly Report for the period ended March 31, 2001 on Form 10-Q; amendment to By-Laws effective December 3, 2001 incorporated by reference to Exhibit 3(b) to the Company' s Annual Report for 2001 on Form 10-K, File No. 1-6571.
4 (a)	Rights Agreement between the Company and the Bank of New York dated June 24, 1997. Incorporated by reference to Exhibit 1 to the Form 8-A filed by the Company on June 30, 1997, File No. 1-6571.
4 (b)	Form of Participation Rights Agreement between the Company and the Chase Manhattan Bank (National Association) as Trustee. Incorporated by reference to Exhibit 4.6 to the Company' s Registration Statement on Form S-4, Amendment No. 1, File No. 33-65107.
4 (c)(i)	Indenture, dated November 26, 2001, between the Company and The Bank of New York as Trustee incorporated by reference to Exhibit 4.1 to the Company' s 8-K filed November 28, 2003, File No. 1-6571.
4 (c)(ii)	First Supplemental Indenture (including Form of Note), dated November 26, 2003, incorporated by reference from 8-K filed November 28, 2003, File No. 1-6571.

Exhibit Number	Description
4 (c)(iii)	Second Supplemental Indenture (including Form of Note), dated November 26, 2003, incorporated by reference from 8-K filed November 28, 2003, File No. 1-6571.
4 (c)(iv)	5.30% Global Senior Note, due 2013 (filed with this document).
4 (c)(v)	6.50% Global Senior Note, due 2033 (filed with this document).
10 (a) (i)	The Company' s Executive Incentive Plan (as amended) and Trust related thereto.* Plan incorporated by reference to Exhibit 10 to the Company' s Quarterly Report for the period ended March 31, 1994 on Form 10-Q; Executive Incentive Plan as Amended and Restated to October 1, 2000 incorporated by reference to Exhibit 10(a) (i) to the Company' s Annual Report for 2000 on Form 10-K, File No. 1-6571.
10 (a) (ii)	Trust Agreement* incorporated by reference to Exhibit 10(a) to the Company' s Annual Report for 1988 on Form 10-K; amendment to Trust Agreement incorporated by reference to Exhibit 10(b) to the Company' s Quarterly Report for the period ended March 31, 1997 on Form 10-Q; Amended and Restated Defined Contribution Trust incorporated by reference to Exhibit 10(a)(ii) to the Company' s Annual Report for 2000 on Form 10-K , File No. 1-6571.
10 (b)	The Company' s 1992 Stock Incentive Plan (as amended).* Incorporated by reference to Exhibit 10(d) to the Company' s Annual Report for 1992 on Form 10-K, File No. 1-6571; amendment of December 11, 1995 incorporated by reference to Exhibit 10(d) to the Company' s Annual Report for 1995 on Form 10-K, File No. 1-6571; amendment of February 25, 2003 incorporated by reference to Exhibit 10(b) to the Company' s Annual Report for 2002 on Form 10-K, File No. 1-6571.
10 (c)	The Company' s 1997 Stock Incentive Plan (as amended).* Incorporated by reference to Exhibit 10 to the Company' s Quarterly Report for the period ended September 30, 1997 on Form 10-Q; Amendment to 1997 Stock Incentive Plan incorporated by reference to Exhibit 10(a) to the Company' s Quarterly Report for the period ended March 31, 1999 on Form 10-Q, File No. 1-6571; amendment of February 25, 2003 incorporated by reference to Exhibit 10(c) to the Company' s Annual Report for 2002 on Form 10-K, File No. 1-6571.
10 (d)	The Company' s 2002 Stock Incentive Plan.* Incorporated by reference to the Company' s Proxy Statement for the annual meeting of shareholders on April 23, 2002; amendment of February 25, 2003 incorporated by reference to Exhibit 10(d) to the Company' s Annual Report for 2002 on Form 10-K, File No. 1-6571.

Exhibit Number	Description
10 (e) (i)	Employment Agreement dated as of April 20, 2003 between Fred Hassan and Schering-Plough Corporation, incorporated by reference to Exhibit 99.2 to the Schering-Plough Corporation 8-K filed April 21, 2003, File No. 1-6571*
10 (e) (ii)	Employment Agreement dated as of May 12, 2003 between Carrie Cox and Schering-Plough Corporation, incorporated by reference to Exhibit 99.6 to the Schering-Plough Corporation 8-K filed May 13, 2003, File No. 1-6571*
10 (e) (iii)	Letter agreement dated November 4, 2003 between Robert Bertolini and Schering-Plough Corporation (filed with this document)*
10 (e) (iv)	Employment Agreement effective upon a change of control dated as of November 17, 2003 between Robert Bertolini and Schering-Plough Corporation (filed with this document)*
10 (e) (v)	Retirement Agreement between Richard Jay Kogan and Schering-Plough Corporation, incorporated by reference to Exhibit 99.2 to Form 8-K filed November 13, 2002, File No. 1-6571*
10 (e) (vi)	Employment agreement between the Company and Richard Jay Kogan (as amended).* Incorporated by reference to Exhibit 10(e)(ii) to the Company' s Annual Report for 1989 on Form 10-K; first amendment incorporated by reference to Exhibit 10(b) to the Company' s Quarterly Report for the period ended June 30, 1994 on Form 10-Q; second amendment incorporated by reference to Exhibit 10(e)(ii) to the Company' s Annual Report for 1994 on Form 10-K; third amendment incorporated by reference to Exhibit 10(a) to the Company' s Quarterly Report for the period ended September 30, 1995 on Form 10-Q; fourth amendment incorporated by reference to Exhibit 10(b) to the Company' s Quarterly Report for the period ended March 31, 1998 on Form 10-Q; fifth amendment incorporated by reference to Exhibit 10(e)(ii) to the Company' s Annual Report for 1998 on Form 10-K; sixth amendment incorporated by reference to Exhibit 10(a) to the Company' s Quarterly Report for the period ended June 30, 2002 on Form 10-Q, File No. 1-6571.

Exhibit Number	Description
10 (e) (vii)	Form of employment agreement between the Company and its executive officers effective upon a change of control.* Incorporated by reference to Exhibit 10(e)(iv) to the Company' s Annual Report for 1994 on Form 10-K; Form of amendment incorporated by reference to Exhibit 10(a) to the Company' s Quarterly Report for the period ended September 30, 1999 on Form 10-Q; Forms of amendment effective January 1, 2002 incorporated by reference to Exhibits 10(e) (ii) (A) and (B) to the Company' s Annual Report for 2001 on Form 10-K; Form of employment agreement between the Company and its executive officers effective upon a change of control incorporating all prior amendments through January 1, 2002 and for new agreements effective beginning January 1, 2002, incorporated by reference to Exhibit 10(e)(ii)(C) to the Company' s Annual Report for 2001 on Form 10-K, File no. 1-6571.
10(e)(viii)	Supplement to employment agreement effective upon a change of control (described in Exhibit 10(e)(vii) of this document index) between the Company and Joseph C. Connors, incorporated by reference to Exhibit 10(e)(vi) to the Company' s Annual Report for 2001 on Form 10-K*, File No. 1-6571.
10 (e) (ix)	First amendment to supplement to employment agreement effective upon a change of control (described in Exhibit 10(e)(viii) of this document index) dated as of December 16, 2003 between Joseph C. Connors and Schering-Plough Corporation (filed with this document)*
10 (e) (x)	Supplement to employment agreement effective upon a change of control (described in Exhibit 10(e)(vii) of this document index) dated as of January 1, 2002 between Schering-Plough Corporation and Raul Kohan (filed with this document)*
10(e)(xi)	Supplement to employment agreement effective upon a change of control (described in Exhibit 10(e)(vii) of this document index) between the Company and Jack Wyszomierski, incorporated by reference to Exhibit 10(e)(vii) to the Company' s Annual Report for 2001 on Form 10-K*, File No. 1-6571.
10(e)(xii)	Supplement to employment agreement effective upon a change of control (described in Exhibit 10(e)(vii) of this document index) between the Company and Richard W. Zahn, incorporated by reference to Exhibit 10(e)(viii) to the Company' s Annual Report for 2001 on Form 10-K*, File No. 1-6571.

Exhibit Number	Description
10 (f)	Amended and Restated Directors Deferred Compensation Plan and Trust related thereto.* Incorporated by reference to Exhibit 10(b) to the Company' s Quarterly Report for the period ended September 30, 1999 on Form 10-Q; Trust Agreement incorporated by reference to Exhibit 10(a) to the Company' s Annual Report for 1998 on Form 10-K; amendment to Trust Agreement incorporated by reference to Exhibit 10(b) to the Company' s Quarterly Report for the period ended March 31, 1997 on Form 10-Q; Amended and Restated Defined Contribution Trust incorporated by reference to Exhibit 10(a)(ii) to the Company' s Annual Report for 2000 on Form 10-K, File No. 1-6571.
10 (g)	Supplemental Executive Retirement Plan and Trust related thereto.* Incorporated by reference to Exhibit 10(e) to the Company' s Quarterly Report for the period ended March 31, 1998 on Form 10-Q; Amendment incorporated by reference to Exhibit 10(a) to the Company' s Quarterly Report for the period ended September 30, 1998 on Form 10-Q, Second Amendment to Supplemental Executive Retirement Plan effective as of October 1, 2000; incorporated by reference to Exhibit 10(g) to the Company' s Annual Report for 2000 on Form 10-K; Amended and Restated Trust Agreement incorporated by reference to Exhibit 10(g) to the Company' s Annual Report for 1998 on Form 10-K, File No. 1-6571.
10 (h)	Amended and Restated Directors Stock Award Plan incorporated by reference to Exhibit 10(h) to the Company' s Annual Report for 2002 on Form 10-K, File No. 1-6571.*
10 (i)	Deferred Compensation Plan.* Incorporated by reference to Exhibit 10(b) to the Company' s Quarterly Report for the period ended September 30, 1995 on Form 10-Q; Deferred Compensation Plan as Amended and Restated to October 1, 2000 incorporated by reference to Exhibit 10(h) to the Company' s Annual Report for 2000 on Form 10-K , File No. 1-6571.
10 (j)	Amended and Restated Directors Deferred Stock Equivalency Program.* Incorporated by reference to Exhibit 10(d) to the Company' s Quarterly Report for the period ended September 30, 1999 on Form 10-Q, File No. 1-6571.
10 (k)	The Company' s Form of Split Dollar Agreement and related Collateral Assignment between the Company and its Executive Officers.* Incorporated by reference to Exhibit 10(l) to the Company' s Annual Report for 1997 on Form 10-K; amendments incorporated by reference to Exhibit 10(g) to the Company' s Quarterly Report for the period ended March 31, 1998 on Form 10-Q, File No. 1-6571.

Exhibit Number	Description
10 (l)	The Company' s Retirement Benefits Equalization Plan, Second Amendment effective as of October 1, 2000 incorporated by reference to Exhibit 10(l) to the Company' s Annual Report for 2000 on Form 10-K.* Incorporated by reference to Exhibit 10(f) to the Company' s Quarterly Report for the period ended March 31, 1998 on Form 10-Q; amendment incorporated by reference to Exhibit 10(b) to the Company' s Quarterly Report for the period ended September 30, 1998 on Form 10-Q, File No. 1-6571.
10 (m)	Operations Management Team Incentive Plan (filed with this document)*
10 (n)	Cash Long-Term Incentive Plan (filed with this document)*
10 (o)	Long-Term Performance Share Unit Incentive Plan (filed with this document)*
10 (p)	Transformational Performance Contingent Shares Program (filed with this document)*
10 (q)	Cholesterol Governance Agreement, dated as of May 22, 2000, by and among the Company, Merck & Co., Inc. and the other parties signatory thereto. Incorporated by reference to Exhibit 99.2 to the Company' s Current Report on Form 8-K dated October 21, 2002.**
10 (r)	First Amendment to the Cholesterol Governance Agreement, dated as of December 18, 2001, by and among the Company, Merck & Co., Inc. and the other parties signatory thereto. Incorporated by reference to Exhibit 99.3 to the Company' s Current Report on Form 8-K dated October 21, 2002.**
10 (s)	Master Agreement, dated as of December 18, 2001, by and among the Company, Merck & Co., Inc. and the other parties signatory thereto. Incorporated by reference to Exhibit 99.4 to the Company' s Current Report on Form 8-K dated October 21, 2002.**
10 (t).1	Consent Decree of Permanent Injunction, dated May 16, 2002, by and among the Company and the other parties thereto. Incorporated by reference to Exhibit 99.1 to the Company' s Current Report on Form 8-K dated May 20, 2002.
10 (t).2	Letter Agreement dated April 14, 2003 relating to Consent Decree incorporated by reference to Exhibit 99.3 to the Company' s Quarterly Report for the period ended March 31, 2003 on Form 10-Q, File No. 1-6571.

Exhibit Number	Description
10 (u)	Distribution agreement between the Company and Centocor, Inc., dated April 3, 1998.***
12	Computation of Ratio of Earnings to Fixed Charges (filed with this document).
14	Code of Ethics for Senior Financial Executives (filed with this document).
21	Subsidiaries of the registrant (filed with this document).
23	Consent of Deloitte & Touche LLP (filed with this document).
24	Power of attorney (filed with this document).
31.1	Sarbanes-Oxley Act of 2002, Section 302 Certification for Chairman of the Board, Chief Executive Officer and President (filed with this document).
31.2	Sarbanes-Oxley Act of 2002, Section 302 Certification for Executive Vice President and Chief Financial Officer (filed with this document).
32.1	Sarbanes-Oxley Act of 2002, Section 906 Certification for Chairman of the Board, Chief Executive Officer and President (filed with this document).
32.2	Sarbanes-Oxley Act of 2002, Section 906 Certification for Executive Vice President and Chief Financial Officer (filed with this document).

*Compensatory plan, contract or arrangement.

** Note that information is omitted from Exhibits 10 (q), 10 (r) and 10 (s) pursuant to a request for confidential treatment and is filed separately with the Securities and Exchange Commission pursuant to rule 24b-2 under the Securities Exchange Act of 1934, as amended.

*** Note that information is omitted from Exhibit 10(u) pursuant to a request for confidential treatment and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

All other exhibits are not applicable. Copies of above exhibits will be furnished upon request.

(b) Reports on Form 8-K.

During the three-month period ended December 31, 2003, the Company filed (or furnished) eleven current reports on Form 8-K:

1. Report on Form 8-K, filed October 10, 2003, under Item 5 - Other Events and Regulation FD Disclosure, Item 7 - Financial Statements and Exhibits and Item 9 - Regulation FD Disclosure.

2. Report on Form 8-K, filed October 22, 2003, under Item 5 - Other Events and Regulation FD Disclosure, Item 7 - Financial Statements and Exhibits and Item 12 - Results of Operations and Financial Condition.

3. Report on Form 8-K, filed October 24, 2003, under Item 5 - Other Events and Regulation FD Disclosure and Item 7 - Financial Statements and Exhibits.

4. Report on Form 8-K, filed November 5, 2003, under Item 7 - Financial Statements and Exhibits and Item 9 - Regulation FD Disclosure.

5. Report on Form 8-K, filed November 12, 2003, under Item 5 - Other Events and Regulation FD Disclosure and Item 7 - Financial Statements and Exhibits.

6. Report on Form 8-K/A, filed November 19, 2003, under Item 5 - Other Events and Regulation FD Disclosure and Item 7 - Financial Statements and Exhibits.

7. Report on Form 8-K, filed November 21, 2003, under Item 5 - Other Events and Regulation FD Disclosure and Item 7 - Financial Statements and Exhibits.

8. Report on Form 8-K, filed November 21, 2003, under Item 7 - Financial Statements and Exhibits and Item 9 - Regulation FD Disclosure.

9. Report on Form 8-K, filed November 24, 2003, under Item 5 - Other Events and Regulation FD Disclosure and Item 7 - Financial Statements and Exhibits.

10. Report on Form 8-K, filed November 28, 2003, under Item 5 - Other Events and Regulation FD Disclosure and Item 7 - Financial Statements and Exhibits.

11. Report on Form 8-K, filed December 18, 2003, under Item 5 - Other Events and Regulation FD Disclosure, Item 7 - Financial Statements and Exhibits and Item 9 – Regulation FD Disclosure.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Schering-Plough Corporation
(Registrant)

Date February 26, 2004

By /s/ Thomas H. Kelly

Thomas H. Kelly
Vice President and Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

By /s/ Fred Hassan

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

By /s/ Robert J. Bertolini

Robert J. Bertolini
Executive Vice President and
Chief Financial Officer

By /s/ Thomas H. Kelly

Thomas H. Kelly
Vice President and Controller
and Principal Accounting Officer

By *

Hans W. Becherer
Director

By *

David H. Komansky
Director

By *

Carl E. Mundy, Jr.
Director

By *

Richard de J. Osborne
Director

By *

Patricia F. Russo
Director

By *

Kathryn C. Turner
Director

By *

Robert F. W. van Oordt
Director

By *

Philip Leder, M.D.
Director

By *

Arthur F. Weinbach
Director

By *

Eugene R. McGrath
Director

By *

Donald L. Miller
Director

*By /s/Thomas H. Kelly

Thomas H. Kelly
Attorney-in-fact

Date: February 26, 2004

Table of Contents

SCHEDULE II

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2003, 2002 and 2001
(Dollars in millions)

Valuation and qualifying accounts deducted from assets to which they apply:

Allowances for accounts receivable:

	RESERVE FOR DOUBTFUL ACCOUNTS	RESERVE FOR CASH DISCOUNTS	RESERVE FOR CLAIMS AND OTHER	TOTAL
2003				
Balance at beginning of year	$ 68	$ 39	$ 27	$ 134
Additions:				
Charged to costs and expenses	18	112	40	170
Deductions from reserves	(29)	(131)	(34)	(194)
Effects of foreign exchange	3	2	2	7
Balance at end of year	$ 60	$ 22	$ 35	$ 117
2002				
Balance at beginning of year	$ 68	$ 34	$ 21	$ 123
Additions:				
Charged to costs and expenses	22	168	17	207
Deductions from reserves	(22)	(164)	(12)	(198)
Effects of foreign exchange	–	1	1	2
Balance at end of year	$ 68	$ 39	$ 27	$ 134
2001				
Balance at beginning of year	$ 60	$ 29	$ 7	$ 96
Additions:				
Charged to costs and expenses	26	161	20	207
Deductions from reserves	(16)	(156)	(6)	(178)
Effects of foreign exchange	(2)	–	–	(2)

Balance at end of year	$ 68	$ 34	$ 21	$ 123

Exhibit 4(c)(iv)

CUSIP NO. 806605AE1
ISIN NO. US806605AE11

NO. 1

SCHERING-PLOUGH CORPORATION

5.30% GLOBAL SENIOR NOTE DUE 2013

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND SUCH CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO., OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL, SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

UNLESS AND UNTIL THIS CERTIFICATE IS EXCHANGED IN WHOLE OR IN PART FOR NOTES IN CERTIFICATED FORM, THIS CERTIFICATE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE THEREOF OR BY A NOMINEE THEREOF TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR OF THE DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR.

SCHERING-PLOUGH CORPORATION, a New Jersey corporation (herein referred to as the "**Company**," which term includes any successor corporation under the

Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of $500,000,000 on December 1, 2013 (the "**Maturity Date**") and to pay interest thereon from November 26, 2003 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on June 1 and December 1 in each year (each, an "**Interest Payment Date**"), commencing June 1, 2004, at 5.30 % per annum until the principal hereof is paid or duly provided for, and which such interest rate shall be subject to adjustment as described below.

Any payment of principal or interest required to be made on a day that is not a Business Day need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on such day and no interest shall accrue as a result of such delayed payment. Interest payable on each Interest Payment Date will include interest accrued from and including November 26, 2003 or from and including the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, to but excluding such Interest Payment Date.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person (the "**Holder**") in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on the May 15 or November 15, as applicable (whether or not a Business Day) preceding such Interest Payment Date (a "**Regular Record Date**"). Any such interest not so punctually paid or duly provided for ("**Defaulted Interest**") will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the person in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on a special record date (the "**Special Record Date**") to be fixed by the Trustee (referred to herein) for the payment of such Defaulted Interest, notice whereof shall be given to the Holder of this Note not more than 15 nor less than ten days prior to such Special Record Date, or may be paid at any time in any other lawful manner, all as more fully provided in the Indenture.

For purposes of this Note, "**Business Day**" means any day that is not a Saturday or Sunday and that, in The City of New York, is not a day on which banking institutions are authorized or obligated by law or executive order to close.

Payment of the principal of this Note on the Maturity Date will be made against presentation of this Note at the Corporate Trust Office of the Trustee maintained for that purpose in the Borough of Manhattan, the City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts. So long as this Note remains in book-entry form, all payments of principal and interest will be made by the Company in immediately available funds.

GENERAL. This Note is one of a duly authorized issue of securities (herein called the "**Securities**") of the Company, issued and to be issued under an indenture dated as of November 26, 2003 (the "**Base Indenture**"), as supplemented by the First Supplemental Indenture dated as of November 26, 2003 (the "**First Supplemental Indenture**"), and as it may be further supplemented from time to time (herein collectively called the "**Indenture**"), between the Company and The Bank of New York, as Trustee (herein called the "**Trustee**," which term includes any successor trustee under the indenture with respect to a series of which this Note is a

part), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities, and of the terms upon which the Securities are, and are to be, authenticated and delivered. The Securities may be issued in one or more series, which different series may be issued in various aggregate principal amounts, may mature at different times, may bear interest (if any) at different rates, may be subject to different redemption provisions (if any), may be subject to different sinking, purchase or analogous funds (if any), may be subject to different covenants and Events of Default and may otherwise vary as provided or permitted in the Indenture. This Note is one of a duly authorized series of Securities designated as "5.30% Senior Notes due 2013" (collectively, the "**Notes**").

The Notes are initially limited to $1,250,000,000 aggregate principal amount. The Company may, without the consent of the Holder hereof, create and issue additional securities ranking pari passu with the Notes in all respects and so that such additional securities shall be consolidated and form a single series having the same terms as to status, redemption or otherwise as the Notes initially issued. No additional Notes may be issued if an Event of Default has occurred.

INTEREST RATE ADJUSTMENTS. The interest rate on the Notes is subject to adjustment in accordance with the terms of, and in the circumstances provided for in, the First Supplemental Indenture.

EVENTS OF DEFAULT. If an Event of Default with respect to the Notes shall have occurred and be continuing, the principal of the Notes may be declared due and payable in the manner and with the effect provided in the Indenture.

MATURITY AND OPTIONAL REDEMPTION. The Notes may be redeemed prior to the Maturity Date as provided for in Section 301 of the First Supplemental Indenture. The Notes are not subject to repayment at the option of the Holders or to the operation of any sinking fund.

MODIFICATION AND WAIVERS; OBLIGATIONS OF THE COMPANY ABSOLUTE. The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series. Such amendment may be effected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of all Securities issued under the Indenture at the time Outstanding and affected thereby. The Indenture also contains provisions permitting the Holders of not less than a majority in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all Outstanding Securities, to waive compliance by the Company with certain provisions of the Indenture. Furthermore, provisions in the Indenture permit the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities of individual series to waive on behalf of all of the Holders of Securities of such individual series certain past defaults under the Indenture and their consequences. Any such consent or waiver shall be conclusive and binding upon the Holder of this Note and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in

exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, place and rate and in the coin or currency herein prescribed.

DEFEASANCE AND COVENANT DEFEASANCE. The Indenture contains provisions for defeasance at any time of (a) the entire indebtedness of the Company on this Note and (b) certain restrictive covenants and the related defaults and Events of Default, upon compliance by the Company with certain conditions set forth therein, which provisions apply to this Note.

REGISTRATION OF TRANSFER OR EXCHANGE. As provided in the Indenture and subject to certain limitations herein and therein set forth, the transfer of this Note is registrable in the Security Register upon surrender of this Note for registration of transfer at the Corporate Trust Office of the Trustee in any place where the principal of and interest on this Note are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

As provided in the Indenture and subject to certain limitations herein and therein set forth, the Notes are exchangeable for a like aggregate principal amount of Notes of different authorized denominations, as requested by the Holders surrendering the same.

This Note is a Global Security. If the Depository is at any time unwilling, unable or ineligible to continue as depository and a successor depository is not appointed by the Company within 90 days or an Event of Default under the Indenture has occurred and is continuing, the Company will issue Notes in certificated form in exchange for each Global Security. In addition, the Company may at any time determine not to have Notes represented by a Global Security and, in such event, will issue Notes in certificated form in exchange in whole for the Global Security representing such Note. In any such instance, an owner of a beneficial interest in a Global Security will be entitled to physical delivery in certificated form of Notes equal in principal amount to such beneficial interest and to have such Notes registered in its name. Notes so issued in certificated form will be issued in denominations of $1,000 or any amount in excess thereof which is an integral multiple of $1,000 and will be issued in registered form only, without coupons.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Holder as the owner

hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

DEFINED TERMS. All terms used in this Note which are defined in the Indenture and are not otherwise defined herein shall have the meanings assigned to them in the Indenture.

GOVERNING LAW. This Note shall be governed by and construed in accordance with the law of the State of New York.

NOTICES. Notices to Holders of the Notes may be made by first class mail, postage prepaid, to the addresses that appear on the register maintained by the Security Registrar or by guaranteed overnight courier or by facsimile transmission (receipt confirmed by facsimile transaction receipt) followed by overnight courier. Any notice will be deemed to have been given on the date of publication or, if published more than once, on the date of the first publication.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its facsimile corporate seal.

Dated: November 26, 2003

SCHERING-PLOUGH CORPORATION

By: /s/E. Kevin Moore

Name: E. Kevin Moore
Title:Vice President and Treasurer

Attest: /s/Joseph J. LaRosa

Name: Joseph J. LaRosa
Title: Secretary

TRUSTEE' S CERTIFICATE
OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture

THE BANK OF NEW YORK,
as Trustee

By: /s/Marie E. Trimboli

Authorized Signatory

CUSIP NO. 806605AE1
ISIN NO. US806605AE11

NO. 2

SCHERING-PLOUGH CORPORATION
5.30% GLOBAL SENIOR NOTE DUE 2013

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND SUCH CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO., OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL, SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

UNLESS AND UNTIL THIS CERTIFICATE IS EXCHANGED IN WHOLE OR IN PART FOR NOTES IN CERTIFICATED FORM, THIS CERTIFICATE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE THEREOF OR BY A NOMINEE THEREOF TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR OF THE DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR.

SCHERING-PLOUGH CORPORATION, a New Jersey corporation (herein referred to as the "**Company**," which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of $500,000,000 on December 1, 2013 (the "**Maturity**

Date") and to pay interest thereon from November 26, 2003 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on June 1 and December 1 in each year (each, an "**Interest Payment Date**"), commencing June 1, 2004, at 5.30 % per annum until the principal hereof is paid or duly provided for, and which such interest rate shall be subject to adjustment as described below.

Any payment of principal or interest required to be made on a day that is not a Business Day need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on such day and no interest shall accrue as a result of such delayed payment. Interest payable on each Interest Payment Date will include interest accrued from and including November 26, 2003 or from and including the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, to but excluding such Interest Payment Date.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person (the "**Holder**") in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on the May 15 or November 15, as applicable (whether or not a Business Day) preceding such Interest Payment Date (a "**Regular Record Date**"). Any such interest not so punctually paid or duly provided for ("**Defaulted Interest**") will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the person in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on a special record date (the "**Special Record Date**") to be fixed by the Trustee (referred to herein) for the payment of such Defaulted Interest, notice whereof shall be given to the Holder of this Note not more than 15 nor less than ten days prior to such Special Record Date, or may be paid at any time in any other lawful manner, all as more fully provided in the Indenture.

For purposes of this Note, "**Business Day**" means any day that is not a Saturday or Sunday and that, in The City of New York, is not a day on which banking institutions are authorized or obligated by law or executive order to close.

Payment of the principal of this Note on the Maturity Date will be made against presentation of this Note at the Corporate Trust Office of the Trustee maintained for that purpose in the Borough of Manhattan, the City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts. So long as this Note remains in book-entry form, all payments of principal and interest will be made by the Company in immediately available funds.

GENERAL. This Note is one of a duly authorized issue of securities (herein called the "**Securities**") of the Company, issued and to be issued under an indenture dated as of November 26, 2003 (the "**Base Indenture**"), as supplemented by the First Supplemental Indenture dated as of November 26, 2003 (the "**First Supplemental Indenture**"), and as it may be further supplemented from time to time (herein collectively called the "**Indenture**"), between the Company and The Bank of New York, as Trustee (herein called the "**Trustee**," which term includes any successor trustee under the indenture with respect to a series of which this Note is a part), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the

Company, the Trustee and the Holders of the Securities, and of the terms upon which the Securities are, and are to be, authenticated and delivered. The Securities may be issued in one or more series, which different series may be issued in various aggregate principal amounts, may mature at different times, may bear interest (if any) at different rates, may be subject to different redemption provisions (if any), may be subject to different sinking, purchase or analogous funds (if any), may be subject to different covenants and Events of Default and may otherwise vary as provided or permitted in the Indenture. This Note is one of a duly authorized series of Securities designated as "5.30% Senior Notes due 2013" (collectively, the "**Notes**").

The Notes are initially limited to $1,250,000,000 aggregate principal amount. The Company may, without the consent of the Holder hereof, create and issue additional securities ranking pari passu with the Notes in all respects and so that such additional securities shall be consolidated and form a single series having the same terms as to status, redemption or otherwise as the Notes initially issued. No additional Notes may be issued if an Event of Default has occurred.

INTEREST RATE ADJUSTMENTS. The interest rate on the Notes is subject to adjustment in accordance with the terms of, and in the circumstances provided for in, the First Supplemental Indenture.

EVENTS OF DEFAULT. If an Event of Default with respect to the Notes shall have occurred and be continuing, the principal of the Notes may be declared due and payable in the manner and with the effect provided in the Indenture.

MATURITY AND OPTIONAL REDEMPTION. The Notes may be redeemed prior to the Maturity Date as provided for in Section 301 of the First Supplemental Indenture. The Notes are not subject to repayment at the option of the Holders or to the operation of any sinking fund.

MODIFICATION AND WAIVERS; OBLIGATIONS OF THE COMPANY ABSOLUTE. The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series. Such amendment may be effected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of all Securities issued under the Indenture at the time Outstanding and affected thereby. The Indenture also contains provisions permitting the Holders of not less than a majority in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all Outstanding Securities, to waive compliance by the Company with certain provisions of the Indenture. Furthermore, provisions in the Indenture permit the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities of individual series to waive on behalf of all of the Holders of Securities of such individual series certain past defaults under the Indenture and their consequences. Any such consent or waiver shall be conclusive and binding upon the Holder of this Note and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, place and rate and in the coin or currency herein prescribed.

DEFEASANCE AND COVENANT DEFEASANCE. The Indenture contains provisions for defeasance at any time of (a) the entire indebtedness of the Company on this Note and (b) certain restrictive covenants and the related defaults and Events of Default, upon compliance by the Company with certain conditions set forth therein, which provisions apply to this Note.

REGISTRATION OF TRANSFER OR EXCHANGE. As provided in the Indenture and subject to certain limitations herein and therein set forth, the transfer of this Note is registrable in the Security Register upon surrender of this Note for registration of transfer at the Corporate Trust Office of the Trustee in any place where the principal of and interest on this Note are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

As provided in the Indenture and subject to certain limitations herein and therein set forth, the Notes are exchangeable for a like aggregate principal amount of Notes of different authorized denominations, as requested by the Holders surrendering the same.

This Note is a Global Security. If the Depository is at any time unwilling, unable or ineligible to continue as depository and a successor depository is not appointed by the Company within 90 days or an Event of Default under the Indenture has occurred and is continuing, the Company will issue Notes in certificated form in exchange for each Global Security. In addition, the Company may at any time determine not to have Notes represented by a Global Security and, in such event, will issue Notes in certificated form in exchange in whole for the Global Security representing such Note. In any such instance, an owner of a beneficial interest in a Global Security will be entitled to physical delivery in certificated form of Notes equal in principal amount to such beneficial interest and to have such Notes registered in its name. Notes so issued in certificated form will be issued in denominations of $1,000 or any amount in excess thereof which is an integral multiple of $1,000 and will be issued in registered form only, without coupons.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Holder as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

DEFINED TERMS. All terms used in this Note which are defined in the Indenture and are not otherwise defined herein shall have the meanings assigned to them in the Indenture.

GOVERNING LAW. This Note shall be governed by and construed in accordance with the law of the State of New York.

NOTICES. Notices to Holders of the Notes may be made by first class mail, postage prepaid, to the addresses that appear on the register maintained by the Security Registrar or by guaranteed overnight courier or by facsimile transmission (receipt confirmed by facsimile transaction receipt) followed by overnight courier. Any notice will be deemed to have been given on the date of publication or, if published more than once, on the date of the first publication.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its facsimile corporate seal.

Dated: November 26, 2003

SCHERING-PLOUGH CORPORATION

By: /s/E. Kevin Moore

Name: E. Kevin Moore
Title: Vice President and Treasurer

Attest: /s/Joseph J. LaRosa

Name: Joseph J. LaRosa
Title: Secretary

TRUSTEE' S CERTIFICATE
OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture

THE BANK OF NEW YORK,
as Trustee

By: /s/Marie E. Trimboli

Authorized Signatory

CUSIP NO. 806605AE1
ISIN NO. US806605AE11

NO. 3

SCHERING-PLOUGH CORPORATION
5.30% GLOBAL SENIOR NOTE DUE 2013

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND SUCH CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO., OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL, SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

UNLESS AND UNTIL THIS CERTIFICATE IS EXCHANGED IN WHOLE OR IN PART FOR NOTES IN CERTIFICATED FORM, THIS CERTIFICATE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE THEREOF OR BY A NOMINEE THEREOF TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR OF THE DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR.

SCHERING-PLOUGH CORPORATION, a New Jersey corporation (herein referred to as the "**Company**," which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of $250,000,000 on December 1, 2013 (the "**Maturity**

Date") and to pay interest thereon from November 26, 2003 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on June 1 and December 1 in each year (each, an "**Interest Payment Date**"), commencing June 1, 2004, at 5.30 % per annum until the principal hereof is paid or duly provided for, and which such interest rate shall be subject to adjustment as described below.

Any payment of principal or interest required to be made on a day that is not a Business Day need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on such day and no interest shall accrue as a result of such delayed payment. Interest payable on each Interest Payment Date will include interest accrued from and including November 26, 2003 or from and including the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, to but excluding such Interest Payment Date.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person (the "**Holder**") in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on the May 15 or November 15, as applicable (whether or not a Business Day) preceding such Interest Payment Date (a "**Regular Record Date**"). Any such interest not so punctually paid or duly provided for ("**Defaulted Interest**") will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the person in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on a special record date (the "**Special Record Date**") to be fixed by the Trustee (referred to herein) for the payment of such Defaulted Interest, notice whereof shall be given to the Holder of this Note not more than 15 nor less than ten days prior to such Special Record Date, or may be paid at any time in any other lawful manner, all as more fully provided in the Indenture.

For purposes of this Note, "**Business Day**" means any day that is not a Saturday or Sunday and that, in The City of New York, is not a day on which banking institutions are authorized or obligated by law or executive order to close.

Payment of the principal of this Note on the Maturity Date will be made against presentation of this Note at the Corporate Trust Office of the Trustee maintained for that purpose in the Borough of Manhattan, the City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts. So long as this Note remains in book-entry form, all payments of principal and interest will be made by the Company in immediately available funds.

GENERAL. This Note is one of a duly authorized issue of securities (herein called the "**Securities**") of the Company, issued and to be issued under an indenture dated as of November 26, 2003 (the "**Base Indenture**"), as supplemented by the First Supplemental Indenture dated as of November 26, 2003 (the "**First Supplemental Indenture**"), and as it may be further supplemented from time to time (herein collectively called the "**Indenture**"), between the Company and The Bank of New York, as Trustee (herein called the "**Trustee**," which term includes any successor trustee under the indenture with respect to a series of which this Note is a part), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the

Company, the Trustee and the Holders of the Securities, and of the terms upon which the Securities are, and are to be, authenticated and delivered. The Securities may be issued in one or more series, which different series may be issued in various aggregate principal amounts, may mature at different times, may bear interest (if any) at different rates, may be subject to different redemption provisions (if any), may be subject to different sinking, purchase or analogous funds (if any), may be subject to different covenants and Events of Default and may otherwise vary as provided or permitted in the Indenture. This Note is one of a duly authorized series of Securities designated as "5.30% Senior Notes due 2013" (collectively, the "**Notes**").

The Notes are initially limited to $1,250,000,000 aggregate principal amount. The Company may, without the consent of the Holder hereof, create and issue additional securities ranking pari passu with the Notes in all respects and so that such additional securities shall be consolidated and form a single series having the same terms as to status, redemption or otherwise as the Notes initially issued. No additional Notes may be issued if an Event of Default has occurred.

INTEREST RATE ADJUSTMENTS. The interest rate on the Notes is subject to adjustment in accordance with the terms of, and in the circumstances provided for in, the First Supplemental Indenture.

EVENTS OF DEFAULT. If an Event of Default with respect to the Notes shall have occurred and be continuing, the principal of the Notes may be declared due and payable in the manner and with the effect provided in the Indenture.

MATURITY AND OPTIONAL REDEMPTION. The Notes may be redeemed prior to the Maturity Date as provided for in Section 301 of the First Supplemental Indenture. The Notes are not subject to repayment at the option of the Holders or to the operation of any sinking fund.

MODIFICATION AND WAIVERS; OBLIGATIONS OF THE COMPANY ABSOLUTE. The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series. Such amendment may be effected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of all Securities issued under the Indenture at the time Outstanding and affected thereby. The Indenture also contains provisions permitting the Holders of not less than a majority in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all Outstanding Securities, to waive compliance by the Company with certain provisions of the Indenture. Furthermore, provisions in the Indenture permit the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities of individual series to waive on behalf of all of the Holders of Securities of such individual series certain past defaults under the Indenture and their consequences. Any such consent or waiver shall be conclusive and binding upon the Holder of this Note and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, place and rate and in the coin or currency herein prescribed.

DEFEASANCE AND COVENANT DEFEASANCE. The Indenture contains provisions for defeasance at any time of (a) the entire indebtedness of the Company on this Note and (b) certain restrictive covenants and the related defaults and Events of Default, upon compliance by the Company with certain conditions set forth therein, which provisions apply to this Note.

REGISTRATION OF TRANSFER OR EXCHANGE. As provided in the Indenture and subject to certain limitations herein and therein set forth, the transfer of this Note is registrable in the Security Register upon surrender of this Note for registration of transfer at the Corporate Trust Office of the Trustee in any place where the principal of and interest on this Note are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

As provided in the Indenture and subject to certain limitations herein and therein set forth, the Notes are exchangeable for a like aggregate principal amount of Notes of different authorized denominations, as requested by the Holders surrendering the same.

This Note is a Global Security. If the Depository is at any time unwilling, unable or ineligible to continue as depository and a successor depository is not appointed by the Company within 90 days or an Event of Default under the Indenture has occurred and is continuing, the Company will issue Notes in certificated form in exchange for each Global Security. In addition, the Company may at any time determine not to have Notes represented by a Global Security and, in such event, will issue Notes in certificated form in exchange in whole for the Global Security representing such Note. In any such instance, an owner of a beneficial interest in a Global Security will be entitled to physical delivery in certificated form of Notes equal in principal amount to such beneficial interest and to have such Notes registered in its name. Notes so issued in certificated form will be issued in denominations of $1,000 or any amount in excess thereof which is an integral multiple of $1,000 and will be issued in registered form only, without coupons.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Holder as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

DEFINED TERMS. All terms used in this Note which are defined in the Indenture and are not otherwise defined herein shall have the meanings assigned to them in the Indenture.

GOVERNING LAW. This Note shall be governed by and construed in accordance with the law of the State of New York.

NOTICES. Notices to Holders of the Notes may be made by first class mail, postage prepaid, to the addresses that appear on the register maintained by the Security Registrar or by guaranteed overnight courier or by facsimile transmission (receipt confirmed by facsimile transaction receipt) followed by overnight courier. Any notice will be deemed to have been given on the date of publication or, if published more than once, on the date of the first publication.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its facsimile corporate seal.

Dated: November 26, 2003

SCHERING-PLOUGH CORPORATION

By: /s/ E. Kevin Moore

Name: E. Kevin Moore
Title: Vice President and Treasurer

Attest: /s/ Joseph J. LaRosa

Name: Joseph J. LaRosa
Title: Secretary

TRUSTEE' S CERTIFICATE
OF AUTHENTICATION

This is one of the Securities of the series
designated therein referred to in the
within-mentioned Indenture

THE BANK OF NEW YORK,
as Trustee

By: /s/ Marie E. Trimboli

Authorized Signatory

CUSIP NO. 806605AG6
ISIN NO. US806605AG68

NO. 1

SCHERING-PLOUGH CORPORATION
6.50% GLOBAL SENIOR NOTE DUE 2033

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND SUCH CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO., OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL, SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

UNLESS AND UNTIL THIS CERTIFICATE IS EXCHANGED IN WHOLE OR IN PART FOR NOTES IN CERTIFICATED FORM, THIS CERTIFICATE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE THEREOF OR BY A NOMINEE THEREOF TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR OF THE DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR.

SCHERING-PLOUGH CORPORATION, a New Jersey corporation (herein referred to as the "**Company**," which term includes any successor corporation under the

Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of $500,000,000 on December 1, 2033 (the "**Maturity Date**") and to pay interest thereon from November 26, 2003 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on June 1 and December 1 in each year (each, an "**Interest Payment Date**"), commencing June 1, 2004, at 6.50% per annum until the principal hereof is paid or duly provided for, and which such interest rate shall be subject to adjustment as described below.

Any payment of principal or interest required to be made on a day that is not a Business Day need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on such day and no interest shall accrue as a result of such delayed payment. Interest payable on each Interest Payment Date will include interest accrued from and including November 26, 2003 or from and including the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, to but excluding such Interest Payment Date.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person (the "**Holder**") in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on the May 15 or November 15, as applicable (whether or not a Business Day) preceding such Interest Payment Date (a "**Regular Record Date**"). Any such interest not so punctually paid or duly provided for ("**Defaulted Interest**") will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the person in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on a special record date (the "**Special Record Date**") to be fixed by the Trustee (referred to herein) for the payment of such Defaulted Interest, notice whereof shall be given to the Holder of this Note not more than 15 nor less than ten days prior to such Special Record Date, or may be paid at any time in any other lawful manner, all as more fully provided in the Indenture.

For purposes of this Note, "**Business Day**" means any day that is not a Saturday or Sunday and that, in The City of New York, is not a day on which banking institutions are authorized or obligated by law or executive order to close.

Payment of the principal of this Note on the Maturity Date will be made against presentation of this Note at the Corporate Trust Office of the Trustee maintained for that purpose in the Borough of Manhattan, the City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts. So long as this Note remains in book-entry form, all payments of principal and interest will be made by the Company in immediately available funds.

GENERAL. This Note is one of a duly authorized issue of securities (herein called the "**Securities**") of the Company, issued and to be issued under an indenture dated as of November 26, 2003 (the "**Base Indenture**"), as supplemented by the First Supplemental Indenture dated as of November 26, 2003, the Second Supplemental Indenture dated as of November 26, 2003 (the "**Second Supplemental Indenture**"), and as it may be further supplemented from time to time (herein collectively called the "**Indenture**"), between the Company and The Bank of New York, as Trustee (herein called the "**Trustee**," which term

includes any successor trustee under the indenture with respect to a series of which this Note is a part), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities, and of the terms upon which the Securities are, and are to be, authenticated and delivered. The Securities may be issued in one or more series, which different series may be issued in various aggregate principal amounts, may mature at different times, may bear interest (if any) at different rates, may be subject to different redemption provisions (if any), may be subject to different sinking, purchase or analogous funds (if any), may be subject to different covenants and Events of Default and may otherwise vary as provided or permitted in the Indenture. This Note is one of a duly authorized series of Securities designated as "6.50% Senior Notes due 2033" (collectively, the "**Notes**").

The Notes are initially limited to $1,150,000,000 aggregate principal amount. The Company may, without the consent of the Holder hereof, create and issue additional securities ranking pari passu with the Notes in all respects and so that such additional securities shall be consolidated and form a single series having the same terms as to status, redemption or otherwise as the Notes initially issued. No additional Notes may be issued if an Event of Default has occurred.

INTEREST RATE ADJUSTMENTS. The interest rate on the Notes is subject to adjustment in accordance with the terms of, and in the circumstances provided for in, the Second Supplemental Indenture.

EVENTS OF DEFAULT. If an Event of Default with respect to the Notes shall have occurred and be continuing, the principal of the Notes may be declared due and payable in the manner and with the effect provided in the Indenture.

MATURITY AND OPTIONAL REDEMPTION. The Notes may be redeemed prior to the Maturity Date as provided for in Section 301 of the Second Supplemental Indenture. The Notes are not subject to repayment at the option of the Holders or to the operation of any sinking fund.

MODIFICATION AND WAIVERS; OBLIGATIONS OF THE COMPANY ABSOLUTE. The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series. Such amendment may be effected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of all Securities issued under the Indenture at the time Outstanding and affected thereby. The Indenture also contains provisions permitting the Holders of not less than a majority in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all Outstanding Securities, to waive compliance by the Company with certain provisions of the Indenture. Furthermore, provisions in the Indenture permit the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities of individual series to waive on behalf of all of the Holders of Securities of such individual series certain past defaults under the Indenture and their consequences. Any such consent or waiver shall be conclusive and binding upon the Holder of this Note and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in

exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, place and rate and in the coin or currency herein prescribed.

DEFEASANCE AND COVENANT DEFEASANCE. The Indenture contains provisions for defeasance at any time of (a) the entire indebtedness of the Company on this Note and (b) certain restrictive covenants and the related defaults and Events of Default, upon compliance by the Company with certain conditions set forth therein, which provisions apply to this Note.

REGISTRATION OF TRANSFER OR EXCHANGE. As provided in the Indenture and subject to certain limitations herein and therein set forth, the transfer of this Note is registrable in the Security Register upon surrender of this Note for registration of transfer at the Corporate Trust Office of the Trustee in any place where the principal of and interest on this Note are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

As provided in the Indenture and subject to certain limitations herein and therein set forth, the Notes are exchangeable for a like aggregate principal amount of Notes of different authorized denominations, as requested by the Holders surrendering the same.

This Note is a Global Security. If the Depository is at any time unwilling, unable or ineligible to continue as depository and a successor depository is not appointed by the Company within 90 days or an Event of Default under the Indenture has occurred and is continuing, the Company will issue Notes in certificated form in exchange for each Global Security. In addition, the Company may at any time determine not to have Notes represented by a Global Security and, in such event, will issue Notes in certificated form in exchange in whole for the Global Security representing such Note. In any such instance, an owner of a beneficial interest in a Global Security will be entitled to physical delivery in certificated form of Notes equal in principal amount to such beneficial interest and to have such Notes registered in its name. Notes so issued in certificated form will be issued in denominations of $1,000 or any amount in excess thereof which is an integral multiple of $1,000 and will be issued in registered form only, without coupons.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Holder as the owner

hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

DEFINED TERMS. All terms used in this Note which are defined in the Indenture and are not otherwise defined herein shall have the meanings assigned to them in the Indenture.

GOVERNING LAW. This Note shall be governed by and construed in accordance with the law of the State of New York.

NOTICES. Notices to Holders of the Notes may be made by first class mail, postage prepaid, to the addresses that appear on the register maintained by the Security Registrar or by guaranteed overnight courier or by facsimile transmission (receipt confirmed by facsimile transaction receipt) followed by overnight courier. Any notice will be deemed to have been given on the date of publication or, if published more than once, on the date of the first publication.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its facsimile corporate seal.

Dated: November 26, 2003

SCHERING-PLOUGH CORPORATION

By: /s/ E. Kevin Moore

Name: E. Kevin Moore
Title: Vice President and Treasurer

Attest: /s/ Joseph J. LaRosa

Name: Joseph J. LaRosa
Title: Secretary

TRUSTEE' S CERTIFICATE
OF AUTHENTICATION

This is one of the Securities of the series
designated therein referred to in the
within-mentioned Indenture

THE BANK OF NEW YORK,
as Trustee

By: /s/ Marie E. Trimboli

Authorized Signatory

CUSIP NO. 806605AG6
ISIN NO. US806605AG68

NO. 2

SCHERING-PLOUGH CORPORATION
6.50% GLOBAL SENIOR NOTE DUE 2033

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND SUCH CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO., OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL, SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

UNLESS AND UNTIL THIS CERTIFICATE IS EXCHANGED IN WHOLE OR IN PART FOR NOTES IN CERTIFICATED FORM, THIS CERTIFICATE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE THEREOF OR BY A NOMINEE THEREOF TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR OF THE DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR.

SCHERING-PLOUGH CORPORATION, a New Jersey corporation (herein referred to as the "**Company**," which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of $500,000,000 on December 1, 2033 (the "**Maturity**

Date") and to pay interest thereon from November 26, 2003 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on June 1 and December 1 in each year (each, an "**Interest Payment Date**"), commencing June 1, 2004, at 6.50% per annum until the principal hereof is paid or duly provided for, and which such interest rate shall be subject to adjustment as described below.

Any payment of principal or interest required to be made on a day that is not a Business Day need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on such day and no interest shall accrue as a result of such delayed payment. Interest payable on each Interest Payment Date will include interest accrued from and including November 26, 2003 or from and including the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, to but excluding such Interest Payment Date.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person (the "**Holder**") in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on the May 15 or November 15, as applicable (whether or not a Business Day) preceding such Interest Payment Date (a "**Regular Record Date**"). Any such interest not so punctually paid or duly provided for ("**Defaulted Interest**") will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the person in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on a special record date (the "**Special Record Date**") to be fixed by the Trustee (referred to herein) for the payment of such Defaulted Interest, notice whereof shall be given to the Holder of this Note not more than 15 nor less than ten days prior to such Special Record Date, or may be paid at any time in any other lawful manner, all as more fully provided in the Indenture.

For purposes of this Note, "**Business Day**" means any day that is not a Saturday or Sunday and that, in The City of New York, is not a day on which banking institutions are authorized or obligated by law or executive order to close.

Payment of the principal of this Note on the Maturity Date will be made against presentation of this Note at the Corporate Trust Office of the Trustee maintained for that purpose in the Borough of Manhattan, the City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts. So long as this Note remains in book-entry form, all payments of principal and interest will be made by the Company in immediately available funds.

GENERAL. This Note is one of a duly authorized issue of securities (herein called the "**Securities**") of the Company, issued and to be issued under an indenture dated as of November 26, 2003 (the "**Base Indenture**"), as supplemented by the First Supplemental Indenture dated as of November 26, 2003, the Second Supplemental Indenture dated as of November 26, 2003 (the "**Second Supplemental Indenture**"), and as it may be further supplemented from time to time (herein collectively called the "**Indenture**"), between the Company and The Bank of New York, as Trustee (herein called the "**Trustee**," which term includes any successor trustee under the indenture with respect to a series of which this Note is a part), to which Indenture and all indentures supplemental thereto reference is hereby made for a

statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities, and of the terms upon which the Securities are, and are to be, authenticated and delivered. The Securities may be issued in one or more series, which different series may be issued in various aggregate principal amounts, may mature at different times, may bear interest (if any) at different rates, may be subject to different redemption provisions (if any), may be subject to different sinking, purchase or analogous funds (if any), may be subject to different covenants and Events of Default and may otherwise vary as provided or permitted in the Indenture. This Note is one of a duly authorized series of Securities designated as "6.50% Senior Notes due 2033" (collectively, the "**Notes**").

The Notes are initially limited to $1,150,000,000 aggregate principal amount. The Company may, without the consent of the Holder hereof, create and issue additional securities ranking pari passu with the Notes in all respects and so that such additional securities shall be consolidated and form a single series having the same terms as to status, redemption or otherwise as the Notes initially issued. No additional Notes may be issued if an Event of Default has occurred.

INTEREST RATE ADJUSTMENTS. The interest rate on the Notes is subject to adjustment in accordance with the terms of, and in the circumstances provided for in, the Second Supplemental Indenture.

EVENTS OF DEFAULT. If an Event of Default with respect to the Notes shall have occurred and be continuing, the principal of the Notes may be declared due and payable in the manner and with the effect provided in the Indenture.

MATURITY AND OPTIONAL REDEMPTION. The Notes may be redeemed prior to the Maturity Date as provided for in Section 301 of the Second Supplemental Indenture. The Notes are not subject to repayment at the option of the Holders or to the operation of any sinking fund.

MODIFICATION AND WAIVERS; OBLIGATIONS OF THE COMPANY ABSOLUTE. The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series. Such amendment may be effected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of all Securities issued under the Indenture at the time Outstanding and affected thereby. The Indenture also contains provisions permitting the Holders of not less than a majority in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all Outstanding Securities, to waive compliance by the Company with certain provisions of the Indenture. Furthermore, provisions in the Indenture permit the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities of individual series to waive on behalf of all of the Holders of Securities of such individual series certain past defaults under the Indenture and their consequences. Any such consent or waiver shall be conclusive and binding upon the Holder of this Note and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, place and rate and in the coin or currency herein prescribed.

DEFEASANCE AND COVENANT DEFEASANCE. The Indenture contains provisions for defeasance at any time of (a) the entire indebtedness of the Company on this Note and (b) certain restrictive covenants and the related defaults and Events of Default, upon compliance by the Company with certain conditions set forth therein, which provisions apply to this Note.

REGISTRATION OF TRANSFER OR EXCHANGE. As provided in the Indenture and subject to certain limitations herein and therein set forth, the transfer of this Note is registrable in the Security Register upon surrender of this Note for registration of transfer at the Corporate Trust Office of the Trustee in any place where the principal of and interest on this Note are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

As provided in the Indenture and subject to certain limitations herein and therein set forth, the Notes are exchangeable for a like aggregate principal amount of Notes of different authorized denominations, as requested by the Holders surrendering the same.

This Note is a Global Security. If the Depository is at any time unwilling, unable or ineligible to continue as depository and a successor depository is not appointed by the Company within 90 days or an Event of Default under the Indenture has occurred and is continuing, the Company will issue Notes in certificated form in exchange for each Global Security. In addition, the Company may at any time determine not to have Notes represented by a Global Security and, in such event, will issue Notes in certificated form in exchange in whole for the Global Security representing such Note. In any such instance, an owner of a beneficial interest in a Global Security will be entitled to physical delivery in certificated form of Notes equal in principal amount to such beneficial interest and to have such Notes registered in its name. Notes so issued in certificated form will be issued in denominations of $1,000 or any amount in excess thereof which is an integral multiple of $1,000 and will be issued in registered form only, without coupons.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Holder as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

DEFINED TERMS. All terms used in this Note which are defined in the Indenture and are not otherwise defined herein shall have the meanings assigned to them in the Indenture.

GOVERNING LAW. This Note shall be governed by and construed in accordance with the law of the State of New York.

NOTICES. Notices to Holders of the Notes may be made by first class mail, postage prepaid, to the addresses that appear on the register maintained by the Security Registrar or by guaranteed overnight courier or by facsimile transmission (receipt confirmed by facsimile transaction receipt) followed by overnight courier. Any notice will be deemed to have been given on the date of publication or, if published more than once, on the date of the first publication.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its facsimile corporate seal.

Dated: November 26, 2003

SCHERING-PLOUGH CORPORATION

By: /s/ E. Kevin Moore

Name: E. Kevin Moore
Title: Vice President and Treasurer

Attest: /s/ Joseph J. LaRosa

Name: Joseph J. LaRosa
Title: Secretary

TRUSTEE' S CERTIFICATE
OF AUTHENTICATION

This is one of the Securities of the series
designated therein referred to in the
within-mentioned Indenture

THE BANK OF NEW YORK,
as Trustee

By: /s/ Marie E. Trimboli

Authorized Signatory

CUSIP NO. 806605AG6
ISIN NO. US806605AG68

NO. 3

SCHERING-PLOUGH CORPORATION
6.50% GLOBAL SENIOR NOTE DUE 2033

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND SUCH CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO., OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY, ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL, SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

UNLESS AND UNTIL THIS CERTIFICATE IS EXCHANGED IN WHOLE OR IN PART FOR NOTES IN CERTIFICATED FORM, THIS CERTIFICATE MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE THEREOF OR BY A NOMINEE THEREOF TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR OF THE DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR.

SCHERING-PLOUGH CORPORATION, a New Jersey corporation (herein referred to as the "**Company**," which term includes any successor corporation under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of $150,000,000 on December 1, 2033 (the "**Maturity**

Date") and to pay interest thereon from November 26, 2003 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on June 1 and December 1 in each year (each, an "**Interest Payment Date**"), commencing June 1, 2004, at 6.50% per annum until the principal hereof is paid or duly provided for, and which such interest rate shall be subject to adjustment as described below.

Any payment of principal or interest required to be made on a day that is not a Business Day need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on such day and no interest shall accrue as a result of such delayed payment. Interest payable on each Interest Payment Date will include interest accrued from and including November 26, 2003 or from and including the most recent Interest Payment Date to which interest has been paid or duly provided for, as the case may be, to but excluding such Interest Payment Date.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person (the "**Holder**") in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on the May 15 or November 15, as applicable (whether or not a Business Day) preceding such Interest Payment Date (a "**Regular Record Date**"). Any such interest not so punctually paid or duly provided for ("**Defaulted Interest**") will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the person in whose name this Note (or one or more Predecessor Securities) is registered at the close of business on a special record date (the "**Special Record Date**") to be fixed by the Trustee (referred to herein) for the payment of such Defaulted Interest, notice whereof shall be given to the Holder of this Note not more than 15 nor less than ten days prior to such Special Record Date, or may be paid at any time in any other lawful manner, all as more fully provided in the Indenture.

For purposes of this Note, "**Business Day**" means any day that is not a Saturday or Sunday and that, in The City of New York, is not a day on which banking institutions are authorized or obligated by law or executive order to close.

Payment of the principal of this Note on the Maturity Date will be made against presentation of this Note at the Corporate Trust Office of the Trustee maintained for that purpose in the Borough of Manhattan, the City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for the payment of public and private debts. So long as this Note remains in book-entry form, all payments of principal and interest will be made by the Company in immediately available funds.

GENERAL. This Note is one of a duly authorized issue of securities (herein called the "**Securities**") of the Company, issued and to be issued under an indenture dated as of November 26, 2003 (the "**Base Indenture**"), as supplemented by the First Supplemental Indenture dated as of November 26, 2003, the Second Supplemental Indenture dated as of November 26, 2003 (the "**Second Supplemental Indenture**"), and as it may be further supplemented from time to time (herein collectively called the "**Indenture**"), between the Company and The Bank of New York, as Trustee (herein called the "**Trustee**," which term includes any successor trustee under the indenture with respect to a series of which this Note is a part), to which Indenture and all indentures supplemental thereto reference is hereby made for a

statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities, and of the terms upon which the Securities are, and are to be, authenticated and delivered. The Securities may be issued in one or more series, which different series may be issued in various aggregate principal amounts, may mature at different times, may bear interest (if any) at different rates, may be subject to different redemption provisions (if any), may be subject to different sinking, purchase or analogous funds (if any), may be subject to different covenants and Events of Default and may otherwise vary as provided or permitted in the Indenture. This Note is one of a duly authorized series of Securities designated as "6.50% Senior Notes due 2033" (collectively, the "**Notes**").

The Notes are initially limited to $1,150,000,000 aggregate principal amount. The Company may, without the consent of the Holder hereof, create and issue additional securities ranking pari passu with the Notes in all respects and so that such additional securities shall be consolidated and form a single series having the same terms as to status, redemption or otherwise as the Notes initially issued. No additional Notes may be issued if an Event of Default has occurred.

INTEREST RATE ADJUSTMENTS. The interest rate on the Notes is subject to adjustment in accordance with the terms of, and in the circumstances provided for in, the Second Supplemental Indenture.

EVENTS OF DEFAULT. If an Event of Default with respect to the Notes shall have occurred and be continuing, the principal of the Notes may be declared due and payable in the manner and with the effect provided in the Indenture.

MATURITY AND OPTIONAL REDEMPTION. The Notes may be redeemed prior to the Maturity Date as provided for in Section 301 of the Second Supplemental Indenture. The Notes are not subject to repayment at the option of the Holders or to the operation of any sinking fund.

MODIFICATION AND WAIVERS; OBLIGATIONS OF THE COMPANY ABSOLUTE. The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series. Such amendment may be effected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in aggregate principal amount of all Securities issued under the Indenture at the time Outstanding and affected thereby. The Indenture also contains provisions permitting the Holders of not less than a majority in aggregate principal amount of the Securities at the time Outstanding, on behalf of the Holders of all Outstanding Securities, to waive compliance by the Company with certain provisions of the Indenture. Furthermore, provisions in the Indenture permit the Holders of not less than a majority in aggregate principal amount of the Outstanding Securities of individual series to waive on behalf of all of the Holders of Securities of such individual series certain past defaults under the Indenture and their consequences. Any such consent or waiver shall be conclusive and binding upon the Holder of this Note and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Indenture and no provision of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and interest on this Note at the times, place and rate and in the coin or currency herein prescribed.

DEFEASANCE AND COVENANT DEFEASANCE. The Indenture contains provisions for defeasance at any time of (a) the entire indebtedness of the Company on this Note and (b) certain restrictive covenants and the related defaults and Events of Default, upon compliance by the Company with certain conditions set forth therein, which provisions apply to this Note.

REGISTRATION OF TRANSFER OR EXCHANGE. As provided in the Indenture and subject to certain limitations herein and therein set forth, the transfer of this Note is registrable in the Security Register upon surrender of this Note for registration of transfer at the Corporate Trust Office of the Trustee in any place where the principal of and interest on this Note are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

As provided in the Indenture and subject to certain limitations herein and therein set forth, the Notes are exchangeable for a like aggregate principal amount of Notes of different authorized denominations, as requested by the Holders surrendering the same.

This Note is a Global Security. If the Depository is at any time unwilling, unable or ineligible to continue as depository and a successor depository is not appointed by the Company within 90 days or an Event of Default under the Indenture has occurred and is continuing, the Company will issue Notes in certificated form in exchange for each Global Security. In addition, the Company may at any time determine not to have Notes represented by a Global Security and, in such event, will issue Notes in certificated form in exchange in whole for the Global Security representing such Note. In any such instance, an owner of a beneficial interest in a Global Security will be entitled to physical delivery in certificated form of Notes equal in principal amount to such beneficial interest and to have such Notes registered in its name. Notes so issued in certificated form will be issued in denominations of $1,000 or any amount in excess thereof which is an integral multiple of $1,000 and will be issued in registered form only, without coupons.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Holder as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

DEFINED TERMS. All terms used in this Note which are defined in the Indenture and are not otherwise defined herein shall have the meanings assigned to them in the Indenture.

GOVERNING LAW. This Note shall be governed by and construed in accordance with the law of the State of New York.

NOTICES. Notices to Holders of the Notes may be made by first class mail, postage prepaid, to the addresses that appear on the register maintained by the Security Registrar or by guaranteed overnight courier or by facsimile transmission (receipt confirmed by facsimile transaction receipt) followed by overnight courier. Any notice will be deemed to have been given on the date of publication or, if published more than once, on the date of the first publication.

Unless the certificate of authentication hereon has been executed by the Trustee by manual signature, this Note shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its facsimile corporate seal.

Dated: November 26, 2003

SCHERING-PLOUGH CORPORATION

By: /s/ E. Kevin Moore

Name: E. Kevin Moore
Title: Vice President and Treasurer

Attest: /s/ Joseph J. LaRosa

Name: Joseph J. LaRosa
Title: Secretary

TRUSTEE' S CERTIFICATE
OF AUTHENTICATION

This is one of the Securities of the series
designated therein referred to in the
within-mentioned Indenture

THE BANK OF NEW YORK,
as Trustee

By: /s/ Marie E. Trimboli

Authorized Signatory

Exhibit 10(e)(iii)

November 4, 2003

Mr. Robert Bertolini
9 Uptom Pine Road
Lebanon, NJ 08833

Dear Bob:

This will confirm our offer for you to join Schering-Plough as Executive Vice President and Chief Financial Officer effective November 17, 2003 or such other date as is agreed upon by you and the Company. As such, you will be elected a Corporate Officer and a member of the EMT (Executive Management Team). You will report to Fred Hassan, Chairman and CEO. The terms we discussed are as follows:

1. Your base salary will be $775,000 per year (less deductions), paid in semi-monthly installments. Your salary will be reviewed annually and subject to increase in accordance with our practices generally applicable to senior officers.

2. The bonus target for your position is 70%. Unless the Chief Executive Officer determines that your performance during 2004 has been substantially inadequate, your bonus will be guaranteed at target for 2004 and will be payable in March 2005.

3. As an incentive to join Schering-Plough, the following are provided:

   a) A hire-on bonus of $100,000 (less deductions).

   b) The following awards under the 2002 Stock Incentive Plan (the "Stock Plan"), effective as of the date your employment commences. You shall have all of the rights and benefits available to participants under the terms of the Stock Plan, such as fully vesting of all awards upon a change of control or upon your termination of employment due to your death or disability:

      350,000 stock options, which vest in three approximately equal annual installments, beginning one year from the date of grant.

      65,000 stock awards (restricted stock) which vest 3 years from date of grant.

4. You will receive a payment of up to $200,000 grossed up for taxes to cover certain tax liabilities on phantom income (i.e., taxes on income which you will never receive as a result of your leaving your current employer). Appropriate supporting documentation will be required.

5. You will be covered by the same form of corporate Change of Control Agreement as is applicable generally to our senior executive officers. The basic terms of this agreement are outlined on Attachment A, and the complete agreement will be provided to you upon your joining Schering-Plough.

6. As an executive, you will be provided with the same benefits and perquisites as are generally made available to other senior executive officers. Among these are the following benefits and perquisites:

   The executive supplement to the medical/dental insurance, which provides 100% reimbursement of reasonable and customary charges after the deductibles are satisfied. (Please note this plan is being eliminated effective 1/1/04.)

   Executive life insurance is also provided. The life insurance coverage is $2,250,000. Again, the details of this also will be discussed with you after you are on board.

   Four weeks vacation.

   Financial planning reimbursement up to $8,000 in the first year to establish a plan, and up to $5,000 annually thereafter as needed. In addition, reimbursement for tax preparation up to $2,500 annually is also provided.

7. You shall participate in the Supplemental Executive Retirement Plan (SERP). As explained, the SERP provides a retirement benefit based on a formula of 2% of final average earnings (base and bonus earnings) times years of service (up to 20 years of service; after 20 years the formula is 1% per year of service). An unreduced pension is earned at age 62, and a minimum benefit of 35% of final average earnings is provided after 10 years of service and attainment of age 60. We will provide a complete explanation of this and other executive benefits when you join the Company. As a special enhancement to the benefits provided under the Schering-Plough SERP, you shall receive the additional retirement benefits outlined on Attachment B.

8. You will also be provided employment security in the form of a lump sum payment equal to 3 times base salary and bonus at target if you are involuntarily terminated for any reason other than for cause or you terminate your employment for good reason. This amount will be offset by any other severance payment made to you by the Company under any other severance plan or arrangement. In the event that you are eligible to receive this employment security payment, you will also vest in your restricted stock awards and your stock option grants.

9. In addition to the awards referred to above, you will be eligible to receive additional awards under our Stock Plan. The plan provides annual stock option

and stock award grants. The actual level of grants is based on an overall assessment of market competitiveness as well as individual performance, and approval by executive management.

10. For purposes of this letter, cause shall be defined in a manner consistent with the definition of that term as applicable to our senior executives (including those who have individually negotiated agreements). Good reason will mean (i) the assignment to you of duties inconsistent with the position referenced above or any significant diminution in such duties in responsibilities, (ii) an adverse change in your title or in your reporting relationship, (iii) the relocation of your principal place of employment to a location more than 35 miles from that at which you were previously performing your services; or (iv) any reduction in your base salary or target bonus opportunity.

Our offer of employment is also contingent upon the successful completion of [a pre-employment physical examination and] the Employment Eligibility Verification Form (I-9) and the production of documents that establish identity and employment eligibility.

Bob, we hope that our relationship will continue for some time, but it is important to point out that Schering-Plough operates under "Employment at Will". Subject to your rights and our obligations outlined above, this means just as you are free to leave the Company at any time for any reason, the Company retains the same right to end our employment relationship at any time for any reason. No representative of the company has the authority to make any verbal assurance to the contrary.

Please acknowledge your acceptance of our offer by signing in the space provided below and return the letter to me.

We are very much looking forward to your joining Schering-Plough Corporation. If you have any questions or if I can be of further assistance, please do not hesitate to contact me.

Sincerely,

/s/Fred Hassan

Fred Hassan
Chairman and Chief Executive Officer

Accepted: /s/Robert Bertolini	11/04/03
Robert Bertolini	Date

Attachment A

Provisions For Change of Control
Employment Agreement

1. The Agreement becomes effective only upon a change of control or a termination of employment in anticipation of a change of control.

2. Upon a change of control, it becomes a 3 year employment agreement, preserving the status quo of the executive' s duties, responsibilities, compensation and benefits.

3. Upon termination after a change of control, if

   (a) Other than for cause, death or disability, or for "good reason", or

   (b) During a 30 day window period one year after a change of control, the executive receives:

      (i) Three (3) times base salary, EIP, and profit sharing;

      (ii) Continued welfare benefit programs for three (3) years;

      (iii) SERP and pension plan benefits in a lump sum for an additional three (3) years of service.

4. Accelerated vesting of retiree medical coverage for executives age 45 or over. Upon a change of control, this will assure executive age 45 or over but not yet 55 or receiving the company' s then current retiree medical coverage when they attain retirement age.

5. No actuarial reduction in pension payments for early retirement for executives age 50 and over.

6. Gross-up for any "golden parachute" tax effect.

7. Reimbursement for any legal fees incurred in enforcing or contesting the Agreement.

Attachment B

Enhanced Retirement Benefits Under Supplemental Executive Retirement Plan (SERP)

You will be granted 20 years of benefit service which will vest after 5 years of continuous service with Schering-Plough. Your total accrued benefit from the SERP at retirement (based on 20 years of service plus actual years of service) will be offset by (1) the amount of retirement benefits you are entitled to receive under Schering-Plough' s qualified defined benefit retirement plan any Schering-Plough non-qualified defined benefit retirement plans and (2) the amount of qualified and non-qualified defined benefit retirement benefits you are entitled to receive from any and all of your prior employers as of your actual retirement date. If you leave employment after completing five years of continuous service, your benefit accrued under the SERP (including your special service credit) will be payable in accordance with the SERP.

In the event that (i) you are involuntarily terminated other than for cause, (ii) your employment terminates due to your death or disability (as such term is applied to senior officers generally) or (iii) you terminate your employment for "good reason," your benefit accrued under the Plan (including your special service credit) will vest immediately and become payable commencing at age 55 (or actual age if older) without reduction for early retirement, or (at your election) may be payable immediately (prior to age 55) in a lump sum, which shall be determined using the actuarial assumptions applicable to lump sum distributions contained in the SERP in effect at the time of the distribution.

In addition to the foregoing, in the event that you voluntarily terminate your employment with the Company at age 50 or later, you will nonetheless be entitled to receive annual retirement benefits from the Company in an amount equal to the estimated annual retirement benefits that you would have received at such age from PricewaterhouseCoopers. Such retirement benefits will commence at the later of age 50 or your actual age at your termination of employment and continue (i) until the earliest age at which you are able to commence receipt of your benefits under the SERP and at which the aggregate of your Company-sponsored qualified and non-qualified defined benefit retirement benefits (including benefits payable under the SERP and the Schering-Plough Corporation Retirement Plan) are at least equal to or greater than such retirement benefits described in the immediately preceding sentence or (ii) for the remainder of your lifetime (with a survivor benefit payable to your spouse, if she survives you), if, and to the extent that, such retirement benefits are greater than the aggregate amount payable to you under the Company-sponsored qualified and non-qualified defined benefit retirement plans.

Additionally, in the event of a change of control, any actuarial adjustment in respect of your accrued benefit under the SERP for early retirement prior to age 50 will be determined using the same reduction factors from age 50 as is applicable under the

SERP' s pre-age 62 reduction schedule (e.g., a reduction factor for one year for benefits payable at age 49; a reduction factor for five years for benefits payable at age 45). Consistent with your change of control agreement, you shall be entitled to receive a lump sum payment of your benefits under the SERP at any time after your termination of employment, regardless of your age at that time.

Alternative forms of benefits will be made actuarially equivalent and will be determined as of your actual retirement date.

EMPLOYMENT AGREEMENT

AGREEMENT by and between Schering-Plough Corporation, a New Jersey corporation (the "Company") and Robert J. Bertolini (the "Executive"), dated as of the 17th day of November, 2003.

The Board of Directors of the Company (the "Board"), has determined that it is in the best interests of the Company and its shareholders to assure that the Company will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined below) of the Company. The Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive' s full attention and dedication to the Company currently and in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control which ensure that the compensation and benefits expectations of the Executive will be satisfied and which are competitive with those of other corporations. Therefore, in order to accomplish these objectives, the Board has caused the Company to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Certain Definitions.

(a) The "Effective Date" shall mean the first date during the Change of Control Period (as defined in Section 1(b)) on which a Change of Control (as defined in Section 2) occurs. Anything in this Agreement to the contrary notwithstanding, if a Change of Control occurs and if the Executive' s employment with the Company is terminated prior to the date on which the Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect a Change of Control or (ii) otherwise arose in connection with or anticipation of a Change of Control, then for all purposes of this Agreement the "Effective Date" shall mean the date immediately prior to the date of such termination of employment.

(b) The "Change of Control Period" shall mean the period commencing on the date hereof and ending on the third anniversary of the date hereof. Prior to the expiration of the Change of Control Period, the Company and the Executive may, upon mutual agreement but without obligation, execute an amendment to this Agreement to extend the length of the Change of Control Period.

2. Change of Control. For the purpose of this Agreement, a "Change of Control" shall mean:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of securities of the Company where such acquisition causes such Person to own 20% or more of either (i) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not be deemed to result in a Change of Control: (i) any acquisition directly from the Company, (ii) any acquisition by the Company, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) of this Section 2; and provided, further, that if any Person' s beneficial ownership of the Outstanding Company Voting Securities reaches or exceeds 20% as a result of a transaction described in clause (i) or (ii) above, and such Person subsequently acquires beneficial ownership of additional voting securities of the Company, such subsequent acquisition shall be treated as an acquisition that causes such Person to own 20% or more of the Outstanding Company Voting Securities; or

(b) Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company' s shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(c) Consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company or any of its subsidiaries, or a sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets or stock of another entity by the Company or any of its subsidiaries (each, a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination

(including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company' s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (ii) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (iii) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

3. Employment Period. The Company hereby agrees to continue the Executive in its employ, and the Executive hereby agrees to remain in the employ of the Company subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on the earlier of (x) the third anniversary of such date and (y) the Executive' s 65th birthday (the "Employment Period").

4. Terms of Employment.

(a) Position and Duties.

(i) During the Employment Period, (A) the Executive' s position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Effective Date and (B) the Executive' s services shall be performed at the location where the Executive was employed immediately preceding the Effective Date or any office or location less than 35 miles from such location.

(ii) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Company and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive' s reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage

personal investments, so long as such activities do not significantly interfere with the performance of the Executive' s responsibilities as an employee of the Company in accordance with this Agreement. It is expressly understood and agreed that to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive' s responsibilities to the Company.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive shall receive an annual base salary ("Annual Base Salary"), which shall be paid at a semi-monthly rate, at least equal to twenty-four times the highest semi-monthly base salary paid or payable, including any base salary which has been earned but deferred, to the Executive by the Company and its affiliated companies in respect of the twelve-month period immediately preceding the month in which the Effective Date occurs. During the Employment Period, the Annual Base Salary shall be reviewed no more than 12 months after the last salary increase awarded to the Executive prior to the Effective Date and thereafter at least annually. Any increase in Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. Annual Base Salary shall not be reduced after any such increase and the term Annual Base Salary as utilized in this Agreement shall refer to Annual Base Salary as so increased. As used in this Agreement, the term "affiliated companies" shall include any company controlled by, controlling or under common control with the Company.

(ii) Annual Bonus. In addition to Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash at least equal to the Executive' s highest bonus under the Company' s Executive Incentive Plan, or any comparable bonus under any predecessor or successor plan, for the last three full fiscal years prior to the Effective Date (annualized in the event that the Executive was not employed by the Company for the whole of such fiscal year) (the "Recent Annual Bonus"). Each such Annual Bonus shall be paid no later than the end of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus.

(iii) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive shall be entitled to participate in all incentive, profit-sharing, stock option, stock award, savings and retirement plans, practices, policies and programs applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Company and its affiliated companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Effective

Date or if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(iv) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive' s family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Company and its affiliated companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits which are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Company and its affiliated companies.

(v) Expenses. During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vi) Fringe Benefits. During the Employment Period, the Executive shall be entitled to fringe benefits, including, without limitation, tax and financial planning services, payment of club dues, and, if applicable, use of an automobile and payment of related expenses and use of Company aircraft, in accordance with the most favorable plans, practices, programs and policies of the Company and its affiliated companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(vii) Office and Support Staff. During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to personal secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Company and its affiliated companies at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

(viii) Vacation. During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Company and its affiliated companies as in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the

Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies.

5. Termination of Employment.

(a) Death or Disability. The Executive' s employment shall terminate automatically upon the Executive' s death during the Employment Period. If the Company determines in good faith that the Disability of the Executive has occurred during the Employment Period (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 12(b) of this Agreement of its intention to terminate the Executive' s employment. In such event, the Executive' s employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive' s duties. For purposes of this Agreement, "Disability" shall mean the absence of the Executive from the Executive' s duties with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive' s legal representative.

(b) Cause. The Company may terminate the Executive' s employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean:

(i) the willful and continued failure of the Executive to perform substantially the Executive' s duties with the Company or one of its affiliates (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Executive has not substantially performed the Executive' s duties, or

(ii) the willful engaging by the Executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company.

For purposes of this provision, no act or failure to act, on the part of the Executive, shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive' s action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after

reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive is guilty of the conduct described in subparagraph (i) or (ii) above, and specifying the particulars thereof in detail.

(c) Good Reason. The Executive' s employment may be terminated by the Executive for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties inconsistent in any respect with the Executive' s position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 4(a) of this Agreement, or any other action by the Company which results in a diminution in such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(ii) any failure by the Company to comply with any of the provisions of Section 4(b) of this Agreement, other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by the Executive;

(iii) the Company' s requiring the Executive to be based at any office or location other than as provided in Section 4(a)(i)(B) hereof or the Company' s requiring the Executive to travel on Company business to a substantially greater extent than required immediately prior to the Effective Date;

(iv) any purported termination by the Company of the Executive' s employment otherwise than as expressly permitted by this Agreement; or

(v) any failure by the Company to comply with and satisfy Section 11(c) of this Agreement.

For purposes of this Section 5(c), any good faith determination of "Good Reason" made by the Executive shall be conclusive. Anything in this Agreement to the contrary notwithstanding, a termination by the Executive for any reason during the 30-day period immediately following the first anniversary of the Effective Date shall be deemed to be a termination for Good Reason for all purposes of this Agreement.

(d) Notice of Termination. Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 12(b) of this Agreement. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the

Executive' s employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive' s or the Company' s rights hereunder.

(e) Date of Termination. "Date of Termination" means (i) if the Executive' s employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive' s employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination and (iii) if the Executive' s employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

6. Obligations of the Company upon Termination. (a) Good Reason; Other Than for Cause, Death or Disability. If, during the Employment Period, the Company shall terminate the Executive' s employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason:

(i) the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

A. the sum of (1) the Executive' s Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the higher of (I) the Recent Annual Bonus and (II) the Annual Bonus paid or payable, including any bonus or portion thereof which has been earned but deferred (and annualized for any fiscal year consisting of less than twelve full months or during which the Executive was employed for less than twelve full months), for the most recently completed fiscal year during the Employment Period, if any (such higher amount being referred to as the "Highest Annual Bonus") and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and (3) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2), and (3) shall be hereinafter referred to as the "Accrued Obligations"); and

B. the amount equal to the product of (1) the lesser of (x) three and (y) the number of days after the Date of Termination and on or before the Executive' s 65th birthday, divided by 365, times (2) the sum of (A) the Executive' s Annual Base Salary, (B) the Highest Annual Bonus and (C) the highest contributions made under the

Company' s Employees' Profit Sharing Incentive Plan and the Company' s Profit Sharing Benefits Equalization Plan or any successor or replacement plans thereto, for any of the three calendar years preceding the Date of Termination; and

C. an amount equal to the excess of (a) the actuarial equivalent of the benefit under the Company' s qualified defined benefit retirement plan (the "Retirement Plan") (utilizing actuarial assumptions no less favorable to the Executive than those in effect under the Company' s Retirement Plan immediately prior to the Effective Date), and any excess or supplemental retirement plans in which the Executive participates (together, the "SERP") which the Executive would have received if the Executive' s employment had continued for three years after the Date of Termination or through age 65, if sooner, assuming for this purpose that all accrued benefits were fully vested, and, assuming that the Executive' s compensation in each of the three years (or the shorter period to age 65, if applicable) would have been that required by Section 4(b)(i) and Section 4(b)(ii), over (b) the actuarial equivalent of the Executive' s actual benefit (paid or payable), if any, under the Retirement Plan and the SERP as of the Date of Termination;

(ii) for the lesser of (x) three years after the Executive' s Date of Termination and (y) the period through the Executive' s 65th birthday, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue benefits to the Executive and/or the Executive' s family at least equal to those which would have been provided to them in accordance with the plans, programs, practices and policies described in Section 4(b)(iv) of this Agreement if the Executive' s employment had not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies and their families, provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive medical or other welfare benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed until three years after the Date of Termination and to have retired on the last day of such period;

(iii) to the extent not theretofore paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive under any plan, program, policy or practice or contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits");

(iv) notwithstanding anything to the contrary in any employee pension benefit plan or any supplemental or excess employee pension benefit plan of the Company (including without limitation the Retirement Plan, the SERP, the Company' s Retirement Benefits Equalization

Plan (the "BEP") or any successor or replacement plan thereto), all benefits payable to the Executive under any supplemental or excess employee pension benefit plan of the Company (including without limitation the SERP, the BEP or any successor or replacement plan thereto) following a Change of Control (as defined therein) if, on the Date of Termination, the Executive is then age 50 or over shall not be reduced by any "reduction factors" or similar formulae or otherwise because such benefits are payable prior to a specified age or because the Executive has not yet reached a specified age (including, without limitation, the Executive' s earliest or normal retirement age under the terms of the relevant plan);

(v) consistent with the employment agreement between the Company and Executive dated November 4, 2003, any actuarial adjustment in respect of the Executive' s accrued benefit under the SERP for early retirement prior to age 50 will be determined using the same reduction factors from age 50 as is applicable under the SERP' s pre-age 62 reduction schedule (e.g. a reduction factor for one year for benefits payable at age 49; a reduction factor for five years for benefits payable at age 45); and

(vi) in addition to the benefits provided in subparagraph (a)(ii) of this Section 6, if the Executive is age 45 or over on the Date of Termination, the Executive shall, upon attainment of age 55 and upon termination of the three year period after the Executive' s Date of Termination, become eligible for all benefits under medical plans, practices, policies and programs made available immediately prior to the Date of Termination (or, if greater, immediately prior to the Effective Date) to retired peer executives of the Company (including without limitation any supplemental coverage under the Executive Medical Benefits Plan) as if the Executive had at the Date of Termination satisfied the age and service conditions for coverage under the applicable provisions of such plans, practices, policies and programs. If the Company is unable to provide the Executive with coverage under such plans, practices, policies and programs, the Company shall provide the Executive with separate comparable coverage but in no event less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for retirees immediately prior to the Effective Date.

(b) Death. If the Executive' s employment is terminated by reason of the Executive' s death during the Employment Period, this Agreement shall terminate without further obligations to the Executive' s legal representatives under this Agreement, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive' s estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 6(b) shall include, without limitation, and the Executive' s estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Company and affiliated companies to the estates and beneficiaries of peer executives of the Company and such affiliated companies under such plans, programs, practices and policies relating to death benefits and survivor benefits, if any, as in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive' s estate and/or the Executive' s beneficiaries, as in effect on the date of the

Executive' s death with respect to other peer executives of the Company and its affiliated companies and their beneficiaries.

(c) Disability. If the Executive' s employment is terminated by reason of the Executive' s Disability during the Employment Period, this Agreement shall terminate without further obligations to the Executive, other than for payment of Accrued Obligations and the timely payment or provision of Other Benefits. Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of Other Benefits, the term Other Benefits as utilized in this Section 6(c) shall include, without limitation, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Company and its affiliated companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive and/or the Executive' s family, as in effect at any time thereafter generally with respect to other peer executives of the Company and its affiliated companies and their families.

(d) Cause; Other than for Good Reason. If the Executive' s employment shall be terminated for Cause during the Employment Period, this Agreement shall terminate without further obligations to the Executive other than the obligation to pay to the Executive (x) his Annual Base Salary through the Date of Termination, (y) the amount of any compensation previously deferred by the Executive, and (z) Other Benefits, in each case to the extent theretofore unpaid. If the Executive voluntarily terminates employment during the Employment Period, excluding a termination for Good Reason, this Agreement shall terminate without further obligations to the Executive, other than for Accrued Obligations and the timely payment or provision of Other Benefits. In such case, all Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination.

7. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit the Executive' s continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor, subject to Section 12(f), shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Agreement.

8. Full Settlement. The Company' s obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Company may have against the Executive or others. In no event shall the Executive be

obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to pay as incurred, to the full extent permitted by law, all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Internal Revenue Code of 1986, as amended (the "Code").

9. Certain Additional Payments.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (each, a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code (together with any interest or penalties imposed with respect to such excise tax, the "Excise Tax"), then the Executive shall be entitled to receive an additional payment ("Gross-Up Payment") in an amount such that after payment by the Executive of all taxes (and any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. The Company' s obligation to make Gross-Up Payments under this Section 9 shall not be conditioned upon the Executive' s termination of employment.

(b) Subject to the provisions of Section 9(c), all determinations required to be made under this Section 9, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Deloitte & Touche or such other certified public accounting firm that is serving as the Company' s primary independent auditors at the time (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any Gross-Up Payment, as determined pursuant to this Section 9, shall be paid by the Company to the Executive within five days of the receipt of the Accounting Firm' s determination. Any determination by the Accounting Firm shall be binding upon the Company

and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment"), consistent with the calculations required to be made hereunder. In the event the Company exhausts or does not seek to pursue its remedies pursuant to Section 9(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of the Executive.

(c) The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable but no later than ten business days after the Executive is informed in writing of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which the Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that it desires to contest such claim, the Executive shall:

(i) give the Company any information reasonably requested by the Company relating to such claim,

(ii) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,

(iii) cooperate with the Company in good faith in order effectively to contest such claim, and

(iv) permit the Company to participate in any proceedings relating to such claim;

provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax, income tax or other tax (including interest and penalties with respect thereto) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 9(c), the Company shall control all proceedings taken in connection with such contest and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either direct the Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided,

however, that, if the Company directs the Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to the Executive, on an interest-free basis, and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties with respect thereto) imposed with respect to such advance or with respect to any imputed income in connection with such advance; and further provided, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company' s control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of a Gross-Up Payment or an amount advanced by the Company pursuant to Section 9(c), the Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, the Executive shall (subject to the Company' s complying with the requirements of Section 9(c), if applicable) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by the Executive of an amount advanced by the Company pursuant to Section 9(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Company does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

(e) Notwithstanding any other provision of this Agreement, the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of the Executive, all or any portion of any Gross-Up Payment, and the Executive hereby consents to such withholding.

10. Confidential Information. The Executive shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Executive during the Executive' s employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive' s employment with the Company, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. In no event shall an asserted violation of the provisions of this Section 10 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

11. Successors.

(a) This Agreement is personal to the Executive and without the prior written consent of the Company shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive' s legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns.

(c) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise.

12. Miscellaneous.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

Robert J. Bertolini
9 Uptom Pine Road
Lebanon, NJ 08833

If to the Company:

Schering-Plough Corporation
2000 Galloping Hill Road
Kenilworth, New Jersey 07033
Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Company may withhold from any amounts payable under this Agreement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive' s or the Company' s failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 5(c) (i)-(v) of this Agreement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Company acknowledge that, except as may otherwise be provided under any other written agreement between the Executive and the Company, the employment of the Executive by the Company is "at will" and, subject to Section 1(a) hereof, prior to the Effective Date, the Executive' s employment may be terminated by either the Executive or the Company at any time prior to the Effective Date, in which case the Executive shall have no further rights under this Agreement. From and after the Effective Date this Agreement shall supersede any prior agreement between the parties with respect to the subject matter hereof.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive' s hand and, pursuant to the authorization from its Board of Directors, the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

/s/Robert J. Bertolini
Robert J. Bertolini

SCHERING-PLOUGH CORPORATION

By /s/Fred Hassan
Fred Hassan
Chairman of the Board and
Chief Executive Officer

Exhibit 10(e)(ix)

FIRST AMENDMENT TO
SUPPLEMENT TO EMPLOYMENT AGREEMENT

This FIRST AMENDMENT to the Supplement to the Employment Agreement by and between Schering-Plough Corporation, a New Jersey corporation (the "Company"), and Joseph C. Connors (the "Executive"), dated as of January 1, 2002 (the "Supplement"), is dated as of the 16th day of December, 2003.

The Compensation Committee of the Board of Directors of the Company has determined that it would be in the best interests of the Company and its shareholders for the Executive to remain in the Company' s employment. Therefore, the Compensation Committee has determined to offer to the Executive, and the Executive has agreed, to enter into this First Amendment to the Supplement in order to enhance the incentive for the Executive to remain in the employ of the Company.

NOW, THEREFOR, IT IS HEREBY AGREED AS FOLLOWS:

1. Section 7(c) of the Supplement is hereby amended to read in its entirety as follows:

   Highest Annual Bonus: the higher of (i) the Executive' s highest Annual Bonus for the last three full fiscal years prior to the Date of Termination (annualized in the event that the Executive was not employed by the Company for the whole of any such fiscal year) and (ii) the Executive' s Annual Bonus for the fiscal year 2000.

2. The Supplement is otherwise ratified and confirmed without amendment.

IN WITNESS WHEREOF, the Executive and, pursuant to the authorization from the Compensation Committee of its Board of Directors, the Company, have caused this Amendment to be executed as of the day and year first above written.

/s/ Joseph C. Connors

Joseph C. Connors

SCHERING-PLOUGH CORPORATION

By: /s/ C. Ron Cheeley

[name] C. Ron Cheeley
[title] SVP Global Human Resources

Exhibit 10(e)(x)

SUPPLEMENT TO EMPLOYMENT AGREEMENT

This SUPPLEMENT to the Employment Agreement by and between Schering-Plough Corporation, a New Jersey corporation (the "Company"), and Raul Kohan (the "Executive"), dated as of September 27, 1994 and amended as of September 28, 1999 and January 1, 2002 (as amended, the "Employment Agreement"), is dated as of the 1st day of January, 2002. Capitalized terms used but not defined in this Supplement have the meanings given to them in the Employment Agreement.

The Board of Directors of the Company has determined that it would be detrimental to the interests of the Company and its shareholders if the Executive were to terminate his employment during the term of this Supplement, particularly if the Executive were to engage in activities competitive with the Company. Therefore, the Board has determined to offer to the Executive, and the Executive has agreed, to enter into this Supplement in order to enhance the incentives for the Executive to remain in the employ of the Company and to refrain from such competition.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

1. Term. The term of this Supplement (the "Term of this Supplement") shall begin on January 1, 2002 and expire on December 31, 2005; provided, that the Term of this Supplement shall in any event expire immediately before the Effective Date of the Employment Agreement (as defined therein). From and after the expiration of the Term of this Supplement, the Employment Agreement shall remain in effect, without regard to the amendments thereto made by this Supplement except as specifically provided below, unless the Employment Agreement has been sooner terminated in accordance with its terms.

2. Procedures for Termination of Employment. The following provisions shall apply in the event of a termination of the Executive' s employment during the Term of this Supplement.

(a) Death or Disability. The Executive' s employment shall terminate automatically upon the Executive' s death during the Term of this Supplement. If the Company determines in good faith that the Disability of the Executive has occurred during the Term of this Supplement (pursuant to the definition of Disability set forth below), it may give to the Executive written notice in accordance with Section 9(b) below of its intention to terminate the Executive' s employment. In such event, the Executive' s employment with the Company shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), provided that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive' s duties. For purposes of this Supplement, "Disability" shall mean the absence of the Executive from the Executive' s duties

with the Company on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive' s legal representative.

(b) Cause. The Company may terminate the Executive' s employment during the Term of this Supplement for Cause or without Cause. For purposes of this Supplement, "Cause shall mean:

(i) the willful and continued failure of the Executive to perform substantially the Executive' s duties with the Company or one of its affiliated companies (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Executive by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Executive has not substantially performed the Executive' s duties, or

(ii) the willful engaging by the Executive in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company, or

(iii) the conviction of the Executive of a felony involving moral turpitude.

For purposes of this provision, no act or failure to act, on the part of the Executive, shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive' s action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of the Chief Executive Officer or a senior officer of the Company or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company.

(c) Good Reason. The Executive' s employment may be terminated by the Executive for Good Reason or without Good Reason. For purposes of this Supplement, "Good Reason" shall mean:

(i) the assignment to the Executive of any duties that are materially inconsistent with the Executive' s education, training and experience, or that result in a significant diminution in the Executive' s status or title, it being understood that a change in the person to whom the Executive reports does not constitute "Good Reason"; or

(ii) any significant reduction by the Company of the Executive' s compensation, unless such reduction was part of a reduction approved by the Company' s Board of Directors (or a Committee thereof) for one or more employees in addition to the Executive;

in either case which the Company fails to cure within 20 business days after receiving notice thereof from the Executive.

(d) Notice of Termination. Any termination by the Company for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 9(b) below. For purposes of this Supplement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Supplement relied upon, (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive' s employment under the provision so indicated and (iii) if the Date of Termination (as defined below) is other than the date of receipt of such notice, specifies the termination date (which date shall be not more than thirty days after the giving of such notice). The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting such fact or circumstance in enforcing the Executive' s or the Company' s rights hereunder.

(e) Date of Termination. "Date of Termination" means (i) if the Executive' s employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive' s employment is terminated by the Company other than for Cause or Disability, the Date of Termination shall be the date on which the Company notifies the Executive of such termination and (iii) if the Executive' s employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be.

3. Obligations of the Company upon Termination of Employment. (a) Good Reason; Other Than for Cause, Death or Disability. If, during the Term of this Supplement, the Company shall terminate the Executive' s employment other than for Cause or Disability or the Executive shall terminate employment for Good Reason:

(i) The Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

A. the sum of (1) the Executive' s Annual Base Salary through the Date of Termination to the extent not theretofore paid, (2) the product of (x) the Highest Annual Bonus and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and (3) any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not theretofore paid (the sum of the amounts described in clauses (1), (2), and (3) shall be hereinafter referred to as the "Accrued Obligations"); and

B. the amount equal to the product of (1) the lesser of (x) three and (y) the number of days after the Date of Termination and on or before the Executive' s 65th birthday, divided by 365, times (2) the sum of (A) the Executive' s Annual Base Salary, (B) the Highest Annual Bonus and (C) the highest contributions made under the Company' s Employees' Profit Sharing Incentive Plan and the Company' s Profit Sharing Benefits Equalization Plan or any successor or

replacement plans thereto, for any of the three calendar years preceding the Date of Termination.

(ii) Notwithstanding anything to the contrary in any employee pension benefit plan or any supplemental or excess employee pension benefit plan of the Company (including without limitation the Retirement Plan, the SERP, the Company' s Retirement Benefits Equalization Plan (the "BEP") or any successor or replacement plan thereto), all benefits payable to the Executive under any supplemental or excess employee pension benefit plan of the Company (including without limitation the SERP, the BEP or any successor or replacement plan thereto) shall not be reduced by any "reduction factors" or similar formulae or otherwise because such benefits are payable prior to a specified age or because the Executive has not yet reached a specified age (including, without limitation, the Executive' s earliest or normal retirement age under the terms of the relevant plan). This Section 3(a)(ii) shall survive until December 31, 2005 notwithstanding any earlier termination of the Term of this Supplement pursuant to the proviso of the first sentence of Section 1 hereof.

(b) Other Terminations. If, during the Term of this Supplement, the Executive' s employment is terminated by reason of the Executive' s death or Disability, by the Company for Cause or by the Executive without Good Reason, the Company shall have no further obligations to the Executive or his legal representatives under this Supplement.

(c) Consequences of Expiration of the Term of this Supplement. If the Executive' s employment terminates for any reason during the Term of this Supplement, the provisions of this Section 3 shall survive the expiration of the Term of this Supplement to the extent they remain applicable in accordance with their terms.

4. Confidential Information and Competitive Conduct. (a) Confidential Information. The Employee shall hold in a fiduciary capacity for the benefit of the Company all secret or confidential information, knowledge or data relating to the Company or any of its affiliated companies, and their respective businesses, which shall have been obtained by the Employee during the Employee' s employment by the Company or any of its affiliated companies and which shall not be or become public knowledge (other than by acts by the Employee or representatives of the Employee in violation of this Agreement). After termination of the Employee' s employment with the Company, the Employee shall not, without the prior written consent of the Company, or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it.

(b) Competitive Conduct. During the Noncompetition Period (as defined below), the Executive shall not, without the prior written consent of the Board, engage in or become associated with a Competitive Activity. For purposes of this Section 4(b): (i) the "Noncompetition Period" means (A) the period during which the Executive is employed by the Company, plus (B) two years following any termination of employment during the Term of this Supplement by the Company for Cause or by the Executive without Good Reason; (ii) a "Competitive Activity" means any business or other endeavor that is engaged in research, development and/or sale of human and/or animal pharmaceutical products, in any county of any state of the United States or any other country; and (iii) the Executive shall be considered to have become "associated with a Competitive Activity" if the Executive becomes directly or indirectly

involved as an owner, principal, employee, officer, director, independent contractor, representative, stockholder, financial backer, agent, partner, advisor, lender, or in any other individual or representative capacity with any individual, partnership, corporation or other organization that is engaged in a Competitive Activity. Notwithstanding the foregoing, the Executive may make and retain investments during the Noncompetition Period which do not constitute a controlling interest of any entity engaged in a Competitive Activity, if such investment is made on a passive basis and the Executive does not act as an employee, officer, director, independent contractor, representative, agent or advisor with respect to such entity and so long as the making or retaining of such investment is not contrary to the best interests of the Company.

(c) Enforcement. The Executive acknowledges and agrees that: (i) the purpose of the foregoing covenants is to protect the goodwill, trade secrets and other confidential information of the Company; (ii) because of the nature of the business in which the Company and its affiliated companies are engaged and because of the nature of the confidential information to which the Executive has access, it would be impractical and excessively difficult to determine the actual damages of the Company and its affiliated companies in the event the Executive breached any of the covenants of this Section 4; and (iii) remedies at law (such as monetary damages) for any breach of the Executive' s obligations under this Section 4 would be inadequate. The Executive therefore agrees and consents that if he commits any breach of a covenant under this Section 4 or threatens to commit any such breach, the Company shall have the right (in addition to, and not in lieu of, any other right or remedy that may be available to it) to temporary and permanent injunctive relief from a court of competent jurisdiction, without posting any bond or other security and without the necessity of proof of actual damage. With respect to any provision of this Section 4 finally determined by a court of competent jurisdiction to be unenforceable, the Executive and the Company hereby agree that such court shall have jurisdiction to reform this Agreement or any provision hereof so that it is enforceable to the maximum extent permitted by law, and the parties agree to abide by such court' s determination. If any of the covenants of this Section 4 are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the Company' s right to enforce any such covenant in any other jurisdiction.

(d) No Offset. In no event shall an asserted violation of the provisions of this Section 4 constitute a basis for deferring or withholding any amounts otherwise payable to the Employee under this Supplement.

(e) Consequences of Expiration of the Term of this Supplement. The provisions of this Section 4 shall survive the expiration of the Term of this Supplement to the extent they remain applicable in accordance with their terms, provided that Section 4(b) shall terminate and be of no further force or effect as of the Effective Date.

5. Non-exclusivity of Rights. Nothing in this Supplement shall prevent or limit the Executive' s continuing or future participation in any plan, program, policy or practice provided by the Company or any of its affiliated companies and for which the Executive may qualify, nor, subject to Section 9(f), shall anything herein limit or otherwise affect such rights as the Executive may have under any contract or agreement with the Company or any of its affiliated companies. Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any contract or agreement

with the Company or any of its affiliated companies at or subsequent to the Date of Termination shall be payable in accordance with such plan, policy, practice or program or contract or agreement except as explicitly modified by this Supplement. Notwithstanding the foregoing, if the Executive receives payments and benefits pursuant to Section 3(a) of this Supplement, the Executive shall not be entitled to any severance pay or benefits under any severance plan, program or policy of the Company or any of its affiliated companies, unless otherwise specifically provided therein in a specific reference to this Supplement.

6. No Mitigation; Legal Fees. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Supplement and such amounts shall not be reduced whether or not the Executive obtains other employment. The Company agrees to reimburse the Executive, to the full extent permitted by law, for all legal fees and expenses which the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Company, the Executive or others of the validity or enforceability of, or liability under, any provision of this Supplement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Supplement); provided, that no such reimbursement shall be required if the trier of fact in such contest determines that the Executive' s position was frivolous or maintained in bad faith. The provisions of this Section 6 shall survive the expiration of this Supplement to the extent they remain applicable in accordance with their terms.

7. Definitions. For purposes of this Supplement, the following terms shall have the meanings provided below:

(a) Annual Base Salary: the annual rate of the Executive' s base salary, as in effect immediately before the Date of Termination, but disregarding any reduction in such base salary resulting from any action constituting "Good Reason" as defined in Section 2(c) above.

(b) Annual Bonus: a bonus paid or payable under the Company' s Executive Incentive Plan, or any comparable bonus under any predecessor or successor plan, including any bonus or portion thereof which has been earned but deferred.

(c) Highest Annual Bonus: the Executive' s highest Annual Bonus for the last three full fiscal years prior to the Date of Termination (annualized in the event that the Executive was not employed by the Company for the whole of any such fiscal year).

(d) Retirement Plan: the Company' s qualified defined benefit retirement plan.

(e) SERP: all excess or supplemental retirement plans in which the Executive participates, collectively.

(f) Welfare Benefits: all benefits under the welfare benefit plans, practices, policies and programs provided by the Company and its affiliated companies (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the Executive or other peer executives of the Company and its affiliated companies.

8. Successors.

(a) This Supplement is personal to the Executive and without the prior written consent of the Company, shall not be assignable by the Executive otherwise than by will or the laws of descent and distribution. This Supplement shall inure to the benefit of, and be enforceable by, the Executive' s legal representatives.

(b) This Supplement shall inure to the benefit of, and be binding upon the Company and its successors and assigns.

(c) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Supplement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Supplement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Supplement by operation of law, or otherwise.

9. Miscellaneous.

(a) This Supplement shall be governed by and construed in accordance with the laws of the State of New Jersey, without reference to principles of conflict of laws. The captions of this Supplement are not part of the provisions hereof and shall have no force or effect. This Supplement may not be amended or modified otherwise than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive:

Mr. Raul Kohan
Morgan Drive
P.O. Box 139
New Vernon, New Jersey 07976

If to the Company:

Schering-Plough Corporation
2000 Galloping Hill Road
Kenilworth, New Jersey 07033
Attention: General Counsel

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Supplement shall not affect the validity or enforceability of any other provision of this Supplement.

(d) The Company may withhold from any amounts payable under this Supplement such Federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive' s or the Company' s failure to insist upon strict compliance with any provision of this Supplement or the failure to assert any right the Executive or the Company may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Section 2(c) of this Supplement, shall not be deemed to be a waiver of such provision or right or any other provision or right of this Supplement.

(f) The Executive and the Company acknowledge that this Supplement supersedes any prior agreement between the parties with respect to the subject matter hereof, other than the Employment Agreement.

IN WITNESS WHEREOF, the Executive and, pursuant to the authorization from its Board of Directors, the Company, have caused this Supplement to be executed as of the day and year first above written.

/s/ Raul Kohan
Raul Kohan

SCHERING-PLOUGH CORPORATION

By: /s/ Richard Jay Kogan
Richard Jay Kogan
Chairman of the Board and
Chief Executive Officer

Schering-Plough Corporation Operations Management Team Incentive Plan

1. Plan Objective

The Schering-Plough Corporation Operations Management Team Incentive Plan (alternatively referred to as the "OMTIP" or the "Plan") is designed to encourage results-oriented actions on the part of members of the Operations Management Team ("OMT") of Schering-Plough Corporation (the "Company"). The Plan is intended to align closely financial rewards with the achievement of specific performance objectives.

2. Eligibility

All management employees of the Company and its subsidiaries who are members of the OMT are eligible to participate in the Plan. The Administrator (as defined in Section 3 below) may select any other management employees who shall participate in the Plan (the "Participants").

3. Administration

(a) The Plan shall be administered by the Compensation Committee of the Board of Directors (the "Committee") with respect to employees who are executives of the Company who are subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934 ("Section 16 Executives"), and the Plan shall be administered by the Chief Executive Officer of the Company ("CEO") with respect to all other employees. The CEO may delegate his authority to administer the Plan to an individual or other committee. The term "Administrator" shall mean the Committee, as applied to Section 16 Executives, and the CEO or an individual or committee to which authority has been delegated, as applied to all other employees.

(b) The Administrator shall have full power and authority to establish the rules and regulations relating to the Plan, to interpret the Plan and those rules and regulations, to select Participants for the Plan, to determine each Participant' s target award, performance goals and final award, to make all factual and other determinations in connection with the Plan, and to take all other actions necessary or appropriate for the proper administration of the Plan, including the delegation of such authority or power, where appropriate. Only the Committee shall take the foregoing actions with respect to Section 16 Executives.

(c) All powers of the Administrator shall be executed in its sole discretion, in the best interest of the Company, not as a fiduciary, and in keeping with the objectives of the Plan and need not be uniform as to similarly situated individuals. The Administrator' s administration of the Plan, including all such rules and regulations, interpretations, selections, determinations, approvals, decisions, delegations, amendments, terminations and other actions, shall be final and binding on the Company and all employees of the Company, including the Participants and their respective beneficiaries.

4. Target Awards and Performance Goals

(a) At the beginning of each plan year designated by the Administrator (a "Plan Year"), the Administrator shall establish for each Participant a target incentive award, which shall be expressed as a dollar amount, a percentage of salary or otherwise. The Administrator shall establish for each Section 16 Executive a maximum award that may be paid for the Plan Year. The maximum award amount for Section 16 Executives will remain fixed for the entire Plan Year and may not be increased based on an increase in salary during the Plan Year or otherwise. The target awards will be based on a number of factors, including but not limited to:

Market competitiveness of the position

Job level

Base salary level

Past individual performance

Expected contribution to future Company performance and business impact

(b) At the beginning of each Plan Year, the Administrator shall establish for each Participant performance goals that must be met in order for an award to be payable for the Plan Year. The Administrator shall establish in writing (i) the performance goals that must be met, (ii) the threshold, target and maximum amounts that may be paid if the performance goals are met, and (iii) any other conditions that the Administrator deems appropriate and consistent with the Plan and, in the case of Section 16 Executives, the exception for "qualified performance-based compensation" (the "Section 162(m) Exception") under Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The Administrator shall establish objective performance goals for each Participant related to the Participant' s business unit or the performance of the Company and its parents, subsidiaries and affiliates as a whole, or any combination of the foregoing. The Administrator may also establish subjective performance goals for Participants; provided that, for Section 16 Executives, the subjective performance goals may only be used to reduce, and not increase, the award otherwise payable under the Plan. The Company shall notify each Participant of his or her target award and the performance goals for the Plan Year.

(c) The objectively determinable performance goals shall be based on one or more of the following criteria related to the Participant' s business unit or the performance of the Company and its parents, subsidiaries and affiliates as a whole, or any combination of the foregoing: stock price, earnings per share, net earnings, operating or other earnings, profits, revenues, net cash flow, financial return ratios, return on assets, stockholder return, return on equity, growth in assets, unit volume, sales, market share, drug discovery or other scientific goals, pre-clinical or clinical goals, regulatory approvals, or strategic business criteria consisting of one or more objectives based on meeting specified revenue goals, market penetration goals, geographic business expansion goals, cost targets, goals relating to acquisitions or divestitures, or strategic partnerships.

(d) For Section 16 Executives, the Administrator must establish the target awards and performance goals no later than the earlier of (i) 90 days after the beginning of the Plan Year or (ii) the date on which 25% of the Plan Year has been completed, or such other date as may be required or permitted under applicable regulations under section 162(m) of the Code. The performance goals for each Section 16 Executive for each Plan Year are intended to satisfy the requirements for the Section 162(m) Exception, including the requirement that the achievement of the performance goals be substantially uncertain at the time they are established and that the performance goals be established in such a way that a third party with knowledge of the relevant facts could determine whether and to what extent the performance goals have been met.

(e) Each Participant will earn an award for a Plan Year based on the achievement of the performance goals established by the Administrator. The Administrator may adjust, upward or downward, the award for

each Participant who is not a Section 16 Executive, based on the Administrator' s determination of the Participant' s achievement of personal and other performance goals established by the Administrator and other factors as the Administrator determines. The Administrator may reduce (but not increase) the award for each Section 16 Executive based on the Administrator' s determination of the Participant' s achievement of personal and other performance goals established by the Administrator and other factors as the Administrator determines. The Administrator shall not be authorized to increase the amount of any award of a Section 16 Executive that would otherwise be payable pursuant to the terms of the Plan.

(f) The maximum award that a Participant may receive for any Plan Year is $9,000,000.

5. Payment of Incentive Awards

(a) The Administrator shall certify and announce to the Participants the awards that will be paid by the Company as soon as practicable following the final determination of the Company' s financial results for the Plan Year. Payment of the awards certified by the Administrator shall be made in a single lump sum cash payment as soon as practicable following the close of the Plan Year, but in any event within 120 days after the close of the Plan Year.

(b) Participants must be employed on the last day of the Plan Year to be eligible for an award from the Plan, except as described in subsections (c) and (d) below. Notwithstanding any other provision of this Plan, in no event may the Administrator waive the achievement of performance goals for any Section 16 Executive except in the event of such Section 16 Executive' s death or disability.

(c) Participants who terminate employment prior to the last day of the Plan Year will not be eligible for any award payment for that Plan Year, except as the Administrator may otherwise determine. Unless the Administrator determines otherwise:

(i) Participants who die or who retire under a Company-sponsored retirement program during the Plan Year will be eligible for a prorated award based on the achievement of the performance goals for the Plan Year and appropriate adjustment as described in Section 4. The prorated award will be calculated from the date when they became eligible for the Plan to the date of death or retirement rounded to the nearest whole month. Payment will be made in a single payment at the same time as all other incentive awards for the Plan Year are distributed. In the case of the death of a Participant, any award payable to the Participant shall be paid to his or her beneficiary. For this purpose, the Company will use the beneficiary named under the Company-sponsored life insurance plan. If no life insurance beneficiary is designated, the beneficiary will be the decedent' s estate.

(ii) Participants who leave the Company under a Company-sponsored disability program, separation program (other than in the case of termination for cause) or other program approved by the Management Committee will be eligible for a prorated award based on achievement of the performance goals for the year and appropriate adjustment as described in Section 4. The awards will be calculated from the date when they became eligible for the Plan to the effective date of separation rounded to the nearest whole month. Payment will be made in a single payment at the same time as all other incentive awards for the Plan Year are distributed.

(d) The Administrator may establish appropriate terms and conditions to accommodate newly hired and transferred employees, consistent, in the case of Section 16 Executives, with the requirements of the Section 162(m) Exception.

6. Changes to Performance Goals and Target Awards

At any time prior to the final determination of awards, for Participants other than Section 16 Executives, the Administrator may adjust the performance goals and target awards to reflect a change in corporate capitalization (such as a stock split or stock dividend), or a corporate transaction (such as a merger, consolidation, separation, reorganization or partial or complete liquidation), or to reflect equitably the occurrence of any extraordinary event, any change in applicable accounting rules or principles, any change in the Company' s method of accounting, any change in applicable law, any change due to any merger, consolidation, acquisition, reorganization, stock split, stock dividend, combination of shares or other changes in the Company' s corporate structure or shares, or any other change of a similar nature. The Administrator may make the foregoing adjustments with respect to Section 16 Executives' awards to the extent the Administrator deems appropriate, but only to the extent consistent with the requirements of the Section 162(m) Exception.

7. Amendments and Termination

(a) The Company may at any time amend or terminate the Plan by action of the Committee; provided, however, that the Committee shall not amend the Plan without stockholder approval if such approval is required in order for awards under the Plan to qualify for the Section 162(m) Exception. Without limiting the foregoing, the Company, by action of the Administrator, shall have the right to modify the terms of the Plan as may be necessary or desirable to comply with the laws or local customs of countries in which the Company operates or has employees.

(b) The Plan must be reapproved by the stockholders no later than the first stockholders meeting that occurs in the fifth year following the year in which the stockholders previously approved the Plan, if required in order for awards under the Plan to qualify for the Section 162(m) Exception under the Code or the regulations thereunder.

8. Miscellaneous Provisions

(a) This Plan is not a contract between the Company and the Participants. Neither the establishment of this Plan, nor any action taken hereunder, shall be construed as giving any Participant any right to be retained in the employ of the Company or any of its subsidiaries. Nothing in the Plan, and no action taken pursuant to the Plan, shall affect the right of the Company to terminate a Participant' s employment at any time and for any or no reason. The Company is under no obligation to continue the Plan.

(b) A Participant' s right and interest under the Plan may not be assigned or transferred, except as provided in Section 5(c) of the Plan upon death, and any attempted assignment or transfer shall be null and void and shall extinguish, in the Company' s sole discretion, the Company' s obligation under the Plan to pay awards with respect to the Participant. The Company' s obligations under the Plan may be assigned to any corporation which acquires all or substantially all of the Company' s assets or any corporation into which the Company may be merged or consolidated.

(c) The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund, or to make any other segregation of assets, to assure payment of awards. The Company' s obligations hereunder shall constitute a general, unsecured obligation, awards shall be paid solely out of the Company' s general assets, and no Participant shall have any right to any specific assets of the Company.

(d) The Company shall have the right to deduct from awards any and all federal, state and local taxes or other amounts required by law to be withheld.

(e) It is the intent of the Company that the Plan and awards under the Plan for Section 16 Executives comply with the requirements for the Section 162(m) Exception. To the extent that any requirement of the Section 162(m) Exception as set forth in the Plan ceases to be required under Section 162(m) of the Code, that Plan provision shall cease to apply.

(f) The Company' s obligation to pay compensation as herein provided is subject to any applicable orders, rules or regulations of any government agency or office having authority to regulate the payment of wages, salaries, and other forms of compensation.

(g) The validity, construction, interpretation and effect of the Plan shall exclusively be governed by and determined in accordance with the laws of the State of New Jersey.

Exhibit 10(n)

SCHERING-PLOUGH CORPORATION

Cash Long-Term Incentive Plan

Effective January 1, 2004

Schering-Plough Corporation Cash Long-Term Incentive Plan

1. Plan Objective

The Schering-Plough Corporation Cash Long-Term Incentive Plan (referred to as the "Plan") is designed to encourage results-oriented actions on the part of key executives of Schering-Plough Corporation (the "Company") that will drive the achievement of specific business objectives.

2. Eligibility

Management employees of the Company and its subsidiaries who are members of the Operations Management Team (OMT) and other key executives are eligible to participate in the Plan. The Administrator (as defined in Section 3 below) shall select the Operations Management Team members and other key executives who shall participate in the Plan (the "Participants").

3. Administration

(a) The Plan shall be administered by the Compensation Committee of the Board of Directors with respect to executives who are subject to the reporting requirements of Section 16 of the Exchange Act of 1934, as amended ("Section 16 Executives"), and the Plan shall be administered by the Chief Executive Officer of the Company ("CEO") with respect to all other employees. The CEO may delegate his authority to administer the Plan to an individual or committee. The term "Administrator" shall mean the Compensation Committee, as applied to Section 16 Executives, and the CEO or such individual or committee to which authority has been delegated, as applied to all other employees.

(b) The Administrator shall have full power and authority to establish the rules and regulations relating to the Plan, to interpret the Plan and those rules and regulations, to select Participants for the Plan, to determine each Participant' s target award, performance goals and final award, to make all factual and other determinations in connection with the Plan, and to take all other actions necessary or appropriate for the proper administration of the Plan, including the delegation of such authority or power, where appropriate.

(c) All powers of the Administrator shall be executed in its sole discretion, in the best interest of the Company, not as a fiduciary, and in keeping with the objectives of the Plan and need not be uniform as to similarly situated individuals. The Administrator' s administration of the Plan, including all such rules and regulations, interpretations, selections, determinations, approvals, decisions, delegations, amendments, terminations and other actions, shall be final and binding on the Company and all employees of the

Company and its subsidiaries, including the Participants and their respective beneficiaries.

(d) The Administrator may establish appropriate terms and conditions to accommodate newly hired and transferred employees. Unless otherwise determined by the Administrator, the target award for a newly hired or transferred employee shall be prorated based on a fraction, the numerator of which is the number of months such Participant will participate in the Plan during the performance period (rounded to the nearest whole month) and the denominator of which is 36.

4. Target Awards and Performance Goals

(a) The Administrator shall establish for each Participant a target award that will be payable if and to the extent that the Company attains the performance goals for the specified performance period or otherwise in connection with a change in control (as defined in the Company' s 2002 Stock Incentive Plan (hereinafter referred to as a "Change in Control"). The target award shall be equal to three times the highest annual incentive target amount established for the Participant during the performance period under the Company' s annual incentive plan applicable to the Participant, or such other amount as the Administrator determines.

(b) The Administrator shall establish the performance goals for each performance period. Unless the Administrator determines otherwise, the performance goals shall be based on (i) the Company' s achievement of its targeted earnings per share growth, and (ii) the Company' s total earnings per share growth ranking as compared to its peer group, all as set forth on Exhibit A. The Administrator may adjust the performance goals as it deems appropriate to take into account corporate transactions or other extraordinary events that occur during the performance period.

(c) The peer group consists of the following companies:

Abbott Laboratories
Bristol-Myers Squibb Company
Eli Lilly and Company
Johnson & Johnson
Merck & Company, Inc.
Pfizer, Inc.
Wyeth

The Administrator may adjust the peer group from time to time as it deems appropriate, including the addition, deletion or replacement of companies, to take into account mergers and other changes in the companies consisting of the peer group.

5. Calculation of Incentive Awards

(a) At the end of the performance period, the Administrator shall compute each Participant' s incentive award for the performance period, which shall be the greater of the award calculated pursuant to subsection (i) or (ii) below:

(i) The Administrator shall determine whether and to what extent the performance goals have been met for each fiscal year of the performance period, based on the Company' s performance for each fiscal year, and the applicable percentage for each year, according to the matrix described on Exhibit A. The Administrator shall compute an award for each year of the performance period equal to one-third of the Participant' s target award multiplied by the applicable percentage for the year according to Exhibit A. The Participant' s incentive award earned for the performance period shall equal the sum of the awards earned for each of the three fiscal years of the performance period.

(ii) The Administrator shall determine whether and to what extent the performance goals have been met for the entire three-year performance period, based on the Company' s cumulative performance for the performance period. The Administrator shall then determine the percentage of the target award that is earned for the performance period based on such cumulative performance according to the matrix described on Exhibit A. For purposes of this subsection (ii), the Company' s performance and the performance goals on Exhibit A shall be determined on a compounded basis for the three-year performance period.

(b) The Administrator shall compute each Participant' s incentive award for the performance period based on the Company' s achievement of the performance goals. Each Participant' s incentive award will be subject to vesting as described in Section 6 below. On or around March 15, 2007, the Company shall credit each Participant' s incentive award to a book account established for the Participant under the Schering-Plough Corporation Savings Advantage Plan. All amounts credited to a Participant' s book account under the Savings Advantage Plan shall be administered according to the vesting provisions of Section 6 and the terms and conditions of the Savings Advantage Plan. Distributions from the Participant' s vested book account will be made according to the terms and conditions of the Savings Advantage Plan.

(c) Participants must be employed on December 31, 2006 in order to be eligible for an incentive award under the Plan, except as described below or except as the Administrator may otherwise determine. Unless the Administrator determines otherwise:

(i) Participants who die during the performance period will receive a pro-rated award, which will be calculated at the end of the performance period and will be based on the Company' s performance during the entire performance period. The pro-rated award will be calculated from the date on which the Participant became eligible for the Plan to the date of the Participant' s death, rounded to the nearest whole month. The

Company will credit the pro-rated award to a book account established for the Participant under the Savings Advantage Plan on or around March 15, 2007.

(ii) Participants who retire during the performance period will receive a pro-rated award, which will be calculated at the end of the performance period and will be based on the Company' s performance during the entire performance period. Retirement age is age 65, or, if the Participant has at least ten years of service, age 55. The pro-rated award will be calculated from the date on which the Participant became eligible for the Plan to the date of the Participant' s retirement, rounded to the nearest whole month. The Company will credit the pro-rated award to a book account established for the Participant under the Savings Advantage Plan on or around March 15, 2007.

(iii) Participants who leave the Company under a Company-sponsored disability program during the performance period will receive a pro-rated award, which will be calculated at the end of the performance period and will be based on the Company' s performance during the entire performance period. The pro-rated award will be calculated from the date on which the Participant became eligible for the Plan to the Participant' s termination date, rounded to the nearest whole month. The Company will credit the pro-rated award to a book account established for the Participant under the Savings Advantage Plan on or around March 15, 2007.

(iv) If a Change in Control of the Company occurs during the performance period, the following provisions shall apply:

(A) Participants who are then employed by the Company or an Affiliate (as defined in the Savings Advantage Plan) will receive a pro-rated award, which will be calculated as of the date of the Change in Control and will be based on the greater of (i) the Participant' s target award or (ii) an award calculated by the Administrator based on period-to-date performance by the Company as of the date of the Change in Control. The pro-rated award will be calculated from the date on which the Participant became eligible for the Plan to the effective date of the Change in Control, rounded to the nearest whole month. Participants who retired, died or were disabled during the performance period as described above shall receive pro-rated incentive awards as described above but based on the Company' s performance as of the date of the Change in Control. The Company will credit the pro-rated award to a book account established for the Participant under the Savings Advantage Plan as soon as administratively feasible upon the effective date of the Change in Control, and such amount will be fully vested and non-forfeitable.

(B) If a Participant remains employed by the Company or an Affiliate for a period of two years following the Change in Control or is involuntarily terminated (which term shall be deemed to include for all purposes under this Plan, as applicable, a termination for Good Reason (as such term is defined in the Participant' s employment agreement) other than for cause (as defined below), within two years after

the Change in Control, the Participant' s award for the performance period will be increased to 200% of the Participant' s target award for the performance period, if such amount is greater than the award previously calculated for the performance period pursuant to paragraph (A) above. The Company will credit any additional award amount to the book account established for the Participant under the Savings Advantage Plan immediately upon the earlier of (i) the second anniversary of the Change in Control or (ii) the date the Participant' s employment is involuntarily terminated without cause. Any earnings previously credited to the Participant' s account under the Savings Advantage Plan with respect to the previously calculated award will remain in the Participant' s account.

(v) If a Change in Control of the Company occurs during the period commencing on December 31, 2006 and ending on December 31, 2008, and if a Participant remains employed by the Company or an Affiliate for a period of two years following the Change in Control or is involuntarily terminated, other than for cause, within two years after the Change in Control, the Participant' s incentive award shall immediately be fully vested. Any earnings previously credited to the Participant' s account under the Savings Advantage Plan with respect to the vested award will remain in the Participant' s account.

(vi) For purposes of this Section 5(c), the term "cause" shall have the meaning given that term, if applicable to the Participant, in the written employment agreement between the Participant and the Company or an Affiliate as in effect on the date of the Participant' s termination of employment or in 2002 Stock Incentive Plan.

(d) The Administrator may establish appropriate terms and conditions to accommodate newly hired and transferred employees. The Administrator reserves the right to accelerate vesting on a pro-rata basis whenever the Administrator deems such action appropriate.

6. Vesting of Incentive Awards

(a) If a Participant earns an incentive award as described in Section 5 for the performance period, 25% of the incentive award will be vested as of the end of the performance period. The remaining portion of the Participant' s incentive award will vest over a two-year period, as follows, if the Participant continues to be employed by the Company or an Affiliate through the applicable vesting date:

Vesting Date	Portion of the Incentive Award that Vests
December 31, 2007	50 %
December 31, 2008	25 %

(b) If a Participant retires, leaves the Company under a Company-sponsored disability program or dies while employed by the Company or an Affiliate, the Participant' s incentive award shall be fully vested at the end of the performance period or at the time such event occurs, whichever is later. If a Participant' s employment with the Company and its Affiliates terminates for any other reason, any unvested incentive award, including all unvested earnings credited with respect to the incentive award, shall be forfeited to the Company as of his or her termination date. A transfer of employment among the Company and its Affiliates shall not be considered a termination of employment for purposes of the Plan.

(c) Notwithstanding the foregoing, each Participant' s incentive award shall become fully vested upon a Change in Control.

(d) Earnings credited with respect to a Participant' s incentive award will vest pro-rata as the underlying incentive award vests.

7. Changes to Performance Goals and Target Awards

At any time prior to the final determination of awards, the Administrator may adjust the performance goals and target awards to reflect a change in corporate capitalization (such as a stock split or stock dividend), or a corporate transaction (such as a merger, consolidation, separation, reorganization or partial or complete liquidation), or to reflect equitably the occurrence of any extraordinary event, any change in applicable accounting rules or principles, any change in the Company' s method of accounting, any change in applicable law, any change due to any merger, consolidation, acquisition, reorganization, stock split, stock dividend, combination of shares or other changes in the Company' s corporate structure or shares, or any other change of a similar nature.

8. Amendments and Termination

The Company may at any time amend or terminate the Plan by action of the Compensation Committee; provided that no amendment or termination may be made after a Change in Control that adversely affects Participants' benefits computed under Section 5(c)(iv) by the Administrator as in effect before the Change in Control. The Administrator shall have the right to modify the terms of the Plan as may be necessary or desirable to comply with the laws or local customs of countries in which the Company operates or has employees.

9. Miscellaneous Provisions

(a) This Plan is not a contract between the Company and the Participants. Neither the establishment of this Plan, nor any action taken hereunder, shall be construed as giving any Participant any right to be retained in the employ of the Company or any of its subsidiaries. Nothing in the Plan, and no action taken pursuant to the Plan, shall affect the right of the Company or a subsidiary to terminate a Participant' s employment at any

time and for any or no reason. Except as provided in Section 8, the Company is under no obligation to continue the Plan.

(b) A Participant' s right and interest under the Plan may not be assigned or transferred, except as provided in Section 5(c) of the Plan upon death, and any attempted assignment or transfer shall be null and void and shall extinguish, in the Company' s sole discretion, the Company' s obligation under the Plan to pay awards with respect to the Participant. The Company' s obligations under the Plan may be assigned to any corporation which acquires all or substantially all of the Company' s assets or any corporation into which the Company may be merged or consolidated.

(c) The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund, or to make any other segregation of assets, to assure payment of awards. The Company' s obligations hereunder shall constitute a general, unsecured obligation, awards shall be paid solely out of the Company' s general assets, and no Participant shall have any right to any specific assets of the Company.

(d) The Company shall have the right to deduct from awards or any other payments of wages any and all federal, state and local taxes or other amounts required by law to be withheld.

(e) The Company' s obligation to pay compensation as herein provided is subject to any applicable orders, rules or regulations of any government agency or office having authority to regulate the payment of wages, salaries, and other forms of compensation.

(f) The validity, construction, interpretation and effect of the Plan shall exclusively be governed by and determined in accordance with the laws of the State of New Jersey.

Exhibit 10(o)

SCHERING-PLOUGH CORPORATION
LONG-TERM PERFORMANCE SHARE UNIT INCENTIVE PLAN

1. Plan Objective

Schering-Plough Corporation (the "Company") has established the Schering-Plough Corporation Long-Term Performance Share Unit Incentive Plan (referred to as the "Plan") which is designed to encourage results-oriented actions on the part of elected officers and certain other key executives of the Company that will drive the achievement of specific business objectives.

2. Eligibility

Management employees of the Company and its subsidiaries who are elected officers of the Company or other key executives are eligible to participate in the Plan. The Administrator (as defined in Section 3 below) shall select the elected officers and other key executives who shall participate in the Plan (the "Participants").

3. Administration

(a) The Plan shall be administered by the Compensation Committee of the Board of Directors with respect to executives who are subject to the reporting requirements of Section 16 of the Exchange Act of 1934, as amended ("Section 16 Executives"), and the Plan shall be administered by the Chief Executive Officer of the Company ("CEO") with respect to all other employees. The CEO may delegate his authority to administer the Plan to an individual or committee. The term "Administrator" shall mean the Compensation Committee, as applied to Section 16 Executives, and the CEO or such individual or committee to which authority has been delegated, as applied to all other employees.

(b) The Administrator shall have full power, discretion and authority to establish the rules and regulations relating to the Plan, to interpret the Plan and those rules and regulations, to select Participants for the Plan, to determine each Participant' s target award, performance goals and final award, to make all factual and other determinations in connection with the Plan, and to take all other actions necessary or appropriate for the proper administration of the Plan, including the delegation of such authority, discretion or power, where appropriate.

(c) All powers of the Administrator shall be executed in its sole discretion, in the best interest of the Company, not as a fiduciary, and in keeping with the objectives of the Plan and need not be uniform as to similarly situated individuals. The Administrator' s administration of the Plan, including all such rules and regulations, interpretations, selections, determinations, approvals, decisions, delegations, amendments, terminations and other actions, shall be final and binding on the Company and all employees of the Company and its subsidiaries, including the Participants and their respective beneficiaries.

4. Target Awards and Performance Goals

(a) The Administrator shall establish for each Participant a target award, which shall be expressed as phantom stock units and shall be payable if and to the extent that the Company attains the performance goals for the performance period as described below or otherwise in connection with a change in control (as defined in the Company' s 2002 Stock Incentive Plan (hereinafter referred to as a "Change in Control"). The target award shall be equal to three times the annual incentive target amount in effect for the Participant at the beginning of the performance period under the Company' s annual incentive plan applicable to the Participant, or such other amount as the Administrator determines, divided by the Company' s stock price on January 2, 2004. The Company' s stock price shall be the closing price of the Company' s common stock on January 2, 2004 as reported on the New York Stock Exchange. The target award shall be expressed as phantom stock units, each of which shall represent one hypothetical share of common stock of the Company.

(b) The performance period is the three-year period beginning January 1, 2004 and ending December 31, 2006. The Administrator shall establish the performance goals for the performance period. Unless the Administrator determines otherwise, the performance goals shall be based on (i) the Company' s achievement of its targeted three-year compounded total shareholder return for the performance period, and (ii) the Company' s total shareholder return ranking as compared to its peer group for the performance period all as set forth on Exhibit A. The performance period is the three-year period beginning January 1, 2004 and ending December 31, 2006. The Administrator may adjust the performance goals as it deems appropriate to take into account corporate transactions or other extraordinary events that occur during the performance period. For purposes of this plan total shareholder return means the price of the common stock of the Company at the end of the performance period plus dividends paid on the common stock during the Performance Period, divided by the price of the common stock of the Company at the beginning of the Performance Period. The price of the common stock of the Company is determined by the average closing quotation price of the Company stock on the New York Stock Exchange (NYSE) or such other national securities exchange as may be designated by the Committee, during the 30 days of quotation immediately prior to the applicable date (the "Fair Market Value").

(c) The peer group consists of the following companies:

Abbott Laboratories
Bristol-Myers Squibb Company
Eli Lilly and Company
Johnson & Johnson
Merck & Company, Inc.
Pfizer, Inc.
Wyeth

The Administrator may adjust the peer group from time to time as it deems appropriate, including the addition, deletion or replacement of companies, to take into account mergers and other changes in the companies comprising the peer group.

(d) The Administrator may establish appropriate terms and conditions to accommodate newly hired and transferred employees. Unless otherwise determined by the Administrator, the target award for a newly hired or transferred employee shall be prorated based on a fraction, the numerator of which is the number of months such Participant will participate in the Plan during the performance period (rounded to the nearest whole month) and the denominator of which is 36. The target award shall be equal to three times the annual incentive target amount in effect for the Participant on his or her first date of employment with the Company or on the date of transfer, as applicable, or such other amount as the Administrator determines, divided by the Company' s stock price on the first date of employment with the Company or the date of transfer, as applicable. The Company' s stock price shall be the closing price of the Company' s common stock on the applicable date, as reported on the New York Stock Exchange.

5. Calculation of Incentive Awards

(a) At the end of the performance period, the Administrator shall determine whether and to what extent the performance goals have been met and the percentage of the target awards that are earned.

(b) The Administrator shall rely on the audited financial statements of the Company and its subsidiaries to determine whether and to what extent the performance goals are met.

(c) The Administrator shall compute each Participant' s incentive award for the performance period based on the Company' s achievement of the performance goals. Each Participant' s incentive award will be subject to vesting as described in Section 6 below. As a Participant' s incentive award vests pursuant to Section 6 of this Plan, the Company shall credit the Fair Market Value of each Participant' s vested incentive award to the Participant' s account under the Schering-Plough Corporation Savings Advantage Plan (the "Savings Advantage Plan"). Such credited amount shall be deemed to be invested in the investment options available under the Savings Advantage Plan in accordance with the Participant' s then current election applicable to new deferrals under that plan. All amounts credited to a Participant' s book account under the Savings Advantage Plan shall be administered according to the terms and conditions of the Savings Advantage Plan. Savings Advantage Plan distributions shall be made exclusively in accordance with the terms and conditions of the Savings Advantage Plan.

(d) Participants must be employed on December 31, 2006 in order to be eligible for an incentive award under the Plan, except as described below or except as the Administrator may otherwise determine. Unless the Administrator determines otherwise:

(i) Participants who die during the performance period will receive a pro-rated award, which will be calculated at the end of the performance period and will be based on the Company' s performance during the entire performance period. The pro-rated award will be

the award calculated for the entire performance period, multiplied by a fraction, the numerator of which is the number of months during which the Participant participated in the Plan during the performance period before the Participant' s death (rounded to the nearest whole month) and the denominator of which is 36. The Company will credit the Fair Market Value of the pro-rated award to a book account established for the Participant under the Savings Advantage Plan on or around March 15, 2007.

(ii) Participants who retire during the performance period will receive a pro-rated award, which will be calculated at the end of the performance period and will be based on the Company' s performance during the entire performance period. Retirement age is age 65, or, if the Participant has at least ten years of service, age 55. The pro-rated award will be the award calculated for the entire performance period, multiplied by a fraction, the numerator of which is the number of months during which the Participant participated in the Plan during the performance period before the Participant' s retirement (rounded to the nearest whole month) and the denominator of which is 36. The Company will credit the Fair Market Value of the pro-rated award to a book account established for the Participant under the Savings Advantage Plan on or around March 15, 2007.

(iii) Participants who leave the Company under a Company-sponsored disability program during the performance period will receive a pro-rated award, which will be calculated at the end of the performance period and will be based on the Company' s performance during the entire performance period. The pro-rated award will be the award calculated for the entire performance period, multiplied by a fraction, the numerator of which is the number of months during which the Participant participated in the Plan during the performance period before the Participant' s termination date (rounded to the nearest whole month) and the denominator of which is 36. The Company will credit the Fair Market Value of the pro-rated award to a book account established for the Participant under the Savings Advantage Plan on or around March 15, 2007.

(iv) If a Change in Control of the Company occurs during the performance period, the following provisions shall apply:

(A) Participants who are then employed by the Company or an Affiliate (as defined below) will receive a pro-rated award. The award will first be calculated as of the date of the Change in Control based on the greater of (i) the Participant' s target award or (ii) an award calculated by the Administrator based on period-to-date performance by the Company as of the date of the Change in Control. The pro-rated award will be the award computed pursuant to the preceding sentence multiplied by a fraction, the numerator of which is the number of months during which the Participant participated in the Plan during the performance period before the effective date of the Change in Control (rounded to the nearest whole month), and the denominator of which is 36. Participants who retired, died or were disabled during the performance period as described above shall receive pro-rated incentive awards as described in subsections (i), (ii) and (iii) above but based on the Company' s performance to the date of the Change in Control. The Company will credit the Fair Market Value of the pro-rated award to a book account established for the Participant under the Savings

Advantage Plan as soon as administratively feasible upon the effective date of the Change in Control and such amount will be fully vested and non-forfeitable.

(B) If a Participant remains employed by the Company or an Affiliate for a period of two years following the Change in Control or is involuntarily terminated (which term shall be deemed to include for all purposes under this Plan, as applicable, a termination for Good Reason (as such term is defined in the Participant' s employment agreement) other than for cause (as defined below), within two years of a Change in Control, the Participant shall be credited with an additional award equal to an amount calculated by subtracting the amount of the prorated award earned as of the date of the Change in Control in accordance with Subsection (A) above (without regard to any subsequent earnings or losses thereon) from an amount equal to 200% of the Participant' s target award for the performance period, if such amount is greater than the award previously calculated for the performance period pursuant to paragraph (A) above. The Company will credit the Fair Market Value of any additional award amount to the book account established for the Participant under the Savings Advantage Plan immediately upon the earlier of (i) the second anniversary of the Change in Control or (ii) the date the Participant' s employment is involuntarily terminated without cause. Any earnings or other amounts previously credited to the Participant' s account under the Savings Advantage Plan with respect to the previously calculated award will remain in the Participant' s account.

(v) For purposes of this Plan, the term "Affiliate" shall have the meaning given that term in the Savings Advantage Plan. The term "cause" shall have the meaning given that term, if applicable to the Participant, in the written employment agreement between the Participant and the Company or an Affiliate as in effect on the date of the Participant' s termination of employment or in the Schering-Plough Corporation 2002 Stock Incentive Plan.

6. Vesting of Incentive Awards

(a) If a Participant earns an incentive award as described in Section 5 for the performance period, 25% of the incentive award will be vested as of the end of the performance period. The remaining portion of the Participant' s incentive award will vest over a two-year period, as follows, if the Participant continues to be employed by the Company or an Affiliate through the applicable vesting date:

Vesting Date	Portion of the Incentive Award that Vests
December 31, 2007	50%
December 31, 2008	25%

(b) If a Participant retires, leaves the Company under a Company-sponsored disability program or dies while employed by the Company or an Affiliate, the Participant' s incentive award shall be fully vested at the end of the performance period or at the time such event occurs, whichever is later. If a Participant' s employment with the Company and its

Affiliates terminates for any other reason, any unvested incentive award, shall be forfeited to the Company as of his or her termination date. A transfer of employment among the Company and its Affiliates shall not be considered a termination of employment for purposes of the Plan.

(c) The Administrator reserves the right to accelerate vesting on a pro-rata basis or in full whenever the Administrator deems such action appropriate.

(d) Notwithstanding the foregoing, the incentive award of each Participant who is employed by the Company or an Affiliate at the time of a Change in Control, or who retired, died or left the Company under a Company-sponsored disability program on or before the date of the Change in Control, shall become fully vested upon a Change in Control.

7. Changes to Performance Goals and Target Awards

At any time prior to the final determination of awards, the Administrator may adjust the performance goals and target awards to reflect a change in corporate capitalization (such as a stock split or stock dividend), or a corporate transaction (such as a merger, consolidation, separation, reorganization or partial or complete liquidation), or to reflect equitably the occurrence of any extraordinary event, any change in applicable accounting rules or principles, any change in the Company' s method of accounting, any change in applicable law, any change due to any merger, consolidation, acquisition, reorganization, stock split, stock dividend, combination of shares or other changes in the Company' s corporate structure or shares, or any other change of a similar nature.

8. Amendments and Termination

The Company may at any time amend or terminate the Plan by action of the Executive Compensation and Organization Committee; provided that no amendment or termination may be made after a Change in Control that adversely affects Participants' benefits computed under Section 5(d) for the performance period. The Administrator shall have the right to modify the terms of the Plan as may be necessary or desirable to comply with the laws or local customs of countries in which the Company operates or has employees.

9. Miscellaneous Provisions

(a) This Plan is not a contract between the Company and the Participants. Neither the establishment of this Plan, nor any action taken hereunder, shall be construed as giving any Participant any right to be retained in the employ of the Company or any of its subsidiaries. Nothing in the Plan, and no action taken pursuant to the Plan, shall affect the right of the Company or a subsidiary to terminate a Participant' s employment at any time and for any or no reason. The Company is under no obligation to continue the Plan.

(b) A Participant' s right and interest under the Plan may not be assigned or transferred, except as provided in Section 5(d) of the Plan upon death, and any attempted assignment or transfer shall be null and void and shall extinguish, in the Company' s sole discretion, the Company' s obligation under the Plan to pay awards with respect to the

Participant. The Company' s obligations under the Plan may be assigned to any corporation which acquires all or substantially all of the Company' s assets or any corporation into which the Company may be merged or consolidated.

(c) The Plan shall be unfunded. The Company shall not be required to establish any special or separate fund, or to make any other segregation of assets, to assure payment of awards. The Company' s obligations hereunder shall constitute a general, unsecured obligation, awards shall be paid solely out of the Company' s general assets, and no Participant shall have any right to any specific assets of the Company.

(d) All claims for benefits under this Plan shall be reviewed pursuant to the claims procedures contained in the Savings Advantage Plan.

(e) The Company shall have the right to deduct from awards or any other payments of wages any and all federal, state and local taxes or other amounts required by law to be withheld.

(f) The Company' s obligation to pay compensation as herein provided is subject to any applicable orders, rules or regulations of any government agency or office having authority to regulate the payment of wages, salaries, and other forms of compensation.

(g) A Participant' s acceptance of benefits under the Plan shall constitute the Participant' s acceptance of all terms of the Plan, including the discretionary authority of the Administrator.

(h) The validity, construction, interpretation and effect of the Plan shall exclusively be governed by and determined in accordance with the laws of the State of New Jersey.

Exhibit 10(p)

SCHERING-PLOUGH CORPORATION

TRANSFORMATIONAL PERFORMANCE CONTINGENT SHARES PROGRAM

Effective January 1, 2004

ARTICLE 1
PURPOSE

The Board of Directors of Schering-Plough Corporation (the "Company") has adopted the Schering-Plough Corporation Transformational Performance Contingent Shares Program (the "Program"), effective January 1, 2004, to promote an identity of interest between the Company and selected key senior officers and to encourage the officers to contribute toward the Company' s growth.

ARTICLE 2
DEFINITIONS

2.1 "Affiliate" means any firm, partnership, or corporation that directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the Company.

2.2 "Beneficiary" means the beneficiary designated by the Participant to receive any Share Units that are payable upon the death of the Participant.

2.3 "Board" means the Board of Directors of the Company.

2.4 "Change in Control" has the meaning set forth in the Company' s 2002 Stock Incentive Plan.

2.5 "Code" means the Internal Revenue Code of 1986, as amended from time to time.

2.6 "Committee" means the Compensation Committee of the Board.

2.7 "Company" means Schering-Plough Corporation and its successors by merger or otherwise.

2.8 "Company Stock" means shares of Common Stock of the Company.

2.9 “Disabled” or “Disability” means a mental or physical condition that qualifies a Participant for total and permanent disability benefits under a Company sponsored long-term disability plan.

2.10 “Effective Date” means January 1, 2004.

2.11 “Fair Market Value” means the closing price per share of the Company Stock on the New York Stock Exchange (the “NYSE”), or such other national securities exchange as may be designated by the Committee, on the applicable date, or, if there are no sales of Company Stock on the NYSE on such date, then the closing price per share of the Company Stock on the last previous day on which a sale on the NYSE is reported

2.12 “Participant” means any key senior officer who is selected by the Committee to participate in the Program.

2.13 “Peer Group” shall have the meaning described in Section 4.3.

2.14 “Performance Goals” shall have the meaning set forth in Section 4.2.

2.15 “Performance Period” shall have the meaning set forth in Section 4.2.

2.16 “Program” means the Schering-Plough Corporation Transformational Performance Contingent Shares Program, as set forth herein and as it may be amended from time to time.

2.17 “Savings Advantage Plan” means the Schering-Plough Corporation Savings Advantage Plan.

2.18 “Share Unit” means a phantom share, which shall be equivalent to one share of Company Stock.

2.19 “Target Award” means the target incentive award determined by the Committee for each Participant as described in Section 4.1.

2.21 “Total Shareholder Return” means the price of the Company Stock at the end of the Performance Period plus dividends paid on Company Stock during the Performance Period, divided by the price of Company Stock at the beginning of the Performance Period. The price of Company Stock is determined by the average closing quotation price of the Company Stock on the New York Stock Exchange (NYSE) or such other national securities exchange as may be designated by the Committee, during the 30 days of quotation immediately prior to the applicable date.

ARTICLE 3
PARTICIPATION

The Committee shall select the key senior officers who shall participate in the Program. The initial list of Program Participants is set forth on Exhibit A. Each Participant shall be a member of a select group of management or highly compensated employees within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1976, as amended ("ERISA").

ARTICLE 4
TARGET AWARDS; PERFORMANCE GOALS

4.1 Target Awards. The Committee shall establish for each Participant a Target Award that will be payable if and to the extent that the Company attains the Performance Goals for the Performance Period or otherwise in connection with a Change in Control. Each Target Award shall be stated as a number of Share Units.

4.2 Performance Goals. The Performance Goals shall be based on (i) the Company' s achievement of its targeted five-year compounded shareholder return for the Performance Period and (ii) the Company' s total shareholder return ranking as compared to its peer Group for the Performance Period, all as set forth on Exhibit B. The Performance Period is the five-year period beginning January 1, 2004 and ending December 31, 2008. The Committee may adjust the Performance Goals as it deems appropriate to take into account corporate transactions or other extraordinary events that occur during the Performance Period.

4.3 Peer Group. The Peer Group consists of the following companies:

Abbott Laboratories
Bristol-Myers Squibb Company
Eli Lilly and Company
Johnson & Johnson
Merck & Company, Inc.
Pfizer, Inc.
Wyeth

The Committee may adjust the Peer Group from time to time as it deems appropriate, including by adding, deleting or replacing companies, to take into account mergers and other changes in the companies consisting of the Peer Group.

ARTICLE 5
VESTING OF SHARE UNITS

5.1 Vesting. At the end of the Performance Period, the Committee will determine whether and to what extent the Performance Goals have been met and the percentage of the Target Awards that will vest according to the matrix described on

Exhibit B. The Target Award of each Participant who is then employed by the Company or an Affiliate shall vest according to the Company' s achievement of the Performance Goals. The Committee shall rely on the audited financial statements of the Company and its Affiliates to determine whether and to what extent the Performance Goals are met. On or around March 15, 2009, the Company shall credit the Fair Market Value of each Participant' s vested Share Units to the Participant' s account under the Savings Advantage Plan. Such credited amount shall be deemed to be invested in the Employer Stock Fund under the Savings Advantage Plan until the Participant receives a cash distribution of such amount from the Savings Advantage Plan. All amounts credited to a Participant' s account under the Savings Advantage Plan shall be administered according to the terms and conditions of the Savings Advantage Plan. All distributions from the Savings Advantage Plan shall be made exclusively in accordance with the terms and conditions of the Savings Advantage Plan.

5.2 Employment. Except as provided in Sections 5.3, 5.4 or 5.5 below, a Participant must be employed by the Company or an Affiliate through December 31, 2008 in order to be eligible for vesting of Target Awards.

5.3 Death or Disability. If a Participant dies or becomes Disabled during the Performance Period while the Participant is employed by the Company or an Affiliate, a pro rata portion of the Participant' s Target Award shall become vested. The pro rata portion shall be determined by multiplying the Target Award (at 100%) by a fraction, the numerator of which is the number of full months after January 1, 2004 during which the Participant was a Participant before his or her death or Disability and the denominator of which is 60. The remaining unvested Share Units relating to the Target Award shall be forfeited. The Company will credit the Fair Market Value of the vested Share Units to the Participant' s account under the Savings Advantage Plan as soon as administratively feasible. Such credited amount shall be deemed to be invested in the Employer Stock Fund under the Savings Advantage Plan until the Participant (or the Participant' s beneficiary) receives a cash distribution of such amount from the Savings Advantage Plan.

1.1 Change in Control. If a Change in Control occurs during the Performance Period,

5.4 Participants who are then employed by the Company or an Affiliate (as defined below) shall become vested in a pro-rated award calculated as of the date of the Change in Control based on period-to-date performance by the Company as of the date of the Change in Control. The Performance Period shall be considered to have ended on the day before the Change in Control. The Company will credit the Fair Market Value of the vested Share Units to the Participant' s account under the Savings Advantage Plan as of the date of the Change in Control. Such credited amount shall be deemed to be invested in the Employer Stock Fund under the Savings Advantage Plan until the Participant receives a cash distribution of such amount from the Savings Advantage Plan.

5.5 Discretionary Acceleration. Notwithstanding the foregoing, except upon a Change in Control, the Committee shall have the right at any time to accelerate the

vesting of Target Awards on a pro-rated basis and terminate the Performance Period early, as the Committee deems appropriate.

ARTICLE 6
DIVIDENDS

If a dividend is paid with respect to shares of Company Stock, the amount of the dividend that would have been distributed with respect to the number of Share Units in the Participant' s Target Award (plus the number of nonvested Share Units previously converted into additional Share Units on behalf of the Participant as a result of previous dividends, if any), had each such Unit been a share of Company Stock, shall be converted into additional Share Units (or a percentage thereof) based on the Fair Market Value of the Company Stock on the date the dividend is paid. At such time(s) when the Participant becomes vested in any Share Units pursuant to Section 5, the Participant shall also become vested in an additional number of Share Units calculated by multiplying the total number of Share Units computed pursuant to the preceding sentence by a fraction the numerator of which is the number of Share Units becoming vested and the denominator of which is the total number of Share Units in the Participant' s Target Award (plus the number of nonvested Share Units previously converted into additional Share Units on behalf of the Participant as a result of previous dividends, if any). The additional vested Share Units shall be credited to the Participant' s account under the Savings Advantage Plan as soon as administratively feasible. Any Share Units attributable to dividends that have not become vested shall be forfeited in the same proportion and at the same time as other nonvested Share Units in the Participant' s Target Award are forfeited.

ARTICLE 7
FUNDING AND SHARES

7.1 Unfunded Status of Program. The Program is intended to constitute an unfunded plan of deferred compensation for Participants. Benefits payable hereunder shall be payable out of the general assets of the Company, and no segregation of any assets for such benefits shall be made. Notwithstanding any segregation of assets or transfer to a grantor trust, with respect to any payments not yet made to a Participant, nothing contained herein shall give any such Participant any rights to assets that are greater than those of a general unsecured creditor of the Company. No Participant or other person shall under any circumstance acquire any property interest in any specific assets of the Company.

7.2 Adjustments. If there is any change in the number or kind of shares of Company Stock outstanding (i) by reason of a stock dividend, spinoff, recapitalization, stock split, or combination or exchange of shares, (ii) by reason of a merger, reorganization or consolidation in which the Company is the surviving corporation, (iii) by reason of a reclassification or change in par value, or (iv) by reason of any other

extraordinary or unusual event affecting the outstanding Company Stock as a class without the Company' s receipt of consideration, or if the value of outstanding shares of Company Stock is substantially reduced as a result of a spinoff or the Company' s payment of an extraordinary dividend or distribution, the number of phantom shares covered by outstanding Share Units and Target Awards and the kind of phantom shares covered by Share Units and Target Awards may be appropriately adjusted or substituted by the Committee to reflect any increase or decrease in the number of, or change in the kind or value of, issued shares of Company Stock. Any adjustments determined by the Committee shall be final, binding and conclusive.

ARTICLE 8
ADMINISTRATION OF THE PLAN AND DISCRETION

8.1 Committee Powers. The Committee shall have full power and authority to interpret the Program, to prescribe, amend and rescind any rules, forms and procedures as it deems necessary or appropriate for the proper administration of the Program and to make any other determinations, including factual determinations, and to take any other such actions as it deems necessary or advisable in carrying out its duties under the Program. All action taken by the Committee arising out of, or in connection with, the administration of the Program or any rules adopted thereunder, shall, in each case, lie within its sole discretion, and shall be final, conclusive and binding upon the Company, the Committee, all employees, all Beneficiaries and all other persons and entities having an interest therein.

8.2 Discretion. Decisions, actions or interpretations to be made under the Program by the Committee shall be made in its sole discretion, not as a fiduciary and need not be uniformly applied to similarly situated individuals and shall be final, binding and conclusive on all persons interested in the Program. Nothing contained in this Program and no action taken pursuant hereto shall create or be construed to create a fiduciary relationship between the Company or the Committee and any Participant or any other person. To the extent that any person acquires a right to receive payment from the Company hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company.

ARTICLE 9
MISCELLANEOUS

9.1 Amendment and Termination. The Program may be amended, suspended, or terminated at any time by the Board or its delegate; provided, however, that no such amendment, suspension, or termination shall adversely affect the rights of any Participant with respect to Share Units that have vested as of the effective date of such amendment, suspension, or termination.

9.2 Claims Procedure.

(a) Claim. A person who believes that he is being denied a benefit to which he is entitled under the Program (hereinafter referred to as a "Claimant") may file a written request for such benefit with the Committee, setting forth the claim, within sixty days after the Claimant' s benefit is denied.

(b) Claim Decision. Upon receipt of a claim, the Committee shall advise the Claimant that a reply will be forthcoming within ninety days and shall deliver such reply within such period. The Committee may, however, extend the reply period for an additional ninety days for reasonable cause. If the claim is denied in whole or in part, the Claimant shall be provided a written opinion, using language calculated to be understood by the Claimant, setting forth:

(i) The specific reason or reasons for such denial;

(ii) The specific reference to pertinent provisions of this Program on which such denial is based;

(iii) A description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation why such material or such information is necessary;

(iv) Appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and

(v) The time limits for requesting a review under subsection (c) and for review under subsection (d) hereof.

(c) Request for Review. Within sixty days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Board review the determination of the Committee. The Claimant or his duly authorized representative may review the pertinent documents and submit issues and comment in writing for consideration by the Board. If the Claimant does not request a review of the initial determination within such sixty-day period, the Claimant shall be barred and estopped from challenging the determination.

(d) Review of Decision. Within sixty days after the Board' s receipt of a request for review, it will review the initial determination. After considering all materials presented by the Claimant, the Board will render a written opinion, written in a manner calculated to be understood by the Claimant, setting forth the specific reasons for the decision arid containing specific references to the pertinent provisions of this Program on which the decision is based. If special circumstances require that the sixty day time period be extended, the Board will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty days after receipt of the request for review.

9.3 Designation of Beneficiary. Each Participant may designate a Beneficiary (which may be an entity other than a natural person) to receive any payments which may be made following the Participant' s death. Such designation may be changed or canceled at any time without the consent of any such Beneficiary. Any such designation, change or cancellation must be made in a form approved by the Committee and shall not be effective until received by the Committee, or its designee. If no Beneficiary has been named, or the designated Beneficiary shall have predeceased the Participant, the Beneficiary shall be the Participant' s estate. If a Participant designates more than one Beneficiary, the interests of such Beneficiaries shall be paid in equal shares, unless the Participant has specifically designated otherwise.

9.4 Limitation of Participant' s Right. Nothing in this Program shall be construed as conferring upon any Participant any right to continue in the employment of the Company, nor shall it interfere with the rights of the Company to terminate the employment of any Participant or to take any personnel action affecting any Participant without regard to the effect which such action may have upon such Participant as a recipient or prospective recipient of benefits under the Program. Any amounts payable hereunder shall not be deemed salary or other compensation to a Participant for the purposes of computing benefits to which the Participant may be entitled under any other arrangement established by the Company for the benefit of its employees.

9.5 No Limitation on Company Actions. Nothing contained in the Program shall be construed to prevent the Company from taking any action that is deemed by it to be appropriate or in its best interest. No Participant, Beneficiary, or other person shall have any claim against the Company as a result of such action.

9.6 Nonalienation of Benefits. No Participant or Beneficiary shall have the power or right to transfer (other than by will, the laws of descent and distribution or Beneficiary designation upon death), alienate, or otherwise encumber the Participant' s interest under the Program. The Company' s obligations under this Program may be assigned to any corporation or other entity which acquires all or substantially all of the Company' s assets or any corporation or other entity into which the Company may be merged or consolidated. The provisions of the Program shall inure to the benefit of each Participant and the Participant' s Beneficiaries, heirs, executors, administrators or successors in interest.

9.7 Withholding of Taxes. The Company may make such provisions and take such action as it may deem necessary or appropriate for the withholding of any taxes which the Company is required by any law or regulation of any governmental authority, whether Federal, state or local, to withhold in connection with any benefits under the Program, including, but not limited to, the withholding of appropriate sums from any amount otherwise payable to the Participant (or Beneficiary). Each Participant, however, shall be responsible for the payment of all individual tax liabilities relating to any such benefits.

9.8 Severability. If any provision of this Program is held unenforceable, the remainder of the Program shall continue in full force and effect without regard to such unenforceable provision and shall be applied as though the unenforceable provision were not contained in the Program.

9.9 Governing Law. The Program shall be construed in accordance with and governed by the laws of the State of New Jersey, without reference to the principles of conflict of laws.

9.10 Headings. Headings are inserted in this Program for convenience of reference only and are to be ignored in the construction of the provisions of the Program.

9.11 Gender, Singular and Plural. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, or neuter, as the identity of the person or persons may require. As the context may require, the singular may read as the plural and the plural as the singular.

9.12 Notice. Any notice or filing required or permitted to be given to the Committee under the Program shall be sufficient if in writing and hand delivered, or sent by registered or certified mail, to the Human Resources Department, or to such other address as the Committee may designate from time to time. Such notice shall be deemed given as to the date of delivery, or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

EXHIBIT 10.[u]

SCHERING-PLOUGH CORPORATION REDACTED VERSION. [***] Indicates information omitted pursuant to a request for confidential treatment and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

DISTRIBUTION AGREEMENT

This Distribution Agreement (hereinafter "Agreement") is made as of April 3, 1998, by and between Centocor, Inc., a Pennsylvania corporation ("Centocor"), and Schering-Plough Ltd., a Swiss corporation ("Schering-Plough").

Centocor has developed an anti-TNF chimeric monoclonal antibody product (cA2, infliximab, Avakine/(TM)/) (the "Product") for use as an agent in the treatment of (a) inflammatory bowel diseases, including Crohn's Disease (collectively referred to as "Inflammatory Bowel Disease"); (b) rheumatoid arthritis; and (c) new indications to be defined. A description of the Product is set forth in the attached Appendix A. The Product also includes Improvements, if any, as defined in Section 1.9.

Subject to obtaining necessary Regulatory Approvals, Centocor and Schering-Plough wish to set forth the manner in which, and the terms under which, they have agreed to commercialize the Product.

Therefore, the parties, for good and valuable consideration, the receipt and adequacy of which is hereby acknowledged by each of them, and intending to be legally bound, agree as follows.

ARTICLE I

DEFINITIONS

For purposes of this Agreement, the following terms, when used with initial capital letters, will have the meaning set forth below. Other terms are defined elsewhere in this Agreement and those terms, when used with initial capital letters, will also have the defined meanings whenever they appear in this Agreement. As to the terms defined and used herein, the singular will be understood to include the plural and vice-versa, unless the context clearly indicates to the contrary.

1.1 "Affiliate" means any person or entity directly or indirectly Controlling, Controlled by or under common Control with a party hereto. Any reference in this Agreement to Centocor or Schering-Plough includes the Affiliates of that party unless the context clearly indicates to the contrary.

1.2 "Agreement Year" means, initially, the period from the

Effective Date of this Agreement through December 31, 1998, or the earlier termination of this Agreement, and thereafter, each calendar year during the term of this Agreement or part thereof which ends at the point of expiration or termination of this Agreement.

1.3 "Commercial Sales" means, for any applicable period, the amount invoiced for Product sold by Schering-Plough or its Affiliates to unaffiliated parties, exclusive of intercompany transfers.

1.4 "Control" means the ability of any entity (the

"Controlling" entity), directly or indirectly, through ownership of securities, by agreement or by any other method, to direct the manner in which more than fifty percent (50%) of the outstanding voting rights of any other entity (the "Controlled" entity), whether or not represented by securities, shall be cast, or the right to receive over fifty percent (50%) of the profits or earnings of, or to otherwise control the management decisions of, such other entity (also a "Controlled" entity).

1.5 "Core Co-Promotion Territory" shall mean all of the following countries: Germany, France, Italy, Spain and the United Kingdom.

1.6 "Cost of Goods Sold" means: (a) the costs of direct material purchased for use in the production process; (b) depreciation, repair, maintenance and operating costs of the production facilities utilized in the production of the Product; (c) the costs of quality, stability and in-process controls; (d) building operating costs, other than any included in subpart (b) above; (e) direct labor costs and overheads calculated in conformity with U.S. generally accepted accounting principles; (f) the costs of mutually agreed, noncapitalized manufacturing process improvement and cost reduction efforts; and (g) the costs of filling, finishing and packaging; provided, however, that the Cost of Goods Sold for the finished Product will not exceed [***] per gram of labelled Product. "Cost of Goods Sold" excludes the costs of research batches. This definition of "Cost of Goods Sold" is intended to be consistent with Appendix B.

1.7 "Effective Date" means the date first set forth above.

1.8 "EMEA Approval" means the issuance by the European Agency for the Evaluation of Medicinal Products (the "EMEA") of the marketing authorization (excluding any pricing approvals) necessary for the sale of Product within the European Community for one or more indications.

1.9 "Improvement" means any change with respect to the Product, including, without limitation, any change in the formulation, dosage, mode of delivery or new indications for the Product, any change in the Product resulting from a change in the manufacturing process, and any chimeric or humanized anti-TNF monoclonal antibody or fragment thereof, other than the

Product as described in Appendix A, developed by or licensed to Centocor.

1.10 "Marketing Approval" means Regulatory Approval, pricing approval and reimbursement approval, where applicable.

1.11 "Marketing Expenses" means

[***]

1.12 "Net Sales" means, for each applicable period, the Commercial Sales for that period, less reasonable and customary deductions from such gross amounts, including: (a) normal and customary trade, cash and quantity discounts, allowances and credits; (b) credits or allowances actually granted for damaged goods, returns or rejections of Product and retroactive price reductions; (c) sales or similar taxes when included in billing (including duties or other governmental charges levied on, absorbed or otherwise imposed on the sale of Product including, without limitation, value added taxes or other governmental charges otherwise measured by the billing amount); (d) charge back payments and rebates granted to managed health care organizations or their agencies, and purchasers and reimbursers or to trade customers, including but not limited to, wholesalers and chain and pharmacy buying groups; (e)

commissions paid to third parties other than sales personnel and sales representatives, sales agents or distributors; and (f) rebates (or equivalents thereof) granted to or charged by national, state or local governmental authorities in a country in the Territory, to the extent specifically associated with Commercial Sales of the Product.

1.13 "Product" means the anti-TNF chimeric monoclonal antibody product (cA2, infliximab, Avakine/(TM)/) developed by Centocor for use as an agent in the treatment of (a) inflammatory bowel diseases, including Crohn's Disease (collectively referred to as "Inflammatory Bowel Disease"); (b) rheumatoid arthritis; and (c) new indications to be defined. A description of the Product is set forth in the attached Appendix A. The Product also includes Improvements, if any, as defined in Section 1.9.

1.14 "Product Development Costs" means all external costs, including external product development costs, incurred by Centocor and Schering-Plough after the Effective Date in connection with the clinical development (including pre-clinical, toxicology, pharmacology and pharmacodynamic studies and clinical trials, except as limited by the last sentence of this definition) and clinical support of regulatory filings with respect to the Product. "Product Development Costs" also includes the cost of goods for material used in clinical trials, which cost will be calculated based on Centocor's Cost of Goods Sold, or, if Centocor contracts with a third party for manufacture of the Product, will be the actual cost paid by Centocor to that third party. "Product Development Costs" also includes such costs of the development of improvements of manufacturing and control processes as are

incurred after the Product has received a first EMEA Approval. All internal costs of Centocor or Schering-Plough, including but not limited to salaries, payroll taxes, bonuses and benefits incurred with respect to their employees and office, administration and overhead expenses, are specifically excluded from the definition of "Product Development Costs," unless otherwise agreed by the parties. Excluded from "Product Development Costs" are costs incurred with respect to clinical trials or other studies undertaken solely to support applications for Regulatory Approval outside the Territory.

1.15 "Regulatory Approval" means, as to the United States and each country in the Territory in which approval may be required, the issuance by the relevant governmental body or bodies or other organization or organizations of all licenses, approvals and registrations necessary for the sale of the Product within such country for a particular indication or indications (excluding any pricing approvals).

1.16 Subject to Section 2.2(a), "Territory" means the world except for the United States, Japan, Taiwan, Indonesia and the People's Republic of China (including Hong Kong).

ARTICLE II

DISTRIBUTION AND PROMOTION OF THE PRODUCT

2.1 Distribution and Promotion Plan. Subject to the further terms and conditions described below, Centocor and Schering-Plough agree on the following distribution and promotion plan for the Product, all subject to the receipt of the necessary Regulatory Approvals, wherever required.

(a) Exclusive Distribution by Schering-Plough. Centocor will sell the Product to Schering-Plough on an exclusive basis for resale by Schering-Plough in each country within the Territory in which Schering-Plough may lawfully sell the Product. Subject to any regulatory restrictions on price

in any of the countries in the Territory, Schering-Plough will set the selling price of the Product in the Territory to unaffiliated parties. In those countries in which governmental approval of pricing is required or desirable, Schering-Plough will have the responsibility for seeking such approval; and Centocor will appoint Schering-Plough to act as its agent in seeking such approval and will otherwise cooperate with and provide reasonable assistance to Schering-Plough. Notwithstanding any other provision of this Agreement, Schering-Plough will not have any obligation to launch the sale of the Product in any country in the Territory in which governmental approval of pricing is required or desirable, but in which Schering-Plough is unable to obtain approval of pricing which is satisfactory in the view of the Product Committee. Schering-Plough will, on an exclusive basis, distribute (or cause the distribution of) and, subject to Section 2.1(b), market the Product in all countries in the Territory in which Marketing Approval for the Product has been

granted. Centocor will participate in promotional support and educational support activities with respect to the Product in the Territory in a manner to be discussed and approved from time to time by the Product Committee.

(b) Co-Promotion of the Product in the Territory. If, at the conclusion of the [***] full Agreement Year after both of the milestones set forth in Section 3.3 have been achieved, Net Sales of the Product in the Territory are less than [***] in that [***] full Agreement Year, Centocor shall thereafter have the option to co-promote the Product with Schering-Plough, using its own resources or resources contracted from others, in the Core Co-Promotion Territory. Centocor may exercise its co-promotion option by providing written notice to Schering-Plough to that effect; provided, however, that Centocor's co-promotion option will expire on the [***] day of the [***] full Agreement Year after the milestones set forth in Section 3.3 have been achieved. Upon exercising the co-promotion option, Centocor shall be obligated to perform fifty percent (50%) of the details (as determined by the Product Committee) in the Core Co-promotion Territory. Centocor's co-promotion option shall be contingent upon Centocor having in place at the time the option is exercised an adequate field sales force to perform such activities. The remaining terms pursuant to which Centocor and Schering-Plough will co-promote the Product should this contingency arise, including the potential expansion of the Core Co-Promotion Territory, will be determined by the Product Committee, subject to the terms of Section [***]. If one or both of the milestones set forth in Section 3.3 are not achieved but the Product nevertheless has received Marketing Approval and has been sold for Crohn's Disease and rheumatoid arthritis indications for [***] full Agreement Years in the Core Co-promotion Territory and Net Sales in the Territory in that [***] full Agreement Year are less than [***], the Product Committee shall discuss whether Centocor should have the option to co-promote the Product, at a minimum in the Core Co-promotion Territory and possibly in other countries in the Territory.

(c) Other Indications. The parties, through the Product Committee, may from time to time consider development of the Product for indications other than Inflammatory Bowel Disease or rheumatoid arthritis. In the event that the Product Committee determines to pursue the development of the Product for any such other indication, the parties will share [***] the Product Development Costs for such new indication incurred after the date of the Product Committee's determination. Following Regulatory Approval, Schering-Plough shall have the exclusive rights in the Territory to market, promote, distribute, offer for sale and sell the Product for such new indications. In the Territory, the Contribution Income split with respect to Commercial Sales for such new indication will be as set forth in Section 6.2.

For any such new indications, Centocor may, at its discretion,

grant to Schering-Plough's United States Affiliate, Schering Corporation, an option to co-promote the Product in the United States for any such new indication. Such option must be exercised by providing written notice to

Centocor no later than [***] days after the successful completion of one or more Phase II clinical trials establishing proof of efficacy for the Product for such indication which supports undertaking a Phase III clinical study. During the [***] day period prior to the date Schering Corporation must exercise the option, Schering Corporation will conduct any due diligence review reasonably necessary to enable Schering Corporation to determine whether or not to exercise its option rights. If Schering Corporation elects to exercise its option, it will make a payment to Centocor or offer to Centocor United States co-promotion rights to a Schering Corporation product. The amount of such payment, or the Schering Corporation product to be co-promoted by Centocor and the terms of such co-promotion by Centocor, will be negotiated at the time Schering Corporation exercises its option. If Schering Corporation elects to exercise its option, the parties will enter into a suitable agreement under essentially the same terms as set forth herein and will share equally the Contribution Income, as that term is defined in Section 6.2, from Commercial Sales in the United States for such new indication; however, in the Territory the Contribution Income split with respect to Commercial Sales for such new indication will be as set forth in Section 6.2. If Schering Corporation elects not to exercise its option, Centocor will retain one hundred percent (100%) of Contribution Income from Commercial Sales in the United States for such new indication.

The parties will discuss in good faith whether the term of this Agreement as set forth in Section 8.1 will apply or be extended in respect of such new indication.

In the event that, for any reason, the Product Committee cannot agree as to whether or not the Product should be developed for a new indication and one party but not the other would nevertheless like to pursue that indication, the parties will negotiate the terms under which that indication may be pursued and the Product could be developed and commercialized in the Territory for that indication. In so doing, the parties agree as follows:

(i) In the event that Centocor independently proceeds to develop the Product for such indication it shall notify Schering-Plough upon successful completion of the first Phase IIb clinical trial establishing proof of efficacy for the Product for such indication. Schering-Plough shall have [***] days from the date of such notice in which to acquire the rights to such indication in the Territory by reimbursing Centocor for [***] of its out-of-pocket costs for development of such indication, whereupon the parties shall continue the development and commercialization of such indication under this Agreement. If Schering-Plough does not acquire the rights to such indication in the Territory, Centocor or one or more third parties designated by Centocor shall have exclusive rights to sell the Product for such indication in the Territory but only if it is a different formulation or in a different dosage form than the Product the parties are selling under this Agreement and if it is sold under a separate and distinct trademark from that used for the Product in the Territory by Schering-Plough under this Agreement; and Centocor and such third party or third parties shall retain one hundred percent (100%) of the Product revenue derived from such new indication.

(ii) In the event that Schering-Plough independently proceeds

to develop the Product for such indication it shall notify Centocor upon successful completion of the first Phase IIb clinical trial establishing proof of efficacy for the Product for such indication. Centocor shall have [***] days

from the date of such notice in which to notify Schering-Plough of its intent to share Contribution Income in the Territory and shall reimburse Schering-Plough for [***] of its out-of-pocket costs for development of such indication, whereupon the parties shall continue the development and commercialization of such indication under this Agreement. If Centocor does not provide such notice to Schering-Plough, Schering-Plough may sell the Product for such indication in the Territory only if it is a different formulation or in a different dosage form than the form of the Product the parties are selling under this Agreement and if it is sold under a separate and distinct trademark from that used for the Product in the Territory by Schering-Plough under this Agreement; and Schering-Plough shall retain one hundred percent (100%) of the Product revenue derived from such new indication. If Schering-Plough proceeds to develop and sell the Product for such new indication, it shall purchase its requirements of Product for the clinical development and commercial sales for such new indication from Centocor, [***], and subject to Centocor's ability to manufacture the Product for such purposes.

2.2 Schering-Plough's Commercialization Efforts with Respect to the Product.

(a) Within the Territory, as to all indications for which Marketing Approval has been obtained, Schering-Plough will market, promote, distribute and sell the Product in accordance with the applicable Country Marketing Plans (as described in Section 4.2) and in a manner consistent with accepted business practices and applicable legal requirements. For purposes of this Agreement, promotion includes, but is not limited to, sales presentations to prescribing physicians by sales representatives which include the use of written promotional materials, presentations at scientific and medical meetings using promotional materials, and other personal and non-personal efforts. Such promotional activities, including detailing, will be carried out through Schering-Plough's sales force, wherever feasible, or third party sales forces contracted by Schering-Plough, the members of which will have received the necessary training and support and have the necessary skills and resources to promote the Product. The number of face-to-face sales presentations by Schering-Plough for the promotion and detailing of the Product in the countries to which the EMEA Approval applies shall be consistent with the level of such activities Schering-Plough would apply to the promotion of its other pharmaceutical products of comparable commercial status, potential and value in such countries. In promoting and detailing the Product, Schering-Plough shall present the Product in the primary position for the approved indication(s), (i.e., Crohn's Disease and/or rheumatoid arthritis) until the commercial launch by Schering-Plough of another product for substantially the same indication(s) developed by Schering-Plough alone or in conjunction with a third party licensor, licensee or collaborator, including, without limitation Interleukin-10

(hereinafter a "Schering-Plough Product"). Commencing with the commercial launch of a Schering-Plough Product, to the extent that the approved indications and patient populations for the Product and such Schering-Plough Product overlap, Schering-Plough shall devote an [***] share of primary details and support, marketing and promotion to the Product and the Schering-Plough Product in the Territory. Activities performed by Schering-Plough with respect to the Product pursuant to this Section, including detailing, advertising and other promotional support, will in any case be consistent with the level of effort Schering-Plough would ordinarily employ for a product with similar market potential, commercial value and status. Centocor shall have the right to audit Schering-Plough's internal call reporting records to ascertain compliance with this Section. Such audit shall be conducted in the manner set forth in Section 2.2(d).

(b) In the event that Schering-Plough fails to meet its diligence obligations under Section 2.2(a) then Centocor shall have the right to

give Schering-Plough written notice thereof stating in reasonable detail the particular failure. Schering-Plough shall have a period of [***] days from the receipt of such notice to correct the failure. Schering-Plough shall, within [***] days of its receipt of such failure notice from Centocor, provide written notice to Centocor setting forth: (i) the steps Schering-Plough is undertaking to cure such failure; or (ii) Schering-Plough's intention to dispute the allegation that it has failed to meet its diligence obligations. If Schering-Plough fails to correct the failure, Centocor shall have the right to terminate this Agreement. In the event of a dispute as to whether or not Schering-Plough has failed to exercise due diligence under Section 2.2(a), such dispute shall be resolved through binding arbitration in accordance with the terms of this Agreement. The time periods set forth in this Section 2.2(b) shall be suspended during the pendency of such arbitration proceedings.

(c) The foregoing obligations of Schering-Plough with respect to development and commercialization of the Product are expressly conditioned upon the continuing absence of adverse conditions or events which, in the aggregate, warrant a delay in commercialization of the Product including, but not limited to, an adverse condition or event relating to safety or efficacy, or unfavorable pricing, pricing reimbursement, labeling or lack of Regulatory Approval. Schering-Plough's obligation to develop and market the Product shall be delayed or suspended so long as in the mutual agreement of the parties any such condition or event exists.

(d) Schering-Plough represents and warrants, on behalf of itself and its Affiliates, with respect to Germany, France, Italy, Spain and the United Kingdom, that the personnel responsible for the performance of its diligence obligations hereunder with respect to the Product in such markets shall constitute a distinct and separate business unit from those personnel who belong to the business unit involved in the development and commercialization of Schering-Plough's [***] product(s). For purposes of this Section 2.2(d), the term "business unit" shall refer to the sales personnel, product management

staff and support staff responsible for the commercialization of the Product or Schering-Plough's [***] products, as appropriate. In those countries in the Territory in which Schering-Plough does not maintain separate business units, Schering-Plough shall use diligent efforts to ensure that its field sales force and medical affairs personnel engaged in marketing and promoting [***] do not market and promote the Product. Schering-Plough and its Affiliates shall keep complete and accurate records of its operations in sufficient detail to enable Centocor to confirm the separation of its Product operations from those relating to [***]. Upon forty-five (45) days prior written notice from Centocor, Schering-Plough shall permit a firm of independent auditors of nationally recognized standing selected by Centocor and reasonably acceptable to Schering-Plough, at Centocor's expense, to have access during normal business hours to examine pertinent records and facilities of Schering-Plough and/or its Affiliates as may be reasonably necessary to confirm the separation of Schering-Plough's Product and [***] operations. An examination under this Section 2.2(d) shall not occur more than once in any calendar year. Schering-Plough may designate competitively sensitive information which such auditors may not disclose to Centocor, provided, however, that such designation shall not encompass the auditor's conclusions. The auditors shall disclose to Centocor only whether Schering-Plough's representations with respect to its operations are correct or incorrect and the specific details concerning any discrepancies. No other information shall be provided to Centocor. All such auditors shall sign a confidentiality agreement (in form and substance reasonably acceptable to Schering-Plough) as to any of Schering-Plough's or its Affiliates' confidential information which they are provided, or to which they have access, while conducting any audit pursuant to this Section 2.2(d).

2.3 Change in Territory.

(a)

[***]

(b) In the case that Centocor decides to seek an arrangement with another party for co-promotion of the Product in the United States for rheumatoid arthritis indications, Centocor will immediately notify Schering-Plough. Schering-Plough's United States Affiliate, Schering Corporation, will then have the exclusive right to negotiate with Centocor for a [***] month period commencing with the date of Centocor's notification to Schering-Plough of the terms and conditions (including payments upon execution of any agreement) upon which Schering Corporation would acquire such rights. In the event no agreement on commercial terms is reached within such period, Centocor will be free to enter into an agreement with another party to co-promote the Product in the United States for rheumatoid arthritis, provided that the terms thereof shall be no less favorable to Centocor than those last offered by Centocor to Schering Corporation.

2.4 Non-Compete. During the term of this Agreement, and for a

period of [***] years immediately following the termination of this Agreement, Schering-Plough will not promote, market, manufacture, sell or distribute any

[***]

, other than the Product or an Improvement, in the Territory; provided, however, that in the case of any country within the European Union or European Free Trade area, this obligation not to compete shall cease upon termination of this Agreement. If Schering Corporation commences to co-promote the Product in the United States pursuant to either Section 2.1(c) or Section 2.3(b) herein, the terms of this Section 2.4 thereafter shall be applicable to Schering Corporation in the United States. The parties acknowledge that during the term of this Agreement, Schering-Plough may promote, market, manufacture, sell and distribute Interleukin-10 in the Territory.

ARTICLE III

PAYMENTS BY SCHERING-PLOUGH TO CENTOCOR

3.1 Payments upon Execution. Schering Plough will make a non-refundable payment of [***] to Centocor by wire transfer within ten (10) business days of the Effective Date.

(a) Twenty million dollars ($20,000,000) of such payment will be in recognition of [***].

(b) [***] of such payment will be in recognition of [***].

3.2 Additional Payment. Schering-Plough will make an

additional payment of [***] to Centocor by wire transfer on or before [***].

3.3 Milestone Payments. Schering-Plough will pay to Centocor the following non-refundable additional amounts, in each instance by wire transfer within twenty (20) days of Centocor providing written notification of the Product Committee's determination of the occurrence of the event which triggers the payment and an invoice to Schering-Plough:

[*** Note: approximately one page of text is omitted]

ARTICLE IV

COMMITTEES AND MARKETING PLANS

To facilitate the achievement of their commercialization objectives, the parties agree as follows.

4.1 Committees. Within thirty (30) days following the

Effective Date, the parties will establish a Product Committee and an Oversight Committee.

(a) Product Committee. The Product Committee shall have overall responsibility to monitor, coordinate and oversee the parties' activities relating to the Product in the Territory, including, without limitation, the specific responsibilities set forth in Sections 4.1(a)(i) and 4.1(a)(ii). Each party will appoint three (3) representatives to the Product Committee, or such greater number as the Product Committee may determine from time to time; provided that two (2) representatives from each party shall constitute a quorum. These representatives shall have appropriate technical credentials and knowledge, and shall be senior representatives selected from each of the following areas: clinical development, marketing/general management and regulatory. Each party from time to time may substitute one or more of its representatives, in its sole discretion, effective upon notice to the other party of such change. The Product Committee may from time to time and in its sole discretion create ad hoc sub-committees and delegate certain aspects of its responsibilities to such sub-committees.

The Product Committee will meet on a quarterly basis, or more frequently if necessary, at mutually agreeable times and locations, to discuss any matters or issues involving the Product, including, but not limited to, matters arising under Sections 4.1(a)(i) and 4.1(a)(ii), the manufacture of the Product and the ways and means of most effectively implementing this Agreement. The Product Committee shall be co-chaired by a representative of Centocor and a representative of Schering-Plough. The Co-Chairpersons shall be responsible for calling meetings, preparing agendas and preparing and issuing minutes of each meeting within thirty (30) days thereafter. Meeting minutes will be countersigned by a Product Committee representative from each of Schering-Plough and Centocor. All decisions of the Product Committee shall be made with a quorum of the members present, and shall be based on an unanimous vote with Schering-Plough and Centocor each having one (1) vote.

Additional non-voting representatives or consultants may from time to time be invited by either party to attend and participate in Product Committee meetings (e.g., to evaluate and advise on business or scientific issues). Each party shall ensure that any of its third party consultants attending a Product Committee meeting have entered into a suitable agreement

containing confidentiality and non-use provisions substantially the same as those contained in this Agreement.

In September or October of each Agreement Year, the Product Committee will hold an annual planning meeting to review and comment on the Country Marketing Plans, and to approve the clinical development plans and the budget for the following year. If at any time agreement is not reached within the Product Committee, the matter in question will be referred to the Oversight Committee should either party deem it to be of sufficient importance to warrant

a further effort to reach agreement.

(i) Clinical Development and Regulatory Approvals. Centocor will have primary responsibility for the conduct of pre-clinical studies, clinical trials and regulatory submissions. Nevertheless, the Product Committee will review and discuss the Product's clinical and regulatory development including, but not limited to, the design and implementation of clinical trials, budgets, the content and status of regulatory filings and approvals, and Adverse Event Reports. Communications between the parties concerning such matters will be directed through the parties' representatives to the Product Committee or their designees.

(ii) Marketing. Subject to Section 2.1(c), the Product Committee will also discuss indications for which Regulatory Approvals will be sought, the countries in which Regulatory Approval will be sought, and the promotion, detailing, marketing, distribution and sales of the Product including, but not limited to, the Country Marketing Plans and selected core Marketing Materials (hereinafter defined). Communications between the parties concerning such matters will be directed through the parties' representatives to the Product Committee or their designees.

(b) Oversight Committee/Dispute Resolution. The parties will also establish an Executive Oversight Committee (the "Oversight Committee") consisting of two (2) senior management representatives of each party. The initial representatives of the Oversight Committee will be:

<TABLE>
<CAPTION>

Centocor	Schering-Plough
<S>	<C>
Joseph C. Scodari	Thomas C. Lauda
Harlan F. Weisman, M.D.	Jonathan R. Spicehandler, M.D.

</TABLE>

The Oversight Committee will meet as necessary, but no less than one time per year at mutually agreeable times and locations to discuss strategic issues of interest to the parties and to resolve disputes arising under this Agreement, including those referred to it by the Product Committee. Decisions by the Oversight Committee will be made by the unanimous consent of its members. In the event that the Oversight Committee fails to resolve any dispute, then either party may submit such dispute to binding arbitration in accordance with the terms of Section 12.7.

4.2 Marketing Plans. Schering-Plough will prepare Country Marketing Plans for each country (or, where appropriate, groups of countries) within the Territory substantially in the form set forth in Appendix D (the "Country Marketing Plans"), and will present the Country

Marketing Plans for the United Kingdom, Canada, Germany, France, Italy and Spain, as well as the Schering-Plough Strategic Marketing Plan, to the Product Committee for comment. Each Country Marketing Plan will establish the strategy and tactics designed to maximize Commercial Sales in that country or group of countries. To enable Schering-Plough to coordinate its marketing efforts in the Territory, Centocor will present information regarding its U.S. marketing plans to the Product Committee, provided, however that Schering-Plough may not provide any of such information to any line management (excluding executive management) employee of Schering Corporation or any of its Affiliates who are engaged in any effort relating to the commercialization of Interleukin-10 in the United States.

4.3 Marketing and Promotional Materials; Trademarks; Labels.

(a) Marketing Materials. Schering-Plough will have primary responsibility for the preparation of all Product marketing and promotional materials (collectively, the "Marketing Materials") for use in the Territory. However, selected core Marketing Materials, i.e., those prepared by or on behalf of Schering-Plough's Global Marketing group for use throughout the Territory, will be submitted to the Product Committee for its review and comment. Schering-Plough acknowledges that Centocor, as the license holder, is responsible for regulatory compliance as it relates to all aspects of the Product, including compliance with regulations relating to promotional materials. Notwithstanding this fact, under the terms of this Agreement, Centocor assigns responsibility to Schering-Plough to ensure that its local Affiliates are in compliance with all local laws and regulatory requirements governing promotional materials in the Territory. In addition, for the United Kingdom, Canada, Germany, France, Italy and Spain, Schering-Plough will provide copies of primary sales aids and journal advertisements intended for use in these markets to Centocor's regulatory affairs department for its review and approval as to their compliance with regulatory requirements. Centocor will review and approve these marketing materials in a timely manner (generally not to exceed three (3) business days). Schering-Plough indemnifies Centocor for any damages resulting from regulatory non-compliance in those circumstances where Centocor's regulatory affairs department has not undertaken a prior review. Centocor retains the right to audit Schering-Plough's compliance with local laws and regulations regarding promotion. Such audit shall be conducted in the manner set forth in Section 2.3(d).

(b) Trademarks. Centocor has applied for the AVAKINE trademark for the Product in the United States and in certain countries in the Territory (the "Trademark"). Centocor shall be responsible for filing, prosecuting, registering, maintaining and protecting the Trademark in all countries in the Territory. Schering-Plough recognizes that the Trademark is a trademark of Centocor and that Schering-Plough has no right or interest in the Trademark other than those rights explicitly granted in this Agreement. Centocor hereby grants to Schering-Plough the royalty-free right, exclusive even as to Centocor, to use during the term of this Agreement, the Trademark in the Territory for the purpose of co-promoting, marketing, selling and distributing the Product purchased by Schering-Plough from Centocor under the terms of this Agreement. To the extent that Schering-Plough is processing, packaging and labeling the

Product pursuant to Section 5.1, Centocor further grants to Schering-Plough the right to use the Trademark for the purpose of processing, packaging and labeling the Product for use in the Territory. If Centocor commences co-promotion of the Product in the Core Co-promotion Territory and any other countries in the Territory pursuant to Section 2.1(b), Schering-Plough shall grant back to Centocor the right to use the Trademark in those countries for the purposes of co-promoting the Product. All rights of

Schering-Plough under this Section will terminate immediately upon the termination or expiration of this Agreement.

When packaged for sale in the Territory, the Product will bear the Trademark, the Schering-Plough trade dress and the name and/or logo of the appropriate Schering-Plough local entity as permitted under applicable laws and regulations. Schering-Plough will assist Centocor as may be necessary (including by executing any necessary documents) in recording Schering-Plough as a licensee of any registration of the Trademark and Schering-Plough hereby agrees that such recording may be cancelled by Centocor on termination of this Agreement for whatever reason and that it will assist Centocor to the extent reasonably necessary to achieve such cancellation including by executing any necessary documents.

In the event that the Trademark cannot be used in one or more countries in the Territory, or if it is agreed by the Product Committee that a different trademark is to be used other than or in addition to the Trademark in any country in the Territory, then the parties shall agree on a trademark and Centocor shall determine the availability and shall diligently file for and prosecute such trademark, which shall thereafter be treated as the Trademark for the purposes of this Agreement. If the trademark selected by the parties is already owned by Schering-Plough, then the parties shall enter into a suitable agreement pursuant to which Schering-Plough shall assign all of its rights, title and interest in and to said trademark to Centocor in return for a payment of [***]. If the trademark is acquired from a third party, then Centocor shall be responsible for acquiring said trademark.

(c) Labels. When offered for sale in the Territory, the Product will be packaged with Schering-Plough trade dress and, to the extent permitted by local regulatory requirements, will include the Schering-Plough logo and/or name of the appropriate Schering-Plough local entity. The labeling will state that the Product is manufactured by or on behalf of Centocor. Where permissible, such labels will give equal prominence to the Centocor and Schering-Plough names.

ARTICLE V

SUPPLY OF PRODUCT

5.1 Purchase and Supply. Centocor agrees to supply to

Schering-Plough, and Schering-Plough agrees to purchase from Centocor all of Schering-Plough's requirements of the Product for Commercial Sales. Centocor further agrees to supply all quantities of Product for use as free samples or for compassionate use programs in the Territory, which quantities shall be provided to Schering-Plough by Centocor [***].

Product supplied by Centocor to Schering-Plough for Commercial Sales will be in final labelled and packaged vials. Alternatively, Schering-Plough shall have the option, exercisable by providing written notice to Centocor, to purchase its requirements for Product from Centocor in the form of bulk Product and to perform the final processing, packaging and labeling of such material into finished Product for Commercial Sales in the Territory. Such option shall only be exercisable by Schering-Plough if Schering-Plough can reasonably demonstrate that the parties will enjoy a net financial benefit or that it is cost neutral to the parties for Schering-Plough to perform such activities. If Schering-Plough exercises its option to perform such activities, Schering-Plough's cost of performing such activities will be

[***]

included in as if Centocor had incurred such costs and delivered finished Product to Schering-Plough.

Within ninety (90) days of the Effective Date, the parties will negotiate and enter into a separate Manufacture and Supply Agreement more fully setting forth the terms under which Product will be manufactured for and supplied to Schering-Plough by Centocor, the terms of which shall conform to the terms of this Agreement. The Manufacture and Supply Agreement will be appended to this Agreement as Appendix E.

5.2 Manufacturing. Centocor will manufacture the Product and use diligent efforts to satisfy Schering-Plough's requirements for the Product. All Product manufactured for Schering-Plough for use and/or sale in the Territory shall be manufactured in an approved facility. Centocor shall provide to Schering-Plough, concurrently with each shipment of Product supplied to Schering-Plough under this Agreement (whether in the form of finished Product or in bulk) a Certificate of Analysis setting forth the analytical results and specifications for the batch. In order to ensure the required supply of Product for sale pursuant to this Agreement, Centocor may contract with a third party acceptable to Schering-Plough to manufacture the Product.

In the event that Schering-Plough elects to exercise its option under Section 5.1 to purchase the Product in bulk, Centocor shall cooperate with and provide reasonable assistance to Schering-Plough, at Schering-Plough's expense, to make available to Schering-Plough any Product specific know-how necessary to enable Schering-Plough to perform the final processing and packaging of the Product in its facilities and to obtain any necessary regulatory or manufacturing approvals for such facilities.

5.3 Forecasts. Beginning on a date to be determined by the Product Committee and within [***] business days following the end of each calendar quarter thereafter during the term of this Agreement, Schering-Plough will supply to Centocor, for planning purposes, a non-binding [***] month rolling forecast of projected requirements in units of Product for Commercial Sales in the Territory broken down by country or groups of countries. The forecast may be expressed in terms of a reasonable range. Centocor will promptly notify Schering-Plough if it anticipates that it will be unable to meet any portion of the forecasted requirements. In the event of a temporary shortfall, Centocor's available supplies of Product will be allocated proportionately according to Centocor's forecasted demand for the United States on one hand and Schering-Plough's forecasted demand for the Territory on the other hand. The allocation will be monitored by the Product Committee and will end as soon as supply permits.

5.4 Firm Orders; Inventory Levels. Schering-Plough will provide orders for Product to Centocor at least [***] days prior to requested date of shipment. Schering-Plough will consolidate the orders for itself and its Affiliates. Within fourteen (14) days of receipt of an order, Centocor will send to Schering-Plough a written confirmation of such order, at which point such order will be binding upon Schering-Plough and Centocor. In determining the amount of its orders, Schering-Plough will order such quantities as are necessary to maintain at all times a minimum inventory of Product sufficient to fulfill Schering-Plough's next [***] months expected requirements of the Product for Commercial Sales. Centocor will use all reasonable efforts to ensure dispatch to Schering-Plough of the requisite quantity of Product to fulfill such orders.

5.5 Terms. All shipments of Product to Schering-Plough will be F.C.A. (Incoterms 1990) Centocor's place of shipment, by an approved carrier selected from a list of approved carriers to be agreed upon from time to time by Schering-Plough and Centocor. Shipments will be made to such locations as Schering-Plough directs. Payment terms will be net thirty (30) days, upon receipt of Centocor's invoice, in United States Dollars by wire transfer to Centocor.

5.6 Product Recall. Schering-Plough will review with Centocor the Schering-Plough product recall procedures and Schering-Plough agrees to maintain and to implement the same, subject to the provisions herein. Schering-Plough and Centocor have the responsibility to notify each other within twenty-four (24) hours of a situation which could lead to a recall or withdrawal of the Product in the Territory. Within forty-eight (48) hours after such notice, the parties' representatives from business, medical, regulatory, quality assurance and legal functions, and any others deemed necessary (the "Recall Team"), will consult to determine if any Product shall be withdrawn or recalled from the market. If the Recall Team agrees to conduct a recall, then the Recall Team shall also consult with respect to the timing of the recall, the breadth,

extent and level of customer to which the recall shall reach, and what strategies and notifications should be used. If agreement as to whether a recall should be conducted cannot be reached between the Schering-Plough and Centocor representatives on the Recall Team, the Oversight Committee shall be immediately consulted. If the Oversight Committee cannot agree, then the party holding the marketing authorizations for the Product in the Territory shall have final decision making authority with respect to any recall in the Territory and Centocor shall have final decision making authority with respect to countries outside the Territory. The license holder for the Product will be responsible for formal notification of the regulatory authorities; however, Centocor and Schering-Plough will coordinate with each other on the notification of regulatory authorities. In the Territory, Schering-Plough will be responsible to implement any Product withdrawal or recall from the market.

(a) In the event that any Product recall or withdrawal occurs in the Territory as a result of adverse event or other safety reasons for which neither Centocor nor Schering-Plough are at fault, the parties shall share equally all reasonable costs and expenses of such Product recall or withdrawal in the Territory, including, without limitation, the expenses incurred for the investigation, notification, regulatory reporting, destruction and/or return of the recalled Product, the cost of the manufactured Product recalled, Schering-Plough's costs relating to the testing, packaging, shipping and supplying the Product recalled, expenses or obligations to third parties, and the cost of notifying users (hereinafter the "Recall Expenses"). For purposes of calculating Recall Expenses under this Section 5.6(a) and under Sections 5.6(b) and (c), Centocor shall issue a credit to Schering-Plough for the full cost paid by Schering-Plough to Centocor for the manufactured Product recalled, and that cost of the manufactured Product recalled shall be included in Recall Expenses at Centocor's cost of goods. Centocor and Schering-Plough each acknowledge that the obligations of the other under this Section do not extend to expenses or obligations of either to third parties or to any claim by either for loss of anticipated profits, goodwill, reputation, business receipts or contracts, or losses or expenses resulting from third party claims or for any indirect or consequential losses suffered by either, howsoever caused, and each hereby waives any claim to such expenses or losses or which may arise as a result of any such obligations.

(b) In the event that any Product recall occurs as a result of (i) a breach of this Agreement by Centocor, or (ii) any wrongful act or omission whether negligent or otherwise of Centocor, Centocor will bear all

reasonable Recall Expenses incurred by Schering-Plough. Recall Expenses under this Section 5.6(b) shall be calculated as set forth in Section 5.6(a). Schering-Plough acknowledges that Centocor's obligations under this Section do not extend to expenses or obligations of Schering-Plough to third parties or to any claim by Schering-Plough for loss of anticipated profits, goodwill, reputation, business receipts or contracts, or losses or expenses resulting from third party claims or for any indirect or consequential losses suffered by

Schering-Plough, howsoever caused, and hereby waives any claim to such expenses or losses or which may arise as a result of any such obligations.

(c) In the event that any Product recall occurs as a result of (i) a breach of this Agreement by Schering-Plough, or (ii) any wrongful act or omission, whether negligent or otherwise of Schering-Plough, Schering-Plough will bear all reasonable Recall Expenses incurred by Centocor. Recall Expenses under this Section 5.6(c) shall be calculated as set forth in Section 5.6(a). Centocor acknowledges that Schering-Plough's obligations under this Section do not extend to expenses or obligations of Centocor to third parties or to any claim by Centocor for loss of anticipated profits, goodwill, reputation, business receipts or contracts, or losses or expenses resulting from third party claims or for any indirect or consequential losses suffered by Centocor, howsoever caused, and hereby waives any claim to such expenses or losses or which may arise as a result of any such obligations.

5.7 Product Warranties. Centocor warrants good title to the Product and warrants that upon delivery of Product in accordance with this Agreement, the Product:

(a) will have been manufactured, stored and shipped in accordance with all applicable good manufacturing practices, all other applicable laws, rules, regulations and regulatory requirements in the country of manufacture and in the Territory, and will conform to the specifications set forth in Appendix F;

(b) shall not be adulterated or misbranded as provided for under any applicable law, order or regulation in effect in the country of manufacture and the Territory;

(c) shall conform to the specifications for the Product in the then current Regulatory Approvals of each country in the Territory;

(d) shall, when stored at [***], have a shelf life of at least [***] months from the completion of lyophilization and shall be delivered within ninety (90) days of the completion of lyophilization; and

(e) will be labeled, packaged and shipped in accordance with labeling, packaging and distribution standards mutually agreed upon by the parties and in accordance with all applicable laws and regulatory requirements in the Territory; provided that where Schering-Plough is responsible under the terms of this Agreement for obtaining any Regulatory Approval, any requirements for labeling and packaging of the Product specified in such approvals have been fully communicated to Centocor.

EXCEPT FOR THE FOREGOING WARRANTIES, CENTOCOR MAKES NO OTHER WARRANTIES AS TO THE PRODUCT, EITHER EXPRESS OR IMPLIED, AND SPECIFICALLY, MAKES NO IMPLIED WARRANTY AS TO MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

5.8 Inspection and Right of Return of Product. If Schering-Plough determines upon receipt and inspection of the Product that any

of the Product does not meet any of the standards warranted in Section 5.7,

Schering-Plough will notify Centocor of the non-conformance within forty-five (45) days of receipt of shipment; provided, however, that if the defect is a Hidden Defect, Schering-Plough will notify Centocor of the non-conformance within fifteen (15) days of Schering-Plough's discovery of the defect. Centocor and Schering-Plough will confer on the matter and, within fifteen (15) days after receipt of Schering-Plough's notice, Centocor will notify Schering-Plough as to whether or not it concurs with Schering-Plough's determination. If Centocor concurs with Schering-Plough's determination (or fails to timely notify Schering-Plough of a disagreement with the determination), Centocor will replace the rejected Product, free of charge, as soon as practicable thereafter, and in any event within forty (40) days after receipt of Schering-Plough's notice, and Schering-Plough will, at Centocor's request and expense, return the rejected Product. If Centocor timely disagrees with Schering-Plough's determination, the parties will attempt to resolve the issue in accordance with the provisions of Section 4.1(b). If Schering-Plough does not provide a notice of non-conformance within forty-five (45) days of receipt of shipment (or within fifteen (15) days after Schering-Plough's discovery of a Hidden Defect), Schering-Plough will not have the right to return the shipment pursuant to this Section. Except as set forth in this Section and in Section 5.7 and Section 10.1, Centocor will have no obligation to Schering-Plough for breach of any of the warranties as to the quality of the Product set forth in Section 5.7. For purposes of this Section, "Hidden Defect" means a defect which prevents use of the Product for its normal application and which could not have been discovered by Schering-Plough upon routine inspection following its receipt of the Product.

ARTICLE VI

PAYMENTS BASED ON SALES; OTHER PAYMENTS

6.1 Centocor Sales to Schering-Plough. The parties estimate that the initial price per vial will be [***] of the forecasted average Schering-Plough net selling price for sales of the Product in the Territory, which forecasted average net selling price will be determined by Schering-Plough and will be communicated to Centocor by Schering-Plough. From time to time the Product Committee will review the transfer price and adjust it as necessary. For this purpose, the unit at the outset of Commercial Sales is a vial containing one hundred milligrams (100 mg) of active ingredient Product.

6.2 Division of Contribution Income. The parties will divide Contribution Income in the manner provided herein and in Section 2.1(b).

(a) "Contribution Income" is defined as

[***].

(i) A list of third party agreements providing for

the payment of royalties, as of the Effective Date, is attached as Appendix G.

[***]

.. As of the Effective Date, Centocor shall not enter into any other additional agreements with third parties that include provisions requiring the payment of license fees, milestones, royalties or other payments relating to commercialization of Product in the Territory without the prior written approval of Schering-Plough.

(ii) For purposes of calculating Contribution Income,

[***].

(iii) As set forth in Section 6.3, Product Development Costs are excluded from Contribution Income. Also excluded from the Contribution Income calculation is the cost of Product supplied by Centocor to Schering-Plough in the Territory for distribution as free samples or for compassionate use programs pursuant to Section 5.1.

(b) For purposes of documenting [***] expenses which are included in the Contribution Income calculation, each party will maintain adequate and reasonable records containing information to quantify the activities and costs and qualify the activities under the programs approved in accordance with Article IV; and will provide the other party's independent representative access to such records in accordance with Section 6.4. To enable Centocor to comply with its quarterly financial reporting obligations, Schering-Plough will provide to Centocor on a monthly basis no later than ten (10) business days after the end of each month its actual Net Sales for such month. In addition, Schering-Plough will provide to Centocor on a quarterly basis no later than fifteen (15) business days after the end of each calendar quarter, or with respect to the fourth calendar quarter in any calendar year within thirty (30) days of the last day of such calendar year, a summary of its actual Net Sales and an estimate of its [***] expenses for that quarter, and estimates of Net Sales, [***] expenses for the next calendar quarter.

(c) Contribution Income with respect to any Agreement Year is to be divided [***] to Schering-Plough and [***] to Centocor on the first [***] of Net Sales in such Agreement Year. For Net Sales in excess of [***] in each Agreement Year, Contribution Income is to be divided [***] to Schering-Plough and [***] to Centocor. An example of the quarterly Contribution Income Calculation is set forth in Appendix H.

(d) The calculation of Contribution Income will commence at the time of the first Commercial Sale in the Territory.

[***].

(e) The division of Contribution Income will be effected as follows:

(i) Within [***] days after the end of each calendar quarter (or portion thereof), the parties will calculate and agree upon the amount of Contribution Income for that quarter and Centocor will remit to Schering-Plough, or Schering-Plough will remit to Centocor, upon submission of an invoice, a quarterly equalization payment within [***] days of receipt of such invoice.

(ii) If, for any period, the Contribution Income calculation results in a net loss, the parties will share the loss in the same proportions that they share Contribution Income.

(iii) Notwithstanding the foregoing, to the extent that Centocor is co-promoting the Product in one or more countries in the Territory pursuant to the provisions of Section 2.1(b), then commencing in the calendar quarter of the Agreement Year in which Centocor begins co-promoting the Product in the Territory, the division of Contribution Income will be [***] to Schering-Plough and [***] to Centocor solely with respect to Contribution Income attributable to Net Sales in the country or countries in which Centocor is co-promoting the Product.

6.3 Product Development Costs. All Product Development Costs are expressly excluded from the Contribution Income sharing concept and, subject to Section 2.1(c) above, shall be shared by the parties as follows.

(a) Subject to variances in patient accrual rates, the parties agree that the anticipated budget for Product Development Costs in calendar year 1998 shall not exceed [***]. The parties further agree that, subject to variances in patient accrual rates, the anticipated budget for Product Development Costs in calendar year 1999 for the clinical trials already in progress or ready to be started and for the ACCENT study is estimated at [***]. Schering-Plough shall make a payment of [***] to Centocor by wire transfer on or before [***]. Schering-Plough's obligation to pay for Product Development Costs incurred during 1998 and 1999 with respect to such studies shall be capped, unless the Product Committee elects to initiate additional clinical studies during such calendar years or the Product Committee otherwise approves additional Product Development Costs to be incurred in such calendar years. To the extent that either party exceeds the agreed upon budgeted Product Development Costs for such activities without the prior written approval of the Product Committee, such party shall be solely responsible for such excess expenditures which shall be excluded from Product Development Costs.

(b) In each successive Agreement Year after 1999 during the term of this Agreement, the parties shall agree upon a budget setting forth the estimated Product Development Costs for their respective development activities. To the extent that either party exceeds the agreed upon budgeted Product

Development Costs for such activities without the prior written approval of the Product Committee, such party shall be solely responsible for such excess expenditures which shall be excluded from the calculation of any Excess Amount under Section 6.3(c).

(c) Within thirty (30) days following the end of each calendar quarter, each party will provide a written summary to the other party of its respective Product Development Costs for such calendar quarter. Such summary will include adequate and reasonable information to quantify the activities and costs and qualify the activities under the programs approved in accordance with Article IV. With respect to any such calendar quarter, the amount by which the total of one party's Product Development Costs exceeds the total of the other party's Product Development Costs is referred to herein as the "Excess Amount," and the party whose total Product Development Costs are less than the other party's total Product Development Costs is referred to herein as the "Paying Party." Commencing in calendar year 2000, within [***] days following the end of each calendar quarter, upon submission of an invoice, the Paying Party will pay to the other party an amount equal to [***] of the Excess Amount for such calendar quarter.

(d) With respect to calendar years 1998 and 1999 in the aggregate, Schering-Plough will not be required to pay Centocor unless the Product Committee has approved spending of total Product Development Costs in excess of [***] and [***] of the Excess Amount payable by Schering-Plough is greater than [***], in which event Schering-Plough will pay Centocor the amount by which [***] of the Excess Amount exceeds [***]. If the total of both parties' Product Development Costs is [***] or less and [***] of the Excess Amount is less than [***], then (1) if Schering-Plough would otherwise be the Paying Party as defined above, Schering-Plough shall make no payment to Centocor and Centocor shall pay Schering-Plough the amount by which [***] exceeds [***] of the Excess Amount; and (2) if Centocor is the Paying Party as defined above, Centocor shall pay Schering-Plough [***] plus [***] of the Excess Amount. The parties will within thirty (30) days after the end of calendar year 1999 exchange information relating to Product Development Costs for 1998 and 1999, determine whether any payment is due from one party to the other party under this Section 6.3(d), and issue an appropriate invoice to the party owing such payment, if any. Any such payment shall be made within [***] days after the end of calendar year 1999.

6.4 Access to Information. Each party will have the right, upon forty-five (45) days prior written notice and during normal business hours, through an independent third party representative (who will agree to be bound by confidentiality provisions substantially similar to those set forth in Sections 11.1 and 11.2 hereof), to review and inspect the other party's books and records which relate to such other parties's operations under this Agreement including, but not limited to, records concerning Commercial Sales, Net Sales, Product Development Costs, [***], sales presentations, [***], and other costs. The inspection shall be limited to pertinent books and records for any year ending not more than [***] months prior to the date of such request. An inspection

under this Section 6.4 shall not occur more than once in any calendar year. The party whose records are being inspected may designate competitively sensitive information which the representative may not disclose to the other party, provided, however, that such designation shall not encompass the representative's conclusions. Such representative shall only report inaccuracies in amounts payable under this Agreement. With respect to inspection of Schering-Plough's books and records, Schering-Plough may request that an independent auditor familiar with Schering-Plough's record keeping systems be present at the inspection to assist Centocor's auditor in using Schering-Plough's internal record management system. Likewise, with respect to inspection of Centocor's books and records, Centocor may request that an independent auditor familiar with Centocor's record keeping systems be present at the inspection to assist Schering-Plough's auditor in using Centocor's internal record management system. Each party shall bear the costs and expenses of its representative for inspections conducted under this Section, unless a variation or error producing an underpayment in amounts payable exceeding [***]

of the amount paid for any period covered by the inspection is established in the course of any such inspection, whereupon all costs relating to the inspection for such period and any unpaid or overpaid amounts that are discovered will be paid or credited as appropriate by the party in whose favor the deviation occurred. This Section will survive the expiration or the termination of the Agreement for a period of two (2) years.

6.5 Currency Translation. For the purpose of computing the Commercial Sales or Net Sales of Product sold in a currency other than United States Dollars, for the purpose of computing costs for calculating Contribution Income where the costs are incurred in a currency other than United States Dollars, and for the purpose of determining Centocor Product Development Costs or Schering-Plough Product Development Costs which are incurred in a currency other than United States Dollars, such currency shall be converted into United States Dollars at the rates of exchange used by Schering Corporation to report its sales for public, financial reporting purposes. A copy of the current policy used by Schering-Plough and its Affiliates for bookkeeping exchange rates is attached hereto as Appendix I. Schering-Plough shall treat the Product in a manner consistent with its standard practices used for its own products, in order to minimize foreign currency exposure.

6.6 Withholding. If at any time, any jurisdiction within the Territory requires the withholding of income taxes or other taxes imposed upon payments set forth in this Article VI, the party required to make such withholding payment shall make the payment and subtract such withholding payments from the payments set forth in this Article VI. The party required to make any such payment shall provide to the other party documentation of such withholding and payment in a manner that is satisfactory for purposes of the U.S. Internal Revenue Service. Any withholdings paid when due hereunder shall be for the account of the party liable for such taxes and shall not be included in the calculation of Net Sales or Contribution Income. Withholding payments made

by either party pursuant to this Section 6.6 shall be made based upon financial information provided to the party making the payment by the other party; to the extent that such information is incorrect, the party providing such information shall be liable for any deficiency, and any fine, assessment or penalty imposed by any taxing authority in the Territory for any deficiency in the amount of any such withholding or the failure to make such withholding payment. If either party is required to pay any such deficiency, or any fine, assessment or penalty for any such deficiency, the party liable for such payment shall promptly reimburse the other party for such payment, which shall not be included in the calculation of Net Sales or Contribution Income.

6.7 Failure to Agree. In the event the parties fail to agree on any payment due from one party to the other under this Agreement, such dispute shall be resolved in accordance with the provisions of Section 4.1(d).

ARTICLE VII

REGULATORY MATTERS

7.1 Regulatory Approvals and Clinical Studies. Prior to the Effective Date, Centocor will fully inform Schering-Plough of, and provide full access to information to Schering-Plough regarding, all Product clinical studies in progress as of the Effective Date. Following the Effective Date, Centocor and Schering-Plough, through the Product Committee, will coordinate such in-progress clinical studies. Centocor and Schering-Plough will, through the Product

Committee, jointly propose, develop and coordinate all clinical studies for the Product to be initiated after the Effective Date. In some instances, management of clinical studies may be delegated to Schering-Plough, although Centocor, as the party responsible for obtaining and maintaining Regulatory Approvals, will ultimately be responsible for all pre-clinical and clinical studies. The parties acknowledge their mutual intent that, subject to locally applicable laws in each country of the Territory, Centocor will hold all marketing authorizations in its name. Notwithstanding the foregoing, Centocor shall promptly take all steps necessary to ensure that as of the date of Marketing Approval in each country in the Territory Schering-Plough shall have the right to market, promote, distribute, import, export, offer for sale and sell the Product in the Territory under the Trademark and using Schering-Plough's trade dress (including, without limitation, the transfer of the relevant marketing authorizations to Schering-Plough and/or its designated Affiliate, if necessary).

7.2 Licenses, Filings, Registrations, Permits and Regulatory Approvals. In collaboration with Schering-Plough, Centocor will be responsible for obtaining and maintaining all licenses, registrations, permits and any other required Regulatory Approvals relating to the Product; provided, however, that Schering-Plough, with Centocor's support, will be responsible for obtaining and maintaining those licenses, registrations, permits and regulatory approvals required to be obtained by Schering-Plough to enable Schering-Plough to act as

the exclusive distributor of the Product in the Territory pursuant to this Agreement. Each of the parties will cooperate with the other in making all regulatory filings that may be necessary or desirable in connection with the execution, delivery and performance of this Agreement and each will use all reasonable efforts to obtain any regulatory approvals related thereto. To enable Schering-Plough to assist Centocor in obtaining regulatory approvals, Centocor will provide Schering-Plough access to Centocor's regulatory filing documentation, with the exception of the manufacturing master file. On expiration or termination of this Agreement, for whatever reason, Schering-Plough will use all reasonable efforts to effect the transfer of any such licenses, registrations, permits or approvals as may be in its name in relation to the Product to Centocor or such other entity as Centocor may nominate. If the Agreement is terminated upon Schering-Plough's fault, the cost of such transfer will be borne by Schering-Plough. If the Agreement is terminated upon Centocor's fault, the cost of such transfer will be borne by Centocor. In all other cases the cost will be equally shared by Centocor and Schering-Plough.

7.3 Adverse Event Reporting and Drug Safety Information. As the license holder, Centocor will have ultimate responsibility for adverse event reporting and drug safety information in the United States and in those countries in the Territory in which Centocor holds the relevant marketing authorizations. Schering-Plough shall have such responsibility in those countries in the Territory where it holds the relevant marketing authorizations and/or is otherwise required by law to report adverse events. Promptly after the Effective Date, the drug safety departments of Centocor and Schering-Plough shall agree upon suitable protocols and procedures to further delineate each party's obligations with respect to adverse event reporting which shall be incorporated into a separate written agreement of the parties. (The outline of such adverse event reporting and drug safety agreement contained in Appendix J as of the Effective Date will be the basis for finalizing such new agreement, which new agreement will supersede and replace the outline.) In any event, during the term of this Agreement, each party will, within the time periods and in accordance with procedures set forth in Appendix J, notify the other party of all information coming into its possession concerning side effects, injury, toxicity or sensitivity reactions, including unexpected increased incidence or

severity thereof, associated with commercial or clinical uses, studies, investigations or tests with the Product, inside or outside the Territory, whether or not determined to be attributable to the Product.

7.4 Communication with Agencies. Centocor, as the party responsible for obtaining and maintaining Regulatory Approvals, will have the primary responsibility for communications with various regulatory agencies but will do so in collaboration with Schering-Plough. Schering-Plough will have the right to have representatives present at all meetings with regulatory agencies in the Territory concerning the Product. The foregoing notwithstanding, to the extent that Schering-Plough holds the market authorizations and Marketing

Approvals in a country in the Territory, Schering-Plough shall have primary responsibility for such communications, and will do so in collaboration with Centocor, with Centocor having the right to have representatives present at any meetings with regulatory agencies in such countries concerning the Product. Each party will provide the other with copies of any significant communications (which are known to the party to exist and which the party can obtain copies of) with any regulatory agency throughout the world concerning the Product, including but not limited to reports of Adverse Events, but excluding communications pertaining to or included in the manufacturing master file.

ARTICLE VIII

TERM OF AGREEMENT

8.1 Term. This Agreement is effective on the Effective Date. It will continue for a term of fifteen (15) years from the date of the first Commercial Sale in the Territory, unless earlier terminated pursuant to the provisions of this Agreement.

8.2 Termination.

(a) Breach of Obligation. In the event of a material breach of this Agreement by either party, the non-breaching party will give the breaching party written notice requiring it to remedy such breach. If, after [***] days following such notice, the breach is neither fully remedied nor a plan to remedy it has been agreed by the parties, the non-breaching party will, in addition to having the right to seek an arbitration award under Section 12.7 for any damages to which it may be entitled, be entitled to terminate this Agreement with immediate effect upon written notice thereof to the breaching party.

(b) Insolvency. This Agreement may be terminated by either party upon written notice to the other should the other party (i) become insolvent; or (ii) file a voluntary petition under any bankruptcy or insolvency law; or (iii) have any such petition filed against it which is not stayed within sixty (60) days of such filing; or (iv) has a receiver appointed for its business or property; or (v) makes a general assignment for the benefit of its creditors. Such termination shall be made effective the date notice of termination is given. In the event of Centocor's insolvency, Centocor shall provide to Schering-Plough access to Centocor's drug master file in order to enable Schering-Plough to undertake manufacture of the Product.

(c) Change in Control. If either party is acquired by a third party or otherwise comes under Control (as defined in Section 1.4 above) of a third party, it will promptly notify the other party not subject to such change of control. The party not subject to such change of control will have the right, however not later than thirty (30) days from such notification, to notify in

writing the party subject to the change of Control of the termination of the

Agreement taking effect immediately. As used herein "Change of Control" shall mean (i) any merger, reorganization, consolidation or combination in which a party to this Agreement is not the surviving corporation; or (ii) any "person" (within the meaning of Section 13(d) and Section 14(d)(2) of the Securities Exchange Act of 1934), excluding a party's Affiliates, is or becomes the beneficial owner, directly or indirectly, of securities of the party representing more than fifty percent (50%) of either (A) the then-outstanding shares of common stock of the party or (B) the combined voting power of the party's then-outstanding voting securities; or (iii) if individuals who as of the Effective Date constitute the Board of Directors of the party (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors of the party; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the party's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board; or (iv) approval by the shareholders of a party of a complete liquidation or the complete dissolution of such party.

8.3 Effect of Expiration and Termination.

(a) Accrued Obligations. Expiration or termination of this Agreement for any reason will not release any party hereto from any obligation and any liability which, at the time of such expiration or termination, has already accrued to the other party or which is attributable to a period prior to such expiration or termination, nor will it preclude either party from pursuing all rights and remedies it may have hereunder with respect to any breach of this Agreement.

(b) Outstanding and New Orders. Upon delivery of a termination notice by either party, the parties will seek agreement to what extent outstanding orders, and whether new orders of Schering-Plough addressed to Centocor, will be fulfilled. In any case, Centocor acknowledges (i) that Schering-Plough's supply obligations to its customers will be taken into consideration, and (ii) that Schering-Plough has no obligation to accept delivery of the Product to the extent its ability or authority to import, distribute and/or sell the Product has expired for practical or for legal reasons.

(c) Stock of Product. Upon expiration of the Agreement and upon termination of the Agreement by either party for any reason other than a material breach by Schering-Plough, to the extent that Schering-Plough then holds in its inventory a quantity of Product the purchase price of which exceeds the value of Centocor's work-in-process and finished inventory of Product intended for shipment to Schering-Plough pursuant to firm orders, Centocor will repurchase or have repurchased by an entity of its choice at the per unit price paid by Schering-Plough to Centocor according to Section 6.1 and under terms

analogous to Section 5.5, a quantity of Product such that following such repurchase, the amount paid by Schering-Plough for its remaining inventory of Product will equal the cost of Centocor's work-in-process and finished inventory of Product intended for shipment to Schering-Plough pursuant to firm

orders; provided, however, that in no event will Centocor be required to repurchase any inventory with a remaining shelf life of less than [***] months.

(d) Product Sell Off. Upon expiration or termination of this Agreement for any reason, Schering-Plough shall have the right to continue to sell its existing inventory of Product in the Territory for a period of [***] months from the effective date of such expiration or termination. The parties will continue to share the Contribution Income arising from any such sales in accordance with the terms of this Agreement. If such termination is the result of a material breach of this Agreement by Centocor, Centocor shall be obligated to repurchase from Schering-Plough all unsold quantities of Product in Schering-Plough's inventory, unless Schering-Plough notifies Centocor in writing at the time of the termination that it elects to sell its existing inventory for a period of [***] months. If Schering-Plough elects to sell its existing inventory following termination due to a material breach of this Agreement by Centocor, Centocor shall not be obligated to repurchase product with a shelf life of less than [***] months.

ARTICLE IX

REPRESENTATIONS AND COVENANTS

9.1 Representations of Centocor. Centocor represents and warrants to Schering-Plough as follows:

(a) Organization and Good Standing. Centocor is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania.

(b) Authority. Centocor has the corporate power to enter into this Agreement and to carry out the transactions contemplated hereby. The execution, delivery and performance of this Agreement have been duly and validly authorized and approved by all necessary corporate action on the part of Centocor and this Agreement has been duly executed by and constitutes the legally binding obligation of Centocor, enforceable in accordance with its terms (except that such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights, as from time to time in effect, and general principles of equity). The execution and delivery of this Agreement do not, and the consummation by Centocor of the transactions contemplated hereby will not, violate the provisions of, constitute a default under or give rise to rights of any entity under (i) any laws applicable to Centocor, (ii) Centocor's Articles of Incorporation or bylaws, (iii) any judgment, decree or order of any court or

governmental agency applicable to Centocor or (iv) any agreements, contracts or commitments to which Centocor is a party.

(c) Governmental Consents. Apart from Regulatory Approvals and except for the subjects addressed in Section 12.15, no consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority is required in connection with the consummation by Centocor of the transactions contemplated by this Agreement.

(d) Access to Data. Centocor has provided to Schering-Plough for its review all relevant information except certain information relating to the manufacturing of the Product. Centocor has also provided to Schering-Plough

details of all adverse events known to it relating to the Product.

(e) Patent Infringement. To Centocor's knowledge, there exists no valid and enforceable patent owned by a third party which would prevent: (i) the use, manufacture or sale of the Product in the United States or the Territory; or (ii) the import, export, marketing, promotion, distribution, offering for sale or sale of the Product in the Territory by Schering-Plough and/or its Affiliates.

(f) Centocor Licenses. The consummation of the transactions contemplated by this Agreement by Schering-Plough will not require additional licenses under any third party patent licensed to Centocor.

9.2 Centocor Covenants.

(a) Centocor covenants to Schering-Plough that it will take such actions as are necessary to enable Schering-Plough to import, export, market, promote, distribute, use and sell the Product in all countries in the Territory, as of the date of Marketing Approval in each such country, under the Trademark and using Schering-Plough's trade dress.

(b) Centocor covenants to Schering-Plough that: (i) it will comply fully with all laws applicable to Centocor and its activities under this Agreement; and (ii) it will notify Schering-Plough promptly in writing of any material civil, criminal or administrative action brought against Centocor, its directors, officers, employees or agents which is likely to have a material adverse effect on Centocor's pharmaceutical business or Centocor's business reputation, or is likely adversely to affect Centocor's ability to perform its obligations under this Agreement, and promptly to provide Schering-Plough with reasonably detailed information regarding Centocor's handling and disposition of any such action; and (iii) except as mutually agreed by the parties, during the term of this Agreement, it will not enter into any distributorship agreements, marketing arrangements, licenses or similar arrangements granting any third party the right to distribute, market, promote or sell the Product in the

Territory.

(c) Centocor covenants to Schering-Plough that it will (i) use diligent efforts not to diminish the rights under "Patent Rights" held by Centocor and/or granted to Schering-Plough hereunder or under the License Agreement attached hereto as Appendix L, including without limitation, by not committing or permitting any actions or omissions which would cause the breach of any agreements between itself and third parties which provide for intellectual property rights applicable to the manufacture, use or sale of the Product, (ii) provide Schering-Plough promptly with notice of any such alleged breach, and (iii) as of the Effective Date, it is in compliance in all material respects with any such agreements with third parties. For purposes of this Section 9.2(c), the term "Patent Rights" shall mean any and all patents and patent applications (which for the purposes of this Agreement shall be deemed to include certificates of invention and applications for certificates of invention) which during the term of this Agreement are owned or controlled by Centocor (wherein control means the ability to grant licenses and/or sublicenses) and have claims covering (A) the Product and/or any Improvements, (B) any materials, methods or processes used in the manufacture of the Product and/or any Improvements, or (C) any methods of use or new indications for the Product and/or Improvements, as well as any substitutions, divisions, continuations, continuations-in-part, reissues, renewals, registrations, confirmations, re-examinations, extensions, supplementary protection certificates or the like, of any of the foregoing.

9.3 Representations of Schering-Plough. Schering-Plough represents and warrants to Centocor as follows:

(a) Organization and Good Standing. Schering-Plough is a corporation duly organized, validly existing and in good standing under the laws of Switzerland.

(b) Authority. Schering-Plough has the corporate power to enter into this Agreement and to consummate the transactions contemplated by this Agreement. The execution, delivery and performance of this Agreement have been duly and validly authorized and approved by all necessary corporate action on the part of Schering-Plough and this Agreement has been duly executed by and constitutes the legally binding obligation of Schering-Plough enforceable in accordance with its terms (except that such enforcement may be limited by applicable bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting the enforcement of creditors' rights generally, as from time to time in effect, and general principles of equity). The execution and delivery of this Agreement by Schering-Plough do not, and the consummation by Schering-Plough of the transactions contemplated hereby will not, violate the provisions of, constitute a default under or give rise to rights of any entity under (i) any laws applicable to Schering-Plough, (ii) the Articles or Certificate of Incorporation or other charter documents or bylaws of Schering-Plough, (iii) any judgment, decree or order of any court or

governmental agency applicable to Schering-Plough or (iv) any agreements, contracts or commitments to which Schering-Plough is a party.

(c) Governmental Consents. Except for the subjects addressed in Section 12.15, no consent, approval, order or authorization of, or registration, qualification, designation, declaration or filing with, any federal, state or local governmental authority is required in connection with the consummation by Schering-Plough of the transactions contemplated by this Agreement.

(d) Access to Data. In entering into this Agreement, Schering-Plough is relying solely upon its independent investigation of Centocor's business and its independent consultation with such professional, legal and accounting advisors as it deems necessary, and is not acting in reliance on any statements, instruments, certificates, documents, representations or warranties other than those contained or referred to in this Agreement.

9.4 Schering-Plough Covenants. Schering-Plough covenants to Centocor that it will: (i) comply fully with all laws applicable to Schering-Plough and its activities under this Agreement; (ii) notify Centocor promptly in writing of any material civil, criminal or administrative action brought against Schering-Plough, its directors, officers, employees or agents which is likely adversely to affect Schering-Plough's ability to perform its obligations under this Agreement, and promptly to provide Centocor with reasonably detailed information regarding Schering-Plough's handling and disposition of any such action; and (iii) except as provided in Section 7.2, not initiate any voluntary communications with regulatory agencies relating to the Product without Centocor's prior consent.

ARTICLE X

INDEMNIFICATION AND INSURANCE

10.1 Centocor Indemnification. Centocor will defend and indemnify Schering-Plough, its Affiliates and their respective directors, officers, employees and agents against all claims, losses, damages, liabilities, and expenses, including reasonable attorneys' fees (collectively "Losses") arising out of or resulting from: (i) any product liability or similar claim relating to the Product (except to the extent any such Losses are caused by the negligence, willful misconduct or illegal acts of Schering-Plough); (ii) any other claim relating to the Product to the extent such Losses are caused by the negligence, willful misconduct or illegal acts of Centocor; (iii) any breach by Centocor of any of its representations and covenants contained in Sections 9.1 and 9.2 hereof; or (iv) any claim of patent or trademark infringement relating to the Product (and in the case of trademark infringement, where Centocor is the holder of the trademark).

10.2 Schering-Plough Indemnification. Schering-Plough will defend and indemnify Centocor, its Affiliates and their respective directors, officers, employees and agents against any Losses arising out of or resulting from: (i) a claim made against Centocor relating to the Product, but only to the extent such Losses are caused by the negligence, willful misconduct or illegal acts of Schering-Plough or any of its directors, officers, employees or agents in connection, in any manner, with the sale, distribution or promotion of the Product by Schering-Plough or other transactions contemplated by this Agreement; (ii) any breach by Schering-Plough of any of its representations and covenants contained in Sections 9.3 and 9.4 hereof; or (iii) any claim of trademark infringement relating to the Product where Schering-Plough is the holder of the trademark.

10.3 Conditions to Indemnification. The obligations of the indemnifying party under Sections 10.1 and 10.2 are conditioned upon the delivery of written notice to the indemnifying party of any potential Losses within sixty (60) days after the indemnified party becomes aware of such potential Losses. The indemnifying party shall have the right to assume the defense of any suit or claim related to the Losses if it has assumed responsibility for the suit or claim in writing; however, if in the reasonable judgment of the indemnified party, such suit or claim involves an issue or matter which could have a materially adverse effect on the business operations or assets of the indemnified party, the indemnified party may waive its rights to indemnity under this Agreement and control the defense or settlement thereof, but in no event shall any such waiver be construed as a waiver of any other indemnification rights such party may have at law or in equity. If the indemnifying party defends the suit or claim, the indemnified party may participate in (but not control) the defense thereof at its sole cost and expense.

Neither party may settle a claim or action related to any Losses without the consent of the other party, if such settlement would impose any monetary obligation on the other party or require the other party to submit to an injunction or otherwise limit the other party's rights under this Agreement. Any payment made by a party to settle any such claim or action shall be at its own cost and expense.

With respect to any claim by one party against the other arising out of the performance or failure of performance of the other party under this Agreement, the parties expressly agree that the liability of such party to the other party for such breach shall be limited under this Agreement or otherwise at law or equity to direct damages only and in no event shall a party be liable for punitive, exemplary or consequential damages.

10.4 Insurance. During the period of time beginning with the first Commercial Sale and continuing for five (5) years after the expiration or termination of this Agreement, Centocor and Schering-Plough will maintain in force product liability insurance coverage, with commercially reasonable limits

adequate to cover their obligations under this Agreement. The insurance obtained by Centocor shall include coverage for products with limits not less than [***] for each claim and in the aggregate. A certificate of insurance shall be provided by Centocor to Schering-Plough promptly after the Effective Date and at each anniversary or renewal date of such insurance. Schering-Plough, as with most major pharmaceutical companies, is largely self-insured for its liability exposures. Schering-Plough's assets are sufficient to cover any contemplated self-insured liability assumed by Schering-Plough under this Agreement.

10.5 Survival. The provisions of this Article X (other than Section 10.3) will survive the termination or expiration of this Agreement.

ARTICLE XI

CONFIDENTIALITY

11.1 Centocor Information. Schering-Plough will maintain in confidence, and will ensure that its Affiliates and its and their consultants, employees, agents and representatives maintain in confidence, all proprietary and confidential information which has been or is provided by Centocor to Schering-Plough, including but not limited to, Centocor's inventions, discoveries, improvements and methods, business plans, marketing techniques or plans, manufacturing and other plant designs, location of operations, and any other information affecting the business operations of Centocor ("Centocor Information"), and will not use for any purpose other than the performance of this Agreement, and will not publish, disseminate, or disclose, in any manner, to any person any Centocor Information unless: (i) Schering-Plough is legally required to do so or is required under rules or regulations of any governmental agency or authority or any stock exchange to be disclosed, provided that Schering-Plough shall, prior to making any such disclosure, give Centocor sufficient advance written notice to permit it to seek a protective order or other similar order with respect to such information and thereafter shall disclose only the minimum information required to be disclosed in order to comply with such law, rule or regulation, whether or not a protective order or other similar order is obtained; (ii) the Centocor Information has entered or enters the public domain through no fault of Schering-Plough; (iii) the Centocor Information was already known by Schering-Plough before receipt from Centocor, or is developed independently by Schering-Plough without breach of this Agreement, in either case as shown by contemporaneous written records; or (iv) the Centocor Information is received by Schering-Plough from a third party under no confidentiality obligation to Centocor.

11.2 Schering-Plough Information. Centocor will maintain in confidence, and will ensure that its Affiliates and its and their consultants, employees, agents and representatives maintain in confidence, all proprietary and confidential information which has been or is provided by Schering-Plough to Centocor, including but not limited to, Schering-Plough's inventions, discoveries, improvements and methods, business plans, marketing techniques or plans, manufacturing and other plant designs, location of operations, and any other information affecting the business operations of Schering-Plough ("Schering-Plough Information"), and will not use for any purpose other than the

performance of this Agreement, and will not publish, disseminate, or disclose in any manner, to any person, any Schering-Plough Information unless: (i) Centocor is legally required to do so or is required under rules or regulations of any governmental agency or authority or any stock exchange to be disclosed, provided that Centocor shall, prior to making any such disclosure, give Schering-Plough sufficient advance written notice to permit it to seek a protective order or other similar order with respect to such information and thereafter shall disclose only the minimum information required to be disclosed in order to comply with such law, rule or regulation, whether or not a protective order or other similar order is obtained; (ii) the Schering-Plough Information has entered or enters the public domain though no fault of Centocor; (iii) the Schering-Plough Information was already known by Centocor before receipt from Schering-Plough, or is developed independently by Centocor without breach of this Agreement, in either case as shown by contemporaneous written records; or (iv) the Schering-Plough Information is received by Centocor from a third party under no confidentiality obligation to Schering-Plough.

11.3 Survival; Specific Performance. The provisions of this Article XI will survive the termination or expiration of this Agreement for a period of ten (10) years. Each party agrees that money damages through arbitration would not be a sufficient remedy for any breach by it of the provisions of this Article XI and that, in addition to any remedy which may be available through arbitration, the non-breaching party will be entitled to apply for and obtain orders for specific performance and injunctive or other equitable relief as a remedy for any such breach from a Court of general jurisdiction in the state, federal judicial district, county or canton (as the case may be) in which the principal place of business of the party in breach is located.

ARTICLE XII

GENERAL PROVISIONS

12.1 Human Anti-TNF Antibodies. In the event Centocor develops a fully human anti-TNF monoclonal antibody through use of transgenic animals or plants or other technology, Centocor shall notify Schering-Plough of such development efforts through the Product Committee. Schering-Plough will have the exclusive right, until such time as Centocor successfully completes a Phase IIb clinical trial establishing proof of efficacy for the new antibody but no earlier than the time at which Centocor makes a milestone or equity payment to a third party licensor due upon initiation of the clinical development of such new antibody, to participate with Centocor in the ongoing clinical development and commercialization of such new antibody. If Schering-Plough elects to participate, it shall reimburse Centocor for [***] of the fully allocated costs (i.e., personnel costs plus out-of-pocket expenses, except that Schering-Plough shall only reimburse Centocor for [***] of any milestones Centocor has paid) incurred to date in the development of such new antibody. If Schering-Plough elects to participate, the new antibody shall be treated as an Improvement to

the Product under the terms of this Agreement with respect to the Territory. In the event Schering-Plough elects not to participate, Centocor will be free to market and sell such new antibody product in the United States and the Territory for any and all indications or agree to sell it to one or more other parties for resale in the United States and the Territory for one or more indications.

[***]

12.2 Force Majeure. Neither party will be liable to the other for failure or delay in the performance of its obligations hereunder, if and to the extent that such failure or delay is attributable to any circumstance beyond its control which it could not have avoided by the exercise of reasonable diligence (hereinafter referred to as "Force Majeure"). The party affected by Force Majeure will provide the other party with full particulars thereof as soon as it becomes aware of the same (including its best estimate of the likely extent and duration of the interference with its activities), and will use diligent efforts to overcome the difficulties created thereby and to resume performance of its obligations as soon as practicable. If Force Majeure prevails, or is expected to prevail, for a period of three (3) months or more, the parties will meet to discuss means for overcoming any difficulties, including an amendment to this Agreement to meet the new situation.

12.3 No Agency or Partnership. The parties intend and agree that nothing in this Agreement itself renders either party an agent of the other for any purpose whatsoever and that nothing in this Agreement will be construed as establishing a joint venture or partnership between the parties. Except as otherwise provided herein, without the specific prior written approval of the other party, neither party has authority to, and will not, enter into any contract, make any representation, give any warranty, incur any liability or otherwise act on behalf of the other.

12.4 No Implied Licenses. Nothing in this Agreement is intended to or will be construed to create, confer, give effect to or otherwise imply in Schering-Plough any license, right or property interest in the Product, any Centocor patent, patent application or patent rights, any Centocor trademark or trade name, or any other Centocor property, except as expressly set forth herein. Schering-Plough will not, through any action or inaction, cause any prejudice to or dilution of Centocor's trademark or patent rights (including patent applications). Nothing in this Agreement is intended to or will be construed to create, confer, give effect to or otherwise imply in Centocor any license, right or property interest in any Schering-Plough trademark or trade name except as provided in Section 4.3(b). Centocor will not, through any action or inaction, cause any prejudice to or dilution of Schering-Plough's trademarks.

12.5 Third Party Infringement.

(a) Notice. If either party becomes aware of any infringement or threatened infringement of any patent, trademark or other property right

relating to the Product, then the party having such knowledge will give written notice to the other within twenty (20) days of becoming aware of such infringement or threatened infringement. Any such notice shall include evidence to support an allegation of infringement by such third party.

(b) Centocor's Prosecution Rights. Centocor, in consultation with Schering-Plough, will have the right, but not the obligation, to institute, prosecute, and control any action or proceeding with respect to the infringement of patents, trademarks (where Centocor is the holder of the Trademark or a trademark for the Product) or other property right relating to the Product. Centocor shall bear all the expenses of any suit brought by it. Schering-Plough shall have the right, prior to commencement of the trial, suit or action brought by Centocor, to join any such suit or action, and in such event shall pay one-half of the costs of such suit or action. In the event that Schering-Plough has joined in the action and shared in the costs thereof as set forth above, no settlement, consent judgment or other voluntary final disposition of the suit may be entered into without the consent of Schering-Plough. In the event that

Schering-Plough has not joined the suit or action, Schering-Plough will reasonably cooperate with Centocor in any such suit or action and shall have the right to consult with Centocor and be represented by its own counsel at its own expense, provided that Centocor shall periodically reimburse Schering-Plough for its out-of-pocket costs (excluding the costs of retaining its own outside counsel) incurred in cooperating with Centocor. Any recovery or damages derived from a suit which Schering-Plough has joined and shared costs shall be used first to reimburse each of Centocor and Schering-Plough for its documented expenses with respect thereto, with any remaining amounts to be shared equally by the parties. Any recovery or damages derived from a suit which Schering-Plough has not joined shall be retained by Centocor.

(c) Schering-Plough's Prosecution Rights. Where Schering-Plough is the holder of the Trademark or a trademark for the Product, Schering-Plough, in consultation with Centocor, will have the right, but not the obligation, to institute, prosecute, and control any action or proceeding with respect to the infringement of the Trademark or of such trademark for the Product. Schering-Plough shall bear all the expenses of any suit brought by it. Centocor shall have the right, prior to commencement of the trial, suit or action brought by Schering-Plough, to join any such suit or action, and in such event shall pay one-half of the costs of such suit or action. In the event that Centocor has joined in the action and shared in the costs thereof as set forth above, no settlement, consent judgment or other voluntary final disposition of the suit may be entered into without the consent of Centocor. In the event that Centocor has not joined the suit or action, Centocor will reasonably cooperate with Schering-Plough in any such suit or action and shall have the right to consult with Schering-Plough and be represented by its own counsel at its own expense, provided that Schering-Plough shall periodically reimburse Centocor for its out-of-pocket costs (excluding the costs of retaining its own outside counsel) incurred in cooperating with Schering-Plough. Any recovery or damages

derived from a suit which Centocor has joined and shared costs shall be used first to reimburse each of Centocor and Schering-Plough for its documented expenses with respect thereto, with any remaining amounts to be shared equally by the parties. Any recovery or damages derived from a suit which Centocor has not joined shall be retained by Schering-Plough.

(d) Assignment of Prosecution Rights. In the event one party (the "Owning Party") does not exercise its prosecution right according to Sections 12.5(b) or (c), as the case may be, to prevent or eliminate the infringement within [***] days of receipt of notice of the infringement or threatened infringement thereof, the other party (the "Other Party") may, at its option, give notice to the Owning Party that unless the Owning Party undertakes such action the Other Party will commence an action to terminate such infringement. If the Owning Party fails to take such action within [***] days of such notice then the Other Party will have the right, but not the obligation, to take such action as it deems appropriate against any infringer at its own cost. The Owning Party shall provide reasonable assistance to the Other Party in any suit for infringement brought by such Other Party against a third party, and shall have the right to consult with the such Other Party and to participate in and be represented by outside counsel in such litigation at its own expense. For purposes of this Section 12.5(d), reasonable assistance shall mean the Owning Party providing the Other Party reasonable access to information, materials and personnel which such Other Party reasonably determines is necessary to enable the Other Party's conduct of the suit. The Other Party shall periodically reimburse the Owning Party for its out-of-pocket costs (excluding Owning Party's costs of retaining outside counsel) incurred in cooperating with the Other Party. The Other Party shall incur no liability to the Owning Party as a consequence of such litigation or any unfavorable decision resulting therefrom,

including any decision holding any of the patent rights or trademarks invalid or unenforceable. In the event that the Other Party recovers any sums in such litigation by way of damages or in settlement thereof, the Other Party shall have the right to retain all such sums to offset its costs, losses and expenses.

12.6 Third Party Claims. If either party becomes aware of any action or suit, or threat of action or suit, by a third party alleging that the manufacture, use or sale of the Product in the Territory infringes a patent, trademark or any other proprietary right of any third party, the party aware will promptly notify the other party of the same and fully disclose the basis therefor. Subject to Sections 10.1 and 10.2, (i) either party agrees to cooperate and consult with the other party during the course of the defense of such action or suit or threat of action or suit and to keep the other party informed in respect of all significant aspects of such defense, and (ii) neither party will settle any such action or suit or threat of action or suit without the express written consent of the other party, which consent will not be unreasonably withheld.

12.7 Arbitration and Limitation of Damages. Any unresolved

dispute between the parties or any claim of one party against the other arising under or in connection with this Agreement will be resolved through binding arbitration pursuant to the mechanism set forth in Appendix K; provided, however, that no party will refer a dispute to arbitration under this Section without giving at least twenty (20) days' notice to the Oversight Committee of its intention to do so.

12.8 Modification; Assignment. This Agreement may be modified or amended only in writing signed by duly authorized representatives of Centocor and Schering-Plough. Neither party shall assign this Agreement or any of its rights or obligations under this Agreement without the prior written consent of the other party hereto and any attempted assignments without that written consent will be void; provided, however, that such consent will not be unreasonably withheld. Notwithstanding the previous sentence, this Agreement may be assigned by either party to an Affiliate of that party.

12.9 Notices. All notices required or provided under this Agreement will be given in writing and will be deemed to have been properly served if delivered by hand (including delivery by courier), or sent by registered or certified mail or sent by telefax confirmed by registered or certified mail in each case to the following addresses:

To Centocor:

Centocor, Inc.
200 Great Valley Parkway
Malvern, Pennsylvania 19355
Attention: Secretary
Fax: 610-651-6331

To Schering-Plough:

Schering-Plough Ltd.
Toepferstrasse 5
CH-6004 Lucerne
Switzerland
Attention: President
Fax: 41-41-4181626
with copies to:

Schering Corporation
2000 Galloping Hill Road
Kenilworth, New Jersey 07033
Attention: Vice President,
Business Development
Fax: (908) 298-5379

and

Schering Corporation
2000 Galloping Hill Road
Kenilworth, New Jersey 07033
Attention: Senior Legal
Director, Licensing
Fax: (908) 298-2739

or such other address as may be specified in a written notice by the party to whom notice is to be given. Notices will be deemed to have been delivered as follows: if sent by mail, seven (7) days after the date of posting; if delivered by hand, on the date of delivery; if sent by telefax, on the date of transmission at the place of business of the recipient.

12.10 Entire Agreement. This Agreement supersedes all prior agreements and understandings between Centocor and Schering-Plough with respect to the subject matter hereof. This Agreement contains the entire understanding and agreement between Centocor and Schering-Plough with respect to the subject matter hereof and the terms of this Agreement will govern over conflicting terms of any purchase order or invoice delivered under this Agreement. The Article and Section headings contained in this Agreement are for convenience of reference only and will not be considered when interpreting this Agreement.

12.11 Public Statements. Neither party, nor its representatives and employees, will make any oral or written disclosure, including any news release or other public statement, whether to the press, stockholders, or otherwise, disclosing the existence or terms of this Agreement or of any amendment hereto, without the prior written approval of the other party, which approval will not be unreasonably withheld or delayed; provided that nothing in this Section will be deemed to prevent either party from making such disclosures or statements which, in the opinion of counsel, are legally required. In the event such disclosure or statement is required, the disclosing party will give prior notice to the other party of the proposed disclosure or statement and the reason therefor. The parties anticipate that on or after the Effective Date they will issue a press release in a form to be mutually agreed upon by the parties, and thereafter may from time to time issue additional press releases as mutually agreed upon by the parties. Following any such press release, either party shall have the right to issue subsequent public disclosures containing the same information as that contained in the previously agreed upon press releases.

12.12 Governing Law; Disputes. This Agreement will be governed by and construed in accordance with the internal laws of the Commonwealth of Pennsylvania without regard to conflicts of laws provisions. The

parties expressly exclude application of the United Nations Convention for the International Sale of Goods.

12.13 No Waiver. Except as specifically set forth in this Agreement, no failure or delay on the part of a party in exercising any right hereunder will operate as a waiver of, or impair, any such right. No single or partial exercise of any such right will preclude any other or further exercise thereof or the exercise of any other right. No waiver of any such right will be deemed a waiver of any other right hereunder.

12.14 Counterparts. This Agreement may be executed in counterparts, each of which will be an original and all of which will constitute together but one and the same document.

12.15 Filings and Notification. As soon as practicable after the execution of this Agreement, and if deemed necessary, the parties will ensure that this Agreement is jointly notified to the Commission of the European Communities in accordance with Regulation 17 of 1962 of the Council of the European Communities seeking negative clearance or exemption under Article 85(3) of the EC Treaty or both.

12.16 Related Agreements. Concurrently herewith the parties have entered into a License Agreement and a Security Agreement, which are attached hereto as Appendices L and M, respectively, granting to Schering-Plough rights under certain patents and patent applications relating to the Product, and a security interest in the Trademark or trademarks and the good will connected with and symbolized by the Trademark or trademarks, in each country in the Territory. Centocor agrees to execute, acknowledge and deliver such further instruments and to do all such other acts, at Schering-Plough's expense, as may be reasonably required to perfect Schering-Plough's rights under those agreements.

IN WITNESS WHEREOF, Centocor and Schering-Plough have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

CENTOCOR, INC.	SCHERING-PLOUGH LTD.
By: /s/ Joseph C. Scodari	By: /s/ Thomas C. Lauda
Title: President and Chief Operating Officer	Title: Manager (Direktor)
Date: April 3, 1998	April 3, 1998

Exhibit 12

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in millions)

	Years Ended December 31					
	2003	**2002**	**2001**	**2000**	**1999**	**1998**
(Loss)/Income Before IncomeTaxes	$ (46)	$ 2,563	$ 2,523	$ 3,188	$ 2,795	$ 2,326
Add Fixed Charges:						
Interest Expense	81	28	40	44	29	19
One-third of Rental Expense	30	27	24	24	22	19
Capitalized Interest	11	24	25	20	12	9
Total Fixed Charges	122	79	89	88	63	47
Less: Capitalized Interest	11	24	25	20	12	9
Add: Amortization of Capitalized Interest	9	8	7	7	7	7
Earnings Before Income Taxes and Fixed Charges (other than Capitalized Interest)	$ 74	$ 2,626	$ 2,594	$ 3,263	$ 2,853	$ 2,371
Ratio of Earnings to Fixed Charges	1	33	29	37	45	50

“Earnings” consist of income before income taxes and fixed charges (other than capitalized interest). “Fixed charges” consist of interest expense, capitalized interest and one-third of rentals which Schering-Plough believes to be a reasonable estimate of an interest factor on leases.

Exhibit 14

Schering-Plough Corporation

Code of Ethics for Senior Financial Executives
(approved by the Board of Directors February 24, 2004)

Schering-Plough is committed to conducting its business in conformance with ethical standards and applicable laws and regulations. That commitment is stated in the Schering-Plough Corporation Corporate Governance Guidelines, the Schering-Plough Code of Business Conduct and Ethics applicable to all Directors, the Schering-Plough Corporation Business Conduct Policy applicable to all employees and this Code of Ethics for Senior Financial Executives.

References to laws in this Code include references to applicable rules and regulations, as well as the listing standards applicable to Schering-Plough as a New York Stock Exchange listed company. In this Code, "Senior Financial Executives" means the Chief Executive Officer, the Chief Financial Officer, and the Controller, who is the chief accounting officer of Schering-Plough.

The requirements for Senior Financial Executives in this Code are in addition to the requirements applicable to them as employees under the Business Conduct Policy and the policies and procedures of Schering-Plough included in the Finance Manual.

1. Compliance with Laws. Each Senior Financial Executive is expected to comply with all laws applicable to his or her service as a Senior Financial Executive. Materials and presentations are provided to assist the Senior Financial Executives in keeping up with changes in applicable law. Any Senior Financial Executive may contact the General Counsel or the Corporate Secretary to arrange for a briefing on any particular law.

2. Honest and Ethical Conduct; No Conflicts of Interest. Senior Financial Executives in discharging their duties will conduct themselves in an honest and ethical manner.

   Senior Financial Executives are expected to avoid professional or personal interests (including situations involving their families, business affiliates and charitable/civic affiliations) that may interfere with their service to Schering-Plough. A conflict situation may arise when a Senior Financial Executive takes actions or has interests that may interfere, or present the appearance of such interference, with his or her ability to perform his or her duties objectively or effectively.

3. Disclosures. Senior Financial Executives are responsible for full, fair, accurate, timely and understandable disclosure in documents filed with/submitted to the Securities and Exchange Commission by Schering-Plough and in other public communications made by Schering-Plough. Toward this responsibility, they shall establish such policies and procedures, provide oversight and retain outside experts as needed.

4. Reporting Violations of this Code; Ramifications for Violation. Each Senior Financial Executive will promptly report to the General Counsel or the Corporate Secretary any violation of this Code, or any situation that may involve, or present the appearance of, a conflict of interest, whether it concerns such Senior Financial Executive or any other Senior Financial Executive.

   The General Counsel or the Corporate Secretary will report such matters to the Audit Committee of the Board of Directors and describe the legal ramifications and any applicable disclosure obligations. The Committee will report to the Board of Directors and will recommend whether the situation should, or should not, result in a change in the individual' s continued service as a Senior Financial Executive, and other appropriate action which may include demotion, reassignment, suspension with or without pay and benefits, censure and/or termination of employment.

5. Waivers. It is not anticipated that waivers of this Code would be sought or appropriate. In the unusual circumstance where a waiver is to be considered, the following process will apply: The Audit Committee will assess the request for a waiver, and report and make a recommendation to the Board. As part of its assessment, the Committee will receive the opinion of the General Counsel or, if desired, outside counsel regarding the legal implications of such a waiver. If any waiver should be granted by the Board of Directors, it will be promptly disclosed to the shareholders of Schering-Plough.

6. Amendments. The Audit Committee will periodically assess this Code and make recommendations to the Board regarding any advisable amendments.

Schering-Plough Corporation and Subsidiaries
Subsidiaries of the Registrant
As of December 31, 2003

Subsidiaries of Registrant	State or Country of Incorporation or Organization
AESCA Chemisch Pharmazeutische Fabrik GmbH	Austria
American Image Productions, Inc.	Tennessee
American Scientific Laboratories, Inc.	Delaware
Aquaculture Holdings Limited (UK)	United Kingdom
Aquaculture Vaccines (Ireland) Limited	Ireland
Aquaculture Vaccines Limited (UK)	United Kingdom
Ark Products Limited	United Kingdom
AVL Holdings Limited (UK)	United Kingdom
Avondale Chemical Co., Ltd.	Ireland
Bain de Soleil Company, The	Delaware
Beneficiadora e Industrializadora S.A. de C.V.	Mexico
Brazil Holdings Ltd.	Bermuda
Canji, Inc.	Delaware
Chemibiotic (Ireland) Limited	Ireland
Colombia Veterinary Holdings, Inc.	Panama
Coopers Animal Health Limited	United Kingdom
Coopers Brasil Ltda.	Brazil
Coopers Uruguay S.A.	Uruguay
Coppertone Corporation, The	Florida
Dashtag	United Kingdom
Desarrollos Farmaceuticos Y Cosmeticos S.A.	Spain
DNAX Research Institute of Molecular & Cellular Biology, Inc.	California
Douglas Industries, Inc.	Delaware
Dr. Scholl' s Foot Comfort Shops, Inc.	Delaware
Dunconor Limited	Ireland
Essex (Taiwan) Ltd.	Taiwan
Essex Chemie A.G.	Switzerland
Essex Chemie International Foundation	Switzerland
Essex Farmaceutica Portuguesa, Lda	Portugal
Essex Farmaceutica S.A.	Colombia
Essex Italia S.p.A.	Italy
Essex Pharma GmbH	Germany
Essex Pharmaceuticals, Inc.	Philippines
Essexfarm S.A.	Ecuador
Farmaceutica Essex, S.A.	Spain
Garden Insurance Co., Ltd.	Bermuda
Giralda Investments Ltd.	Switzerland
Global Animal Management Inc.	Delaware

Schering-Plough Corporation and Subsidiaries
Subsidiaries of the Registrant
As of December 31, 2003

Subsidiaries of Registrant	State or Country of Incorporation or Organization
Integrated Therapeutics Group, Inc.	Delaware
Key Pharma	Russia
Key Pharma S.A.	Ecuador
Key Pharma S.A.	Argentina
Key Pharma, A.G.	Switzerland
Key Pharma, S.A.	Spain
Key Pharmaceuticals Export Co., Inc.	U.S. Virgin Islands
Key Pharmaceuticals, Inc.	Florida
Kirby Medical Products Cia Ltda	Chile
Kirby-Warrick Pharmaceuticals Limited	United Kingdom
Kirby Pharmaceutical S.A.	Spain
Laboratorio Essex, C.A.	Venezuela
Laboratorio S.P. White' s, C.A.	Venezuela
Laboratorios Essex S.A.	Argentina
Laboratorios Kirby S.A.	Argentina
Loftus Bryan Chemicals Limited	Ireland
Macol, S.A.	Colombia
MedAdvisor, Inc.	Delaware
Medexa, S.A. de C.V.	Mexico
Med-Nim (Proprietary) Limited	South Africa
MSP Distribution Services (C) LLC	Nevada
MSP Distribution Services (R) LLC	Nevada
MSP Marketing Services (C) LLC	Nevada
MSP Marketing Services (R) LLC	Nevada
MSP Technology LLC	Delaware
P.T. Schering-Plough Indonesia	Indonesia
Pharmaceutical Supply Corporation	Delaware
Pharmaco (Canada) Inc.	Canada
Pharmaco, Inc.	Delaware
Plough (Australia) Pty. Limited	Australia
Plough (UK) Limited	United Kingdom
Plough Benelux S.A.	Belgium
Plough Broadcasting Co., Inc.	Delaware
Plough Consumer Products (Asia) Ltd.	Hong Kong
Plough Consumer Products (Philippines) Inc.	Philippines
Plough de Venezuela, C.A.	Venezuela
Plough Export, Inc.	Tennessee
Plough Farma, Lda. (Portugal)	Portugal
Plough Hellas Limited	Greece
Plough Laboratories, Inc.	Tennessee

Schering-Plough Corporation and Subsidiaries
Subsidiaries of the Registrant
As of December 31, 2003

Subsidiaries of Registrant	State or Country of Incorporation or Organization
PPL, Inc.	Tennessee
Pro Medica AB	Sweden
Professional Pharmaceutical Corporation	Delaware
Scheramex S.A. de C.V.	Mexico
Scherico, Ltd.	Switzerland
Schering Canada Inc.	Canada
Schering Corporation	New Jersey
Schering Institutional Sales Corporation	Delaware
Schering Laboratories Advertising Inc.	Delaware
Schering MSP Corporation	Nevada
Schering MSP Pharmaceutical LP	Nevada
Schering MyHealth Solutions, Inc.	Delaware
Schering Plough (South Korea)	South Korea
Schering Sales Corporation	Delaware
Schering Sales Management, Inc.	Nevada
Schering Transamerica Corporation	New Jersey
Schering-Plough (Proprietary) Limited	South Africa
Schering-Plough A/S	Norway
Schering-Plough A/S	Denmark
Schering-Plough AB	Sweden
Schering-Plough Animal Health Limited	Ireland
Schering-Plough Animal Health Limited	New Zealand
Schering-Plough Animal Health Limited	Australia
Schering-Plough Animal Health Limited	Thailand
Schering-Plough Animal Health Operations Sdn Bhd	Malaysia
Schering-Plough Animal Health Sdn Bhd	Malaysia
Schering-Plough Animal Health, Inc.	Philippines
Schering-Plough Animal-Health Corporation	Delaware
Schering-Plough Bermuda Ltd.	Bermuda
Schering-Plough B.V.	Netherlands
Schering-Plough C.A.	Venezuela
Schering-Plough Central East A.G.	Switzerland
Schering-Plough China, Ltd.	Bermuda
Schering-Plough Compania Limitada	Chile
Schering-Plough Coordination Center N.V./S.A.	Belgium
Schering-Plough Corp., U.S.A.	Delaware
Schering-Plough Corporation	Philippines
Schering-Plough del Caribe, Inc.	New Jersey
Schering-Plough del Ecuador, S.A.	Ecuador

Schering-Plough Corporation and Subsidiaries
Subsidiaries of the Registrant
As of December 31, 2003

Subsidiaries of Registrant	State or Country of Incorporation or Organization
Schering-Plough del Peru S.A.	Peru
Schering-Plough External Affairs, Inc.	Delaware
Schering-Plough Farma Lda.	Portugal
Schering-Plough Farmaceutica Ltda.	Brazil
Schering-Plough Foundation, Inc.	Delaware
Schering-Plough HealthCare Products Advertising Corp.	Tennessee
Schering-Plough HealthCare Products Sales Corporation	California
Schering-Plough HealthCare Products, Inc.	Delaware
Schering-Plough Holdings France	France
Schering-Plough Holdings (Ireland) Company	Ireland
Schering-Plough Holdings Ltd.	United Kingdom
Schering-Plough II - Veterinaria, Lda.	Portugal
Schering-Plough INT Limited	United Kingdom
Schering-Plough International Employees Inc.	Delaware
Schering-Plough International, Inc.	Delaware
Schering-Plough Investment Co., Inc.	Delaware
Schering-Plough Investments Limited	Delaware
Schering-Plough (Ireland) Company	Ireland
Schering-Plough Kabushiki Kaisha	Japan
Schering-Plough Labo N.V.	Belgium
Schering-Plough Legislative Resources, L.L.C.	Delaware
Schering-Plough Limited	Iran
Schering-Plough Limited	Taiwan
Schering-Plough Limited	Thailand
Schering-Plough Limited	United Kingdom
Schering-Plough Ltd.	Switzerland
Schering-Plough N.V./S.A.	Belgium
Schering-Plough Overseas Limited	Delaware
Schering-Plough OY (Finland)	Finland
Schering-Plough Pensions Ireland Limited	Ireland
Schering-Plough Pharmaceutical Industrial and Commercial S.A.	Greece
Schering-Plough Polska Spoka	Poland
Schering-Plough Products Caribe, Inc.	Puerto Rico
Schering-Plough Products LLC	Puerto Rico
Schering-Plough Products, Inc.	Delaware
Schering-Plough Pty. Limited	Australia
Schering-Plough Real Estate Company, Inc.	Delaware
Schering-Plough Research Institute	Delaware
Schering-Plough S.A.	France

Schering-Plough Corporation and Subsidiaries

Subsidiaries of the Registrant
As of December 31, 2003

Subsidiaries of Registrant	State or Country of Incorporation or Organization
Schering-Plough S.A.	Paraguay
Schering-Plough S.A.	Panama
Schering-Plough S.A.	Dominican Republic
Schering-Plough S.A.	Argentina
Schering-Plough S.A.	Colombia
Schering-Plough S.A.	Spain
Schering-Plough S.A.	Uruguay
Schering-Plough S.A. de C.V.	Mexico
Schering-Plough S.p.A.	Italy
Schering-Plough Sante Animale	France
Schering-Plough Sdn. Bhd.	Malaysia
Schering-Plough Singapore Pte. Ltd.	Singapore
Schering-Plough Singapore Research Pte. Ltd.	Singapore
Schering-Plough Tibbi Urunler Ticaret, A.S.	Turkey
Schering-Plough Veterinaire	France
Schering-Plough Veterinaria, S.A. de C.V.	Mexico
Schering-Plough Veterinary Belgium NV	Belgium
Schering-Plough Veterinary Corporation	Nevada
Schering-Plough Veterinary Ltd.	Thailand
Schering-Plough Veterinary Nederland BV	Netherlands
Schering-Plough Veterinaria S.A.	Argentina
Schering-Plough II Veterinaria LDA	Portugal
Sentipharm A.G.	Switzerland
Shanghai Schering-Plough Pharmaceutical Company, Ltd.	China
SOL Limited	Bermuda
SP Biotech, S.A.	Spain
SP Flight Operations, Inc.	Delaware
SP HealthCare Products Corp.	Delaware
SP Neurotech, S.A.	Spain
S-P Bermuda	Bermuda
S-P RIL Limited (United Kingdom)	United Kingdom
S-P Veterinary (UK) Limited	United Kingdom
S-P Veterinary Holdings Limited	United Kingdom
S-P Veterinary Limited	United Kingdom
S-P Veterinary Pensions Limited	United Kingdom
Summit Property Company LLC, The	Delaware
Suntan Sensations, Inc.	California
Takeda Schering-Plough Animal Health Kabushiki Kaisha	Japan
Tasman Vaccine Laboratory (UK) Limited	United Kingdom

Schering-Plough Corporation and Subsidiaries
Subsidiaries of the Registrant
As of December 31, 2003

Subsidiaries of Registrant	State or Country of Incorporation or Organization
Technobiotic Ltd.	Australia
Trading Pharma AG	Switzerland
Undra S.A. de C.V.	Mexico
UNICET, SAS	France
Warrick Pharmaceuticals Corporation	Delaware
Warrick Pharmaceuticals Limited (United Kingdom)	United Kingdom
Werthenstein Chemie A.G.	Switzerland
White Laboratories of Canada Ltd.	Canada
White Laboratories, Inc.	New Jersey
White Pharma, S.A.	Argentina

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 2-83963, No. 33-19013, No. 33-50606, No. 333-30331, No. 333-87077, No. 333-91440, No. 333-104714, No. 333-105567, No. 333-105568 and No. 333-112421 on Form S-8, Post Effective Amendment No. 1 to Registration Statement No. 2-84723 on Form S-8, Post Effective Amendment No. 1 to Registration Statement No. 333-105567 on Form S-8, Post Effective Amendment No. 1 to Registration Statement No. 2-80012 on Form S-3, Post Effective Amendment No. 1 to Registration Statement No. 2-77740 on Form S-3, Post Effective Amendment No. 1 to Registration Statement No. 333-102970 on Form S-3 and Registration Statements No. 333-12909, No. 333-853, No. 333-30355, No. 333-102970 and No. 333-110690 of Schering-Plough Corporation on Form S-3 of our report dated February 19, 2004, appearing in this Annual Report on Form 10-K of Schering-Plough Corporation for the year ended December 31, 2003.

/s/ DELOITTE & TOUCHE LLP
Parsippany, New Jersey
February 19, 2004

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each of the undersigned officers and/or directors of Schering-Plough Corporation, a New Jersey corporation (herein called the "Corporation"), does hereby constitute and appoint Robert Bertolini, Thomas H. Kelly and Joseph J. LaRosa, or any of them, his or her true and lawful attorney or attorneys and agent or agents, to do any and all acts and things and to execute any and all instruments which said attorney or attorneys and agent or agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations, requirements or requests of the Securities and Exchange Commission thereunder or in respect thereof in connection with the filing under said Act of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2003 (herein called the "Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign the respective names of the undersigned officers and/or directors as indicated below to the Form 10-K and/or to any amendment of the Form 10-K and each of the undersigned does hereby ratify and confirm all that said attorney or attorneys and agent or agents, or any of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has subscribed these presents this 24th day of February, 2004.

/s/ Fred Hassan

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

/s/ Robert J. Bertolini

Robert J. Bertolini, Executive
Vice President and Chief Financial
Officer

/s/ Thomas H. Kelly

Thomas H. Kelly, Vice President
and Controller; Principal
Accounting Officer

/s/ Carl E. Mundy, Jr.

Carl E. Mundy, Jr.
Director

/s/ Hans W. Becherer

Hans W. Becherer
Director

/s/ Richard de J. Osborne

Richard de J. Osborne, Director

/s/ David H. Komansky

David H. Komansky
Director

/s/ Patricia F. Russo

Patricia F. Russo
Director

/s/ Philip Leder

Philip Leder, M.D.
Director

/s/ Kathryn C. Turner

Kathryn C. Turner
Director

/s/ Eugene R. McGrath

Eugene R. McGrath
Director

/s/ Robert F. W. van Oordt

Robert F. W. van Oordt
Director

/s/ Donald L. Miller

Donald L. Miller
Director

/s/ Arthur F. Weinbach

Arthur F. Weinbach
Director

Exhibit 31.1

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

/s/ Fred Hassan

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

Exhibit 31.2

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

/s/ Robert J. Bertolini

Robert J. Bertolini
Executive Vice President and Chief Financial Officer

Exhibit 32.1

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

/s/ Fred Hassan

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

Exhibit 32.2

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

/s/ Robert J. Bertolini

Robert J. Bertolini
Executive Vice President and
Chief Financial Officer