FORM 10-K/A

SCHERING PLOUGH CORP - sgp

Filed: March 03, 2008 (period: December 31, 2007)

Amendment to a previously filed 10-K

Table of Contents

EX-21 (EX-21: SUBSIDIARIES)

EX-23.1 (EX-23.1: CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM)

EX-23.2 (EX-23.2: INDEPENDENT AUDITOR'S CONSENT)

EX-24 (EX-24: POWER OF ATTORNEY)

EX-31.1 (EX-31.1: CERTIFICATION)

EX-31.2 (EX-31.2: CERTIFICATION)

EX-32.1 (EX-32.1: CERTIFICATION)

EX-32.2 (EX-32.2: CERTIFICATION)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For fiscal year ended December 31, 2007

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For transition period from to

Commission file number 1-6571

SCHERING-PLOUGH CORPORATION

(Exact name of registrant as specified in its charter)

New Jersey	**22-1918501**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2000 Galloping Hill Road, Kenilworth, NJ	**07033**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code:
(908) 298-4000

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
Mandatory Convertible Preferred Stock	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.

Securities registered pursuant to section 12(g) of the Act:
None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) 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 (or for such shorter period the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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 a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer ☑	Accelerated Filer ☐	Non-accelerated Filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of June 30, 2007 (the last business day of the registrant's most recently completed second fiscal quarter): $45,516,213,799

Common Shares outstanding as of January 31, 2008: 1,621,353,851

Part of Form 10-K

Documents Incorporated by Reference	Incorporated into
Schering-Plough Corporation Proxy Statement for the Annual Meeting of Shareholders on May 16, 2008	Part III

Explanatory Note:

Through a clerical error, the language between the double asterisks (**) was inadvertently omitted in Item 3, "Legal Proceedings," and in Note 20, "Legal, Environmental and Regulatory Matters," in both cases under the heading "Products Liability" and both such sections are hereby amended to include such language.

Beginning in May of 2007, a number of complaints have been filed in various jurisdictions asserting claims against Organon USA, Inc., Organon Pharmaceuticals USA, Inc., and/or Organon International ("Organon") arising from Schering-Plough's marketing and sale of NUVARING, a combined hormonal contraceptive vaginal ring. The plaintiffs contend that Organon failed to adequately warn of the alleged increased risk of venous thromboembolism ("VTE") posed by NUVARING, and/or downplayed the risk of VTE. The plaintiffs seek damages **for injuries allegedly sustained from their product use, including some alleged deaths **, heart attacks and strokes. The majority of the cases are currently pending in the United States District Court for the District of New Jersey. Other cases are pending in Wisconsin, Missouri, New York and Georgia.

No other information contained in the original filing is amended by this 10-K/A. The 10-K has been corrected and furnished in its entirety in this 10-K/A.

TABLE OF CONTENTS

Part I

Item 1. *Business*

Overview of the Business

Schering-Plough refers to Schering-Plough Corporation and its subsidiaries, except as otherwise indicated by the context. Schering Corporation, a predecessor company, was incorporated in New York in 1928 and New Jersey in 1935. The trademarks indicated by CAPITAL LETTERS in this 10-K are the property of, licensed to, promoted or distributed by Schering-Plough Corporation, its subsidiaries or related companies.

Schering-Plough is an innovation-driven, science-centered global health care company. Through its own biopharmaceutical research and collaborations with partners, Schering-Plough creates therapies that help save and improve lives around the world. Schering-Plough applies its research-and-development platform to human prescription, animal health and consumer products. Schering-Plough's vision is to "Earn Trust, Every Day" with the doctors, patients, customers, shareholders, employees and other stakeholders. Schering-Plough is based in Kenilworth, N.J., and its Web site is www.schering-plough.com.

In April 2003, the Board of Directors recruited Fred Hassan to join Schering-Plough as the new Chairman of the Board and Chief Executive Officer. With support from the Board, soon after he arrived in 2003, Hassan installed a new senior executive management team and initiated a strategic plan, with the goal of stabilizing, repairing and turning around Schering-Plough in order to build long-term shareholder value. That strategic plan, the Action Agenda, is a six- to eight-year, five-phase plan.

In 2007 and in the four years since Hassan and the new management team arrived, Schering-Plough made substantial progress. During 2007, in the fourth phase of the Action Agenda — Build the Base — Schering-Plough grew and broadened the base of marketed products, expanded the late stage research and development project pipeline and closed the transformative acquisition of Organon BioSciences N.V. (OBS) from Akzo Nobel. In acquiring OBS, Schering-Plough gained both the Organon human prescription business and the Intervet animal health business.

This additional strength is key for Schering-Plough in the current environment. The pharmaceutical industry continues to be subject to ever-more critical scrutiny, where challenges can arise in presenting scientific data in an objective manner. Schering-Plough believes that new scientific data are best presented and discussed at appropriate scientific and medical forums.

As explained in more detail later in this 10-K, in early 2008, Schering-Plough encountered such a challenge when results of a Merck/Schering-Plough Pharmaceuticals (the "Merck/Schering-Plough cholesterol joint venture") clinical trial, called ENHANCE, and joint venture products ZETIA and VYTORIN became the subject of much media scrutiny prior to presentation of the trial results in appropriate medical forums. Results are scheduled to be presented at an American College of Cardiology meeting on March 30, 2008. While the trial failed to show a statistically significant difference between treatment groups for the primary endpoint — the mean change in the intima-media thickness measured at three sites in the carotid arteries (the right and left common carotid, internal carotid and carotid bulb) in patients with Heterozygous Familial Hypercholesterolemia — the trial did demonstrate VYTORIN's effectiveness compared to simvastatin at lowering LDL cholesterol (often known as "bad cholesterol"). Medical experts and health advisory groups have long recognized high LDL cholesterol as a significant cardiovascular risk factor and recommended increasingly aggressive treatment of high cholesterol for certain patients. Lowering LDL cholesterol, along with a healthy diet and lifestyle changes, remains the cornerstone of lipid treatment for patients at risk for heart disease. Clinical studies have demonstrated that VYTORIN lowers patients' LDL cholesterol more than rosuvastatin, atorvastatin and simvastatin at the doses studied and was able to get more patients to their LDL cholesterol goals (as defined by ATP III). While it is too early to tell the impact of the joint venture's ENHANCE trial results on the joint venture's cholesterol business, Schering-Plough's diversified group of products and geographic areas, as well as its highly experienced executive team, gives Schering-Plough additional strength that will be helpful in weathering this situation.

Segment Information

Schering-Plough has three reportable segments: Human Prescription Pharmaceuticals, Animal Health and Consumer Health Care. The segment sales and (loss)/profit data that follow are consistent with Schering-Plough's current management reporting structure.

Human Prescription Pharmaceuticals

The Human Prescription Pharmaceuticals segment discovers, develops, manufactures and markets human pharmaceutical products. Within the Human Prescription Pharmaceutical segment, Schering-Plough has a broad range of research projects and marketed products in six therapeutic areas: Cardiovascular, Central Nervous System, Immunology and Infectious Disease, Oncology, Respiratory and Women's Health. The Human Prescription Pharmaceuticals segment also includes Nobilon, a human vaccine development unit and Diosynth, a third-party manufacturing unit. Marketed products include the following:

Cardiovascular Disease: VYTORIN, a cholesterol-lowering tablet combining the dual action of ZETIA and Merck & Co., Inc.'s statin Zocor (simvastatin); ZETIA, a novel cholesterol-absorption inhibitor discovered by Schering-Plough scientists, for use as monotherapy or in combination with either statins or fenofibrate to lower cholesterol; INTEGRILIN Injection, a platelet receptor GP IIb/IIIa inhibitor for the treatment of patients with acute coronary syndrome and those undergoing percutaneous coronary intervention in the United States, as well as for the prevention of early myocardial infarction in patients with acute coronary syndrome in most countries; and ORGARAN, a non-heparin antithrombotic.

Central Nervous System: REMERON, an antidepressant; ESMERON/ZEMURON, a muscle relaxant used in surgical procedures; SUBUTEX, a sublingual tablet formulation of buprenorphine; SUBOXONE, a sublingual tablet combination of buprenorphine and naloxone, marketed by Schering-Plough in certain countries outside the United States for the treatment of opiate addiction; and NORCURON, a muscle relaxant.

Immunology and Infectious Disease: REMICADE, an anti-TNF antibody marketed by Schering-Plough outside of the United States, Japan and certain Asian markets for the treatment of inflammatory diseases such as rheumatoid arthritis, early rheumatoid arthritis, psoriatic arthritis, Crohn's disease, ankylosing spondylitis, plaque psoriasis and ulcerative colitis; PEGINTRON Powder for Injection, a pegylated interferon product for chronic hepatitis C; AVELOX, which is only marketed in the U.S., a broad-spectrum fluoroquinolone antibiotic for certain respiratory and skin infections; and NOXAFIL Oral Suspension, for prophylaxis (prevention) of invasive fungal infections in high-risk patients and the treatment of oropharyngeal candidiasis. It is also approved for the treatment of invasive fungal infections in markets outside the U.S.

Oncology: TEMODAR/TEMODAL Capsules for certain types of brain tumors, including newly diagnosed glioblastoma multiforme; CAELYX, a long-circulating pegylated liposomal formulation of the cancer drug doxorubicin marketed by Schering-Plough outside the United States for the treatment of certain ovarian cancers, Kaposi's sarcoma and metastatic breast cancer; and INTRON A Injection, marketed for chronic hepatitis B and C and numerous anticancer indications worldwide, including as adjuvant therapy for malignant melanoma.

Respiratory: NASONEX, a once-daily, nasal-inhaled steroid for nasal allergy symptoms, including congestion, and for the treatment of nasal polyps in patients 18 years of age and older; CLARINEX/AERIUS, a non-sedating antihistamine for the treatment of allergic rhinitis; FORADIL AEROLIZER, a long-acting beta2-agonist marketed by Schering-Plough in the United States for the maintenance treatment of asthma and chronic obstructive pulmonary disease, and for the acute prevention of exercise-induced bronchospasm; ASMANEX TWISTHALER, an oral dry-powder corticosteroid inhaler for first-line maintenance treatment of asthma; and PROVENTIL HFA (albuterol) Inhalation Solution, for the relief of bronchospasm in patients 12 years or older.

Women's Health: FOLLISTIM/PUREGON, a fertility treatment; NUVARING, a vaginal contraceptive ring; LIVIAL, a menopausal therapy; MARVELON/DESOGEN, a low-dose combined oral contraceptive; MERCILON, a low-dose combined oral contraceptive; and IMPLANON, a single-rod subdermal contraceptive implant.

Animal Health

The Animal Health segment discovers, develops, manufactures and markets animal health products including vaccines. Principal marketed products in this segment include:

Livestock Products: NUFLOR bovine and swine antibiotic; BOVILIS/VISTA vaccine lines for infectious diseases in cattle; BANAMINE bovine and swine anti-inflammatory; TRI-MERIT, data management tool for cattle; REGUMATE/MATRIX fertility management for swine and horses; RESFLOR combination broad-spectrum antibiotic and non-steroidal anti-inflammatory drug for bovine respiratory disease; M+PAC swine pneumonia vaccine and PORCILIS vaccine line for infectious diseases in swine.

Poultry Products: NOBILIS/INNOVAX vaccine lines for poultry; PARACOX and COCCIVAC coccidiosis vaccines for poultry.

Companion Animal Products: GALAXY/QUANTUM/PROCYON/ECLIPSE/INTRA-TRAC vaccine line for dogs and cats, NOBIVAC/CONTINUUM vaccine lines for flexible dog and cat vaccination; OTOMAX/MOMETAMAX canine otic ointments for acute and chronic otitis; CANINSULIN/VETSULIN, diabetes mellitus treatment for dogs and cats; PANACUR/SAFEGUARD broad-spectrum anthelmintic (de-wormer) for use in many animals, SCALIBOR/EXSPOT, dog collar/spot on protecting against bites from fleas, ticks, mosquitoes and sandflies; HOMEAGAIN proactive U.S. pet recovery network; and ZUBRIN, an anti-inflammatory/analgesic for dogs.

Aquaculture Products: NORVAX/MINOVA vaccines against bacterial and viral disease in fish, SLICE parasiticide for sea lice in salmon and AQUAFLOR antibiotic for farm-raised fish.

Consumer Health Care

The Consumer Health Care segment develops, manufactures and markets OTC, foot care and sun care products. Principal products in this segment include:

Over-the-Counter (OTC) Products: CLARITIN non-sedating antihistamines; MIRALAX treatment for occasional constipation; CORICIDIN HBP decongestant-free cold/flu medicine for people with high blood pressure; DRIXORAL cold and allergy, allergy sinus, flu and nasal decongestant tablets; AFRIN nasal decongestant spray; and CORRECTOL laxative tablets.

Foot Care: DR. SCHOLL'S foot care products; LOTRIMIN topical antifungal products; and TINACTIN topical antifungal products and foot and sneaker odor/wetness products.

Sun Care: COPPERTONE sun care lotions, sprays, dry oils and lip-protection products and sunless tanning products; and SOLARCAINE sunburn relief products.

Net sales by segment

	Year Ended December 31,		
	2007	2006	2005
	(Dollars in millions)		
Human Prescription Pharmaceuticals	$ 10,173	$ 8,561	$ 7,564
Animal Health	1,251	910	851
Consumer Health Care	1,266	1,123	1,093
Consolidated net sales	$ 12,690	$ 10,594	$ 9,508

(Loss)/Profit by segment

	Year Ended December 31,		
	2007(1)	2006	2005
	(Dollars in millions)		
Human Prescription Pharmaceuticals	$ (1,206)	$ 1,394	$ 733
Animal Health	(582)	120	120
Consumer Health Care	275	228	235
Corporate and other (including net interest income of $150 million, $125 million and $13 million in 2007, 2006 and 2005, respectively	298	(259)	(591)
Consolidated (loss)/profit before tax and cumulative effect of a change in accounting principle	$ (1,215)	$ 1,483	$ 497

(1) In 2007, the Human Prescription Pharmaceuticals segment's loss includes $3.4 billion of purchase accounting items, including acquired in-process research and development of $3.2 billion. In 2007, the Animal Health segment's loss includes $721 million of purchase accounting items, including acquired in-process research and development of $600 million.

Schering-Plough's net sales do not include sales of VYTORIN and ZETIA which are managed in the joint venture with Merck, as Schering-Plough accounts for this joint venture under the equity method of accounting (see Note 4, "Equity Income," under Item 8, "Financial Statements and Supplementary Data," for additional information). Equity income from the Merck/Schering-Plough joint venture is included in the Human Prescription Pharmaceuticals segment.

"Corporate and other" includes interest income and expense, foreign exchange gains and losses, currency option gains, headquarters expenses, special and acquisition related charges and other miscellaneous items. The accounting policies used for segment reporting are the same as those described in Note 1, "Summary of Significant Accounting Policies," under Item 8, "Financial Statements and Supplementary Data".

In 2007, "Corporate and other" includes special and acquisition related charges of $84 million, comprised of $61 million of integration-related costs for the OBS acquisition and $23 million of severance charges as part of integration activities. It is estimated the charges relate to the reportable segments as follows: Human Prescription Pharmaceuticals — $27 million, Animal Health — $11 million and Corporate and other — $46 million.

In 2006, "Corporate and other" includes special charges of $102 million primarily related to changes to Schering-Plough's manufacturing operations in the U.S. and Puerto Rico announced in June 2006, all of which related to the Human Prescription Pharmaceuticals segment. Included in 2006 cost of sales were charges of approximately $146 million from the manufacturing streamlining actions which were primarily related to the Human Prescription Pharmaceuticals segment.

In 2005, "Corporate and other" includes special charges of $294 million, including $28 million of employee termination costs, $16 million of asset impairment and other charges, and an increase in litigation reserves by $250 million resulting in a total reserve of approximately $500 million representing Schering-Plough's then current estimate to resolve the Massachusetts investigation as well as the investigations and the state litigation disclosed under "AWP Litigation and Investigations," in Note 20, "Legal, Environmental and Regulatory Matters," in Item 8, "Financial Statements and Supplementary Data." It is estimated that the charges relate to the reportable segments as follows: Human Prescription Pharmaceuticals — $289 million, Consumer Health Care — $2 million, Animal Health — $1 million and Corporate and other — $2 million.

See Note 3, "Special and Acquisition Related Charges and Manufacturing Streamlining," under Item 8, "Financial Statements and Supplementary Data," for additional information.

Information About the Merck/Schering-Plough Joint Venture

In May 2000, Schering-Plough and Merck & Co., Inc. (Merck) entered into two separate sets of agreements to jointly develop and manage certain products in the U.S., including (1) two cholesterol-lowering drugs and (2) an allergy/asthma drug. In December 2001, the cholesterol agreements were expanded to include all countries of the world except Japan. In general, the companies agreed that the collaborative activities under these agreements would operate in a virtual joint venture to the maximum degree possible by relying on the respective infrastructures of the two companies. These agreements generally provide for equal sharing of development costs and for co-promotion of approved products by each company.

The cholesterol agreements provide for Schering-Plough and Merck to jointly develop and commercialize ezetimibe in the cholesterol management field:

i. as a once-daily monotherapy (marketed as ZETIA in the U.S. and Asia and EZETROL in Europe);

ii. in co-administration with various approved statin drugs; and

iii. as a fixed-combination tablet of ezetimibe and simvastatin (Zocor), Merck's cholesterol-modifying medicine. This combination medication (ezetimibe/simvastatin) is marketed as VYTORIN in the U.S. and as INEGY in many international countries.

ZETIA/EZETROL (ezetimibe) and VYTORIN/INEGY (the combination of ezetimibe/simvastatin) are approved for use in the U.S. and have been launched in several international markets.

Schering-Plough utilizes the equity method of accounting in recording its share of activity from the Merck/Schering-Plough joint venture. See Note 4, "Equity Income," under Item 8, "Financial Statements and Supplemental Data," for additional information regarding the profits and costs sharing and accounting as provided by the agreements.

The allergy/asthma agreements provide for the joint development and marketing by the companies 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 2007, a New Drug Application filing for this combination tablet had been accepted by the U.S. Food and Drug Administration (FDA) for standard review.

During 2007, Schering-Plough announced that it had agreed with Merck to commence development of a single-tablet combination of ezetimibe and atorvastatin as a treatment for elevated cholesterol levels.

Information About the Centocor Licenses

REMICADE is licensed from and manufactured by Centocor, Inc., a Johnson & Johnson company. During 2005, Schering-Plough exercised an option under its contract with Centocor for license rights to develop and commercialize golimumab, a fully human monoclonal antibody currently in Phase III trials. Schering-Plough has exclusive marketing rights to both products outside of the U.S., Japan and certain Asian markets. In December 2007, Schering-Plough and Centocor revised their distribution agreement regarding the development, commercialization and distribution of both REMICADE and golimumab, extending Schering-Plough's rights to exclusively market REMICADE to match the duration of Schering-Plough's exclusive marketing rights for golimumab. Effective upon regulatory approval of golimumab in the EU, Schering-Plough's marketing rights for both products will now extend for 15 years after the first commercial sale of golimumab within the EU. Centocor will receive a progressively increased share of profits on Schering-Plough's distribution of both products in the Schering-Plough marketing territory between 2010 and 2014, and the share of profits will remain fixed thereafter for the remainder of the term. The changes to the duration of REMICADE marketing rights and the profit sharing arrangement for the products are all conditioned on approval of golimumab being granted prior to September 1, 2014. Schering-Plough may independently develop and market golimumab for a Crohn's disease indication in its territories, with an option for Centocor to participate.

Global Operations

A majority of Schering-Plough's operations are outside the U.S. With the acquisition of OBS in late 2007, Schering-Plough's global operations in Human Prescription Pharmaceuticals and Animal Health increased.

Non-U.S. activities are carried out primarily through wholly-owned subsidiaries wherever market potential is adequate and circumstances permit. In addition, Schering-Plough is represented in some markets through licensees or other distribution arrangements.

Currently, Schering-Plough has business operations in more than 140 countries.

For additional information on global operations, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the segment information described above in this 10-K.

Net sales by geographic area

	2007	2006	2005
	(Dollars in millions)		
United States	$ 4,597	$ 4,192	$ 3,589
Europe and Canada	5,500	4,403	4,040
Latin America	1,359	990	884
Pacific Area and Asia	1,234	1,009	995
Consolidated net sales	$ 12,690	$ 10,594	$ 9,508

Schering-Plough has subsidiaries in more than 55 countries outside the U.S. Net sales are presented in the geographic area in which Schering-Plough's customers are located. The following countries accounted for 5 percent or more of consolidated net sales during any of the past three years:

	2007		2006		2005	
	Net Sales	% of Consolidated Net Sales	Net Sales	% of Consolidated Net Sales	Net Sales	% of Consolidated Net Sales
	(Dollars in millions)					
Total International net sales	$ 8,093	64%	$ 6,402	60%	$ 5,919	62%
France	965	8%	809	8%	771	8%
Japan	709	6%	669	6%	687	7%
Canada	578	5%	478	5%	418	4%
Italy	498	4%	441	4%	457	5%

Net sales by customer

Sales to a single customer that accounted for 10 percent or more of Schering-Plough's consolidated net sales during any of the past three years were as follows:

	2007		2006		2005	
	Net Sales	% of Consolidated Net Sales	Net Sales	% of Consolidated Net Sales	Net Sales	% of Consolidated Net Sales
	(Dollars in millions)					
McKesson Corporation	$ 1,526	12%	$ 1,159	11%	$ 1,073	11%
Cardinal Health	1,196	9%	1,019	10%	841	9%

Supplemental sales information

Sales of products comprising 10 percent or more of Schering-Plough's U.S. or international sales for the year ended December 31, 2007, were as follows:

	Amount	Percentage
	(Dollars in millions)	
U.S.		
NASONEX	$ 667	15%
OTC CLARITIN	445	10%
International		
REMICADE	$ 1,648	20%

Schering-Plough's net sales do not include sales of VYTORIN and ZETIA which are managed in the joint venture with Merck, as Schering-Plough accounts for this joint venture under the equity method of accounting.

Long-lived assets by geographic location

	2007	2006	2005
		(Dollars in millions)	
United States	$ 4,310	$ 2,547	$ 2,538
Netherlands	7,057	1	1
Ireland	3,414	488	486
Singapore	678	824	840
Other	1,823	804	908
Total	$ 17,282	$ 4,664	$ 4,773

Long-lived assets shown by geographic location are primarily intangibles and property. The significant increase in long-lived assets as of December 31, 2007 is due to the OBS acquisition.

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

Research and Development

Schering-Plough's research activities are primarily aimed at discovering and developing new prescription products and enhancements to existing human prescription products of medical and commercial significance. However, Schering-Plough's research and development platform also supports its Animal Health and Consumer Health Care products, and often a research and development project will have application in more than one product segment.

Company-sponsored research and development expenditures were $2.9 billion, $2.2 billion, and $1.9 billion in 2007, 2006, and 2005, respectively. As a percentage of consolidated net sales, research and development expenditures represented approximately 23 percent, 21 percent and 20 percent in 2007, 2006 and 2005, respectively.

Schering-Plough's research activities are concentrated in the six therapeutic areas of focus: Cardiovascular, Central Nervous System, Immunology and Infectious Disease, Oncology, Respiratory and Women's Health. Schering-Plough also has substantial efforts directed toward biotechnology, vaccine development 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. Schering-Plough's product pipeline lists significant products in development and is available on Schering-Plough's website at www.schering-plough.com. Due to the nature of the development and approval process — as well as the fact that human

health is involved and the science of human health is constantly evolving — the status of any compounds in development is subject to change. Schering-Plough does not assume any duty to update this information.

Schering-Plough has several research and development projects which have been granted fast-track designation by the FDA including: a novel thrombin receptor antagonist for acute coronary syndrome and secondary prevention of subsequent cardiovascular events; boceprevir (a protease inhibitor compound) for hepatitis C; vicriviroc (a CCR5 receptor antagonist) for the treatment of HIV; and an A2a Adenosine receptor antagonist for the treatment of Parkinson's disease. Of these products, two are in Phase III clinical testing phase: thrombin receptor antagonist, and vicriviroc. Significant expenditures would be required to progress these through development, due to the large number of patients necessary for Phase III trials.

Research and development expenses are expected to continue to increase over the next several years. The primary reason is that Schering-Plough's pipeline is larger because the new management team has focused on making research and development more productive and because additional pipeline projects were added in the OBS acquisition. Other reasons include the need for larger clinical trials, more frequent clinical trials and longer clinical trials in the current global regulatory environment.

Research and development activities typically continue after a product has been marketed. One reason is to learn of new indications for the product. Another reason is to respond to any safety or effectiveness benefits or risks that may become known as more people use a product for a longer period of time.

Patents, Trademarks and Other Intellectual Property Rights

Overview

Intellectual property protection is critical to Schering-Plough's ability to successfully commercialize its product innovations. Schering-Plough owns, has applied for, or has licensed rights to, a large number of patents, both in the U.S. and in other countries, relating to compounds, formulations and uses, and manufacturing processes. There is no assurance that the patents Schering-Plough is seeking will be granted or that the patents Schering-Plough has been granted would be found valid if challenged. Moreover, patents relating to particular formulations, uses, or processes do not preclude other manufacturers from employing alternative processes or from marketing alternative formulations or uses that might successfully compete with Schering-Plough's patented products.

Outside the U.S., the standard of intellectual property protection for pharmaceuticals varies widely. While many countries have reasonably strong patent laws, other countries currently provide little or no effective protection for inventions or other intellectual property rights. Under the Trade-Related Aspects of Intellectual Property Agreement (TRIPs) administered by the World Trade Organization (WTO), more than 140 countries have now agreed to provide non-discriminatory protection for most pharmaceutical inventions and to assure that adequate and effective rights are available to all patent owners. It is possible that changes to this agreement will be made in the future that will diminish or further delay its implementation in developing countries. It is too soon to assess how much, if at all, Schering-Plough will be impacted commercially from these changes.

When a product patent expires, the patent holder often loses effective market exclusivity for the product. This can result in a rapid, sharp and material decline in sales of the formerly patented product, particularly in the U.S. However, in some cases the innovator company can obtain additional commercial benefits through manufacturing trade secrets; later-expiring patents on processes, uses, or formulations; trademark use; or exclusivity that may be available under pharmaceutical regulatory laws.

Schering-Plough's Intellectual Property Portfolio

Patent protection for certain Schering-Plough compounds, formulations, processes and uses are important to Schering-Plough's business and financial results. For many of Schering-Plough's products, in addition to patents on the compound, Schering-Plough holds other patents on manufacturing processes, formulations, or uses that may extend exclusivity beyond the expiration of the compound patent.

Schering-Plough's subsidiaries own (or have licensed rights under) a number of patents and patent applications, both in the U.S. and abroad. Patents and patent applications relating to Schering-Plough's significant products, including, without limitation, VYTORIN, ZETIA, REMICADE, NASONEX, FOLLISTIM/PUREGON, NUVARING, TEMODAR, PEGINTRON and CLARINEX, are of material importance to Schering-Plough.

Worldwide, Schering-Plough sells all major products under trademarks that also are material in the aggregate to its business and financial results. Trademark protection varies throughout the world, with protection continuing in some countries as long as the mark is used and in other countries as long as it is registered. Registrations are normally for fixed but renewable terms.

Patent Challenges Under the Hatch-Waxman Act

The Drug Price Competition and Patent Term Restoration Act of 1984, commonly known as Hatch-Waxman, made a complex set of changes to both patent and new drug approval laws in the U.S. Before Hatch-Waxman, no drug could be approved without providing the U.S. Food and Drug Administration (FDA) complete safety and efficacy studies, known as a complete New Drug Application (NDA). Hatch-Waxman authorized the FDA to approve generic versions of innovative medicines without such information upon the filing of an Abbreviated New Drug Application (ANDA). In an ANDA, the generic manufacturer must demonstrate only bioequivalence between the generic version and the NDA-approved drug — not safety and efficacy. Hatch-Waxman provides for limited patent term restoration to partially make up for patent term lost during the time an NDA-approved drug is in regulatory review. NDA-approved drugs also receive a limited period of data exclusivity which prevents the approval of ANDA applications for specific time periods after approval of the NDA-approved drug.

Absent a successful patent challenge, the FDA cannot approve an ANDA until after the innovator's patents expire. However, a generic manufacturer may file an ANDA seeking approval after the expiration of the applicable data exclusivity, and alleging that one or more of the patents listed in the innovator's NDA are invalid or not infringed. This allegation is commonly known as a Paragraph IV certification. The innovator must then file suit against the generic manufacturer to protect its patents. If one or more of the NDA-listed patents are successfully challenged, the first filer of a Paragraph IV certification may be entitled to a 180-day period of market exclusivity over all other generic manufacturers. In recent years, generic manufacturers have used Paragraph IV certifications extensively to challenge patents on a wide array of innovative pharmaceuticals, and it is anticipated that this trend will continue.

Schering-Plough's 10-K's and 10-Q's include a listing of Hatch-Waxman Act challenges to its patents in the "Legal Proceedings" section.

Marketing Activities and Competition

Schering-Plough, through its trained professional sales representatives, introduces and makes known its prescription drugs to physicians, pharmacists, hospitals, managed care organizations and buying groups. Schering-Plough sells prescription drugs to hospitals, certain managed care organizations, wholesale distributors and retail pharmacists. Schering-Plough also introduces and makes known its prescription products through journal advertising, direct mail advertising, the distribution of samples to physicians and through television, radio, Internet, print and other advertising media.

Schering-Plough, through its trained professional sales representatives, promotes its animal health products to veterinarians, distributors and animal producers.

Schering-Plough sells over-the-counter (OTC), foot care and sun care products through wholesale and retail drug, food chain and mass merchandiser outlets. Schering-Plough promotes directly to the consumer through television, radio, Internet, print and other advertising media.

The pharmaceutical industry is highly competitive and includes other large companies, some significantly larger than Schering-Plough, 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 Schering-Plough for its products include research and development of new and improved products, varied dosage forms and strengths and switching prescription products to non-prescription status. In the U.S., many of Schering-Plough'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, third-party payers, practices of U.S. pharmacists and other pressures toward the dispensing of generic products may significantly reduce the sales of certain products when they, or competing products in the same therapeutic category, are no longer protected by patents or exclusivity available under pharmaceutical regulatory laws.

Schering-Plough operates primarily in the prescription pharmaceutical marketplace. However, where appropriate, Schering-Plough seeks regulatory approval to switch prescription products to over-the-counter status as a means of extending a product's life cycle. In this way, the OTC marketplace is another means of maximizing the return on investments in discovery and development.

Government Regulation

Each of Schering-Plough's major business segments is subject to significant regulation in multiple jurisdictions. This section describes the general regulatory framework. Additional information about the cost of regulatory compliance and specific impacts on Schering-Plough's business and financial condition are described under the heading "Regulatory And Competitive Environment In Which Schering-Plough Operates" in Management's Discussion and Analysis later in this 10-K. Additional information about other regulatory matters can be found in Note 20, "Legal, Environmental and Regulatory Matters," under Item 8, "Financial Statements and Supplementary Data."

In the prescription drug segment, regulations apply at all phases of the business, including:

- regulatory requirements to conduct, and standards for, clinical trials (for example, requiring the use of Good Clinical Practices or GCPs), which apply at the research and development stage;
- regulatory requirements to conduct, and standards for, post-approval clinical trials;
- required regulatory approval to begin marketing a new drug or to market an existing drug product for new indications;
- regulations prescribing the manner in which drugs are manufactured, packaged, labeled, advertised, marketed and distributed;
- regulations impacting the pricing of drugs;
- regulatory requirements to assess and report adverse impacts and side effects of drugs used in clinical trials, as well as marketed drugs, called "pharmacovigilance;" and
- the ability of regulatory authorities to remove a product from the market or recall certain batches of products.

In the U.S., the national regulation of all phases of the prescription drug business except pricing is centralized at the Food and Drug Administration (FDA). The FDA is responsible for protecting the U.S. public health by assuring the safety, efficacy, and security of human and veterinary drugs, biological products and medical devices. Generally, there is free market pricing in the U.S., although the Centers for Medicare and Medicaid Services (CMS) and Medicare Part B and D include provisions about pricing drugs for the elderly, disabled and indigent who receive federal prescription benefits. Schering-Plough is also committed to complying with voluntary best practices of the Pharmaceutical Research and Manufacturers of America (PhRMA), a trade industry group of which it is a member, regarding marketing and advertising practices.

In the EU, including Schering-Plough's key markets in the United Kingdom, France, Germany and Italy, there is regulation at the local country level and additional regulation at the EU level, through the European Medicines Agency (EMEA). Pharmaceutical products are regulated at both of these levels through various national, mutual recognition or centralized regulatory procedures. The EMEA coordinates the evaluation and

supervision of medicinal products throughout the EU. There is no pan-EU market pricing system; however, individual member states have various systems/agencies that regulate price at a local level.

In Japan, there is regulation through the Pharmaceuticals and Medical Device Agency (PMDA). The PMDA regulates pharmaceuticals and medical devices from development through post-marketing use. The Japanese government regulates the pricing/reimbursement of pharmaceutical products in Japan through a complicated pricing process that includes benchmarks with prices in other western countries such as the United States, Canada and select EU countries.

As all of the major countries have some influence over pricing, even with the CMS in the United States, there is increasing pressure on the pharmaceutical industry to bring products to market that provide differentiation versus existing products. This can lead to more expensive and scientifically challenging clinical trials in order to generate this type of data for new products versus marketed comparators.

Raw Materials

Raw materials essential to Schering-Plough's operations are available in adequate quantities from a number of potential suppliers. Energy is expected to be available to Schering-Plough in sufficient quantities to meet its operating requirements.

Seasonality

Certain of Schering-Plough's products, particularly the respiratory and sun care products, are seasonal in nature. Seasonal patterns do not have a pronounced effect on the consolidated operations of Schering-Plough.

Environment

To date, compliance with federal, state and local laws regarding discharge of materials into the environment, or protection of the environment, have not had a material effect on Schering-Plough's operations or financial position.

Employees

At December 31, 2007, Schering-Plough employed approximately 55,000 people worldwide.

Available Information

Schering-Plough's 10-Ks, 10-Qs, 8-Ks and amendments to those reports that are filed with or furnished to the SEC are available free of charge on Schering-Plough's website as soon as reasonably practicable after such materials are electronically filed with the SEC. Schering-Plough's internet address is www.schering-plough.com. Since Schering-Plough began this practice in the third quarter of 2002, each such report has been available on Schering-Plough's website within 24 hours of filing. Reports filed by Schering-Plough with the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, NE, 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, proxies and information statements and other information regarding issuers that file electronically with the SEC.

Item 1A. ***Risk Factors***

Schering-Plough's future operating results and cash flows may differ materially from the results described in this 10-K due to risks and uncertainties related to Schering-Plough's business, including those discussed below. In addition, these factors represent risks and uncertainties that could cause actual results to differ materially from those implied by forward-looking statements contained in this report.

Key Schering-Plough products generate a significant amount of Schering-Plough's profits and cash flows, and any events that adversely affect the markets for its leading products could have a material and negative impact on results of operations and cash flows.

Schering-Plough's ability to generate profits and operating cash flow depends largely upon the continued profitability of Schering-Plough's cholesterol franchise, consisting of VYTORIN and ZETIA. In addition, other key products such as REMICADE, NASONEX, PEGINTRON, TEMODAR, CLARINEX, and AVELOX account for a material portion of revenues. As a result of Schering-Plough's dependence on key products, any events that adversely affects the markets for these products could have a significant impact on results of operations. These events include loss of patent protection, increased costs associated with manufacturing, generic or OTC availability of Schering-Plough's product or a competitive product, the discovery of previously unknown side effects, increased competition from the introduction of new, more effective treatments and discontinuation or removal from the market of the product for any reason.

For example, the profitability of Schering-Plough's cholesterol franchise may be adversely affected by competition from multiple generic cholesterol products. The FDA has held a public meeting to solicit comment on making certain prescription drugs available "behind-the-counter" without a prescription and continues to study this scenario. Although the FDA did not indicate what drugs might be included this category, if the FDA approved behind-the-counter sales of products that compete with products of Schering-Plough or the Merck/Schering-Plough cholesterol joint venture, such competition could have an adverse result on sales and profitability.

There is a high risk that funds invested in research will not generate financial returns because the development of novel drugs requires significant expenditures with a low probability of success.

There is a high rate of failure inherent in the research to develop new drugs to treat diseases. As a result, there is a high risk that funds invested in research programs will not generate financial returns. This risk profile is compounded by the fact that this research has a long investment cycle. To bring a pharmaceutical compound from the discovery phase to market may take a decade or more and failure can occur at any point in the process, including later in the process after significant funds have been invested.

Schering-Plough's success is dependent on the successful development and marketing of new products, which are subject to substantial risks.

Products that appear promising in development may fail to reach market for numerous reasons, including the following:

- findings of ineffectiveness, superior safety or efficacy of competing products, or harmful side effects in clinical or pre-clinical testing;
- failure to receive the necessary regulatory approvals, including delays in the approval of new products and new indications;
- lack of economic feasibility due to manufacturing costs or other factors; and
- preclusion from commercialization by the proprietary rights of others.

Intellectual property protection for innovation is an important contributor to Schering-Plough's profitability. Generic forms of Schering-Plough's products may be introduced to the market as a result of the expiration of patents covering Schering-Plough's products, a successful challenge to Schering-Plough's patents, or the at-risk launch of a generic version of a Schering-Plough product, which may have a material and negative effect on results of operations.

Intellectual property protection is critical to Schering-Plough's ability to successfully commercialize its products. U.S. patents relating to Schering-Plough's significant products are of material importance to Schering-Plough. Upon the expiration or the successful challenge of Schering-Plough's patents covering a

product, competitors may introduce lower-priced generic or similar branded versions of that product, which may include Schering-Plough's well-established products.

A generic manufacturer may file an Abbreviated New Drug Application seeking approval after the expiration of the applicable data exclusivity and alleging that one or more of the patents listed in the innovator's New Drug Application are invalid, not infringed or unenforceable. This allegation is commonly known as a Paragraph IV certification. The innovator then has the ability to file suit against the generic manufacturer to enforce its patents. Generic manufacturers have used Paragraph IV certifications extensively to challenge patents on a wide array of innovative pharmaceuticals, and it is anticipated that this trend will continue. In recent years, some generic manufacturers have launched generic versions of products before the ultimate resolution of patent litigation (commonly known as "at-risk" product launches). Generic entry may result in the loss of a significant portion of sales or downward pressures on the prices at which Schering-Plough offers formerly patented products. Please refer to "Legal Proceedings" in Schering-Plough's 10-K and 10-Qs for descriptions of pending intellectual property litigation.

Additionally, certain foreign governments have indicated that compulsory licenses to patents may be granted in the case of national emergencies, which could diminish or eliminate sales and profits from those regions and negatively affect Schering-Plough's results of operations. Further, recent court decisions relating to other companies' patents in the U.S., potential U.S. legislation relating to patent reform, as well as regulatory initiatives may result in further erosion of intellectual property protection.

Patent disputes can be costly to prosecute and defend and adverse judgments could result in damage awards, increased royalties and other similar payments and decreased sales.

Patent positions can be highly uncertain and patent disputes in the pharmaceutical industry are not unusual. An adverse result in a patent dispute involving Schering-Plough's patents, or the patents of its collaborators, may lead to a determination by a court that the patent is not infringed, invalid, and/or unenforceable. Such an adverse determination could lead to a loss of market exclusivity. An adverse result in a patent dispute involving patents held by a third party may lead to a determination by a court that the patent is infringed, valid, and enforceable. Such an adverse determination may preclude the commercialization of Schering-Plough's products through injunctive relief, and/or may lead to significant financial damages for past and ongoing infringement. Due to the uncertainty surrounding patent litigation, parties may settle patent disputes by obtaining a license under mutually agreeable terms in order to decrease risk of an interruption in manufacturing and/or marketing of its products.

The potential for litigation regarding Schering-Plough's intellectual property rights always exists and may be initiated by third parties attempting to abridge Schering-Plough's rights. Even if Schering-Plough is ultimately successful in a particular dispute, Schering-Plough may incur substantial costs in defending its patents and other intellectual property rights. See "Patent Challenges Under the Hatch-Waxman Act" in Item 3, "Legal Proceedings" for a list of current Paragraph IV certifications for Schering-Plough products.

Multi-jurisdictional regulations, including those establishing Schering-Plough's ability to price products, may negatively affect Schering-Plough's sales and profit margins.

Schering-Plough faces increased pricing pressure globally from managed care organizations, institutions and government agencies and programs that could negatively affect Schering-Plough's sales and profit margins. For example, in the U.S., the Medicare Prescription Drug Improvement and Modernization Act of 2003 contains a prescription drug benefit for individuals who are eligible for Medicare. The prescription drug benefit became effective on January 1, 2006 and has resulted in increased use of generics and increased purchasing power of those negotiating on behalf of Medicare recipients.

In addition to legislation concerning price controls, other trends could affect Schering-Plough's business. These trends include legislative or regulatory action relating to pharmaceutical pricing and reimbursement, health care reform initiatives and drug importation legislation and involuntary approval of medicines for OTC use. These trends also include non-governmental initiatives and practices such as consolidation among customers, managed care practices and health care costs containment. Increasingly, market approval,

reimbursement of products, prescribers' practices and policies of third party payors may be influenced by health technology assessments by the National Institute for Health and Clinical Excellence in the UK and other such organizations.

In the U.S., as a result of the government's efforts to reduce Medicaid expenses, managed care organizations continue to grow in influence, and Schering-Plough faces increased pricing pressure as managed care organizations continue to seek price discounts with respect to Schering-Plough's products.

In other countries, many governmental agencies strictly control, directly or indirectly, the prices at which pharmaceutical products are sold. In these markets, cost control methods including restrictions on physician prescription levels and patient reimbursements; emphasis on greater use of generic drugs; and across-the-board price cuts may decrease revenues internationally.

Through the acquisition of OBS, Schering-Plough acquired marketed products and pipeline projects in therapeutic areas not currently covered by Schering-Plough's existing marketed products portfolio and pipeline projects, including women's health and fertility, anesthesia, and neuroscience, each of which carry unique risks and uncertainties which could have a negative impact on future results of operations.

With its acquisition of OBS, Schering-Plough acquired products in additional therapeutic areas. Each therapeutic area presents a different risk profile, including different benefits and safety issues that must be balanced by Schering-Plough and the regulators as various R&D and marketing decisions are made; unique product liability risks; different patient and prescriber priorities; and different societal pressures. While adding new therapeutic areas may strengthen the business by increasing sales and profits; making the combined company more relevant to patients and prescribers; and diversifying enterprise risk across more areas, such positives may not outweigh the additional risk in a particular therapeutic area or could result in unanticipated costs that could be material.

Market forces continue to evolve and can impact Schering-Plough's ability to sell products or the price Schering-Plough can charge for products.

A number of intermediaries are involved between drug manufacturers, such as Schering-Plough, and patients who use the drugs. These intermediaries impact the patient's ability, and their prescribers' ability, to choose and pay for a particular drug. These intermediaries include health care providers, such as hospitals and clinics; payors and their representatives, such as employers, insurers, managed care organizations and governments; and others in the supply chain, such as pharmacists and wholesalers. Examples include: payors that require a patient to first fail on a generic drug before reimbursing for a more effective, branded product that is more expensive; hospitals that stock and administer only a generic product to in-patients; managed care organizations that may penalize doctors who prescribe outside approved formularies which may not include branded products when a generic is available; and pharmacists who receive larger revenues when they dispense a generic drug over a branded drug. Further, the intermediaries are not required to routinely provide transparent data to patients comparing the effectiveness of generic and branded products or to disclose their own economic benefits that are tied to steering patients toward, or requiring patients to use, generic products rather than branded products.

Government investigations against Schering-Plough could lead to 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, which could give rise to other investigations or litigation by government entities or private parties.

Schering-Plough cannot predict whether future or pending investigations to which it may become subject would lead to a judgment or settlement involving a significant monetary award or restrictions on its operations.

The pricing, sales and marketing programs and arrangements and related business practices of Schering-Plough 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 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 resolved unfavorably, could subject Schering-Plough to substantial fines, penalties and injunctive or administrative remedies, including exclusion from government reimbursement programs. In addition, an adverse outcome to a government investigation could prompt other government entities to commence investigations of Schering-Plough or cause those entities or private parties to bring civil claims against it. Schering-Plough also cannot predict whether any investigations will affect its marketing practices or sales. Any such result could have a material adverse impact on Schering-Plough's results of operations, cash flows, financial condition, or its business.

Congress and certain states have initiated investigations into the timing and disclosure of the ENHANCE clinical trial and related events, as well as the timing of certain stock sales by one executive officer, Carrie Cox.

Regardless of the merits or outcomes of any investigation, government investigations are costly, divert management's attention from Schering-Plough's business and may result in substantial damage to Schering-Plough's reputation.

There are other legal matters in which adverse outcomes could negatively affect Schering-Plough's business.

Unfavorable outcomes in other pending litigation matters, or in future litigation, including litigation concerning product pricing, securities law violations, product liability claims, ERISA matters, patent and intellectual property disputes, and antitrust matters could preclude the commercialization of products, negatively affect the profitability of existing products and could subject Schering-Plough to substantial fines, penalties and injunctive or administrative remedies, including exclusion from government reimbursement programs. Any such result could materially and adversely affect Schering-Plough's results of operations, cash flows, financial condition, or its business.

Please refer to "Legal Proceedings" in Item 3 of this 10-K for descriptions of significant pending litigation.

Issues concerning the Merck/Schering-Plough Cholesterol Joint Venture's ENHANCE clinical trial could have a material adverse effect on the joint venture's sales of VYTORIN and ZETIA, which in turn could have a material adverse impact on Schering-Plough's financial condition.

See Item 3, "Legal Proceedings" — "ENHANCE Matter" for background information about the Merck/Schering-Plough cholesterol join venture's ENHANCE clinical trial and related matters.

These issues concerning the Merck/Schering-Plough cholesterol joint venture's ENHANCE clinical trial could have a material adverse effect on the Merck/Schering-Plough cholesterol joint venture's sales of VYTORIN and ZETIA. There was significant negative media surrounding the release of the top-line results. To date in 2008, IMS data shows that prescriptions for VYTORIN and ZETIA have declined. If sales of such products continue to trend down further or remain at current levels for a prolonged period, Schering-Plough's business, cash flow, results of operations, financial position and prospects could also be materially adversely affected. In addition, unfavorable outcomes resulting from the government investigations or the litigation concerning the sale and promotion of these products could have a material adverse effect on Schering-Plough's financial position, liquidity and results of operations.

Schering-Plough is subject to governmental regulations, and the failure to comply with, as well as the costs of compliance with, these regulations may adversely affect Schering-Plough's financial position and results of operations.

Schering-Plough's manufacturing facilities and clinical/research practices must meet stringent regulatory standards and are subject to regular inspections. The cost of regulatory compliance, including that associated with compliance failures, can materially affect Schering-Plough's financial position, cash flows and results of operations. Failure to comply with regulations, which include pharmacovigilance reporting requirements and standards relating to clinical, laboratory and manufacturing practices, can result in delays in the approval of drugs, seizure or recalls of drugs, suspension or revocation of the authority necessary for the production and sale of drugs, fines and other civil or criminal sanctions.

Schering-Plough also is subject to other regulations, including environmental, health and safety, and labor regulations.

Developments following regulatory approval may adversely affect sales of Schering-Plough's products.

Even after a product reaches market, certain developments following regulatory approval, including results in post-marketing Phase IV trials, may decrease demand for Schering-Plough's products, including the following:

- the re-review of products that are already marketed;
- new scientific information and evolution of scientific theories;
- the recall or loss of marketing approval of products that are already marketed;
- uncertainties concerning safety labeling changes; and
- greater scrutiny in advertising and promotion.

In the past several years, clinical trials and post-marketing surveillance of certain marketed drugs of competitors within the industry have raised safety concerns that have led to recalls, withdrawals or adverse labeling of marketed products. These situations also have raised concerns among some prescribers and patients relating to the safety and efficacy of pharmaceutical products in general, which have negatively affected the sales of such products. In addition, increased scrutiny of the outcomes of clinical trials have lead to increase volatility in market reaction.

In addition, following the wake of recent product withdrawals of other companies and other significant safety issues, health authorities such as the FDA, the European Medicines Agency and the Pharmaceuticals and Medicines Device Agency have increased their focus on safety when assessing the benefit/risk balance of drugs. Some health authorities appear to have become more cautious when making decisions about approvability of new products or indications and are re-reviewing select products that are already marketed, adding further to the uncertainties in the regulatory processes. There is also greater regulatory scrutiny, especially in the U.S., on advertising and promotion and in particular, direct-to-consumer advertising.

If previously unknown side effects are discovered or if there is an increase in the prevalence of negative publicity regarding known side effects of any of Schering-Plough's products, it could significantly reduce demand for the product or may require Schering-Plough to remove the product from the market. Further, in the current environment in which all pharmaceutical companies operate, Schering-Plough is at risk for product liability claims for its products.

New products and technological advances developed by Schering-Plough's competitors may negatively affect sales.

Schering-Plough operates in a highly competitive industry. Schering-Plough competes with a large number of multinational pharmaceutical companies, biotechnology companies and generic pharmaceutical companies. Many of Schering-Plough's competitors have been conducting research and development in areas served both by Schering-Plough's current products and by those products Schering-Plough is in the process of

developing. Competitive developments that may impact Schering-Plough include technological advances by, patents granted to, and new products developed by competitors or new and existing generic, prescription and/or OTC products that compete with products of Schering-Plough or the Merck/Schering-Plough cholesterol joint venture. In addition, it is possible that doctors, patients and providers may favor those products offered by competitors due to safety, efficacy, pricing or reimbursement characteristics, and as a result Schering-Plough will be unable to maintain its sales for such products.

Competition from third parties may make it difficult for Schering-Plough to acquire or license new products or product candidates (regardless of stage of development) or to enter into such transactions on terms that permit Schering-Plough to generate a positive financial impact.

Schering-Plough depends on acquisition and in-licensing arrangements as a source for new products. Opportunities for obtaining or licensing new products are limited, however, and securing rights to them typically requires substantial amounts of funding or substantial resource commitments. Schering-Plough competes for these opportunities against many other companies and third parties that have greater financial resources and greater ability to make other resource commitments. Schering-Plough may not be able to acquire or license new products, which could adversely impact Schering-Plough and its prospects. Schering-Plough may also have difficulty acquiring or licensing new products on acceptable terms. To secure rights to new products, Schering-Plough may have to make substantial financial or other resource commitments that could limit its ability to produce a positive financial impact from such transactions.

Schering-Plough relies on third-party relationships for its key products, and the conduct and changing circumstances of such third parties may adversely impact the business.

Schering-Plough has several relationships with third parties on which Schering-Plough depends for many of its key products. Very often these third parties compete with Schering-Plough or have interests that are not aligned with the interests of Schering-Plough. Notwithstanding any contracts Schering-Plough has with these third parties, Schering-Plough may not be able to control or influence the conduct of these parties, or the circumstances that affect them, either of which could adversely impact Schering-Plough.

The relationships are long-standing and, as the third party's work and Schering-Plough's work evolves, priorities and alignments also change. At times new issues develop that were not anticipated at the time contracts were negotiated. These new issues, and related uncertainties in the contracts, also can adversely impact Schering-Plough.

Schering-Plough's global operations expose Schering-Plough to additional risks, and any adverse event could have a material negative impact on results of operations.

A majority of Schering-Plough's operations are outside the U.S. With the acquisition of OBS in late 2007, Schering-Plough's global operations in Human Prescription Pharmaceuticals and Animal Health increased. Acquisitions, such as the recently completed purchase of OBS, further expanded the size, scale and scope of its global operations. Risks inherent in conducting a global business include:

- changes in medical reimbursement policies and programs and pricing restrictions in key markets;
- multiple regulatory requirements that could restrict Schering-Plough's ability to manufacture and sell its products in key markets;
- trade protection measures and import or export licensing requirements;
- diminished protection of intellectual property in some countries; and
- possible nationalization and expropriation.

In addition, there may be changes to Schering-Plough's business and political position if there is instability, disruption or destruction in a significant geographic region, 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 disease.

The integration of the businesses of Schering-Plough and OBS to create a combined company is a complex process and may be subject to unforeseen developments, which could impact anticipated cost savings from synergies, expected accretion to earnings and results of future operations.

As the two companies are combined, the workforces of Schering-Plough and OBS will continue to face uncertainties until the completion of the integration phase. Although substantial efforts are being made to complete the integration phase as quickly as possible, it is difficult to predict how long the integration phase will last.

The workforces of both companies are learning to use new processes as work is integrated and streamlined. Further, for those employees of the new combined company who have not in the past worked for a U.S.-based global company, the applicable regulatory requirements are different in a number of respects. While substantial efforts are being made to facilitate smooth execution of integration including thorough training and transparent and motivational employee communications — there may be an increased risk of slower execution of various work processes, repeated execution to achieve quality standards and reputational harm in the event of a compliance failure with new and complex regulatory requirements, even if such a failure were inadvertent. Any such events could have an adverse impact on anticipated cost savings from synergies, anticipated accretion to earnings from the transaction and the results of future operations.

The acquisition of OBS expanded Schering-Plough's animal health business worldwide, which increases the risk that negative events in the animal health industry could have a negative impact on future results of operations.

Through the acquisition of OBS' animal health businesses, Schering-Plough's global animal health business is now a more significant business segment. The combined company's future sales of key animal health products could be adversely impacted by a number of risk factors including certain that are specific to the animal health business. For example, the outbreak of disease carried by animals, such as Bovine Spongiform Encephalopathy ("BSE") or mad cow disease, could lead to their widespread death and precautionary destruction as well as the reduced consumption and demand for animals, which could adversely impact Schering-Plough's results of operations. Also, the outbreak of any highly contagious diseases near Schering-Plough's main production sites could require Schering-Plough to immediately halt production of vaccines at such sites or force Schering-Plough to incur substantial expenses in procuring raw materials or vaccines elsewhere. As the animal health segment of Schering-Plough's business becomes more significant, the impact of any such events on future results of operations would also become more significant.

The acquisition of OBS increased Schering-Plough's biologics human and animal health product offerings, including animal health vaccines. Biologics carry unique risks and uncertainties, which could have a negative impact on future results of operations.

The successful development, testing, manufacturing and commercialization of biologics, particularly human and animal health vaccines, is a long, expensive and uncertain process. There are unique risks and uncertainties with biologics, including:

- There may be limited access to and supply of normal and diseased tissue samples, cell lines, pathogens, bacteria, viral strains and other biological materials. In addition, government regulations in multiple jurisdictions such as the U.S. and European states within the EU, could result in restricted access to, or transport or use of, such materials. If Schering-Plough loses access to sufficient sources of such materials, or if tighter restrictions are imposed on the use of such materials, Schering-Plough may not be able to conduct research activities as planned and may incur additional development costs.
- The development, manufacturing and marketing of biologics are subject to regulation by the FDA, the European Medicines Agency and other regulatory bodies. These regulations are often more complex and extensive than the regulations applicable to other pharmaceutical products. For example, in the U.S., a Biologics License Application, including both preclinical and clinical trial data and extensive data regarding the manufacturing procedures, is required for human vaccine candidates and FDA approval for the release of each manufactured lot.

- Manufacturing biologics, especially in large quantities, is sometimes complex and may require the use of innovative technologies to handle living micro-organisms. Manufacturing biologics requires facilities specifically designed for and validated for this purpose, and sophisticated quality assurance and quality control procedures are necessary. Slight deviations anywhere in the manufacturing process, including filling, labeling, packaging, storage and shipping and quality control and testing, may result in lot failures, product recalls or spoilage.
- Biologics are frequently costly to manufacture because production ingredients are derived from living animal or plant material, and most biologics cannot be made synthetically. In particular, keeping up with the demand for vaccines may be difficult due to the complexity of producing vaccines.
- The use of biologically derived ingredients can lead to allegations of harm, including infections or allergic reactions, or closure of product facilities due to possible contamination. Any of these events could result in substantial costs.

Schering-Plough is exposed to market risk from fluctuations in currency exchange rates and interest rates.

Schering-Plough operates in multiple jurisdictions and, as such, virtually all sales are denominated in currencies of the local jurisdiction. Additionally, Schering-Plough has entered and will enter into acquisition, licensing, borrowings or other financial transactions that may give rise to currency and interest rate exposure. Since Schering-Plough cannot, with certainty, foresee and mitigate against such adverse fluctuations, fluctuations in currency exchange rates and interest rates could negatively affect Schering-Plough's results of operations and/or cash flows.

In order to mitigate against the adverse impact of these market fluctuations, Schering-Plough will from time to time enter into hedging agreements. While hedging agreements, such as currency options and interest rate swaps, limit some of the exposure to exchange rate and interest rate fluctuations, such attempts to mitigate these risks are costly and not always successful.

Insurance coverage for product liability may be limited, cost prohibitive or unavailable.

Schering-Plough maintains insurance coverage with such deductibles and self-insurance to reflect market conditions (including cost and availability) existing at the time it is written, and the relationship of insurance coverage to self-insurance varies accordingly. For certain products, third-party insurance may be cost prohibitive, available on limited terms or unavailable.

Schering-Plough is subject to evolving and complex tax laws, which may result in additional liabilities that may affect results of operations.

Schering-Plough is subject to evolving and complex tax laws in its jurisdictions. Significant judgment is required for determining Schering-Plough's tax liabilities, and Schering-Plough's tax returns are periodically examined by various tax authorities. Schering-Plough's 1997-2007 tax returns remain open for examination by the IRS. Schering-Plough may be challenged by the IRS and other tax authorities on positions it has taken in its income tax returns. Although Schering-Plough believes that its accrual for tax contingencies is adequate for all open years, based on past experience, interpretations of tax law, and judgments about potential actions by tax authorities, due to the complexity of tax contingencies, the ultimate resolution of any tax matters may result in payments greater or less than amounts accrued.

With the acquisition of OBS's Organon (human pharmaceutical) and Intervet (animal health) businesses, the main tax risks are correspondingly centered in the Netherlands, where management, intellectual property, and beneficial rights as well as product liability have been predominantly centered. The tax position for both Organon and Intervet in the Netherlands has been closed through 2005.

In addition, Schering-Plough may be impacted by changes in tax laws including tax rate changes, changes to the laws related to the remittance of foreign earnings, new tax laws and revised tax law interpretations in domestic and foreign jurisdictions.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Schering-Plough's corporate and global human pharmaceutical headquarters are located in Kenilworth, New Jersey. The Animal Health global headquarters is located in Boxmeer, Netherlands. Principal U.S. research facilities are located in Kenilworth, Union and Summit, New Jersey; Palo Alto, California; and Nebraska (Animal Health). Principal research facilities outside the U.S. are located in the Netherlands and Scotland. Principal manufacturing facilities are as follows:

Location	Product Type
Belgium	Pharmaceuticals
Brazil	Pharmaceuticals, Animal Health
Cleveland, Tennessee, U.S.A.	Consumer Products
France	Pharmaceuticals
Ireland	Pharmaceuticals, Consumer Products, Animal Health
Kenilworth, New Jersey, U.S.A.	Pharmaceuticals, Consumer Products
Mexico	Pharmaceuticals
Millsboro, Delaware, U.S.A.	Animal Health
Netherlands	Pharmaceuticals, Animal Health
Omaha, Nebraska, U.S.A.	Animal Health
Puerto Rico	Pharmaceuticals
Research Triangle Park, North Carolina, U.S.A.	Pharmaceuticals
Singapore	Pharmaceuticals

Schering-Plough owns the majority of its properties. In general, the properties are adequately maintained and suitable for their purposes. As discussed in more detail in Part II of this 10-K, certain of Schering-Plough's manufacturing sites operate below capacity.

Schering-Plough is currently in the process of building a U.S. pharmaceutical sciences center in New Jersey. Capital expenditures of approximately $50 million and $40 million were made in 2007 and 2006, respectively, related to this center. Additional capital expenditures of approximately $175 million are expected over the next two years.

Item 3. ***Legal Proceedings***

Material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which Schering-Plough Corporation or any of its subsidiaries or to which any of their property is subject, are disclosed below.

Additional information on legal proceedings, including important financial information, can be found in the Litigation Charges discussion in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Note 3, "Special and Acquisition Related Charges and Manufacturing Streamlining," and Note 20, "Legal, Environmental and Regulatory Matters," contained in Item 8, "Financial Statements and Supplementary Data."

ENHANCE Matter

Background. The Merck/Schering-Plough cholesterol joint venture markets ZETIA and VYTORIN (a combination of Merck's Zocor (simvastatin) and Schering-Plough's Zetia (ezetimibe)).

The Merck/Schering-Plough cholesterol joint venture's ENHANCE (Effect of Combination Ezetimibe and High-Dose Simvastatin vs. Simvastatin Alone on the Atherosclerotic Process in Patients with Heterozygous Familial Hypercholesterolemia) clinical trial was a surrogate endpoint trial, conducted in 720 patients with

Heterozygous Familial Hypercholesterolemia, a rare condition that affects approximately 0.2% of the population. The primary endpoint was the mean change in the intima-media thickness measured at three sites in the carotid arteries (the right and left common carotid, internal carotid and carotid bulb) between patients treated with ezetimibe/simvastatin 10/80 mg versus patients treated with simvastatin 80 mg alone over a two-year period. There was no statistically significant difference between the treatment groups for the primary endpoint and for each of the components of the primary endpoint, including the common carotid artery. Key secondary imaging endpoints also showed no statistical difference between treatment groups.

On January 14, 2008, the Merck/Schering-Plough cholesterol joint venture announced the top-line results of the ENHANCE clinical trial. There will be fuller discussions of the results of the ENHANCE clinical trial in medical scientific forums, as is customary. A discussion is scheduled for the American College of Cardiology meeting on March 30, 2008.

Technical difficulties in analyzing sometimes fuzzy ultrasound images had consumed a long time period since the last patient was scanned in April 2006 until December 31, 2007, when data from ultrasound images were first unblinded to scientists of the Merck/Schering-Plough cholesterol joint venture. After analysis of the results the summary findings were released by the joint venture on January 14, 2008. In 2008, there has been media speculation about the length of time needed to analyze the ultrasound images and media confusion about the meaning of the trial results.

Medical experts and health advisory groups have long recognized high LDL cholesterol as a significant cardiovascular risk factor and recommended increasingly aggressive treatment of high cholesterol for certain patients. Lowering LDL cholesterol, along with healthy diet and lifestyle changes, remains the cornerstone of lipid treatment for patients at risk for heart disease.

Clinical studies prior to ENHANCE have demonstrated that VYTORIN lowered patients' LDL cholesterol more than rosuvastatin, atorvastatin and simvastatin at the doses studied and was able to get more patients to their LDL cholesterol goals (as defined by ATP III). The findings from the Merck/Schering-Plough cholesterol joint venture's ENHANCE clinical trial further confirmed VYTORIN's effectiveness, compared to simvastatin, at lowering LDL cholesterol. Specifically, there was a significant difference in low-density lipoprotein, or LDL cholesterol lowering seen between the treatment groups — 58% LDL cholesterol lowering at 24 months on ezetimibe/simvastatin as compared to 41% at 24 months on simvastatin alone.

The ENHANCE surrogate endpoint study was not powered nor designed to assess cardiovascular clinical event outcomes, such as the effectiveness of the drugs at lowering the risk of heart attack and stroke. The Merck/Schering-Plough cholesterol joint venture is currently conducting the IMPROVE-IT trial, a large clinical trial comparing VYTORIN (ezetimibe/simvastatin) and simvastatin in more than 10,000 patients. The results of the IMPROVE-IT trial will compare the effectiveness of VYTORIN to simvastatin alone in reducing heart attacks and/or strokes.

Schering-Plough's stock price declined significantly in early 2008, from $26.64 (closing price) on December 31, 2007 to a 2008 low of $19.02 (closing price) on January 25, 2008 to $21.97 (closing price) on February 28, 2008, the day before this 10-K was filed.

Investigations. Through the date of filing this 10-K, Schering-Plough, the joint venture and/or its joint venture partner, Merck & Co., Inc. ("Merck"), have received:

- several letters from Congress, including the House Committee on Energy and Commerce, the House Subcommittee on Oversight and Investigations, and the ranking minority member of the Senate Finance Committee, collectively seeking a combination of witness interviews, documents and information on a variety of issues related to the Merck/Schering-Plough cholesterol joint venture's ENHANCE clinical trial, the companies' sale and promotion of VYTORIN, as well as sales of stock by the

companies' corporate officers (including one executive of Schering-Plough who was named in one of the letters, Carrie Cox) since April 2006; and

- several subpoenas from state officials (such as the State Attorney General or State Department of Justice) in several states, including Connecticut, New York and Oregon, seeking similar information and documents.

Schering-Plough is cooperating with these investigations and working with Merck to respond to the inquiries.

Litigation. In addition, since mid-January 2008, Schering-Plough has become aware of or been served with litigation, including civil class action lawsuits alleging common law and state consumer fraud claims in connection with Schering-Plough's sale and promotion of the Merck/Schering-Plough joint-venture products' VYTORIN and ZETIA; several putative shareholder securities class action lawsuits (where several officers are also named defendants) alleging false and misleading statements and omissions by Schering-Plough and its representatives related to the timing of disclosures concerning the ENHANCE results, allegedly in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934; a Shareholder Derivative Action alleging that the Board of Directors breached its fiduciary obligations relating to the timing of the release of the ENHANCE results; and a letter on behalf of a single shareholder requesting that the Board of Directors investigate the allegations of the putative securities class actions and, if warranted, bring any appropriate legal action on behalf of Schering-Plough.

Schering-Plough is cooperating fully in the government investigations and intends to vigorously defend the lawsuits that have been filed relating to the ENHANCE study.

Patent Matters

As described in "Patents, Trademarks, and Other Intellectual Property Rights" under Item 1, Business, of this 10-K, intellectual property protection is critical to Schering-Plough's ability to successfully commercialize its product innovations. The potential for litigation regarding Schering-Plough's intellectual property rights always exists and may be initiated by third parties attempting to abridge Schering-Plough's rights, as well as by Schering-Plough in protecting its rights. Patent matters described below have a potential material effect on Schering-Plough.

DR. SCHOLL'S FREEZE AWAY

On July 26, 2004, OraSure Technologies filed an action in the U.S. District Court for the Eastern District of Pennsylvania alleging patent infringement by Schering-Plough Healthcare Products by its sale of DR. SCHOLL'S FREEZE AWAY wart removal product. This matter was settled with no material impact on Schering-Plough's financial statements and a stipulation dismissing the action was filed by the parties on February 15, 2008.

Patent Challenges Under the Hatch-Waxman Act

While Schering-Plough does not currently believe that any pending Paragraph IV certification proceeding under the Hatch-Waxman Act is material, because there is frequently media and investor interest in such proceedings, Schering-Plough is listing the pending proceedings each quarter. Currently, the following are pending:

- in July, 2007, Schering-Plough and its licensor, Cancer Research Technologies, Limited, filed a patent infringement action against companies seeking approval of a generic version of certain strengths of TEMODAR capsules;
- in March 2007, Schering-Plough and an entity jointly owned with Merck filed a patent infringement action against companies seeking approval of a generic version of ZETIA; and
- in September 2006 and dates thereafter, Schering-Plough filed patent infringement actions against companies seeking approval of generic versions of CLARINEX Tablets, CLARINEX Reditabs, CLARINEX D24, and CLARINEX D12.

AWP Litigation and Investigations

Schering-Plough continues to respond to existing and new litigation by certain states and private payors and investigations by the Department of Health and Human Services, the Department of Justice and several states into industry and Schering-Plough practices regarding average wholesale price (AWP). Schering-Plough is cooperating with these investigations.

These litigations and investigations relate to whether the AWP used by pharmaceutical companies for certain drugs improperly exceeds the average prices paid by providers and, as a consequence, results in unlawful inflation of certain reimbursements for drugs by state programs and private payors that are based on AWP. The complaints allege violations of federal and state law, including fraud, Medicaid fraud and consumer protection violations, among other claims. In the majority of cases, the plaintiffs are seeking class certifications. In some cases, classes have been certified. The outcome of these litigations and investigations could include substantial damages, the imposition of substantial fines, penalties and injunctive or administrative remedies.

Securities and Class Action Litigation

Federal Securities Litigation

Following Schering-Plough's announcement that the FDA had been conducting inspections of Schering-Plough's manufacturing facilities in New Jersey and Puerto Rico and had issued reports citing deficiencies concerning compliance with current Good Manufacturing Practices, several lawsuits were filed against Schering-Plough and certain named officers. These lawsuits allege that the defendants violated the federal securities law by allegedly failing to disclose material information and making material misstatements. Specifically, they allege that Schering-Plough failed to disclose an alleged serious risk that a new drug application for CLARINEX would be delayed as a result of these manufacturing issues, and they allege that Schering-Plough failed to disclose the alleged depth and severity of its manufacturing issues. These complaints were consolidated into one action in the U.S. District Court for the District of New Jersey, and a consolidated amended complaint was filed on October 11, 2001, purporting to represent a class of shareholders who purchased shares of Schering-Plough stock from May 9, 2000 through February 15, 2001. The complaint seeks compensatory damages on behalf of the class. The Court certified the shareholder class on October 10, 2003. Notice of pendency of the class action was sent to members of that class in July 2007. Discovery has been completed, and motions for summary judgment have been briefed and are pending.

ERISA Litigation

On March 31, 2003, Schering-Plough was served with a putative class action complaint filed in the U.S. District Court in New Jersey alleging that Schering-Plough, retired Chairman, CEO and President Richard Jay Kogan, Schering-Plough's Employee Savings Plan (Plan) administrator, several current and former directors, and certain corporate officers (Messrs. LaRosa and Moore) breached their fiduciary obligations to certain participants in the Plan. The complaint seeks damages in the amount of losses allegedly suffered by the Plan. The complaint was dismissed on June 29, 2004. The plaintiffs appealed. On August 19, 2005 the U.S. Court of Appeals for the Third Circuit reversed the dismissal by the District Court and the matter has been remanded back to the District Court for further proceedings.

K-DUR Antitrust Litigation

Schering-Plough had settled patent litigation with Upsher-Smith, Inc. (Upsher-Smith) and ESI Lederle, Inc. (Lederle) relating to generic versions of K-DUR, Schering-Plough's long-acting potassium chloride product supplement used by cardiac patients, for which Lederle and Upsher Smith had filed Abbreviated New Drug Applications. Following the commencement of an FTC administrative proceeding alleging anti-competitive effects from those settlements (which has been resolved in Schering-Plough's favor), alleged class action suits were filed in federal and state courts on behalf of direct and indirect purchasers of K-DUR against Schering-Plough, Upsher-Smith and Lederle. These suits claim violations of federal and state antitrust laws, as

well as other state statutory and common law causes of action. These suits seek unspecified damages. Discovery is ongoing.

Third-party Payor Actions

Several purported class action litigations have been filed following the announcement of the settlement of the Massachusetts Investigation. Plaintiffs in these actions seek damages on behalf of third-party payors resulting from the allegations of off-label promotion and improper payments to physicians that were at issue in the Massachusetts Investigation.

Tax Matters

In October 2001, IRS auditors asserted that two interest rate swaps that Schering-Plough entered into with an unrelated party should be recharacterized as loans from affiliated companies, resulting in additional tax liability for the 1991 and 1992 tax years. In September 2004, Schering-Plough made payments to the IRS in the amount of $194 million for income tax and $279 million for interest. Schering-Plough filed refund claims for the tax and interest with the IRS in December 2004. Following the IRS's denial of Schering-Plough's claims for a refund, Schering-Plough filed suit in May 2005 in the U.S. District Court for the District of New Jersey for refund of the full amount of the tax and interest. This refund litigation is currently being tried in Newark District court. Schering-Plough's tax reserves were adequate to cover the above-mentioned payments.

Pending Administrative Obligations

In connection with the settlement of an investigation with the U.S. Department of Justice and the U.S. Attorney's Office for the Eastern District of Pennsylvania, Schering-Plough entered into a five-year corporate integrity agreement (CIA). The CIA was amended in August of 2006 in connection with the settlement of the Massachusetts Investigation, commencing a new five-year term. Failure to comply with the obligations under the CIA could result in financial penalties.

Other Matters

Products Liability

Beginning in May of 2007, a number of complaints have been filed in various jurisdictions asserting claims against Organon USA, Inc., Organon Pharmaceuticals USA, Inc., and/or Organon International ("Organon") arising from Schering-Plough's marketing and sale of NUVARING, a combined hormonal contraceptive vaginal ring. The plaintiffs contend that Organon failed to adequately warn of the alleged increased risk of venous thromboembolism ("VTE") posed by NUVARING, and/or downplayed the risk of VTE. The plaintiffs seek damages for injuries allegedly sustained from their product use, including some alleged deaths, heart attacks and strokes. The majority of the cases are currently pending in the United States District Court for the District of New Jersey. Other cases are pending in Wisconsin, Missouri, New York and Georgia.

French Matter

Based on a complaint to the French competition authority from a competitor in France and pursuant to a court order, the French competition authority has obtained documents from a French subsidiary of Schering-Plough relating to SUBUTEX, one of the products that the subsidiary markets and sells. Any resolution of this matter adverse to the French subsidiary could result in the imposition of civil fines and injunctive or administrative remedies. On July 17, 2007, the Juge des Libertés et de la Détention ordered the annulment of the search and seizure on procedural grounds. On July 19, 2007, the French authority appealed the order to the French Supreme Court.

In April 2007, the competitor also requested interim relief, a portion of which was granted by the French competition authority in December 2007. The interim relief required Schering-Plough's French subsidiary to publish in two specialized newspapers information including that the generic has the same quantitative and qualitative composition and the same pharmaceutical form as, and is substitutable for, SUBUTEX. In February 2008, the Paris Court of Appeal confirmed the decision of the French competition authority.

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

Not applicable.

Executive Officers of the Registrant

Listed below are the executive officers and corporate officers of Schering-Plough as February 29, 2008. Unless otherwise indicated, each has held the position indicated for the past five years. Officers serve for one year and until their successors have been duly appointed.

Name	Title	Age
Robert J. Bertolini*	Executive Vice President and Chief Financial Officer(1)	46
John M. Carroll	Vice President, Global Internal Audits(2)	47
C. Ron Cheeley*	Senior Vice President, Global Human Resources(3)	57
Carrie S. Cox*	Executive Vice President and President, Global Pharmaceuticals(4)	50
William J. Creelman	Vice President, Tax(5)	53
Fred Hassan*	Chairman and Chief Executive Officer(6)	62
Steven H. Koehler*	Vice President and Controller(7)	57
Thomas P. Koestler, Ph.D*	Executive Vice President and President, Schering-Plough Research Institute(8)	56
Raul E. Kohan*	Senior Vice President, Corporate Excellence	55
Joseph J. LaRosa	Vice President, Legal Affairs(9)	49
Ian A.T. McInnes	Senior Vice President and President, Global Supply Chain(10)	55
E. Kevin Moore	Vice President and Treasurer	55
Lori Queisser*	Senior Vice President, Global Compliance and Business Practices(11)	47
Thomas J. Sabatino, Jr.*	Executive Vice President and General Counsel(12)	49
Karl Salnoske	Vice President and Chief Information Officer(13)	54
Brent Saunders*	Senior Vice President and President, Consumer Health Care(14)	38
Susan Ellen Wolf	Corporate Secretary, Associate General Counsel and Vice President, Corporate Governance(15)	53

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

(1) Mr. Bertolini joined Schering-Plough in 2003 as Executive Vice President and Chief Financial Officer. Mr. Bertolini was a partner at PricewaterhouseCoopers from 1993 to 2003.

(2) Mr. Carroll joined Schering-Plough in 2006 as Vice President, Global Internal Audits. Mr. Carroll was Vice President and General Auditor of American Standard Companies from 2005 to 2006, General Auditor of American Standard Companies from 2002 to 2005 and Assistant Treasurer of Bristol-Myers Squibb from 2000 to 2002.

(3) Mr. Cheeley joined Schering-Plough in 2003 as Senior Vice President, Global Human Resources. Mr. Cheeley was Group Vice President, Global Compensation and Benefits of Pharmacia Corporation from 1998 to 2003.

(4) Ms. Cox joined Schering-Plough in 2003 as Executive Vice President and President, Global Pharmaceuticals. Ms. Cox was Executive Vice President and President, Global Prescription Business of Pharmacia Corporation from 1999 to 2003.

(5) Mr. Creelman joined Schering-Plough in 2004 as Vice President, Tax. Mr. Creelman was Senior Tax Counsel of Pfizer from 2003 to 2004. Mr. Creelman was Assistant Vice President — International Tax of CIGNA Corporation from 2002 to 2003.

(6) Mr. Hassan joined Schering-Plough in 2003 as Chairman of the Board and Chief Executive Officer. Mr. Hassan was Chairman of the Board and Chief Executive Officer of Pharmacia Corporation from 2001 to 2003.

(7) Mr. Koehler joined Schering-Plough in 2006 as Vice President and Controller. Mr. Koehler was Senior Vice President, Chief Financial Officer and Treasurer from 2004 to 2006, and Vice President, Chief Financial Officer, Treasurer and Corporate Secretary from 2002 to 2004 of The Medicines Company.

(8) Dr. Koestler was named Executive President and President of Schering-Plough Research Institute in September of 2006. Dr. Koestler was Executive Vice President, Global Development of Schering-Plough Research Institute from 2005 to September of 2006; Executive Vice President of Schering-Plough Research Institute from 2003 to 2005, and Senior Vice President, Global Regulatory Affairs of Pharmacia Corporation from 2001 to 2003.

(9) Mr. LaRosa became Vice President, Legal Affairs in 2004. Mr. LaRosa was Staff Vice President, Secretary and Associate General Counsel from 2001 to 2004.

(10) Dr. McInnes joined Schering-Plough in 2004 as Senior Vice President, Global Supply Chain. Dr. McInnes was Senior Vice President, Global Supply Chain of Pharmacia Corporation from 1994 to 2003 and Executive Vice President, Supply Chain, Watson Pharmaceuticals, Inc. from 2003 to 2004.

(11) Ms. Queisser joined Schering-Plough in February of 2007 as Senior Vice President, Global Compliance and Business Practices. Ms. Queisser was Vice President, Chief Compliance Officer from October 2002 to February 2007, and Executive Director and General Auditor from March 2002 to October 2002 of Eli Lilly Company.

(12) Mr. Sabatino joined Schering-Plough in 2004 as Executive Vice President and General Counsel. Mr. Sabatino was Senior Vice President and General Counsel of Baxter International, Inc. from 2001 to 2004.

(13) Mr. Salnoske joined Schering-Plough in 2004 as Vice President and Chief Information Officer. Mr. Salnoske was CEO of Adaptive Trade from 2001 to 2004.

(14) Mr. Saunders joined Schering-Plough in 2003 as Senior Vice President, Global Compliance and Business Practices. Mr. Saunders was a partner at PricewaterhouseCoopers from 2000 to 2003.

(15) Ms. Wolf was named Vice President, Corporate Secretary and Associate General Counsel in 2004. She held various positions in Schering-Plough's Law Department from 2002 to 2004.

Part II

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

The principal market for Schering-Plough's common stock is the New York Stock Exchange. Additional information required by this Item is incorporated by reference from the table captioned "Quarterly Data" (unaudited) under Item 8, "Financial Statements and Supplementary Data."

The following table provides information with respect to purchases by Schering-Plough of its common shares during the fourth quarter of 2007.

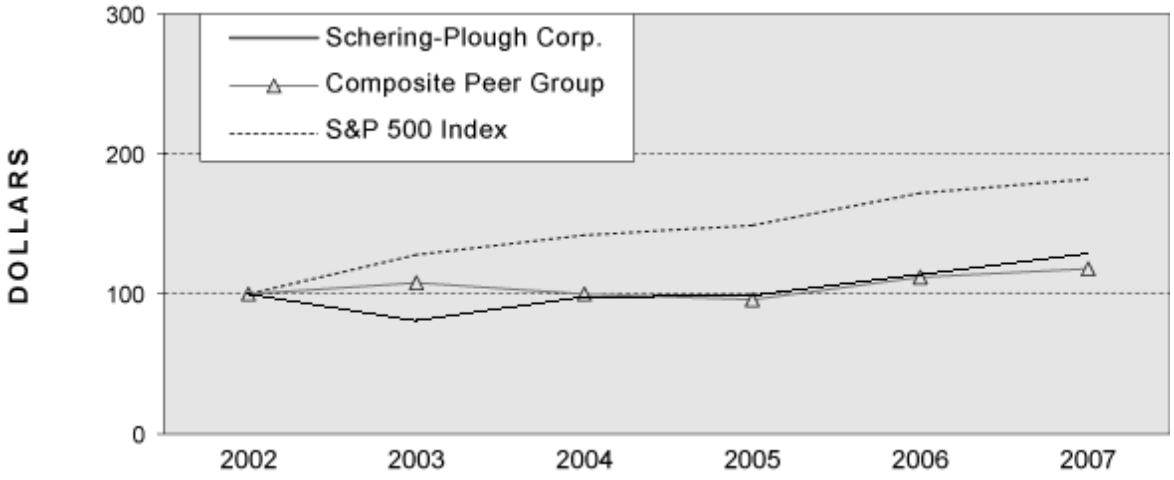
ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2007 through October 31, 2007	11,863(1)	$ 32.06	N/A	N/A
November 1, 2007 through November 30, 2007	12,799(1)	29.12	N/A	N/A
December 1, 2007 through December 31, 2007	108,624(1)	30.80	N/A	N/A
Total October 1, 2007 through December 31, 2007	**133,286(1)**	**30.75**	**N/A**	**N/A**

(1) All of the shares included in the table above were repurchased pursuant to Schering-Plough's stock incentive program and represent shares delivered to Schering-Plough by option holders for payment of the exercise price and tax withholding obligations in connection with stock options and stock awards.

Performance Graph

Comparison of Cumulative Total Return
For the Five Years Ended December 31, 2007



	2002	2003	2004	2005	2006	2007
Schering-Plough Corporation	100	81	98	99	114	129
Composite Peer Group	100	108	100	96	112	118
S&P 500 Index	100	128	142	149	172	182

The graph above assumes a $100 investment on December 31, 2002, and reinvestment of all dividends, in each of Schering-Plough's Common Shares, the S&P 500 Index, and a composite peer group of the major U.S.-based pharmaceutical companies, which are: Abbott Laboratories, Bristol-Myers Squibb Company, Johnson & Johnson, Eli Lilly and Company, Merck & Co., Inc., Pfizer Inc. and Wyeth.

Item 6. ***Selected Financial Data***

	2007(1)	2006	2005	2004	2003
	(In millions, except per share figures and percentages)				
Operating Results					
Net sales	$ 12,690	$ 10,594	$ 9,508	$ 8,272	$ 8,334
Equity (income)	(2,049)	(1,459)	(873)	(347)	(54)
(Loss)/income before income taxes(2)	(1,215)	1,483	497	(168)	(46)
Net (loss)/income(2)	(1,473)	1,143	269	(947)	(92)
Net (loss)/income available to common shareholders(2)	(1,591)	1,057	183	(981)	(92)
Diluted (loss)/earnings per common share(2)	(1.04)	0.71	0.12	(0.67)	(0.06)
Basic (loss)/earnings per common share(2)	(1.04)	0.71	0.12	(0.67)	(0.06)
Research and development expenses	2,926	2,188	1,865	1,607	1,469
Acquired in-process research and development	3,754	—	—	—	—
Depreciation and amortization expenses	861	568	486	453	417
Financial Position and Cash Flows					
Property, net	$ 7,016	$ 4,365	$ 4,487	$ 4,593	$ 4,527
Total assets	29,156	16,071	15,469	15,911	15,271
Long-term debt(3)	9,019	2,414	2,399	2,392	2,410
Shareholders' equity	10,385	7,908	7,387	7,556	7,337
Capital expenditures	618	458	478	489	711
Financial Statistics					
Net (loss)/income as a percent of net sales	(11.6)%	10.8%	2.8%	(11.4)%	(1.1)%
Return on average shareholders' equity	(16.1)%	14.9%	3.6%	(12.7)%	(1.2)%
Net book value per common share(4)	$ 6.07	$ 5.10	$ 4.77	$ 4.91	$ 4.99
Other Data					
Cash dividends per common share	$ 0.25	$ 0.22	$ 0.22	$ 0.22	$ 0.565
Cash dividends paid on common shares	382	326	324	324	830
Cash dividends on preferred shares	99	86	86	30	—
Average shares outstanding used in calculating diluted earnings/(loss) per common share	1,536	1,491	1,484	1,472	1,469
Average shares outstanding used in calculating basic earnings/(loss) per common share	1,536	1,482	1,476	1,472	1,469
Common shares outstanding at year-end	1,621	1,487	1,479	1,474	1,471

(1) Operating results and other financial information reflects the closing of the OBS acquisition on November 19, 2007, including the impacts of purchase accounting in accordance with SFAS No. 141, "Business Combinations."

(2) 2007, 2006, 2005, 2004, and 2003 include special and acquisition related charges and manufacturing streamlining costs of $84, $248, $294, $153, and $599, respectively. See Note 3, "Special and Acquisition Related Charges and Manufacturing Streamlining," for additional information on these charges that were incurred in 2007, 2006, and 2005. The special charges incurred in 2004 included $119 million of employee termination costs and $34 million for asset impairment and related charges. Special charges in 2003 included the increases in litigation reserves of $350 million that resulted from the investigations into Schering-Plough's sales and marketing practices, approximately $179 million of

employee termination costs related to the Voluntary Early Retirement Program announced in August 2003 and $70 million of asset impairment and other charges.

(3) The increase in long-term debt during 2007 primarily reflects the financing of the OBS acquisition.

(4) Assumes conversion of all 2007 mandatory convertible preferred stock into approximately 91 million common shares in 2007. Assumes conversion of all 2004 mandatory convertible preferred stock into approximately 65 million common shares in 2006, 69 million common shares in 2005 and 65 million common shares in 2004.

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

EXECUTIVE SUMMARY

Overview of Schering-Plough

Schering-Plough is an innovation-driven science-centered global health care company. Schering-Plough discovers, develops and manufactures pharmaceuticals for three customer markets — human prescription, animal health, and consumer. While most of the research and development activity is directed toward prescription products, there are important applications of this central research and development platform into the animal health products and the consumer health care products. Schering-Plough also accesses external innovation via partnering, in-licensing and acquisition for all three customer markets.

Strategy — Focused on Science

Earlier this decade, Schering-Plough experienced a number of business, regulatory, and legal challenges. In April 2003, the Board of Directors named Fred Hassan as the new Chairman of the Board and Chief Executive Officer of Schering-Plough Corporation. With support from the Board, he initiated a strategic plan, with the goal of stabilizing, repairing and turning around Schering-Plough in order to build long-term shareholder value. He also installed a new senior executive team. That strategic plan, the Action Agenda, is a six- to eight-year, five-phase plan. Schering-Plough is currently in the fourth phase of the Action Agenda — Build the Base. During the Build the Base phase, Schering-Plough continues to focus on its strategy of value creation across a broad front, and believes the Organon BioSciences N.V. (OBS) acquisition was a major, transformative accomplishment in this regard. The OBS acquisition added further diversification of marketed products, including two new therapeutic areas (Women's Health and Central Nervous System), as well as significant strength in Animal Health products and pipeline. Other accomplishments in 2007 include:

- growing the business, for example there was double digit sales growth in all three product groups, Human Pharmaceuticals, Animal Health and Consumer Health Care;
- penetrating new markets, including China, Brazil and Russia;
- expanding the product portfolio for Schering-Plough's three customer groups — human pharmaceutical, animal health and consumer health care; and
- discovering and developing or acquiring new products.

A key component of the Action Agenda is applying science to meet unmet medical needs. Research and development activities focus on mechanisms to treat serious diseases. As a result, a core strategy of Schering-Plough is to invest substantial funds in scientific research with the goal of creating therapies and treatments that address important unmet medical needs and also have commercial value. Schering-Plough has been successful in advancing its pipeline into several late-stage projects that will require sizable resources to complete. Consistent with this core strategy, Schering-Plough is increasing its investment in research and development. As Schering-Plough continues to develop the later phase growth-drivers of the pipeline (e.g., sugammadex, thrombin receptor antagonist, golimumab, vicriviroc, boceprevir and asenapine), it anticipates higher spending on clinical trial activities. Schering-Plough's progressing early pipeline includes drug candidates across a wide range of therapeutic areas with more than 20 compounds now approaching or in Phase I development.

As part of the Action Agenda, Schering-Plough continues to work to enhance infrastructure, upgrade processes and systems and strengthen talent — both the recruitment of talented individuals and the development of key employees. While these efforts are being implemented on a companywide basis, Schering-Plough is focusing especially on research and development to support Schering-Plough's science-based business.

Further, with the integration of the OBS employees into Schering-Plough much new talent has been added. In addition, as part of the integration of OBS, Schering-Plough has also announced that there will be some workforce reduction to eliminate redundancies.

2007 Results — Highlights of Schering-Plough's performance in 2007 are as follows:

- Closed the acquisition of OBS on November 19, 2007 for a purchase price of approximately Euro 11 billion.
- Schering-Plough's net sales in 2007 were $12.7 billion, an increase of $2.1 billion, or 20 percent, as compared to the 2006 period. 2007 net sales included $626 million of sales of products acquired as part of the OBS acquisition.
- Net loss available to common shareholders in 2007 was $1.6 billion, as compared to net income available to common shareholders of $1.1 billion in 2006. Included in the 2007 net loss is approximately $4.0 billion of charges related to purchase accounting for the OBS acquisition, including a $3.8 billion acquired in-process research and development charge. Cash flow provided by operating activities was $2.6 billion in 2007.
- Global sales of Schering-Plough's cholesterol franchise products, VYTORIN and ZETIA, made by the cholesterol joint venture with Merck & Company, Inc. (Merck) continued to grow in 2007 and contributed significantly to Schering-Plough's improved operating results and cash flow (see note below about 2008 developments). In addition, increased sales of pharmaceutical products such as REMICADE, TEMODAR and NASONEX also contributed favorably to Schering-Plough's overall operating results and cash flow.

The additional strength that Schering-Plough developed, in 2007 and during the four years since Mr. Hassan and the new management team began the Action Agenda, is key for Schering-Plough in the current environment. The pharmaceutical industry continues to be subject to ever-more critical scrutiny, where events can be mischaracterized and drive amplified reactions. Schering-Plough believes that new scientific data are best presented and discussed at appropriate scientific and medical forums.

Early 2008 Developments Relating to the Cholesterol Franchise

As explained in more detail in Part I, Item 3, "Legal Proceedings," "ENHANCE Matter," in early 2008, Schering-Plough encountered such a challenge when results of a Merck/Schering-Plough cholesterol joint venture clinical trial, called ENHANCE, and joint venture products ZETIA and VYTORIN, became the subject of much media scrutiny prior to fuller discussions of the trial results at appropriate medical forums. A discussion is scheduled for the American College of Cardiology meeting on March 30, 2008.

Medical experts and health advisory groups have long recognized high LDL cholesterol (often known as "bad cholesterol") as a significant cardiovascular risk factor and recommended increasingly aggressive treatment of high cholesterol for certain patients. Lowering LDL cholesterol, along with a healthy diet and lifestyle changes, remains the cornerstone of lipid treatment for patients at risk for heart disease. Clinical studies, including ENHANCE, have demonstrated that VYTORIN lowers patients' LDL cholesterol more than rosuvastatin, atorvastatin and simvastatin at the doses studied and was able to get more patients to their LDL cholesterol goals (as defined by ATP III).

While it is too early to tell the impact of the joint venture's ENHANCE trial results on the joint ventures' cholesterol business, Schering-Plough's diversified group of products and geographic areas, as well as its highly experienced executive team, gives Schering-Plough additional strength that will be helpful in weathering this situation.

Strategic Alliances

As is typical in the pharmaceutical industry, Schering-Plough licenses manufacturing, marketing and/or distribution rights to certain products to others, and also manufactures, markets and/or distributes products

owned by others pursuant to licensing and joint venture arrangements. Any time that third parties are involved, there are additional factors relating to the third party and outside the control of Schering-Plough that may create positive or negative impacts on Schering-Plough. VYTORIN, ZETIA and REMICADE are subject to such arrangements and are key to Schering-Plough's current business and financial performance.

In addition, any potential strategic alternatives may be impacted by the change of control provisions in those arrangements, which could result in VYTORIN and ZETIA being acquired by Merck or REMICADE reverting back to Centocor. The change in control provision relating to VYTORIN and ZETIA is included in the contract with Merck, filed as Exhibit 10(r) to Schering-Plough's 10-K, and the change of control provision relating to REMICADE is contained in the contract with Centocor, filed as Exhibit 10(v) to Schering-Plough's 10-K.

Cholesterol Franchise

Schering-Plough's cholesterol franchise products, VYTORIN and ZETIA, are managed through a joint venture between Schering-Plough and Merck for the treatment of elevated cholesterol levels in all markets outside of Japan. ZETIA is Schering-Plough's novel cholesterol absorption inhibitor. VYTORIN is the combination of ZETIA and Zocor (simvastatin), a statin medication developed by Merck. The financial commitment to compete in the cholesterol reduction market is shared with Merck, and profits from the sales of VYTORIN and ZETIA are also shared with Merck. The operating results of the joint venture with Merck are recorded using the equity method of accounting.

The cholesterol-reduction market is the single largest pharmaceutical category in the world. VYTORIN and ZETIA are competing in this market, and on a combined basis, these products continued to grow in terms of sales and market share during 2007 (see note above about 2008 developments). A material change in the sales or market share of Schering-Plough's cholesterol franchise would have a significant impact on Schering-Plough's consolidated results of operations and cash flows. In order to maintain and enhance its infrastructure and business, Schering-Plough must continue to increase profits. This increased profitability is largely dependent upon the performance of Schering-Plough's cholesterol franchise.

Japan is not included in the joint venture with Merck. In the Japanese market, Bayer Healthcare is co-marketing Schering-Plough's cholesterol-absorption inhibitor, ZETIA, which was approved in Japan in April 2007 as a monotherapy and co-administered with a statin for use in patients with hypercholesterolemia, familial hypercholesterolemia or homozygous sitosterolemia. ZETIA was launched in Japan during June 2007. Schering-Plough's sales of ZETIA in Japan under the co-marketing agreement with Bayer Healthcare are recognized in net sales.

License Arrangements with Centocor

REMICADE is prescribed for the treatment of inflammatory diseases such as rheumatoid arthritis, early rheumatoid arthritis, psoriatic arthritis, Crohn's disease, ankylosing spondylitis, plaque psoriasis and ulcerative colitis. REMICADE is Schering-Plough's second largest marketed pharmaceutical product line (after the cholesterol franchise). REMICADE is licensed from and manufactured by Centocor, Inc., a Johnson & Johnson company. During 2005, Schering-Plough exercised an option under its contract with Centocor for license rights to develop and commercialize golimumab, a fully human monoclonal antibody currently in Phase III trials. Schering-Plough has exclusive marketing rights to both products outside of the U.S., Japan and certain Asian markets. In December 2007, Schering-Plough and Centocor revised their distribution agreement regarding the development, commercialization and distribution of both REMICADE and golimumab, extending Schering-Plough's rights to exclusively market REMICADE to match the duration of Schering-Plough's exclusive marketing rights for golimumab. Effective upon regulatory approval of golimumab in the EU, Schering-Plough's marketing rights for both products will now extend for 15 years after the first commercial sale of golimumab within the EU. Centocor will receive a progressively increased share of profits on Schering-Plough's distribution of both products in the Schering-Plough marketing territory between 2010 and 2014, and the share of profits will remain fixed thereafter for the remainder of the term. The changes to the duration of REMICADE marketing rights and the profit sharing arrangement for the products are all conditioned on approval of golimumab being granted prior to September 1, 2014. Schering-Plough may independently develop

and market golimumab for a Crohn's disease indication in its territories, with an option for Centocor to participate. In addition, Schering-Plough and Centocor agreed to utilize an autoinjector device in the commercialization of golimumab and further agreed to share its development costs. For the rights to this device, Schering-Plough made an upfront payment of $21 million, which is included in research and development expenses for the year ended December 31, 2007.

Manufacturing, Sales and Marketing

Schering-Plough supports commercialized products with manufacturing, sales and marketing efforts. Schering-Plough is also moving forward with additional investments to enhance its infrastructure and business, including capital expenditures for the drug development process (where products are moved from the drug discovery pipeline to markets), information technology systems, and post-marketing studies and monitoring.

Schering-Plough continually reviews the business, including manufacturing operations, to identify actions that will enhance long-term competitiveness. However, Schering-Plough's manufacturing cost base is relatively fixed, and actions to significantly reduce Schering-Plough's manufacturing infrastructure, including OBS' manufacturing operations acquired during 2007, involve complex issues. As a result, shifting products between manufacturing plants can take many years due to construction and regulatory requirements, including revalidation and registration requirements. From time to time, actions are taken to enhance Schering-Plough's overall manufacturing efficiency. For example, during 2006, Schering-Plough closed a manufacturing plant in Puerto Rico and in 2007 began the process of closing a small manufacturing facility in the Asia Pacific region. Schering-Plough continues to review the carrying value of manufacturing assets for indications of impairment. Future events and decisions may lead to additional asset impairments or related costs.

Regulatory and Competitive Environment

Schering-Plough is subject to the jurisdiction of various national, state and local regulatory agencies. Regulatory compliance is complex and costly, impacting the timing needed to bring new drugs to market and to market drugs for new indications.

Schering-Plough engages in clinical trial research in many countries around the world. Research activities must comply with stringent regulatory standards and are subject to inspection by U.S., the EU, and local country regulatory authorities. Schering-Plough is subject to pharmacovigilance reporting requirements in many countries and other jurisdictions, including the U.S., the EU, and the EU member states. Clinical trials and post-marketing surveillance of certain marketed drugs of competitors within the industry have raised safety concerns that have led to recalls, withdrawals or adverse labeling of marketed products.

A number of intermediaries are involved between drug manufacturers, such as Schering-Plough, and patients who use the drugs. These intermediaries impact the patient's ability, and their precribers's ability, to choose and pay for a particular drug. These intermediaries include health care providers, such as hospitals and clinics; payors and their representatives, such as employers, insurers, managed care organizations and governments; and others in the supply chain, such as pharmacists and wholesalers. Further, in the U.S., many of Schering-Plough's pharmaceutical products are subject to increasingly competitive pricing as certain of the intermediaries (including managed care groups, institutions and government agencies) seek price discounts. In most international markets, Schering-Plough operates in an environment of government mandated cost-containment programs. Also, the pricing, sales and marketing programs and arrangements, and related business practices of Schering-Plough and other participants in the health care industry are under increasing scrutiny from federal and state regulatory, investigative, prosecutorial and administrative entities.

The market for pharmaceutical products is competitive. Schering-Plough's operations may be affected by technological advances of competitors, industry consolidation, patents granted to competitors, loss of patent protection due to challenges by competitors, competitive combination products, new products of competitors, new information from clinical trials of marketed products or post-marketing surveillance and generic competition as Schering-Plough's products mature.

OBS Acquisition

On November 19, 2007, Schering-Plough acquired OBS for a purchase price of approximately Euro 11 billion in cash, or approximately $16.1 billion.

Commencing from the acquisition date, OBS' assets acquired and liabilities assumed, as well as the results of OBS' operations, are included in Schering-Plough's consolidated financial statements. There were approximately one and one-half months of results of operations relating to OBS included in Schering-Plough's Statement of Consolidated Operations for the year ended December 31, 2007.

The impact of purchase accounting, based on a preliminary valuation, resulted in the following non-cash charges in 2007:

- Acquired In-Process Research and Development (IPR&D), which was a one-time charge of approximately $3.8 billion.
- Amortization of inventory adjusted to fair value, of which approximately $1.1 billion will be charged to Cost of Sales ($258 million in 2007) approximately over a one year period from the acquisition date.
- Amortization of acquired intangible assets adjusted to fair value, of which $6.8 billion will be amortized over a weighted average life of 15 years to Cost of Sales ($65 million in 2007).
- Incremental depreciation relating to the adjustment in fair value on property, plant and equipment of $885 million that will be depreciated primarily to Cost of Sales over the lives of the applicable property ($3 million in 2007).

The $3.8 billion acquired IPR&D charge was associated with research projects in the women's health, central nervous system and anesthesia therapeutic areas of human health as well as research projects in animal health. The amount was determined by using discounted cash flow projections of identified research projects for which technological feasibility had not been established and for which there was no alternative future use. The discount rates used ranged from 14 percent to 18 percent. The projected launch dates following FDA or other regulatory approval are years 2008 through 2013, at which time Schering-Plough expects these projects to begin to generate cash flows. All of the research and development projects considered in the valuation are subject to the normal risks and uncertainties associated with demonstrating the safety and efficacy required to obtain FDA or other regulatory approvals.

DISCUSSION OF OPERATING RESULTS

The results of operations in 2007 discussed below include OBS' product sales and expenses as well as certain non-cash charges relating to purchase accounting associated with the OBS acquisition.

Net Sales

A significant portion of net sales is made to major pharmaceutical and health care product distributors and major retail chains in the U.S. 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, retail and trade buying decisions, changes in overall demand factors or other factors. In addition to these fluctuations, sales of many pharmaceutical products in the U.S. are subject to increased pricing pressure from managed care groups, institutions, government agencies, and other groups seeking discounts. Schering-Plough and other pharmaceutical manufacturers in the U.S. market are also required to provide statutorily defined rebates to various government agencies in order to participate in the Medicaid program, the veterans health care program, and other government-funded programs. The Medicare Prescription Drug Improvement and Modernization Act of 2003 contains a prescription drug benefit for individuals who are eligible for Medicare. This prescription drug benefit became effective on January 1, 2006 and is resulting in increased use of generics and increased purchasing power of those negotiating on behalf of Medicare recipients. In most international markets, Schering-Plough operates in an environment where governments may and have mandated cost-containment

programs, 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.

Consolidated net sales in 2007 were $12.7 billion, an increase of $2.1 billion or 20 percent as compared to 2006. Consolidated net sales in 2007 included $626 million of OBS' net sales related to the period subsequent to the acquisition. The increase also reflects the growth in sale volumes of REMICADE, TEMODAR, NASONEX and AVELOX as well as contributions from Animal Health and Consumer Health Care and a favorable impact of 4 percent from foreign exchange.

Consolidated net sales in 2006 were $10.6 billion, an increase of $1.1 billion or 11 percent compared to 2005. The increase primarily reflected the growth in sale volumes of REMICADE, NASONEX, PEGINTRON and TEMODAR. This increase also reflected an unfavorable impact of 1 percent from foreign exchange.

Net sales for the years ended December 31, 2007, 2006, and 2005 were as follows:

				% Increase (Decrease)	
	2007	2006	2005	2007/2006	2006/2005
	(Dollars in millions)				
HUMAN PRESCRIPTION PHARMACEUTICALS	**$ 10,173**	**$ 8,561**	**$ 7,564**	**19%**	**13%**
REMICADE	1,648	1,240	942	33	32
NASONEX	1,092	944	737	16	28
PEGINTRON	911	837	751	9	11
TEMODAR	861	703	588	22	20
CLARINEX/AERIUS	799	722	646	11	12
CLARITIN Rx	391	356	371	10	(4)
AVELOX	384	304	228	26	34
INTEGRILIN	332	329	315	1	5
REBETOL	277	311	331	(11)	(6)
CAELYX	257	206	181	25	13
INTRON A	233	237	287	(2)	(17)
SUBUTEX/SUBOXONE	220	203	197	8	3
ASMANEX	162	103	11	57	N/M
Other Pharmaceutical	2,606	2,066	1,979	26	44
ANIMAL HEALTH	**1,251**	**910**	**851**	**37**	**7**
CONSUMER HEALTH CARE	**1,266**	**1,123**	**1,093**	**13**	**3**
OTC	682	558	556	22	N/M
Foot Care	345	343	333	1	3
Sun Care	239	222	204	8	9
CONSOLIDATED NET SALES	**$ 12,690**	**$ 10,594**	**$ 9,508**	**20%**	**11%**

N/M — Not a meaningful percentage.

Sales of Human Prescription Pharmaceuticals in 2007 totaled $10.2 billion, a $1.6 billion or 19% increase compared to 2006. Included in 2007 are $409 million of net sales related to Organon, the human health business of OBS. Sales of Human Prescription Pharmaceuticals in 2006 totaled $8.6 billion, a $1.0 billion or 13% increase compared to 2005.

International net sales of REMICADE, a drug for the treatment of immune-mediated inflammatory disorders such as rheumatoid arthritis, early rheumatoid arthritis, psoriatic arthritis, Crohn's disease, ankylosing spondylitis, plaque psoriasis, and ulcerative colitis, were up 33 percent to $1.6 billion in 2007 as compared to 2006 driven by continued market growth, expanded use across indications and a favorable impact from foreign

exchange. Global net sales increased 32 percent in 2006 to $1.2 billion as compared to 2005, due to greater demand, expanded indications and continued market growth. Competitive products for the indications referred to above have been introduced during 2006 and 2007.

Global net sales of NASONEX Nasal Spray, a once-daily corticosteroid nasal spray for allergies, rose 16 percent to $1.1 billion in 2007 as compared to 2006 due to increased sales across all geographic regions, and 28 percent to $944 million in 2006 as compared to 2005, as the product captured greater U.S. and international market share in 2006. Competitive products have been introduced in 2007.

Global net sales of PEGINTRON Powder for Injection, a pegylated interferon product for treating hepatitis C, increased 9 percent to $911 million in 2007 as compared to 2006 due to higher sales in Latin America and emerging markets across Europe, and tempered by lower sales in Japan due to increased competition and a decrease in the U.S. market size. Global net sales increased 11 percent to $837 million in 2006 as compared to 2005 reflecting higher sales volume in Japan and the U.S. In Japan, sales in 2005 benefited from a significant number of patients who were waiting for approval of PEGINTRON before beginning treatment.

Global net sales of TEMODAR Capsules, a treatment for certain types of brain tumors, increased 22 percent to $861 million in 2007 as compared to 2006 due to increased sales across geographic markets, including Japan, where the product was launched in September 2006. Global net sales increased 20 percent to $703 million in 2006 as compared to 2005 due to the increased utilization for new indications.

Global net sales of CLARINEX (marketed as AERIUS in many countries outside the U.S.), for the treatment of seasonal outdoor allergies and year-round indoor allergies, in 2007 increased 11 percent to $799 million as compared to 2006 primarily due to higher sales in international markets. Global net sales in 2006 increased 12 percent to $722 million as compared to 2005 due to increased demand in Europe and Latin America as well as increased sales in the U.S. despite slightly declining market share.

International net sales of prescription CLARITIN increased 10 percent to $391 million in 2007 as compared to 2006 reflecting growth in Latin America, Asia Pacific and Japan. Sales in 2006 decreased 4 percent to $356 million as compared to 2005.

Net sales of AVELOX, a fluoroquinolone antibiotic for the treatment of certain respiratory and skin infections, sold primarily in the U.S. by Schering-Plough as a result of its license agreement with Bayer, increased 26 percent to $384 million in 2007 as compared to 2006 primarily as a result of increased market share. Net sales in 2006 increased 34 percent to $304 million in 2006 as compared to $228 million in 2005 due to share growth and new indications.

Global net sales of INTEGRILIN Injection, a glycoprotein platelet aggregation inhibitor for the treatment of patients with acute coronary syndrome, which is sold primarily in the U.S. by Schering-Plough, increased 1 percent to $332 million in 2007 as compared to 2006. During 2006, sales increased 5 percent to $329 million as compared to 2005.

Global 2007 net sales of REBETOL Capsules, for use in combination with PEGINTRON or INTRON A for treating hepatitis C, decreased 11 percent to $277 million as compared to 2006 due to lower patient enrollment in Japan and increased generic competition. Global net sales in 2006 decreased 6 percent to $311 million as compared to 2005 due to lower sales in Europe and increased competition. In Japan, sales in 2005 benefited from the significant number of patients who were waiting for approval of PEGINTRON before beginning hepatitis C treatment.

International net sales of CAELYX, for the treatment of ovarian cancer, metastatic breast cancer and Kaposi’s sarcoma, increased 25 percent to $257 million in 2007 as compared to 2006 primarily due to increased sales in Latin America and a favorable impact from foreign exchange. Sales in 2006 increased 13 percent to $206 million as compared to 2005 primarily due to an expanding market for this product.

Global net sales of INTRON A Injection, for chronic hepatitis B and C and other antiviral and anticancer indications, decreased 2 percent to $233 million in 2007 as compared to 2006, and 17 percent in 2006 to

$237 million as compared to 2005. The decrease in both 2007 and 2006 were due to the conversion to PEGINTRON for treating hepatitis C in Japan.

International net sales of SUBUTEX/SUBOXONE, for the treatment of opiate addiction, increased 8 percent to $220 million in 2007 as compared to 2006 as a result of a benefit from foreign exchange. Sales increased 3 percent to $203 million in 2006 as compared to 2005 due to increased market share. In October 2006, SUBOXONE was approved by the EU, including the 25 member states as well as Iceland and Norway, for the treatment of opioid dependence.

Global net sales of ASMANEX, an orally inhaled steroid for asthma, were up 57 percent to $162 million in 2007 as compared to 2006 primarily due to market share growth in the U.S. Sales increased to $103 million in 2006 as compared to 2005 due to the ASMANEX launch commencing in late 2005.

Other pharmaceutical net sales include all net sales of Organon from the date of the acquisition through December 31, 2007 and a large number of lower sales volume human prescription pharmaceutical products. Net sales of Organon were $409 million in 2007 and included $57 million for FOLLISTIM/PUREGON, a fertility treatment, and $45 million for NUVARING, a contraception product. Also included in other pharmaceutical sales are several lower volume products which are often sold in limited markets outside the U.S., and many are multiple source products no longer protected by patents. These products include treatments for respiratory, cardiovascular, dermatological, infectious, oncological and other diseases. Included in other pharmaceutical sales is sales of Schering-Plough's albuterol products. In 2005, the FDA issued a Final Rule that requires all CFC albuterol products, including Schering-Plough's PROVENTIL CFC, be removed from the market no later than December 31, 2008. Schering-Plough's transition to albuterol HFA (PROVENTIL HFA) is complete. Schering-Plough no longer manufactures the CFC product and all remaining CFC inventories have been sold during 2007. Schering-Plough is uncertain as to the ultimate impact on Schering-Plough's overall future sales of PROVENTIL HFA, due to the complexities and multiple external factors influencing this transition, including competing albuterol HFA products.

Global net sales of Animal Health products increased 37 percent to $1.3 billion in 2007 as compared to 2006. Included in global Animal Health net sales are $217 million related to Intervet, the animal health business of OBS, for the period subsequent to the acquisition. Global net sales in 2007 also benefited from solid growth in all geographic areas, led by the cattle and companion animal product lines, coupled with a positive impact from foreign currency exchange rates. Global net sales increased 7 percent in 2006 to $910 million as compared to 2005, reflecting strong growth of core brands across most geographic and species areas led by higher sales of companion animal products. The Animal Health segment's sales growth rate is impacted by intense competition and the frequent introduction of generic products.

Global net sales of Consumer Health Care products, which include OTC, foot care and sun care products, increased 13 percent or $143 million as compared to 2006. The increase in 2007 was primarily due to the sales of MiraLAX, which was launched in February 2007 as the first Rx-to-OTC switch in the laxative category in more than 30 years, and higher sales of OTC CLARITIN. Global net sales in 2006 increased 3 percent or $30 million as compared to 2005 reflecting an increase in sales of sun care products and DR. SCHOLL'S and other foot care products. Sales of OTC CLARITIN increased 18 percent to $462 million in 2007 as compared to 2006 due to sales growth across all product forms. OTC CLARITIN sales decreased 1 percent in 2006 as compared to 2005 as a result of the restrictions on the retail sale of OTC products containing pseudoephedrine (PSE). In addition, OTC CLARITIN continues to face competition from private labels and branded loratadine, and a competing prescription antihistamine was launched for OTC sale in early 2008. Net sales of sun care products increased $17 million or 8 percent in 2007 as compared to 2006 due to COPPERTONE CONTINUOUS SPRAY line extensions, and $18 million or 9 percent in 2006 as compared to 2005, primarily due to the success of new COPPERTONE CONTINUOUS SPRAY products launched in 2005. Future sales in the Consumer Health Care segment are difficult to predict because the consumer health care market is highly competitive, with heavy advertising to consumers and frequent competitive product introductions.

Costs, Expenses and Equity Income

A summary of costs, expenses and equity income for the years ended December 31, 2007, 2006 and 2005 is as follows:

	2007	2006	2005	% Increase (Decrease) 2007/2006	% Increase (Decrease) 2006/2005
	(Dollars in millions)				
Gross margin	65.3%	65.1%	64.8%	0.2%	0.3%
Selling, general and administrative (SG&A)	$ 5,468	$ 4,718	$ 4,374	15.9%	7.9%
Research and development (R&D)	2,926	2,188	1,865	33.7%	17.3%
Acquired in-process research and development (IPR&D)	3,754	—	—	N/M	N/M
Other (income)/expense, net	(683)	(135)	5	N/M	N/M
Special and acquisition-related charges	84	102	294	N/M	N/M
Equity income	(2,049)	(1,459)	(873)	40.4%	N/M

N/M — Not a meaningful percentage

Substantially all the sales of cholesterol products are not included in Schering-Plough's net sales. The results of these sales are reflected in equity income. In addition, due to the virtual nature of the joint venture, Schering-Plough incurs substantial selling, general and administrative expenses that are not captured in equity income but are included in Schering-Plough's Statements of Consolidated Operations. As a result, Schering-Plough's gross margin, and ratios of SG&A expenses and R&D expenses as a percentage of net sales do not reflect the benefit of the impact of the joint venture's operating results.

Gross margin

Gross margin was 65.3 percent in 2007 as compared to 65.1 percent in 2006. Gross margin in 2007 was unfavorably impacted by $326 million of purchase accounting adjustments included in cost of sales. These purchase accounting adjustments were a result of the amortization of fair values of certain assets acquired as part of the OBS acquisition. Gross margin in 2007, when compared to 2006, benefited from realized cost savings of approximately $100 million from manufacturing streamlining in 2006, the non-recurrence of $146 million of charges associated with the aforementioned manufacturing streamlining actions and favorable product mix.

Despite negative impacts on cost of sales from the costs resulting from Schering-Plough's actions to streamline its manufacturing operations during 2006, gross margin increased to 65.1 percent in 2006 from 64.8 percent in 2005. This improvement in gross margin was primarily due to increased sales of higher margin products and process improvements within Schering-Plough's supply chain, including cost savings from the manufacturing streamlining activities completed during 2006. In 2006, cost of sales included charges totaling $146 million associated with Schering-Plough's actions to streamline its manufacturing operations, offset by savings of approximately $30 million as a result of these actions. See Note 3, "Special and Acquisition Related Charges and Manufacturing Streamlining," under Item 8, "Financial Statements and Supplemental Data," for additional information.

Selling, general and administrative

Selling, general and administrative expenses (SG&A) increased 16 percent to $5.5 billion in 2007 as compared to 2006. Included in SG&A in 2007 were $227 million from OBS. In addition, the increase in SG&A reflects higher promotion spending, ongoing investments in emerging markets and an unfavorable impact from foreign exchange.

SG&A increased 8 percent to $4.7 billion in 2006 as compared to 2005, reflecting ongoing investments in emerging markets and field support for product launches as well as higher promotional spending.

Research and development

Research and development (R&D) spending increased 34 percent to $2.9 billion in 2007 as compared to the 2006 period. Included in R&D in 2007 were $111 million from OBS. Also included in R&D were upfront payments of $197 million mainly related to certain licensing transactions. The increase in R&D spending versus 2006 also reflects higher spending for clinical trials and related activities and investments to build greater breadth and capacity to support the continued expansion of Schering-Plough's pipeline. In 2006, R&D spending increased 17 percent to $2.2 billion as compared to the 2005 period. The 2006 increase was due to higher costs associated with clinical trials as well as building greater breadth and capacity to support Schering-Plough's progressing pipeline. Generally, changes in R&D spending reflect the timing of Schering-Plough's funding of both internal research efforts and research collaborations with various partners to discover and develop a steady flow of innovative products.

To maximize Schering-Plough's chances for the successful development of new products, Schering-Plough began a Development Excellence initiative in 2005 to build talent and critical mass, create a uniform level of excellence and deliver on high-priority programs within R&D. In 2006, Schering-Plough began a Global Clinical Harmonization Program to maximize and globalize the quality of clinical trial execution, pharmacovigilance and regulatory processes. In 2007, certain aspects of the Global Clinical Harmonization Program have been implemented.

Acquired in-process research and development

The acquired in-process research and development charge of $3.8 billion in 2007 was a result of the OBS acquisition and represents the immediate expense recognition of the fair value of acquired research projects for which technological feasibility has not been established and for which there is no alternative future use.

Other (income)/expense, net

Schering-Plough had other income, net, of $683 million in 2007 compared to $135 million of other income, net, in 2006 and other expense, net, of $5 million in 2005. Other income, net, in 2007 included net realized gains on foreign currency options of $510 million related to the OBS acquisition. The increase in other income, net, in 2007 also reflected higher interest income due to higher balances of cash equivalents and short-term investments partially offset by higher interest expense due to the issuance of new debt.

Special and acquisition related charges and manufacturing streamlining

2007 special and acquisition related charges

During the year ended December 31, 2007, Schering-Plough incurred $84 million of special and acquisition-related charges, comprised of $61 million of integration-related costs for the OBS acquisition and $23 million of severance charges as part of integration activities.

2006 manufacturing streamlining

During 2006, Schering-Plough implemented changes to its manufacturing operations in Puerto Rico and New Jersey that have streamlined its global supply chain and further enhanced Schering-Plough's long-term competitiveness. These changes resulted in the phase-out and closure of Schering-Plough's manufacturing operations in Manati, Puerto Rico, and additional workforce reductions in Las Piedras, Puerto Rico, and New Jersey. In total, these actions resulted in the elimination of over 1,000 positions. Schering-Plough expects these actions to yield an annualized cost savings of approximately $100 million.

Special charges: Special charges in 2006 related to the changes in Schering-Plough's manufacturing operations totaled $102 million. These charges consisted of approximately $47 million of severance and $55 million of fixed asset impairments.

Cost of Sales: Included in 2006 cost of sales was approximately $146 million consisting of $93 million of accelerated depreciation, $46 million of inventory write-offs, and $7 million of other charges related to the closure of Schering-Plough's manufacturing facilities in Manati, Puerto Rico.

The following table summarizes activities reflected in the consolidated financial statements related to changes to Schering-Plough's manufacturing operations which were completed in 2006:

	Charges included in Cost of sales	Special charges	Total charges	Cash payments	Non-cash charges	Accrued Liability
			(Dollars in millions)			
Accrued liability at January 1, 2006						$ —
Severance	$ —	$ 47	$ 47	$ (35)	$ —	12
Asset impairments	—	55	55	—	(55)	—
Accelerated depreciation	93	—	93	—	(93)	—
Inventory write-offs	46	—	46	—	(46)	—
Other	7	—	7	(2)	(5)	—
Total	$ 146	$ 102	$ 248	$ (37)	$ (199)	
Accrued liability at December 31, 2006						$ 12
Severance				(12)		(12)
Accrued liability at December 31, 2007						$ —

2005 special charge activities

Special charges incurred in 2005 are as follows:

	2005 (Dollars in Millions)
Litigation charges	$ 250
Employee termination costs	28
Asset impairment and other charges	16
	$ 294

Litigation Charges: In 2005, litigation reserves were increased by $250 million. This increase resulted in a total reserve of $500 million for the Massachusetts Investigation, as well as the investigations and the state litigation disclosed under "AWP Litigation and Investigations" in Note 20, "Legal, Environmental and Regulatory Matters," representing Schering-Plough's then current estimate to resolve this matter. On August 29, 2006, Schering-Plough announced it had reached an agreement with the U.S. Attorney's Office for the District of Massachusetts and the U.S. Department of Justice to settle the Massachusetts Investigation for an aggregate amount of $435 million plus interest. This settlement amount relates only to the Massachusetts Investigation. The AWP investigations and litigation are ongoing. During 2007, Schering-Plough made payments totaling $435 million related to this settlement.

Employee termination costs: Employee termination costs in 2005 consisted of $7 million associated with a Voluntary Early Retirement Program (VERP) in the U.S. during 2003 and $21 million of other employee termination costs.

Asset impairment and other charges: For the year ended December 31, 2005, Schering-Plough recognized asset impairment and other charges of $16 million related primarily to the consolidation of Schering-Plough's U.S. biotechnology organizations.

Equity income

Sales of the Merck/Schering-Plough cholesterol joint venture totaled $5.2 billion, $3.9 billion, and $2.4 billion in 2007, 2006, and 2005, respectively. The sales growth in 2007 was due primarily to higher market share and market growth in the U.S. and continued expansion into international markets. The sales growth in 2006 was due primarily to an increase in market share.

The companies bear the costs of their own general sales forces and commercial overhead in marketing joint venture products around the world. In the U.S., Canada and Puerto Rico, the cholesterol agreements provide for a reimbursement to each company for physician details that are set on annual basis, and in Italy, a contractual amount is included in the profit sharing calculation that is not reimbursed. In the U.S., Canada and Puerto Rico, this amount is equal to each company's physician details multiplied by a contractual fixed fee. Schering-Plough reports these amounts as part of equity income. These amounts do not represent a reimbursement of specific, incremental and identifiable costs for Schering-Plough's detailing of the cholesterol products in these markets. In addition, these amounts are not reflective of Schering-Plough's sales effort related to the joint venture, as Schering-Plough's sales force and related costs associated with the joint venture are generally estimated to be higher.

Costs of the joint venture that the companies contractually share are a portion of manufacturing costs, specifically identified promotion costs (including direct-to-consumer advertising and direct and identifiable out-of-pocket promotion) and other agreed upon costs for specific services such as market support, market research, market expansion, a specialty sales force and physician education programs.

Certain specified research and development expenses are generally shared equally by Schering-Plough and Merck. Under certain conditions, as specified in the joint venture agreements with Merck, Schering-Plough could be entitled to receive reimbursements of its future research and development expenses of up to $105 million. Additional information regarding the joint venture with Merck is also included in Note 4, "Equity Income," under Item 8, "Financial Statements and Supplementary Data."

Equity income from the Merck/Schering-Plough joint venture totaled $2.0 billion, $1.5 billion, and $873 million in 2007, 2006, and 2005, respectively. The increase in 2007 equity income as compared to 2006 reflected higher market share in the U.S. and international sales growth. The increase in 2006 equity income as compared to 2005 reflected continued strong sales of VYTORIN and ZETIA.

During 2005, Schering-Plough recognized milestones from Merck of $20 million related to certain European approvals of VYTORIN (ezetimibe/simvastatin) in 2005.

It should be noted that Schering-Plough incurs substantial selling, general and administrative and other costs, which are not reflected in equity income and instead are included in the overall cost structure of Schering-Plough.

Provision for income taxes

Tax expense was $258 million, $362 million, and $228 million in 2007, 2006, and 2005, respectively. The 2007 tax provision included tax benefits of $89 million related to the amortization of fair values of certain assets acquired as part of the OBS acquisition. The 2006 income tax provision primarily relates to foreign taxes. The 2005 tax provision includes a benefit of $46 million related to an IRS Notice issued in August 2005, which resulted in a reduction of the previously accrued tax liability attributable to repatriations under the American Jobs Creation Act of 2004 (AJCA). The tax provisions in 2007, 2006 and 2005 do not include any benefit related to U.S. operating losses. During 2004, Schering-Plough established a valuation allowance on its net U.S. deferred tax assets, including the benefit of U.S. operating losses, as management concluded that it is not more likely than not that the benefit of the U.S. net deferred tax assets can be realized. At December 31, 2007, Schering-Plough continues to maintain a valuation allowance against its U.S. net deferred tax assets. Schering-Plough expects to report a U.S. Net Operating Loss (NOL) carryforward of $1.7 billion on its tax return for the year ended December 31, 2007. This U.S. NOL carryforward could be materially reduced after examination of Schering-Plough's income tax returns by the Internal Revenue Service (IRS).

In 2007, Schering-Plough generated approximately $980 million in U.S. losses including the impact of purchase accounting, however, due to differences between financial and tax reporting, Schering-Plough expects to report a minimal increase in its NOL on its 2007 U.S. tax return.

Schering-Plough implemented the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," (FIN 48) as of January 1, 2007. As required by FIN 48, the cumulative effect of applying the provisions of the Interpretation was reported as an adjustment to Schering-Plough's retained earnings

balance as of January 1, 2007. Schering-Plough reduced its January 1, 2007 retained earnings by $259 million as a result of the adoption of FIN 48.

Schering-Plough's unrecognized tax benefits result primarily from the varying application of statutes, regulations and interpretations and include exposures on intercompany terms of cross border arrangements and utilization of cash held by foreign subsidiaries (investment in U.S. property) as well as Schering-Plough's tax matters litigation (see Note 20, "Legal, Environmental and Regulatory Matters," under Item 8, "Financial Statements and Supplemental Data," for additional information). At January 1, and December 31, 2007, the total amount of unrecognized tax benefits was $924 million and $859 million, respectively, which includes reductions to deferred tax assets carrying a full valuation allowance, potential refund claims and tax liabilities. At January 1, and December 31, 2007, approximately $645 million and $535 million, respectively, of total unrecognized tax benefits, if recognized, would affect the effective tax rate. Management believes it is reasonably possible that total unrecognized tax benefits could decrease over the next twelve-month period by up to $615 million. This decrease would be primarily attributable to a decision in the tax matter currently being litigated in Newark District Court, possible final resolution of Schering-Plough's 1997 — 2002 examination at IRS Appeals and possible resolutions of various other matters. However, the timing of the ultimate resolution of Schering-Plough's tax matters and the payment and/or receipt of related cash is dependent on a number of factors, many of which are outside Schering-Plough's control.

Schering-Plough includes interest expense or income as well as potential penalties related to tax positions as a component of income tax expense in the Statement of Consolidated Operations. The total amount of accrued interest related to tax positions at January 1, and December 31, 2007 was $193 million and $197 million, respectively, and is included in other accrued liabilities.

During the second quarter of 2007, the IRS completed its examination of Schering-Plough's 1997-2002 federal income tax returns. Schering-Plough is seeking resolution of an issue raised during this examination through the IRS administrative appeals process. Schering-Plough remains open with the IRS for the 1997 — 2007 tax years. For most of its other significant tax jurisdictions (both U.S. state and foreign), Schering-Plough's income tax returns are open for examination for the period 2000 through 2007.

Net (loss)/income available to common shareholders

Schering-Plough had a net (loss)/income available to common shareholders of $(1.6) billion, $1.1 billion and $183 million for 2007, 2006 and 2005, respectively. Net loss available to common shareholders for 2007 included approximately $4.0 billion of charges related to purchase accounting for the OBS acquisition, including a $3.8 billion acquired in-process research and development charge. Net loss available to common shareholders for 2007 included the deduction of preferred stock dividends of $118 million related to the 2004 and 2007 Preferred Stock. Net income available to common shareholders for 2006 and 2005 included the deduction of preferred stock dividends of $86 million, in each period, related to the 2004 Preferred Stock. Net (loss)/income available to common shareholders for 2007, 2006, and 2005 also included special and acquisition related charges and manufacturing streamlining costs of approximately $84 million, $248 million, and $294 million, respectively. See Note 3, "Special and Acquisition Related Charges and Manufacturing Streamlining," under Item 8, "Financial Statements and Supplementary Data," for additional information.

LIQUIDITY AND FINANCIAL RESOURCES

Discussion of Cash Flow

	For the Years Ended December 31,		
	2007	2006	2005
	(Dollars in millions)		
Cash flow from operating activities	$ 2,630	$ 2,161	$ 882
Cash flow from investing activities	(13,156)	(2,908)	(454)
Cash flow from financing activities	10,089	(1,361)	(633)

Operating Activities

In 2007, operating activities provided $2.6 billion of cash, compared with net cash provided by operations of $2.2 billion in 2006. The increase was primarily due to a net realized gain of $510 million from foreign currency options relating to the OBS acquisition, higher net sales and equity income, partially offset by payments of $435 million for the settlement of the Massachusetts Investigation and $98 million for tax and interest due in connection with an examination by the IRS of Schering-Plough's 1997-2002 federal income tax returns.

During 2007, as part of an overall risk management strategy and in consideration of various preliminary financing scenarios associated with the acquisition of OBS, Schering-Plough purchased euro-denominated currency options (derivatives) for aggregate premiums of approximately $165 million and received proceeds of $675 million upon the termination of these options, resulting in a net realized gain of $510 million. These derivatives were short-term (trading) in nature and did not hedge a specific financing or investment transaction. Accordingly, the cash impacts of these derivatives have been classified as operating cash flows in the Statement of Consolidated Cash Flows.

In 2006, net cash provided by operating activities was $2.2 billion, an increase of $1.3 billion as compared to 2005. The increase primarily resulted from higher net income and the timing of operating cash payments and receipts. In 2005, operating activities generated $882 million of cash including payments of approximately $375 million to tax authorities for tax liabilities related to the repatriation of foreign earnings under the AJCA; and tax payments of $239 million related to the settlement of certain tax contingencies for the tax years 1993 through 1996.

Investing Activities

Net cash used for investing activities during 2007 was $13.2 billion, primarily consisting of $15.8 billion of net cash used to purchase OBS. In addition, source of cash for investing activities included a net reduction of short-term investments of $3.3 billion partially offset by $618 million of capital expenditures.

Net cash used for investing activities during 2006 was $2.9 billion primarily related to the net purchases of short-term investments of $2.4 billion previously invested in cash equivalents and $458 million of capital expenditures. Net cash used for investing activities during 2005 was $454 million, primarily related to $478 million of capital expenditures and the purchase of intangible assets of $51 million, partially offset by proceeds from sales of property and equipment of $43 million and the net reduction in short-term investments of $33 million.

Financing Activities

Net cash provided by financing activities was $10.1 billion for 2007, compared to cash used of $1.4 billion for the same period in 2006. Net cash provided by financing activities in 2007 included net proceeds on the issuance of common and mandatory convertible preferred shares of approximately $1.5 billion and $2.4 billion, respectively, and net proceeds of approximately $6.4 billion on the issuance of long-term debt. Net cash provided by financing activities also included $225 million of proceeds from stock option exercises offset by the payment of dividends on common and preferred shares of $481 million.

Net cash used for financing activities during 2006 and 2005 was $1.4 billion and $633 million, respectively. Uses of cash for financing activities in 2006 and 2005 include the payment of dividends on common and preferred shares of $412 million and $410 million, respectively; the repayment of $1.0 billion of bank debt and short-term commercial paper borrowings in 2006; and $1.2 billion of short-term commercial paper borrowings in 2005. Uses of cash for financing activities in 2005 was partially offset by proceeds of $900 million from bank debt incurred by a foreign subsidiary related to funding of a portion of the repatriations under the AJCA during 2005. This bank debt was fully repaid in 2006.

Other Discussion of Cash Flows

Schering-Plough is moving forward with additional investments to enhance its infrastructure and business and currently is in the process of building a U.S. pharmaceutical sciences center in New Jersey. Capital expenditures of approximately $50 million and $40 million were made in 2007 and 2006, respectively, related to this center. Additional capital expenditures of approximately $175 million are expected over the next two years. This center will allow Schering-Plough to streamline and integrate its drug development process, where products are moved from the drug discovery pipeline to market. There will be additional related expenditures to upgrade equipment and staffing for this center.

At December 31, 2007, Schering-Plough had net debt (total debt less cash, cash equivalents, short-term investments and marketable securities) of $7.1 billion. Cash generated from operations, available cash and short-term investments and available credit facilities are expected to provide Schering-Plough with the ability to fund cash needs for the intermediate term.

Borrowings and Credit Facilities

On September 17, 2007, Schering-Plough issued $1.0 billion aggregate principal amount of 6.00 percent senior unsecured notes due 2017 and $1.0 billion aggregate principal amount of 6.55 percent senior unsecured notes due 2037. The net proceeds from this offering were approximately $2.0 billion. Interest on the notes is payable semi-annually. The effective interest rate on the 6.00 percent senior unsecured notes and the 6.55 percent senior unsecured notes, which incorporates the initial discount and debt issuance fees, is 6.13 percent and 6.67 percent, respectively. The interest rate payable on these notes is not subject to adjustment. The notes generally restrict Schering-Plough from creating or assuming liens or entering into sale and leaseback transactions unless the aggregate outstanding indebtedness secured by any such liens and related to any such sale and leaseback transactions does not exceed 10 percent of consolidated net tangible assets. These notes are redeemable in whole or in part, at Schering-Plough'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 to the redemption date on a semiannual basis using the rate of Treasury Notes with comparable remaining terms plus 25 basis points for the 2017 notes or 30 basis points for the 2037 notes. If a change of control triggering event occurs, as defined in the prospectus, holders of the notes will have the right to require Schering-Plough to repurchase all or any part of the notes for a cash payment equal to 101 percent of the aggregate principal amount of the notes repurchased plus accrued and unpaid interest, if any, to the date of purchase.

On October 1, 2007, Schering-Plough issued Euro 500 million aggregate principal amount of 5.00 percent senior unsecured euro-denominated notes due 2010 and Euro 1.5 billion aggregate principal amount of 5.375 percent senior unsecured euro-denominated notes due 2014. The net proceeds from this offering were approximately $2.8 billion. Interest on the notes is payable annually. The effective interest rate on the 5.00 percent senior unsecured euro-denominated notes and the 5.375 percent senior unsecured euro-denominated notes, which incorporates the initial discount, debt issuance fees and the impact of interest rate hedges, is 5.10 percent and 5.46 percent, respectively. The interest rate payable on these notes is not subject to adjustment. The notes generally restrict Schering-Plough from creating or assuming liens or entering into sale and leaseback transactions unless the aggregate outstanding indebtedness secured by any such liens and related to any such sale and leaseback transactions does not exceed 10 percent of consolidated net tangible assets. These notes are redeemable in whole or in part, at Schering-Plough's option at any time, at a redemption price specified in the prospectus. If a change of control triggering event occurs, as defined in the prospectus, holders of the notes will have the right to require Schering-Plough to repurchase all or any part of the notes for a cash payment equal to 101 percent of the aggregate principal amount of the notes repurchased plus accrued and unpaid interest, if any, to the date of purchase. Schering-Plough used the net proceeds from these notes to fund a portion of the purchase price for the OBS acquisition.

On October 24, 2007, Schering-Plough entered into a five-year senior unsecured euro-denominated term loan facility with a syndicate of banks. On October 31, 2007, Schering-Plough drew Euro 1.1 billion ($1.6 billion) on this term loan to fund a portion of the purchase price for the OBS acquisition. This new term

loan has a floating interest rate and requires Schering-Plough to maintain a net debt to total capital ratio of no more than 65 percent through 2009 and 60 percent thereafter, in which net debt equals total debt less cash, cash equivalents, short-term investments and marketable securities and total capital equals the sum of total debt and total shareholders' equity excluding the cumulative effect of acquired in-process research and development in connection with any acquisition consummated after the closing of the term loan. The term loan also generally restricts Schering-Plough from creating or assuming liens or entering into sale and leaseback transactions unless the aggregate outstanding indebtedness secured by any such liens and related to any such sale and leaseback transactions does not exceed 12 percent of consolidated net tangible assets.

The reported U.S. dollar amounts of the outstanding debt balance and interest expense on the euro-denominated notes and euro-denominated term loan will fluctuate due to the impact of foreign currency translation.

On November 26, 2003, Schering-Plough 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. The interest rates payable on the notes are subject to adjustment and, in connection with ratings downgrades in 2004, on December 1, 2004, the interest rate payable on the notes due 2013 increased from 5.3 percent to 5.55 percent, and the interest rate payable on the notes due 2033 increased from 6.5 percent to 6.75 percent. 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, the notes are subsequently rated above Baa1 by Moody's and BBB+ by S&P. 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 would increase. See Note 14, "Borrowings and Other Commitments," under Item 8, "Financial Statements and Supplementary Data," for additional information.

On August 9, 2007, Schering-Plough entered into a $2.0 billion revolving credit agreement with a syndicate of banks and terminated its $1.5 billion credit facility that was due to mature in May 2009. This credit facility has a floating interest rate, matures in August 2012 and requires Schering-Plough to maintain a net debt to total capital ratio of no more than 65 percent through 2009 and 60 percent thereafter, in which net debt equals total debt less cash, cash equivalents, short-term investments and marketable securities and total capital equals the sum of total debt and total shareholders' equity excluding the cumulative effect of acquired in-process research and development in connection with any acquisition consummated after the closing of the credit facility. The credit facility also generally restricts Schering-Plough from creating or assuming liens or entering into sale and leaseback transactions unless the aggregate outstanding indebtedness secured by any such liens and related to any such sale and leaseback transactions does not exceed 12 percent of consolidated net tangible assets. This credit line is available for general corporate purposes and is considered as support to Schering-Plough's commercial paper borrowings. Borrowings under this credit facility may be drawn by the U.S. parent company or by its wholly-owned international subsidiaries when accompanied by a parent guarantee. This facility does not require compensating balances, however, a nominal commitment fee is paid. As of December 31, 2007, no borrowings were outstanding under this facility.

As of December 31, 2007 and 2006, short-term borrowings, including the credit facilities mentioned above, totaled $451 million and $242 million, respectively, including outstanding commercial paper of $149 million as of both dates. The weighted-average interest rate for short-term borrowings at December 31, 2007 and 2006 was 7.9 percent and 6.4 percent, respectively.

Schering-Plough's senior unsecured euro-denominated notes and euro-denominated term loan have been designated as, and are effective as, economic hedges of the net investment in a foreign operation. In accordance with SFAS No. 52, "Foreign Currency Translation" (SFAS 52), the foreign currency transaction gains or losses on these euro-denominated debt instruments are included in foreign currency translation adjustment within other comprehensive income.

Credit Ratings

Schering-Plough's current unsecured senior credit ratings and outlook are as follows:

Senior Unsecured Credit Ratings	Long-term	Short-term	Long-Term Review Status
Moody's Investors Service	Baa1	P-2	Stable
Standard and Poor's	A−	A-2	Stable
Fitch Ratings	BBB+	F-2	Stable

The short-term ratings discussed above have not significantly affected Schering-Plough's ability to issue or rollover its outstanding commercial paper borrowings at this time. However, Schering-Plough believes the ability of commercial paper issuers, such as Schering-Plough, with one or more short-term credit ratings of P-2 from Moody's, A-2 from S&P and/or F-2 from Fitch to issue or rollover 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 these issuers is typically less than that of higher-rated companies. Schering-Plough's sizable lines of credit with commercial banks as well as cash and short-term investments held by U.S. and international subsidiaries serve as alternative sources of liquidity and to support its commercial paper program.

Schering-Plough's credit ratings could decline below their current levels. The impact of such decline could reduce the availability of commercial paper borrowing and would increase the interest rate on a portion of Schering-Plough's short and long-term debt. As discussed above, Schering-Plough believes that existing cash and short-term investments, available credit facilities and cash generated from operations will allow Schering-Plough to fund its cash needs for the intermediate term.

Mandatory Convertible Preferred Stock

On August 15, 2007, Schering-Plough issued 10,000,000 shares of 6 percent Mandatory Convertible Preferred Stock (the 2007 Preferred Stock) with a face value of $2.5 billion. Net proceeds to Schering-Plough were approximately $2.4 billion after deducting commissions, discounts and other underwriting expenses. Schering-Plough used the net proceeds from the sale of the 2007 Preferred Stock to fund a portion of the purchase price for the OBS acquisition.

Each share of the 2007 Preferred Stock will automatically convert into between 7.4206 and 9.0909 common shares of Schering-Plough depending on the average closing price of Schering-Plough's common shares over the 20 trading day period ending on the third trading day prior to the mandatory conversion date of August 13, 2010, as defined in the prospectus. The preferred shareholders may elect to convert at any time prior to August 13, 2010, at the minimum conversion ratio of 7.4206 common shares per share of the 2007 Preferred Stock. Additionally, if at any time prior to the mandatory conversion date the closing price of Schering-Plough's common shares exceeds $50.53 (for at least 20 trading days within a period of 30 consecutive trading days), Schering-Plough may elect to cause the conversion of all, but not less than all, of the 2007 Preferred Stock then outstanding at the same minimum conversion ratio of 7.4206 common shares for each share of 2007 Preferred Stock.

The 2007 Preferred Stock accrues dividends at an annual rate of 6 percent on shares outstanding. The dividends are cumulative from the date of issuance and, to the extent Schering-Plough is legally permitted to pay dividends and the Board of Directors declares a dividend payable, Schering-Plough will pay dividends on each dividend payment date. The dividend payment dates are February 15, May 15, August 15 and November 15 of each year, with the first dividend to be paid on November 15, 2007.

During the year ended December 31, 2007, all shares of 6 percent Mandatory Convertible Preferred Stock issued on August 10, 2004 (the 2004 Preferred Stock) were converted into 64,584,929 shares of Schering-Plough common stock.

Equity Issuance and Treasury Shares

On August 15, 2007, Schering-Plough issued 57,500,000 common shares from treasury shares at $27.50 per share. Net proceeds to Schering-Plough were approximately $1.5 billion after deducting commissions, discounts and other underwriting expenses. Schering-Plough used the net proceeds from the sale of the common shares to fund a portion of the purchase price for the OBS acquisition. See Note 2, "Acquisition," under Item 8, "Financial Statements and Supplementary Data."

Contractual Obligations and Off-Balance Sheet Arrangements

Schering-Plough has various contractual obligations that are reported as liabilities in the Consolidated Balance Sheets and others that are not required to be recognized as liabilities such as certain purchase commitments and other executory contracts. The following table summarizes payments due by period under Schering-Plough's known contractual obligations at December 31, 2007.

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(Dollars in millions)				
Short-term borrowings and current portion of long-term debt	$ 461	$ 461	$ —	$ —	$ —
Long-term debt obligations(1)	9,019	—	752	1,657	6,610
Operating lease obligations	907	338	330	168	71
Purchase obligations(2)	2,976	2,736	214	21	5
Deferred compensation plan obligations	192	50	23	63	56
Other obligations(3)	765	363	262	22	118
Total	$ 14,320	$ 3,948	$ 1,581	$ 1,931	$ 6,860

(1) Long-term debt obligations include the aggregate principal amount of all long-term debt and excludes interest obligations. See Note 14, "Borrowings and Other Commitments," under Item 8, "Financial Statements and Supplementary Data," for additional information.

(2) Purchase obligations include advertising and research contracts, capital expenditure commitments and other inventory and expense items, and unless material research milestone payments are likely to be paid do not include potential milestone payments since such payments are contingent on the occurrence of certain events. The table also excludes those research contracts that are cancelable by Schering-Plough without penalty. Other purchase obligations consist of both cancelable and non-cancelable items.

(3) This caption includes obligations, based on undiscounted amounts, for estimated payments under certain of Schering-Plough's pension plans, preferred stock dividends, management's estimate of the current portion of unrecognized tax benefits and other contractual obligations.

REGULATORY AND COMPETITIVE ENVIRONMENT IN WHICH SCHERING-PLOUGH OPERATES

Schering-Plough is subject to the jurisdiction of various national, state and local regulatory agencies. These regulations are described in more detail in Part I, Item I, Business, of this 10-K. Regulatory compliance is complex, as regulatory standards (including Good Clinical Practices, Good Laboratory Practices and Good Manufacturing Practices) vary by jurisdiction and are constantly evolving. Regulatory compliance is also costly. Regulatory compliance also impacts the timing needed to bring new drugs to market and to market drugs for new indications. Further, failure to comply with regulations can result in delays in the approval of drugs, seizure or recall of drugs, suspension or revocation of the authority necessary for the production and sale of drugs, fines and other civil or criminal sanctions.

Regulatory compliance, and the cost of compliance failures, can have a material impact on Schering-Plough's results of operations, its cash flows or financial condition.

Much is still unknown about the science of human health and with every drug there are benefits and risks. Societal and government pressures are constantly shifting between the demand for innovation to meet urgent unmet medical needs and adversity to risk. These pressures impact the regulatory environment and the market for Schering-Plough's products.

Regulatory Compliance and Pharmacovigilance

Consent Decree

On August 2, 2007, Schering-Plough announced the dissolution of the Consent Decree by the U.S. District Court for the District of New Jersey. See Note 19, "Consent Decree," under Item 1, "Financial Statements."

Regulatory Inspections

Schering-Plough is subject to pharmacovigilance reporting requirements in many countries and other jurisdictions, including the U.S., the 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 drug's manufacturer and the governmental agency to potential problems.

During 2003, pharmacovigilance inspections by officials of the British and French medicines agencies conducted at the request of the European Medicines Agency (EMEA) cited serious deficiencies in reporting processes. Schering-Plough has continued to work on its long-term action plan to rectify the deficiencies and has provided regular updates to the EMEA.

During the fourth quarter 2005, local UK and EMEA regulatory authorities conducted a follow up inspection to assess Schering-Plough's implementation of its action plan. In the first quarter of 2006, these authorities also inspected the U.S.-based components of Schering-Plough's pharmacovigilance system. The inspectors acknowledged that progress had been made since 2003, but also continued to note significant concerns with the quality systems supporting Schering-Plough's pharmacovigilance processes. Similarly, in a follow up inspection of Schering-Plough's clinical trial practices in the UK, inspectors identified issues with respect to Schering-Plough's management of clinical trials and related pharmacovigilance practices.

In February 2006, Schering-Plough began the Global Clinical Harmonization Program for building clinical excellence (in trial design, execution and tracking), which will strengthen Schering-Plough's scientific and compliance rigor on a global basis. In 2007, certain aspects of the Global Clinical Harmonization Program were implemented and work is expected to continue in 2008 and for several years. In addition, during the fourth quarter 2007, the local UK regulatory authority conducted a follow-up inspection which confirmed that the corrective actions committed to by Schering-Plough following the 2006 inspection of Schering-Plough's UK-based clinical trial operations had in fact been completed. In early January 2008, the local UK regulatory authority returned for a follow-up inspection of Schering-Plough's UK-pharmacovigilance operations. This inspection likewise confirmed that a number of corrective actions had been completed since the last inspection and noted the number of actions Schering-Plough had taken as set forth in Schering-Plough's periodic updates to the EMEA and noted a limited number of observations which Schering-Plough is addressing. Schering-Plough intends to continue upgrading skills, processes and systems in clinical practices and pharmacovigilance. Schering-Plough remains committed to accomplish this work and to invest significant resources in this area.

Schering-Plough does not know what action, if any, the EMEA or national authorities will take in response to the inspections. Possible actions include further inspections, demands for improvements in reporting systems, criminal sanctions against Schering- Plough and/or responsible individuals and changes in the conditions of marketing authorizations for Schering-Plough's products.

Regulatory Compliance and Post-Marketing Surveillance

Schering-Plough engages in clinical trial research in many countries around the world. These clinical trial research activities must comply with stringent regulatory standards and are subject to inspection by U.S., EU and local country regulatory authorities. Failure to comply with current Good Clinical Practices or other applicable laws or regulations can result in delays in approval of clinical trials, suspension of ongoing clinical trials, delays in approval of marketing authorizations, criminal sanctions against Schering-Plough and/or responsible individuals, and changes in the conditions of marketing authorizations for Schering-Plough's products.

Clinical trials and post-marketing surveillance of certain marketed drugs of competitors within the industry have raised safety concerns that have led to recalls, withdrawals or adverse labeling of marketed products. In addition, these situations have raised concerns among some prescribers and patients relating to the safety and efficacy of pharmaceutical products in general. For the past several years, these occurrences have increased. Recently media mischaracterization of early topline results from the ENHANCE clinical trail led to some concerns among patients and prescribers about ZETIA and VYTORIN (see discussion under "Early 2008 Developments" in the Executive Summary of this Management Discussion and Analysis of Financial Condition and Results of Operations).

Schering-Plough's personnel have regular, open dialogue with the FDA and other regulators and review product labels and other materials on a regular basis and as new information becomes known.

Following this wave of recent product withdrawals by other companies and other significant safety issues, health authorities such as the FDA, the EMEA and the PMDA have continued to increase their focus on safety when assessing the benefit/risk balance of drugs. Some health authorities appear to have become more cautious when making decisions about approvability of new products or indications and are re-reviewing select products which are already marketed, adding further to the uncertainties in the regulatory processes. There is also greater regulatory scrutiny, especially in the U.S., on advertising and promotion and in particular direct-to-consumer advertising.

Similarly, major health authorities, including the FDA, EMEA and PMDA, have also increased collaboration amongst themselves, especially with regard to the evaluation of safety and benefit/risk information. Media attention has also increased. In the current environment, a health authority regulatory action in one market, such as a safety labeling change, may have regulatory, prescribing and marketing implications in other markets to an extent not previously seen.

Some health authorities, such as the PMDA in Japan, have publicly acknowledged a significant backlog in workload due to resource constraints within their agency. This backlog has caused long regulatory review times for new indications and products and has added to the uncertainty in predicting approval timelines in these markets. While the PMDA has committed to correcting the backlog and has made some progress over the last year, it is expected to continue for the foreseeable future.

These and other uncertainties inherent in government regulatory approval processes, including, among other things, delays in approval of new products, formulations or indications, may also affect Schering-Plough's operations. The effect of regulatory approval processes on operations cannot be predicted.

Schering-Plough has nevertheless achieved a significant number of important regulatory approvals since 2004, including approvals for VYTORIN, NOXAFIL, CLARINEX D-24, CLARINEX REDITABS, CLARINEX D-12, SUBOXONE and new indications for TEMODAR and NASONEX. Other significant approvals since 2004 include ASMANEX DPI (Dry Powder for Inhalation) in the U.S., PEGINTRON, ZETIA, TEMODAR and ESMERON/ESLAX in Japan, and new indications for REMICADE. Schering-Plough also has a number of significant regulatory submissions filed in major markets awaiting approval.

Pricing Pressures

As described more specifically in Note 20, "Legal, Environmental and Regulatory Matters," under Item 1, "Financial Statements," the pricing, sales and marketing programs and arrangements, and related business

practices of Schering-Plough 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 Schering-Plough to substantial fines, penalties and injunctive or administrative remedies, including exclusion from government reimbursement programs. Schering-Plough also cannot predict whether any investigations will affect its marketing practices or sales. Any such result could have a material adverse impact on Schering-Plough's results of operations, cash flows, financial condition, or its business.

In the U.S., many of Schering-Plough's pharmaceutical products are subject to increasingly competitive pricing as managed care groups, institutions, government agencies and other groups seek price discounts. In the U.S. market, Schering-Plough 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. The Medicare Prescription Drug Improvement and Modernization Act of 2003 contains a prescription drug benefit for individuals who are eligible for Medicare. This prescription drug benefit became effective on January 1, 2006 and is resulting in increased use of generics and increased purchasing power of those negotiating on behalf of Medicare recipients.

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

Since Schering-Plough 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 U.S., 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.

Competition

The market for pharmaceutical products is competitive. Schering-Plough's operations may be affected by technological advances of competitors, industry consolidation, patents granted to competitors, competitive combination products, new products of competitors, new information from clinical trials of marketed products or post-marketing surveillance and generic competition as Schering-Plough'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.

2008 OUTLOOK

Schering-Plough does not provide numeric guidance. However, the following outlook may be helpful to readers in assessing future prospects:

See the earlier discussion of matters relating to the Merck/Schering-Plough cholesterol joint venture's ENHANCE clinical trial. IMS prescription data (U.S.) shows that, to date in 2008, prescriptions for VYTORIN and ZETIA have declined. Although the prescription data has shown some early signs of stabilization, there are limitations to this prescription data and it is too early to discern any trends from this data. It is likely that there will be weekly fluctuations in IMS reported prescription volumes for VYTORIN and ZETIA before any

trend can be identified. Wholesalers, retail chains and other trade buyers may respond to these fluctuations by changing their buying patterns or reducing their inventory levels.

It is too early to determine the business and financial impact of these lower prescription volumes for 2008 or longer-term. However, first quarter 2008 Merck/Schering-Plough cholesterol joint venture sales of VYTORIN and ZETIA in the U.S. will likely be negatively impacted. Schering-Plough accounts for the joint venture under the equity method.

Schering-Plough has been successful in advancing several research and development projects into their late stage. These projects will require sizable resources to complete. Research and development expenses are expected to continue to increase over the next several years as a result of the expanded pipeline, the pipeline projects added through the OBS acquisition and the need for larger, more frequent, and longer clinical trials in the current global regulatory environment.

The risks described in Item 1A. “Risk Factors” could cause actual results to differ materially from the expectations provided in this section.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements.” The standard defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. The standard codifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. For calendar year companies the standard is effective beginning January 1, 2008 except for non-financial items measured on a non-recurring basis for which it is effective beginning January 1, 2009. Based on Schering-Plough’s current financial position the impact of this standard on the consolidated financial statements is not expected to be material.

In November 2006, the FASB issued Emerging Issues Task Force Issue (EITF) No. 06-10, “Accounting for Deferred Compensation and Postretirement Benefits Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements,” which is effective for calendar year companies on January 1, 2008. The Task Force concluded that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106 or APB Opinion No. 12 based on the substantive agreement with the employee. The Task Force also concluded that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The impact of this standard on the consolidated financial statements is not expected to be material.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115” (SFAS 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 also includes an amendment to SFAS No. 115, “Accounting for Certain Investments in Debt and Equity Securities,” which applies to all entities with available-for-sale and trading securities. This statement is effective as of the beginning of an entity’s first fiscal year that begins after November 15, 2007. Based on Schering-Plough’s current financial position the impact of this standard on the consolidated financial statements is not expected to be material.

In June 2007, the FASB issued EITF Issue No. 07-3, “Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities,” which is effective for calendar year companies on January 1, 2008. The Task Force concluded that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are

delivered or the services are performed, or when the goods or services are no longer expected to be provided. The impact of this standard on the consolidated financial statements is not expected to be material.

In December 2007, the FASB issued EITF Issue No. 07-1, "Accounting for Collaborative Arrangements," which is effective for calendar year companies on January 1, 2009. The Task Force clarified the manner in which costs, revenues and sharing payments made to, or received by a partner in a collaborative arrangements should be presented in the income statement and set forth certain disclosures that should be required in the partners' financial statements. Schering-Plough is currently assessing the potential impacts of implementing this standard.

In December 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB 110), which permits entities, under certain circumstances, to continue to use the "simplified" method of estimating the expected term of plain vanilla options as discussed in SAB No. 107 and in accordance with SFAS No. 123 (Revised 2004), "Share-Based Payment." The guidance in this release is effective January 1, 2008. The impact of this standard on the consolidated financial statements is not expected to be material.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations." For calendar year companies, the standard is applicable to new business combinations occurring on or after January 1, 2009. SFAS 141 (R) requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. Most significantly, SFAS 141 (R) will require that acquisition costs generally be expensed as incurred, certain acquired contingent liabilities will be recorded at fair value, and acquired in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date. The standard will also impact certain unresolved matters related to purchase transactions consummated prior to the effective date of the standard. Schering-Plough is currently assessing the potential impacts of implementing this standard.

In December 2007, the FASB also issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements — An Amendment of ARB No. 51," which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The standard establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Schering-Plough is currently assessing the potential impacts of implementing this standard.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

- Revenue Recognition
- Rebates, Discounts and Returns
- Provision for Income Taxes
- Acquisitions and Impairment of Goodwill, Intangible Assets and Property
- Accounting for Pensions and Post-retirement Benefit Plans
- Accounting for Legal and Regulatory Matters

Revenue Recognition

Schering-Plough's pharmaceutical products are sold to direct purchasers, which include wholesalers, retailers and certain health maintenance organizations. Price discounts and rebates on such sales are paid to federal and state agencies, other indirect purchasers and other market participants such as managed care organizations that indemnify beneficiaries of health plans for their pharmaceutical costs and pharmacy benefit managers.

Schering-Plough recognizes revenue when title and risk of loss pass to the purchaser and when reliable estimates of the following can be determined:

i. commercial discount and rebate arrangements;

ii. rebate obligations under certain federal and state governmental programs; and

iii. sales returns in the normal course of business.

When recognizing revenue, Schering-Plough estimates and records the applicable commercial and governmental discounts and rebates as well as sales returns that have been or are expected to be granted or made for products sold during the period. These amounts are deducted from sales for that period. If reliable estimates of these items cannot be made; Schering-Plough defers the recognition of revenue. Estimates recorded in prior periods are re-evaluated as part of this process.

Revenue recognition for new products is based on specific facts and circumstances including estimated acceptance rates from established products with similar marketing characteristics. Absent the ability to make reliable estimates of rebates, discounts and returns, Schering-Plough would defer revenue recognition.

Product discounts granted are based on the terms of arrangements with wholesalers, managed-care organizations and government purchasers and certain other market conditions. Rebates are estimated based on sales and contract terms, historical experience, trend analysis and projected market conditions in the various markets served. Schering-Plough evaluates market conditions for products or groups of products primarily through the analysis of third party demand and market research data as well as internally generated information. Data and information provided by purchasers and obtained from third parties are subject to inherent limitations as to their accuracy and validity.

Sales returns are estimated and recorded based on historical sales and returns information, analysis of recent wholesale purchase information, consideration of stocking levels at wholesalers and forecasted demand amounts. Products that exhibit unusual sales or return patterns due to dating, competition including expected generic introductions, or other marketing matters are specifically investigated and analyzed as part of the formulation of return reserves.

Schering-Plough's agreements with the major U.S. pharmaceutical wholesalers address a number of commercial issues, such as product returns, timing of payment, processing of chargebacks and the quantity of inventory held by these wholesalers. With respect to the quantity of inventory held by these wholesalers, these agreements provide a financial disincentive for these wholesalers to acquire quantities of product in excess of what is necessary to meet current patient demand. Through the use of these agreements, Schering-Plough expects to avoid situations where Schering-Plough's shipments of product are not reflective of current demand.

Rebates, Discounts and Returns

Schering-Plough's rebate accruals for Federal and State governmental programs, including Medicaid and Medicare Part D, at December 31, 2007 and 2006 were $114 million and $115 million, respectively. Commercial discounts, returns, and other rebate accruals at December 31, 2007 and 2006 were $412 million and $371 million, respectively. These accruals are established in the period the related revenue was recognized, resulting in a reduction to sales and the establishment of liabilities, which are included in total current liabilities, or in the case of returns and other receivable adjustments, an allowance provided against accounts receivable.

In the case of the governmental rebate programs, Schering-Plough'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 Schering-Plough's obligations. Additional information on governmental inquiries focused in part on the calculation of rebates is contained in Note 20, "Legal, Environmental and Regulatory Matters," under Item 8, "Financial Statements and Supplementary Data". In addition, it is possible that, as a result of governmental challenges or changes in interpretive guidance, actual rebates could materially exceed amounts accrued.

The following summarizes the activity in the accounts related to accrued rebates, sales returns and discounts:

	Year Ended December 31, 2007	Year Ended December 31, 2006(1)
	(Dollars in millions)	
Accrued Rebates/Returns/Discounts, Beginning of Period	$ 486	$ 522
OBS' accruals acquired November 19, 2007	63	—
Provision for Rebates	609	474
Adjustment to prior-year estimates	(31)	(56)
Payments	(569)	(460)
	9	(42)
Provision for Returns	142	124
Adjustment to prior-year estimates	(24)	(8)
Returns	(137)	(121)
	(19)	(5)
Provision for Discounts	752	605
Adjustment to prior-year estimates	(2)	(6)
Discounts granted	(763)	(588)
	(13)	11
Accrued Rebates/Returns/Discounts, End of Period	$ 526	$ 486

(1) For the year ended December 31, 2006, the adjustment to prior-year estimates for rebates includes $24 million related to the reversal of previously accrued rebate amounts recorded in 2005 and 2004 for the U.S. Government's TRICARE Retail Pharmacy Program that a U.S. Federal Court ruled pharmaceutical manufacturers were not obligated to pay.

In formulating and recording the above accruals, management utilizes assumptions and estimates that include historical experience, wholesaler data, the projection of market conditions, the estimated lag time between sale and payment of a rebate, utilization estimates, and forecasted product demand amounts as discussed under the critical accounting policy entitled "Revenue Recognition."

As part of its review of these accruals, management performs a sensitivity analysis that considers differing assumptions, which are most subject to judgment in its rebate accrual calculation. Based upon Schering-Plough's sensitivity analysis, reasonably possible changes to assumptions related to rebate accruals could favorably or unfavorably impact 2008 net sales and income before taxes in an amount consistent with 2007.

Provision for Income Taxes

Schering-Plough implemented the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," (FIN 48) as of January 1, 2007. As required by FIN 48, the cumulative effect of applying the provisions of the Interpretation was reported as an adjustment to Schering-Plough's retained earnings balance as of January 1, 2007. Schering-Plough reduced its January 1, 2007 retained earnings by $259 million as a result of the adoption of FIN 48.

Schering-Plough's unrecognized tax benefits result primarily from the varying application of statutes, regulations and interpretations and include exposures on intercompany terms of cross border arrangements and utilization of cash held by foreign subsidiaries (investment in U.S. property) as well as Schering-Plough's tax matters litigation (see Note 20, "Legal, Environmental and Regulatory Matters"). At January 1, and December 31, 2007, the total amount of unrecognized tax benefits was $924 million and $859 million, respectively, which includes reductions to deferred tax assets carrying a full valuation allowance, potential refund claims and tax liabilities. At January 1, and December 31, 2007, approximately $645 million and $535 million, respectively, of total unrecognized tax benefits, if recognized, would affect the effective tax rate. Management believes it is reasonably possible that total unrecognized tax benefits could decrease over the

next twelve-month period by up to $615 million. This decrease would be primarily attributable to a decision in the tax matter currently being litigated in Newark District Court, possible final resolution of the taxpayer's 1997 – 2002 examination at IRS Appeals and possible resolutions of various other matters. However, the timing of the ultimate resolution of Schering-Plough's tax matters and the payment and/or receipt of related cash is dependent on a number of factors, many of which are outside Schering-Plough's control.

Schering-Plough includes interest expense or income as well as potential penalties on uncertain tax positions as a component of income tax expense in the Statement of Consolidated Operations. The total amount of accrued interest related to uncertain tax positions at January 1, and December 31, 2007 was $193 million and $197 million, respectively, and is included in other accrued liabilities.

Schering-Plough records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. Schering-Plough has considered ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. In the event Schering-Plough were to determine that it would be able to realize all or an additional portion of its net deferred tax assets, an adjustment to the valuation allowance would increase income in the period such determination is made. Likewise, should Schering-Plough subsequently determine that it would not be able to realize all or an additional portion of its remaining net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

Acquisitions and Impairment of Goodwill, Intangible Assets and Property

Schering-Plough accounts for acquired businesses using the purchase method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The consolidated financial statements and results of operations reflect an acquired business after the completion of the acquisition. The cost to acquire a business, including transaction costs, is allocated to the underlying net assets of the acquired business based on their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Amounts allocated to acquired in-process research and development are expensed at the date of acquisition. Intangible assets are amortized based on sales over the expected life of the asset. The judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact results of operations. Useful lives are determined based on the expected future period of benefit of the asset, which considers various characteristics of the asset, including projected cash flows.

Intangible assets representing the capitalized costs of purchased goodwill, patents, licenses and other forms of intellectual property totaled $9.9 billion at December 31, 2007. Intangible assets and goodwill increased significantly during 2007 due to the acquisition of OBS. Annual amortization expense in each of the next five years is estimated to be approximately $570 million per year based on the intangible assets recorded as of December 31, 2007. 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.

Certain of Schering-Plough's manufacturing sites operate below capacity. Overall costs of operating manufacturing sites have significantly increased due to the Consent Decree and other compliance activities. Schering-Plough's manufacturing cost base is relatively fixed. Actions on the part of management to significantly reduce Schering-Plough's manufacturing infrastructure involve complex issues. As a result, shifting products between manufacturing plants can take many years due to construction and regulatory requirements, including revalidation and registration requirements. Management continues to review the carrying value of certain manufacturing assets for indications of impairment. Future events and decisions may lead to additional asset impairments and/or related costs.

Accounting for Pension and Post-retirement Benefit Plans

Pension and other post-retirement benefit plan information for financial reporting purposes is calculated using actuarial assumptions. Schering-Plough assesses its pension and other post-retirement benefit plan assumptions on a regular basis. In evaluating these assumptions, Schering-Plough considers many factors, including evaluation of the discount rate, expected rate of return on plan assets, healthcare cost trend rate, retirement age assumption, Schering-Plough's historical assumptions compared with actual results and analysis of current market conditions and asset allocations (see Note 8, "Retirement Plans and Other Post-retirement Benefits," under Item 8, "Financial Statements and Supplementary Data," for additional information).

Discount rates used for pension and other post-retirement benefit plan calculations are evaluated annually and modified to reflect the prevailing market rates at the measurement date of a high-quality fixed income debt instrument portfolio that would provide the future cash flows needed to pay the benefits included in the benefit obligations as they come due. In countries where debt instruments are thinly traded, estimates are based on available market rates.

Actuarial assumptions are based upon management's best estimates and judgment. With other assumptions held constant, an increase of 50 basis points in the discount rate would have an estimated favorable impact of $43 million on net pension and post-retirement benefit cost and an increase of 50 basis points in the expected rate of return assumption would have an estimated favorable impact of $17 million on net pension and post-retirement benefit cost. With other assumptions held constant, a decrease of 50 basis points in the discount rate would have an estimated unfavorable impact of $41 million on net pension and post-retirement benefit cost and a decrease of 50 basis points in the expected rate of return assumption would have an estimated unfavorable impact of $17 million on net pension and post-retirement benefit cost. These sensitivities are based on estimated net pension and post-retirement benefit cost in 2008 which includes the annual impact of OBS' plans.

The expected rates of return for the pension and other post-retirement benefit plans represent the average rates of return to be earned on plan assets over the period during which the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, Schering-Plough determines expected returns for each of the major asset classes, principally equities, fixed income and real estate. The return expectations for these asset classes are based on assumptions for economic growth and inflation, which are supported by long-term historical data as well as Schering-Plough's actual experience of return on plan assets. The expected portfolio performance also reflects the contribution of active management as appropriate.

Unrecognized net loss amounts reflect experience differentials primarily relating to differences between expected and actual returns on plan assets as well as the effects of changes in actuarial assumptions. Expected returns are based primarily on a calculated market-related value of assets. Under this methodology, asset gains/losses resulting from actual returns that differ from Schering-Plough's expected returns for the majority of the assets are realized in the market-related value of assets ratably over a five-year period. Total unrecognized net loss amounts in excess of certain thresholds are amortized into net pension and other post-retirement benefit cost over the average remaining service life of employees.

The targeted investment portfolio of Schering-Plough's U.S. Retirement Plan is allocated 65 percent to equities; 28 percent to fixed income investments; and 7 percent to real estate. The targeted investment portfolio of Schering-Plough's U.S. other post-retirement benefit plan is allocated 70 percent to equities and 30 percent to fixed income investments. The portfolios' equity weightings are consistent with the long-term nature of the plans' benefit obligations. For non-U.S. pension plans, the targeted investment portfolio varies based on the duration of pension liabilities and local governmental rules and regulations.

Substantially all investments in equities and fixed income are valued based on quoted public market values. All investments in real estate are valued based on periodic appraisals.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment of FASB Statements No. 87, 88, 106, and 132R. Effective December 31, 2006, Schering-Plough accounts for its retirement and other post-retirement benefit plans in accordance with SFAS No. 158. Shareholders' equity at December 31, 2006, was reduced by

approximately 7 percent upon the adoption of SFAS No. 158. See Note 8, "Retirement Plans and Other Post-Retirement Benefits," under Item 8, "Financial Statements and Supplemental Data," for additional information. SFAS 158 allows an extended adoption date for the requirement to have Schering-Plough's year-end date as the measurement date for all defined benefit pension and other postretirement plans. For the plans which had measurement dates other than year-end prior to the adoption of SFAS 158, Schering-Plough adopted the year-end measurement date effective with 2007. The impact on the consolidated financial statements related to this measurement date change was not material.

Accounting for Legal and Regulatory Matters

Management judgments and estimates are required in the accounting for legal and regulatory matters on an ongoing basis including insurance coverages. Schering-Plough reviews the status of all claims, investigations and legal proceedings on an ongoing basis. From time to time, Schering-Plough may settle or otherwise resolve these matters on terms and conditions management believes are in the best interests of Schering-Plough. Resolution of any or all claims, investigations and legal proceedings, individually or in the aggregate, could have a material adverse effect on Schering-Plough's results of operations, cash flows or financial condition.

MARKET RISK DISCLOSURE

Schering-Plough 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

Schering-Plough has subsidiaries in more than 55 countries. In 2007, sales outside the U.S. accounted for approximately 64 percent of global sales. Virtually all these sales were denominated in currencies of the local country. As such, Schering-Plough's reported profits and cash flows are exposed to changing exchange rates.

To date, management has not deemed it cost effective to engage in a formula-based program of hedging the profits and cash flows of international operations using derivative financial instruments. Because Schering-Plough's international 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 can provide a level of protection against adverse changes in exchange rates. The risk of adverse exchange rate change is also mitigated by the fact that Schering-Plough's international operations are widespread.

In addition, at any point in time, Schering-Plough's international 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 the translated value of these financial assets and liabilities. Gains or losses that arise from translation do not affect net income.

On occasion, Schering-Plough has used derivatives to hedge specific foreign currency exposures. During 2007, as part of an overall risk management strategy and in consideration of various preliminary financing scenarios associated with the acquisition of OBS, Schering-Plough purchased euro-denominated currency options to mitigate its exposure in the event there was a significant strengthening in the Euro as compared to the U.S. Dollar. Schering-Plough purchased the options for aggregate premiums of approximately $165 million and received proceeds of $675 million upon the termination of these options, resulting in a net realized gain of $510 million. These derivatives did not qualify for hedge accounting in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (SFAS 133). Accordingly, the gain on these derivatives was recognized in the Statement of Consolidated Operations. As of December 31, 2007, there were no open foreign currency option contracts.

Schering-Plough's senior unsecured euro-denominated notes and euro-denominated term loan have been designated as, and are effective as, economic hedges of the net investment in a foreign operation. In accordance with SFAS 52, the foreign currency transaction gains or losses on these euro-denominated debt instruments are included in foreign currency translation adjustment within other comprehensive income.

Interest Rate and Equity Price Risk

Financial assets exposed to changes in interest rates and/or equity prices are primarily cash equivalents, short-term investments and the debt and equity securities held in qualified and non-qualified trusts for employee benefits. These assets totaled more than $2.3 billion at December 31, 2007. For cash equivalents and short-term investments, a 10 percent decrease in interest rates would decrease interest income by approximately $36 million. For securities held in qualified and non-qualified trusts, due to the long-term nature of the liabilities that these trust assets will fund, Schering-Plough's exposure to market risk is deemed to be low.

Financial obligations exposed to variability in interest rates are primarily short-term borrowings and the long-term floating-rate euro-denominated term loan.

Schering-Plough has long-term fixed rate debt outstanding, on which a 10 percent decrease in interest rates would increase the fair value of the debt by approximately $256 million.

During 2007, Schering-Plough executed a series of interest rate swaps in anticipation of financing the acquisition of OBS. The objective of the swaps was to hedge the interest rate payments to be made on future issuances of debt. As such, the swaps were designated as cash flow hedges of future interest payments, and in accordance with SFAS 133, the effective portion of the gains or losses on the hedges are reported in other comprehensive income and any ineffective portion is reported in operations. In connection with the euro-denominated debt issuances as described in Note 14, "Borrowings and Other Commitments," under Item 8, "Financial Statements and Supplementary Data," portions of the swaps were deemed ineffective and Schering-Plough recognized a $7 million loss in the Statement of Consolidated Operations. The effective portion of the swaps of $12 million was recorded in other comprehensive income and is being recognized as interest expense over the life of the related debt. As of December 31, 2007, there were no open interest rate swaps.

Disclosure Notice

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 Schering-Plough may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements do not relate strictly to historical or current facts and are based on current expectations or forecasts of future events. You can identify these forward-looking statements by their use of words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "project," "intend," "plan," "potential," "will," and other similar words and terms. In particular, forward-looking statements include statements relating to future actions, ability to access the capital markets, pending acquisitions, prospective products or product approvals, timing and conditions of regulatory approvals, patent and other intellectual property protection, future performance or effectiveness of marketed products and pipeline drugs, trends in performance including trends in the cholesterol market, sales efforts, research and development programs and anticipated spending, estimates of rebates, discounts and returns, expenses and programs to reduce expenses, the outcome of contingencies such as litigation and investigations, growth strategy, expected synergies and financial results.

Any or all forward-looking statements here or in other publications may turn out to be wrong. There are no guarantees about Schering-Plough's financial and operational performance or the performance of Schering-Plough's 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, Schering-Plough refers you to Item 1A, "Risk Factors," of this report, which we incorporate herein by reference, for identification of important factors with respect to risks and uncertainties.

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 Financial Condition and Results of Operations."

Item 8. ***Financial Statements and Supplementary Data***

Index to Financial Statements

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED OPERATIONS
(Amounts in millions, except per share figures)

	For the Years Ended December 31,		
	2007	2006	2005
Net sales	$ 12,690	$ 10,594	$ 9,508
Cost of sales	4,405	3,697	3,346
Selling, general and administrative	5,468	4,718	4,374
Research and development	2,926	2,188	1,865
Acquired in-process research and development	3,754	—	—
Other (income)/expense, net	(683)	(135)	5
Special and acquisition-related charges	84	102	294
Equity income	(2,049)	(1,459)	(873)
(Loss)/income before income taxes	(1,215)	1,483	497
Income tax expense	258	362	228
Net (loss)/income before cumulative effect of a change in accounting principle	(1,473)	1,121	269
Cumulative effect of a change in accounting principle, net of tax	—	(22)	—
Net (loss)/income	(1,473)	1,143	269
Preferred stock dividends	118	86	86
Net (loss)/income available to common shareholders	$ (1,591)	$ 1,057	$ 183
Diluted (loss)/earnings per common share:			
(Loss)/earnings available to common shareholders before cumulative effect of a change in accounting principle	$ (1.04)	$ 0.69	$ 0.12
Cumulative effect of a change in accounting principle, net of tax	—	0.02	—
Diluted (loss)/earnings per common share	$ (1.04)	$ 0.71	$ 0.12
Basic (loss)/earnings per common share:			
(Loss)/earnings available to common shareholders before cumulative effect of a change in accounting principle	$ (1.04)	$ 0.69	$ 0.12
Cumulative effect of a change in accounting principle	—	0.02	—
Basic (loss)/earnings per common share	$ (1.04)	$ 0.71	$ 0.12
Dividends per common share	$ 0.26	$ 0.22	$ 0.22

The accompanying notes are an integral part of these Consolidated Financial Statements.

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS
(Amounts in millions)

	For the Years Ended December 31,		
	2007	2006	2005
Operating Activities:			
Net (loss)/income	$ (1,473)	$ 1,143	$ 269
Cumulative effect of a change in accounting principle, net of tax	—	22	—
Net (loss)/income before cumulative effect of a change in accounting principle, net of tax	$ (1,473)	$ 1,121	$ 269
Adjustments to reconcile net (loss)/income before cumulative effect of change in accounting principle, net of tax to net cash provided by operating activities:			
Depreciation and amortization	861	568	486
Accrued share-based compensation	211	168	—
Special and acquisition related charges and payments	(430)	65	265
Purchases of derivative currency options	(165)	—	—
Change in fair value of currency options	(510)	—	—
Proceeds from derivative instruments	675	—	—
Acquired in-process research and development	3,754	—	—
Payment to U.S. taxing authorities	(98)	—	(239)
Changes in assets and liabilities:			
Accounts receivable	21	(241)	(209)
Inventories	(132)	(25)	(92)
Prepaid expenses and other assets	(1)	16	168
Accounts payable and other liabilities	(259)	395	241
Income taxes payable	94	94	(7)
Foreign currency transaction exchange loss	101	—	—
Other, net	(19)	—	—
Net cash provided by operating activities	2,630	2,161	882
Investing Activities:			
Capital expenditures	(618)	(458)	(478)
Dispositions of property and equipment	2	9	43
Acquisition, net of cash acquired	(15,789)	—	—
Purchases of short-term investments	(1,136)	(6,648)	(2,608)
Maturities of short-term investments	4,444	4,199	2,641
Other, net	(59)	(10)	(52)
Net cash used for investing activities	(13,156)	(2,908)	(454)
Financing Activities:			
Cash dividends paid to common shareholders	(382)	(326)	(324)
Cash dividends paid to preferred shareholders	(99)	(86)	(86)
Proceeds from preferred stock issuance, net	2,438	—	—
Proceeds from common stock issuance, net	1,537	—	—
Issuance of long-term debt, net	6,430	—	—
Short-term borrowings	—	—	900
Payments of short-term borrowings	(29)	(1,035)	(1,183)
Stock option exercises	225	83	60
Other, net	(31)	3	—
Net cash provided by/(used for) financing activities	10,089	(1,361)	(633)
Effect of exchange rates on cash and cash equivalents	50	7	(12)
Net decrease in cash and cash equivalents	(387)	(2,101)	(217)
Cash and cash equivalents, beginning of year	2,666	4,767	4,984
Cash and cash equivalents, end of year	$ 2,279	$ 2,666	$ 4,767
Supplemental Disclosure:			
Cash paid for interest, net of amounts capitalized	$ 157	$ 170	$ 159
Cash paid for income taxes (see Note 7)	389	234	592

The accompanying notes are an integral part of these Consolidated Financial Statements.

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Amounts in millions, except per share figures)

	At December 31, 2007	2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,279	$ 2,666
Short-term investments	32	3,267
Accounts receivable, less allowances: 2007, $261; 2006, $237	2,841	1,804
Inventories	4,073	1,676
Deferred income taxes	349	266
Prepaid expenses and other current assets	1,272	744
Total current assets	10,846	10,423
Property, at cost:		
Land	326	67
Buildings and improvements	4,634	3,387
Equipment	4,503	3,240
Construction in progress	891	627
Total	10,354	7,321
Less accumulated depreciation	3,338	2,956
Property, net	7,016	4,365
Goodwill	2,937	206
Other intangible assets, net	7,004	286
Other assets	1,353	791
Total assets	$ 29,156	$ 16,071
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 1,762	$ 1,254
Short-term borrowings and current portion of long-term debt	461	242
Income taxes	617	323
Accrued compensation	995	794
Other accrued liabilities	2,208	1,549
Total current liabilities	6,043	4,162
Long-term Liabilities:		
Long-term debt, net of current portion	9,019	2,414
Deferred income taxes	1,701	122
Other long-term liabilities	2,008	1,465
Total long-term liabilities	12,728	4,001
Commitments and contingent liabilities (Note 20)		
Shareholders' Equity:		
2004 mandatory convertible preferred shares — $1 par value; $50 per share face value; issued 0 at December 31, 2007 and 29 at December 31, 2006	—	1,438
2007 mandatory convertible preferred shares — $1 par value; $250 per share face value issued 10 at December 31, 2007 and 0 at December 31, 2006	2,500	—
Common shares — authorized shares: 2,400, $.50 par value; issued: 2,111 at December 31, 2007 and 2,034 at December 31, 2006	1,055	1,017
Paid-in capital	4,815	1,661
Retained earnings	7,856	10,119
Accumulated other comprehensive loss	(534)	(872)
Total	15,692	13,363
Less treasury shares: 2007, 490; 2006, 547; at cost	5,307	5,455
Total shareholders' equity	10,385	7,908
Total liabilities and shareholders' equity	$ 29,156	$ 16,071

The accompanying notes are an integral part of these Consolidated Financial Statements.

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

(Amounts in millions)

	2004 Mandatory Convertible Preferred Shares	2007 Mandatory Convertible Preferred Shares	Common Shares	Paid-in Capital	Retained Earnings	Treasury Shares	Accumulated Other Compre-hensive Loss	Total Share-holders' Equity
Balance January 1, 2005	$ 1,438	$ —	$ 1,015	$ 1,234	$ 9,613	$ (5,444)	$ (300)	$ 7,556
Comprehensive income/(loss):								
Net income					269			269
Foreign currency translation							(160)	(160)
Minimum pension liability, net of tax, per SFAS No. 87/88							(56)	(56)
Total comprehensive income								53
Cash dividends on common shares					(324)			(324)
Dividends on preferred shares					(86)			(86)
Stock incentive plans and other	—	—	—	182	—	6	—	188
Balance December 31, 2005	$ 1,438	$ —	$ 1,015	$ 1,416	$ 9,472	$ (5,438)	$ (516)	$ 7,387
Comprehensive income:								
Net income					1,143			1,143
Foreign currency translation							94	94
Minimum pension liability, net of tax, per SFAS No. 87/88							67	67
Unrealized gain on investments available for sale, net of tax							4	4
Total comprehensive income								1,308
Cash dividends on common shares					(326)			(326)
Dividends on preferred shares					(86)			(86)
Accrued dividends on common shares					(81)			(81)
Adjustment of pension and other-post-retirement liabilities upon the adoption of SFAS No. 158, net of tax of $25							(521)	(521)
Stock incentive plans and other	—	—	2	245	(3)	(17)	—	227
Balance December 31, 2006	$ 1,438	$ —	$ 1,017	$ 1,661	$ 10,119	$ (5,455)	$ (872)	$ 7,908
Adoption of FIN 48					(259)			(259)
Comprehensive (loss)/income:								
Net loss					(1,473)			(1,473)
Foreign currency translation							210	210
Pension and other-post-retirement liabilities, net of tax							138	138
Derivative interest rate instruments							(12)	(12)
Unrealized gain on investments available for sale, net of tax							1	1
Total comprehensive loss								(1,136)
Issuance of preferred stock		2,500		(62)				2,438
Issuance of common stock				1,380		157		1,537
Conversion of preferred stock	(1,438)		32	1,406				—
SFAS No. 158 measurement date provisions, net of tax					(2)		1	(1)
Cash dividends on common shares					(382)			(382)
Dividends on preferred shares					(118)			(118)
Accrued dividends on common shares					(20)			(20)
Stock incentive plans and other	—	—	6	430	(9)	(9)	—	418
Balance December 31, 2007	$ —	$ 2,500	$ 1,055	$ 4,815	$ 7,856	$ (5,307)	$ (534)	$ 10,385

The accompanying notes are an integral part of these Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Overview

Schering-Plough is an innovation-driven, science-centered global health care company. Through its own biopharmaceutical research and collaborations with partners, Schering-Plough creates therapies that help save and improve lives around the world. Schering-Plough applies its research-and-development platform to human prescription and consumer products as well as to animal health products.

In November 2007, Schering-Plough acquired Organon BioSciences N.V. (OBS), a company that discovers, develops and manufactures human prescription and animal health products. See Note 2, "Acquisitions," for additional information.

Principles of Consolidation

The consolidated financial statements include Schering-Plough Corporation and its subsidiaries (Schering-Plough). Intercompany balances and transactions are eliminated. The accounts of OBS have been included as part of Schering-Plough's results from the date of acquisition (November 19, 2007).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, Schering-Plough evaluates its estimates which are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Equity Method of Accounting

Schering-Plough accounts for its share of activity from the Merck/Schering-Plough joint venture (the joint venture) with Merck & Co., Inc. (Merck) using the equity method of accounting as Schering-Plough has significant influence over the joint venture's operating and financial policies. Accordingly, Schering-Plough's net sales do not include sales from the joint venture, and Schering-Plough's share of earnings in the joint venture is included in equity income in determining consolidated net income/(loss). Equity income from the joint venture is included in the Human Prescription Pharmaceuticals segment.

Revenue from the sales of VYTORIN and ZETIA are recognized by the joint venture when title and risk of loss has passed to the customer. Equity income from the joint venture excludes any profit arising from transactions between Schering-Plough and the joint venture until such time as there is an underlying profit realized by the joint venture in a transaction with a party other than Schering-Plough or Merck. See Note 4, "Equity Income," for additional information regarding this joint venture.

Cash and Cash Equivalents

Cash and cash equivalents include operating cash and highly liquid investments with original maturities of three months or less, including highly-rated money market accounts.

Short-term Investments

Short-term investments are carried at their fair value and are classified as available-for-sale. These investments consist of certificates of deposit and commercial paper with maturities of less than a year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Inventories

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

Depreciation of Property and Equipment

Depreciation is provided over the estimated useful lives of the properties, generally by use of the straight-line method.

Useful lives of new property acquisitions are generally as follows:

Asset Category	Years
Buildings	40
Building Improvements	25
Equipment	3-15

Schering-Plough reviews the carrying value of property and equipment for indications of impairment in accordance with Statement of Financial Accounting Standard (SFAS) 144, "Accounting for the Impairment and Disposal of Long-Lived Assets."

Depreciation expense was $404 million in 2007, $443 million in 2006 and $362 million in 2005. Depreciation expense in 2006 included accelerated depreciation related to the manufacturing streamlining of $93 million.

Foreign Currency Translation

The net assets of most of Schering-Plough's international 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 account, which is included in other comprehensive income/(loss) and are reflected as a separate component of Shareholders' Equity. For the remaining international 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 the statements of consolidated operations.

Exchange gains and losses arising from translating intercompany balances of a long-term investment nature are recorded in the foreign currency translation account. Transactional exchange gains and losses are included in other (income)/expense, net.

Revenue Recognition

Schering-Plough's pharmaceutical products are sold to direct purchasers which include wholesalers, retailers and certain health maintenance organizations. Price discounts and rebates on such sales are paid to federal and state agencies, other indirect purchasers and other market participants such as managed care organizations that indemnify beneficiaries of health plans for their pharmaceutical costs and pharmacy benefit managers.

Schering-Plough recognizes revenue when title and risk of loss pass to the purchaser and when reliable estimates of the following can be determined:

i. commercial discount and rebate arrangements;

ii. rebate obligations under certain federal and state governmental programs; and

iii. sales returns in the normal course of business.

When recognizing revenue, Schering-Plough estimates and records the applicable commercial and governmental discounts and rebates as well as sales returns that have been or are expected to be granted or made for products sold during the period. These amounts are deducted from sales for that period. If reliable estimates of these items cannot be made, Schering-Plough defers the recognition of revenue. Estimates recorded in prior periods are re-evaluated as part of this process.

Earnings Per Common Share

Diluted earnings/(loss) per common share is computed by dividing net income/(loss) available to common shareholders plus preferred stock dividends for the dilutive effect of any mandatory convertible preferred stock by the sum of the weighted average number of common shares outstanding plus the dilutive effect of shares issuable through deferred stock units and the exercise of stock options and any dilutive effect of shares issuable upon conversion of Schering-Plough's mandatory convertible preferred stock.

Basic earnings/(loss) per common share is computed by dividing net income/(loss) available to common shareholders by the weighted average number of common shares outstanding.

Goodwill and Other Intangible Assets

Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets," requires that intangible assets acquired either individually or with a group of other assets be initially recognized and measured based on fair value. An intangible with a finite life is amortized over its useful life, while an intangible with an indefinite life, including goodwill, is not amortized.

The Company assesses the recoverability of the carrying value of its goodwill and other intangible assets with indefinite useful lives annually or whenever events or changes in circumstances indicate that the carrying amount of the asset may not be fully recoverable. Recoverability of goodwill is measured at the reporting unit level based on a two-step approach. First, the carrying amount of the reporting unit is compared to the fair value as estimated by the future net discounted cash flows expected to be generated by the reporting unit. To the extent that the carrying value of the reporting unit exceeds the fair value of the reporting unit, a second step would be performed, wherein the reporting unit's assets and liabilities are fair valued. To the extent that the reporting unit's carrying value of goodwill exceeds its implied fair value of goodwill, impairment exists and would be recognized.

Recoverability of other intangible assets with indefinite useful lives is measured by a comparison of the carrying amount of the intangible assets to the fair value of the respective intangible assets. Any excess of the carrying value of the intangible assets over the fair value of the intangible assets would be recognized as an impairment loss.

Schering-Plough conducts its annual impairment testing of goodwill at October 1 each year. Based on the impairment tests performed, there was no impairment of goodwill in 2007, 2006 or 2005; however, there can be no assurance that future goodwill or indefinite lived assets impairment tests will not result in a charge to the Statement of Consolidated Operations.

In 2007, Schering-Plough's goodwill and other intangible asset balances increased significantly due to the acquisition of OBS. See Note 2, "Acquisition," and Note 12, "Goodwill and Other Intangible Assets," for additional information.

Other Assets

Included in other assets is capitalized software of $278 million and $246 million at December 31, 2007 and 2006, respectively. Amortization expense were $89 million, $76 million, and $71 million in 2007, 2006, and 2005, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Income Taxes

Schering-Plough implemented the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," (FIN 48) as of January 1, 2007. Under FIN 48, in order to recognize an uncertain tax benefit, the taxpayer must be more likely than not of sustaining the position, and the measurement of the benefit is calculated as the largest amount that is more than 50 percent likely to be realized upon resolution of the benefit.

Deferred income taxes are recognized for the future tax effects of temporary differences between the financial and income tax reporting basis of Schering-Plough's assets and liabilities based on enacted tax laws and rates.

Accounting for Share-Based Compensation

Prior to January 1, 2006, Schering-Plough accounted for its stock-based compensation arrangements using the intrinsic value method. No share-based employee compensation cost was reflected in the statements of consolidated operations, other than for Schering-Plough's deferred stock units and performance plans, as stock options granted under all other plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Effective January 1, 2006, Schering-Plough accounts for all share-based compensation in accordance with SFAS No. 123 (Revised 2004) "Share-Based Payment" (SFAS 123R). See Note 5, "Share-Based Compensation," for additional information.

Shipping and Handling Expenses

Shipping expenses are classified as selling, general and administrative expenses in the Consolidated Statement of Operations.

Impact of Other Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." The standard defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. The standard codifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. For calendar year companies the standard is effective beginning January 1, 2008 except for non-financial items measured on a non-recurring basis for which it is effective beginning January 1, 2009. Based on Schering-Plough's current financial position the impact of this standard on the consolidated financial statements is not expected to be material.

In November 2006, the FASB issued Emerging Issues Task Force Issue (EITF) No. 06-10, "Accounting for Deferred Compensation and Postretirement Benefits Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements," which is effective for calendar year companies on January 1, 2008. The Task Force concluded that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106 or APB Opinion No. 12 based on the substantive agreement with the employee. The Task Force also concluded that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The impact of this standard on the consolidated financial statements is not expected to be material.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-Including an Amendment of FASB Statement No. 115" (SFAS 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 also

includes an amendment to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which applies to all entities with available-for-sale and trading securities. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Based on Schering-Plough's current financial position the impact of this standard on the consolidated financial statements is not expected to be material.

In June 2007, the FASB issued EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities," which is effective for calendar year companies on January 1, 2008. The Task Force concluded that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the services are performed, or when the goods or services are no longer expected to be provided. The impact of this standard on the consolidated financial statements is not expected to be material.

In December 2007, the FASB issued EITF Issue No. 07-1, "Accounting for Collaborative Arrangements," which is effective for calendar year companies on January 1, 2009. The Task Force clarified the manner in which costs, revenues and sharing payments made to, or received by a partner in a collaborative arrangements should be presented in the income statement and set forth certain disclosures that should be required in the partners' financial statements. Schering-Plough is currently assessing the potential impacts of implementing this standard.

In December 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 110 (SAB 110), which permits entities, under certain circumstances, to continue to use the "simplified" method of estimating the expected term of plain options as discussed in SAB No. 107 and in accordance with SFAS 123R The guidance in this release is effective January 1, 2008. The impact of this standard on the consolidated financial statements is not expected to be material.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations." (SFAS 141R) For calendar year companies, the standard is applicable to new business combinations occurring on or after January 1, 2009. SFAS 141R requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. Most significantly, SFAS 141R will require that acquisition costs generally be expensed as incurred, certain acquired contingent liabilities will be recorded at fair value, and acquired in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date. The standard will also impact certain unresolved matters related to purchase transactions consummated prior to the effective date of the standard. Schering-Plough is currently assessing the potential impacts of implementing this standard.

In December 2007, the FASB also issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements — An Amendment of ARB No. 51," which is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The standard establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Schering-Plough is currently assessing the potential impacts of implementing this standard.

2. ACQUISITION

Schering-Plough acquired OBS for a purchase price of approximately Euro 11 billion in cash, or approximately $16.1 billion (including legal and professional fees) on November 19, 2007 (the Acquisition Date). This acquisition added further diversification of marketed products, including two new therapeutic areas (Women's Health and Central Nervous System), as well as significant strength in Animal Health products and the R&D pipeline. The purchase method of accounting was used to account for the transaction in accordance with SFAS No. 141, "Business Combinations." The operating results of OBS are included in Schering-Plough's consolidated financial statements for the period subsequent to the Acquisition Date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table provides pro forma financial information for the years ended December 31, 2007 and 2006 as if the acquisition had occurred as of the beginning of each period presented:

	2007	2006
	(Dollars in millions except per share data) (unaudited)	
Net sales	$ 16,853	$ 15,079
Net loss before cumulative effect of a change in accounting principle	(2,500)	(3,987)
Net loss available to common shareholders	(2,712)	(4,201)
Diluted loss per common share	(1.72)	(2.73)
Basic loss per common share	(1.72)	(2.73)

The pro forma financial information for both periods presented includes amortization of the step-up of inventory of $1.1 billion and an acquired in-process research and development charge of $3.8 billion, which are non-recurring charges directly attributable to the accounting for the acquisition. The pro forma financial information also includes the effect of purchase accounting adjustments such as additional amortization expense from the acquired identifiable intangible assets and depreciation from the step-up of property. No effect has been given in the pro forma financial information for synergistic benefits that may be realized or costs related to the integration of OBS. The pro forma financial information should not be considered indicative of actual results that would have been achieved had this acquisition been consummated on the dates indicated and does not purport to indicate results of operations as of any future date or for any future period.

The preliminary allocation of the purchase price of OBS on November 19, 2007 is as follows:

	(Dollars in millions)
Cash	$ 330
Current assets (excluding inventories)	1,288
Inventories	2,404
Property	2,501
Identifiable intangible assets(1)	6,793
Goodwill(2)	2,711
Other-non current assets	750
Acquired in-process research and development (IPR&D)(3)	3,754
Total assets acquired	$ 20,531
Acquisition related liabilities(4)	$ 151
Other current liabilities	1,633
Deferred tax liabilities	2,145
Other-non current liabilities	483
Total liabilities assumed	$ 4,412
Net assets acquired	$ 16,119

This allocation of the purchase price is subject to finalization of Schering-Plough's management analysis of the fair value of the assets acquired (including assets related to pension plans) and liabilities assumed of OBS as of the Acquisition Date. The final allocation of the purchase price may result in additional adjustments to the recorded amounts of assets and liabilities and may also result in adjustments to depreciation, amortization and acquired in-process research and development. The adjustments arising out of the finalization of the purchase price allocation will not impact cash flows. However, such adjustments could result in material increases or decreases to net income/(loss) available to common shareholders. Further revisions to the purchase price allocation will be made as additional information becomes available. The final allocation is expected to be completed as soon as practicable but no later than 12 months after the Acquisition Date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

(1) The preliminary purchase price allocation to identifiable intangible assets is as follows:

	Dollars, in millions	Weighted Average Amortization Period (years)
Intangible assets with determinable lives:		
Patents	$ 4,021	11
Trademarks	2,772	20
Total intangible assets	$ 6,793	

The weighted average life for the $6.8 billion of total intangibles is approximately 15 years. The intangible assets have no significant residual value. There were no acquired intangible assets that were determined to have an indefinite life.

(2) $1.8 billion of the goodwill has been assigned to the Human Prescription Pharmaceuticals segment and $888 million has been assigned to the Animal health segment. None of the goodwill is deductible for income tax purposes.

(3) The preliminary value of $3.8 billion assigned to acquired IPR&D was charged to operations in the fourth quarter of 2007. This charge was associated with research projects in animal health and research projects in the women's health, central nervous system and anesthesia therapeutic areas of human health. The amount was determined by using discounted cash flow projections of identified research projects for which technological feasibility had not been established and for which there was no alternative future use. The discount rates used ranged from 14 percent to 18 percent. The projected launch dates following FDA or other regulatory approval are years 2008 through 2013, at which time Schering-Plough expects these projects to begin to generate cash flows. The cost to complete the research projects will depend on whether the projects are brought to their final stages of development and are ultimately submitted to the FDA or other regulatory agencies for approval. As of December 31, 2007, the estimated cost to complete projects near the final stages of development was in excess of $700 million. All of the research and development projects considered in the valuation are subject to the normal risks and uncertainties associated with demonstrating the safety and efficacy required to obtain FDA or other regulatory approvals.

(4) Included in acquisition related liabilities are involuntary termination benefits and costs to exit certain activities of OBS.

In conjunction with the OBS acquisition, Schering-Plough agreed to divest certain assets as part of regulatory reviews in the U.S. and Europe. These assets have been classified as held for sale and are included in other current assets in the consolidated balance sheet and are not material.

3. SPECIAL AND ACQUISITION RELATED CHARGES AND MANUFACTURING STREAMLINING

2007 Special and Acquisition Related Charges

During the year ended December 31, 2007, Schering-Plough incurred $84 million of special and acquisition-related charges, comprised of $61 million of integration-related costs for the OBS acquisition and $23 million of severance charges as part of integration activities.

2006 Manufacturing Streamlining

During 2006, Schering-Plough implemented changes to its manufacturing operations in Puerto Rico and New Jersey that have streamlined its global supply chain and further enhanced Schering-Plough's long-term competitiveness. These changes resulted in the phase-out and closure of Schering-Plough's manufacturing operations in Manati, Puerto Rico, and additional workforce reductions in Las Piedras, Puerto Rico, and New

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Jersey. In total, these actions resulted in the elimination of over 1,000 positions. These actions yielded an annualized cost savings of approximately $100 million.

Special charges

Special charges in 2006 related to the changes in Schering-Plough's manufacturing operations totaled $102 million. These charges consisted of approximately $47 million of severance and $55 million of fixed asset impairments.

Cost of sales

Included in 2006 cost of sales was approximately $146 million consisting of $93 million of accelerated depreciation, $46 million of inventory write-offs, and $7 million of other charges related to the closure of Schering-Plough's manufacturing facilities in Manati, Puerto Rico.

The following table summarizes activities reflected in the consolidated financial statements related to changes to Schering-Plough's manufacturing operations which were completed in 2006:

	Charges Included in Cost of Sales	Special Charges	Total Charges	Cash Payments	Non-cash Charges	Accrued Liability
			(Dollars in millions)			
Accrued liability at January 1, 2006						$ —
Severance	$ —	$ 47	$ 47	$ (35)	$ —	12
Asset impairments	—	55	55	—	(55)	—
Accelerated depreciation	93	—	93	—	(93)	—
Inventory write-offs	46	—	46	—	(46)	—
Other	7	—	7	(2)	(5)	—
Total	$ 146	$ 102	$ 248	$ (37)	$ (199)	
Accrued liability at December 31, 2006						$ 12
Severance				(12)		(12)
Accrued liability at December 31, 2007						$ —

2005 Special Charge Activities

Special charges incurred in 2005 are as follows:

	2005 (Dollars in millions)
Litigation charges	$ 250
Employee termination costs	28
Asset impairment and other charges	16
	$ 294

Litigation charges

In 2005, litigation reserves were increased by $250 million. This increase resulted in a total reserve of $500 million for the Massachusetts Investigation, as well as the investigations and the state litigation disclosed under "AWP Litigation and Investigations" in Note 20, "Legal, Environmental and Regulatory Matters," representing Schering-Plough's then current estimate to resolve this matter. On August 29, 2006, Schering-Plough announced it had reached an agreement with the U.S. Attorney's Office for the District of

Massachusetts and the U.S. Department of Justice to settle the Massachusetts Investigation for an aggregate amount of $435 million, which was paid during 2007. This settlement amount relates only to the Massachusetts Investigation. The AWP investigations and litigation are ongoing.

Employee termination costs

Employee termination costs in 2005 consisted of $7 million associated with a Voluntary Early Retirement Program (VERP) in the U.S. during 2003 and $21 million of other employee termination costs.

Asset impairment and other charges

For the year ended December 31, 2005, Schering-Plough recognized asset impairment and other charges of $16 million related primarily to the consolidation of Schering-Plough's U.S. biotechnology organizations.

4. EQUITY INCOME

In May 2000, Schering-Plough and Merck & Co., Inc. (Merck) entered into two separate sets of agreements to jointly develop and market certain products in the U.S. including (1) two cholesterol-lowering drugs and (2) an allergy/asthma drug. In December 2001, the cholesterol agreements were expanded to include all countries of the world except Japan. In general, the companies agreed that the collaborative activities under these agreements would operate in a virtual joint venture to the maximum degree possible by relying on the respective infrastructures of the two companies. These agreements generally provide for equal sharing of development costs and for co-promotion of approved products by each company.

The cholesterol agreements provide for Schering-Plough and Merck to jointly develop and commercialize ezetimibe in the cholesterol management field:

i. as a once-daily monotherapy (managed as ZETIA in the U.S. and Asia and EZETROL in Europe);

ii. in co-administration with various approved statin drugs; and

iii. as a fixed-combination tablet of ezetimibe and simvastatin (Zocor), Merck's cholesterol-modifying medicine. This combination medication (ezetimibe/simvastatin) is managed as VYTORIN in the U.S. and as INEGY in many international countries.

ZETIA/EZETROL (ezetimibe) and VYTORIN/INEGY (the combination of ezetimibe/simvastatin) are approved for use in the U.S. and have been launched in many international markets.

Schering-Plough utilizes the equity method of accounting in recording its share of activity from the Merck/Schering-Plough cholesterol joint venture. As such, Schering-Plough's net sales do not include the sales of the joint venture. The cholesterol joint venture agreements provide for the sharing of operating income generated by the joint venture based upon percentages that vary by product, sales level and country. In the U.S. market, Schering-Plough receives a greater share of profits on the first $300 million of annual ZETIA sales. Above $300 million of annual ZETIA sales, Merck and Schering-Plough generally share profits equally. Schering-Plough's allocation of the joint venture income is increased by milestones recognized. Further, either company's share of the joint venture's income from operations is subject to a reduction if that company fails to perform a specified minimum number of physician details in a particular country. The companies agree annually to the minimum number of physician details by country.

The companies bear the costs of their own general sales forces and commercial overhead in marketing joint venture products around the world. In the U.S., Canada and Puerto Rico, the cholesterol agreements provide for a reimbursement to each company for physician details that are set on an annual basis, and in Italy, a contractual amount is included in the profit sharing calculation that is not reimbursed. In the U.S., Canada and Puerto Rico this amount is equal to each company's physician details multiplied by a contractual fixed fee. Schering-Plough reports these amounts as part of equity income from the cholesterol joint venture. These amounts do not represent a reimbursement of specific, incremental and identifiable costs for Schering-

Plough's detailing of the cholesterol products in these markets. In addition, these amounts are not reflective of Schering-Plough's sales effort related to the joint venture as Schering-Plough's sales force and related costs associated with the joint venture are generally estimated to be higher.

For the year ended December 31, 2005, Schering-Plough recognized milestones of $20 million. These milestones related to certain European approvals of VYTORIN (ezetimibe/simvastatin) in 2005.

Costs of the joint venture that the companies contractually share are a portion of manufacturing costs, specifically identified promotion costs (including direct-to-consumer advertising and direct and identifiable out-of-pocket promotion) and other agreed upon costs for specific services such as market support, market research, market expansion, a specialty sales force and physician education programs.

Certain specified research and development expenses are generally shared equally by Schering-Plough and Merck. Under certain conditions, as specified in the joint venture agreements with Merck, Schering-Plough could be entitled to receive reimbursements of its future research and development expenses of up to $105 million.

The following information provides a summary of the components of Schering-Plough's equity income from the cholesterol joint venture for the year ended December 31:

	2007	2006	2005
	(Dollars in millions)		
Schering-Plough's share of net income (including milestones of $20 in 2005)	$ 1,831	$ 1,273	$ 689
Contractual amounts for physician details	242	204	196
Elimination of intercompany profit and other, net	(24)	(18)	(12)
Total equity income from Merck/Schering-Plough joint venture	$ 2,049	$ 1,459	$ 873

Equity income from the joint venture excludes any profit arising from transactions between Schering-Plough and the joint venture until such time as there is an underlying profit realized by the joint venture in a transaction with a party other than Schering-Plough or Merck.

Due to the virtual nature of the cholesterol joint venture, Schering-Plough incurs substantial costs, such as selling, general and administrative costs, that are not reflected in equity income and are borne by the overall cost structure of Schering-Plough. These costs are reported on their respective line items in the Statements of Consolidated Operations and are not separately identifiable. The cholesterol agreements do not provide for any jointly owned facilities and, as such, products resulting from the joint venture are manufactured in facilities owned by either Schering-Plough or Merck.

The allergy/asthma agreements provide for the joint development and marketing by the companies 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. During 2007, a New Drug Application filing for this combination tablet has been accepted by the U.S. Food and Drug Administration (FDA) for standard review.

During 2007, Schering-Plough announced that it had agreed with Merck to commence development of a single-tablet combination of ezetimibe and atorvastatin as a treatment for elevated cholesterol levels.

See Note 20, "Legal, Environmental and Regulatory Matters," for discussion of the ENHANCE matter.

5. SHARE-BASED COMPENSATION

Prior to January 1, 2006, Schering-Plough accounted for its stock compensation arrangements using the intrinsic value method, which followed the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and the related Interpretations. Prior to 2006, no stock-based employee compensation cost was reflected in the Statement of Consolidated Operations, other than for

Schering-Plough's deferred stock units, as stock options granted under all other plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Schering-Plough adopted SFAS 123R effective January 1, 2006. SFAS 123R requires companies to recognize compensation expense in an amount equal to the fair value of all share-based payments granted to employees. Schering-Plough elected the modified prospective transition method, and therefore, adjustments to prior periods were not required as a result of adopting SFAS 123R. Under this method, the provisions of SFAS 123R apply to all awards granted after the date of adoption and to any unrecognized expense of awards unvested at the date of adoption based on the grant date fair value. SFAS 123R also amended SFAS No. 95, "Statement of Cash Flows," to require that excess tax benefits that had been reflected as operating cash flows be reflected as financing cash flows.

For grants issued to retirement-eligible employees prior to the adoption of SFAS 123R, Schering-Plough recognized compensation costs over the stated vesting period of the stock option or deferred stock unit with acceleration of any unrecognized compensation costs upon the retirement of the employee. Upon adoption of SFAS 123R, Schering-Plough recognizes compensation costs on all share-based grants made on or after January 1, 2006, over the service period, which is the earlier of: i) one year if the employee is or becomes retirement eligible during the first year of the grant; ii) the employees' retirement eligibility date if after the first year of the grant; and iii) the service period of the award.

On November 10, 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 123R-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." Schering-Plough has elected to adopt the transition method provided in this FASB Staff Position for purposes of calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123R.

During 2006, the 2006 Stock Incentive Plan (the 2006 Plan) was approved by Schering-Plough's shareholders. Under the terms of the 2006 Plan, 92 million of Schering-Plough's authorized common shares may be granted as stock options or awarded as deferred stock units to officers and certain employees of Schering-Plough through December 2011.

Schering-Plough intends to utilize unissued authorized shares to satisfy stock option exercises and for the issuance of deferred stock units. Expensed related to share-based compensation are classified in the line item associated with the employees' function.

During 2007, Schering-Plough granted performance-based deferred stock units under the 2006 Stock Incentive Plan, which provide certain senior managers the opportunity to earn shares of Schering-Plough common stock. These units will only be earned if specific pre-established levels of performance and service are achieved during a three year performance period (2007-2009).

Implementation of SFAS 123R

In the first quarter of 2006, Schering-Plough recognized a benefit to income of $22 million for the cumulative effect of a change in accounting principle related to two long-term compensation plans required to be accounted for as liability plans under SFAS 123R.

Tax benefits recognized related to stock-based compensation and related cash flow impacts were not material during 2007 and 2006 as Schering-Plough is in a U.S. Net Operating Loss position.

Stock Options

Stock options are granted to employees at exercise prices equal to the fair market value of Schering-Plough's stock at the dates of grant. Stock options under the 2006 Plan generally vest over three years and have a term of seven years. Certain options granted under previous plans vest over longer periods ranging from three to nine years and have a term of 10 years. Compensation costs for all stock options are recognized

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

over the requisite service period for each separately vesting portion of the stock option award. Expense is recognized, net of estimated forfeitures, over the vesting period of the options using an accelerated method. Expense recognized in 2007 and 2006, was approximately $72 and $56 million, respectively.

The weighted-average assumptions used in the Black-Scholes option-pricing model in 2007, 2006 and 2005 were as follows:

	2007	2006	2005
Dividend yield	1.1%	1.1%	1.7%
Volatility	24.8%	25.7%	31.6%
Risk-free interest rate	4.6%	5.0%	4.1%
Expected term of options (in years)	4.5	4.5	7.0

Dividend yields are based on historical dividend yields. Expected volatilities are based on historical volatilities of Schering-Plough's common stock which is not expected to differ materially from future volatility. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the options. The expected term of options represents the weighted average period of time that options granted are expected to be outstanding giving consideration to vesting schedules. Schering-Plough utilizes the simplified method of calculating the expected term of stock options as allowed under SAB 107 as amended by SAB 110.

The amount of cash received from the exercise of stock options in 2007, 2006 and 2005 was $225 million, $83 million and $60 million, respectively.

Stock-based compensation prior to January 1, 2006, was determined using the intrinsic value method. The following table provides supplemental information for 2005 as if stock-based compensation had been computed under SFAS 123:

	2005 (Dollars in millions except per share figures)
Net income available to common shareholders, as reported	$ 183
Add back: Expense included in reported net income for deferred stock units	89
Deduct: Pro forma expense as if both stock options and deferred stock units were charged against net income available to common shareholders in accordance with SFAS 123	(177)
Pro forma net income available to common shareholders using the fair value method	$ 95
Diluted earnings per common share:	
Diluted earnings per common share, as reported	$ 0.12
Pro forma diluted earnings per common share using the fair value method	0.06
Basic earnings per common share:	
Basic earnings per common share, as reported	$ 0.12
Pro forma basic earnings per common share using the fair value method	0.06

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Summarized information about stock options outstanding and exercisable at December 31, 2007, is as follows:

	Outstanding			Exercisable	
Exercise Price Range	Number of Options (In thousands)	Weighted-Average Remaining Term in Years	Weighted-Average Exercise Price	Number of Options (In thousands)	Weighted-Average Exercise Price
Under $20	32,668	5.7	$ 18.23	25,475	$ 17.99
$20 to $30	9,118	7.2	21.03	5,724	20.93
$30 to $40	23,839	3.8	34.68	14,342	36.74
Over $40	14,215	2.3	46.36	14,164	46.36
	79,840			59,705	

The weighted-average fair value of stock options granted in 2007, 2006 and 2005 was $8.06, $5.22 and $7.04, respectively. The intrinsic value of stock options exercised in 2007, 2006 and 2005 was $132 million, $21 million and $24 million, respectively. The total fair value of options vested in 2007, 2006 and 2005 was $80 million, $73 million and $69 million, respectively.

As of December 31, 2007, the total remaining unrecognized compensation cost related to non-vested stock options amounted to $52 million, which will be amortized over the weighted-average remaining requisite service period of 2.1 years.

The following table summarizes stock option activity as of December 31, 2007, and changes during the year then ended under the current and prior plans:

	Number of Options (In thousands)	Weighted-Average Exercise Price
Outstanding at January 1	84,089	$ 26.75
Granted	10,070	31.32
Exercised	(12,056)	18.65
Canceled or expired	(2,263)	29.51
Outstanding at December 31	79,840	$ 28.47
Exercisable at December 31	59,705	$ 29.51

The aggregate intrinsic value of stock options outstanding at December 31, 2007, was $326 million. The aggregate intrinsic value of stock options currently exercisable at December 31, 2007, was $253 million. Intrinsic value for stock options is calculated based on the exercise price of the underlying awards and the quoted price of Schering-Plough's common stock as of the reporting date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes nonvested stock option activity as of December 31, 2007, and changes during the year then ended under the current and prior plans:

	Number of Options	Weighted-Average Fair Value
	(In thousands)	
Nonvested at January 1	24,451	$ 6.00
Granted	10,070	8.06
Vested	(13,300)	6.05
Forfeited	(1,086)	6.13
Nonvested at December 31	20,135	$ 6.99

Deferred Stock Units

The fair value of deferred stock units is determined based on the number of shares granted and the quoted price of Schering-Plough's common stock at the date of grant. Deferred stock units generally vest at the end of three years provided the employee remains in the service of Schering-Plough. Expense is recognized on a straight-line basis over the vesting period. Deferred stock units are payable in an equivalent number of common shares. Expense recognized in 2007, 2006 and 2005 was $125 million, $112 million and $89 million, respectively.

Summarized information about deferred stock units outstanding at December 31, 2007, is as follows:

	Outstanding		
Deferred Stock Unit Price Range	Number of Deferred Stock Units	Weighted-Average Remaining Term in Years	Weighted-Average Fair Value
	(In thousands)		
$15 to $20	6,126	1.3	$ 19.22
$20 to $25	6,220	0.4	20.78
Over $25	5,607	2.3	31.34
	17,953		

The weighted-average fair value of deferred stock units granted in 2007, 2006 and 2005 was $31.19, $19.27 and $20.65 respectively. The total fair value of deferred stock units vested during 2007, 2006 and 2005 was $17 million, $68 million and $39 million, respectively.

As of December 31, 2007, the total remaining unrecognized compensation cost related to deferred stock units amounted to $185 million, which will be amortized over the weighted-average remaining requisite service period of 2.0 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes deferred stock unit activity as of December 31, 2007, and changes during the year then ended under the current and prior plans:

	Number of Nonvested Deferred Stock Units (In thousands)	Weighted-Average Fair Value
Nonvested at January 1, 2007	13,799	$ 19.81
Granted	5,882	31.19
Vested	(939)	17.68
Forfeited	(789)	22.07
Nonvested at December 31, 2007	17,953	$ 23.55

Performance-Based Deferred Stock Units

The distribution of the performance-based deferred stock units are contingent on Schering-Plough meeting either performance and/or market conditions. One half of the performance-based stock unit grant has a performance condition and the fair value of these units was based on the closing stock price on the date of grant. The other half of the grant has a market condition and the fair value of these units was determined by using a lattice valuation model with expected volatility assumptions and other assumptions appropriate for determining fair value. The weighted average grant-date fair value of performance-based deferred stock units granted during 2007 was $23.47 and represented approximately 1,397,000 underlying shares. As of December 31, 2007, none of these units have vested.

Compensation expense for performance-based stock units is based on the fair values of the awards expected to vest based on performance measures and is recognized over the performance period. The compensation expense recognized for the year ended 2007 is $14 million. As of December 31, 2007, unrecognized compensation cost related to the performance-based deferred stock units was $34 million, which will be amortized over the remaining weighted average requisite service period of 2.0 years. The remaining unrecognized compensation cost for the performance-based deferred stock units may vary each reporting period based on changes in the expected achievement of performance measures.

Liability Plans

Schering-Plough has two compensation plans that are classified as liability plans under SFAS 123R, as the ultimate cash payout of these plans will be based on Schering-Plough's stock performance as compared to the stock performance of a peer group. Upon adoption of SFAS 123R on January 1, 2006, Schering-Plough recognized a cumulative income effect of a change in accounting principle of $22 million in order to recognize the liability plans at fair value. During the service period, income or expense amounts related to these liability plans are based on the change in fair value at each reporting date. Fair value for the plans was estimated using a lattice valuation model using expected volatility assumptions and other assumptions appropriate for determining fair value. For one of these liability plans, the service period concluded as of December 31, 2006 and the value of the plan became fixed. The expense recognized for these liability plans in the Statements of Consolidated Operations, exclusive of the impact of the cumulative effect of a change in accounting principle, was $22 million and $24 million, for 2007 and 2006, respectively.

As of December 31, 2007, the total remaining unrecognized compensation cost related to the liability plans amounted to $12 million, which will be amortized over the weighted-average remaining requisite service period of 1 year. This amount will vary each reporting period based on changes in fair value for the plan for which there is a remaining service requirement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

6. OTHER (INCOME)/EXPENSE, NET

The components of other (income)/expense, net, are as follows:

	2007	2006	2005
	(Dollars in millions)		
Interest cost incurred	$ 263	$ 184	$ 177
Less: amount capitalized on construction	(18)	(12)	(14)
Interest expense	245	172	163
Interest income	(395)	(297)	(176)
Foreign exchange (gains)/losses, net	(37)	2	8
Realized gain on foreign currency options, net	(510)	—	—
Ineffective portion of interest rate swaps	7	—	—
Other, net	7	(12)	10
Total other (income)/expense, net	$ (683)	$ (135)	$ 5

Net foreign exchange gains of $37 million in 2007 includes $101 million of foreign currency transaction exchange losses related to euro-denominated debt instruments prior to being accounted for as economic hedges of the net investment in a foreign operation. These currency exchange losses were non-cash items and are included as adjustments to reconcile net loss to net cash provided by operating activities in the Statement of Consolidated Cash Flows.

During 2007, as part of an overall risk management strategy and in consideration of various preliminary financing scenarios associated with the acquisition of OBS, Schering-Plough purchased euro-denominated currency options (derivatives) for aggregate premiums of approximately $165 million and received proceeds of $675 million upon the termination of these options, resulting in a net realized gain of $510 million. These derivatives did not qualify for hedge accounting in accordance with SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended (SFAS 133). Accordingly, the gain on these derivatives was recognized in the Statement of Consolidated Operations. These derivatives were short-term (trading) in nature and did not hedge a specific financing or investing transaction. Accordingly, the cash impacts of these derivatives have been classified as operating cash flows in the Statement of Consolidated Cash Flows.

During 2007, Schering-Plough executed a series of interest rate swaps in anticipation of financing the acquisition of OBS. The objective of the swaps was to hedge the interest rate payments to be made on future issuances of debt. As such, the swaps were designated as cash flow hedges of future interest rate payments, and in accordance with SFAS 133, the effective portion of the gains or losses on the hedges are reported in other comprehensive income and any ineffective portion is reported in operations. In connection with the euro-denominated debt issuances as described in Note 14, “Borrowings and Other Commitments,” portions of the swaps were deemed ineffective and Schering-Plough recognized a $7 million loss in the Statement of Consolidated Operations during 2007. The effective portion of the swaps of $12 million was recorded in other comprehensive income during 2007 and is being recognized as interest expense over the life of the related debt. The cash flow impacts of these interest rate swaps are classified as operating cash flows in the Statement of Consolidated Cash Flows.

During 2006 and 2007, Schering-Plough participated in healthcare refinancing programs adopted by local government fiscal authorities in a major European market. During the year ended December 31, 2007, Schering-Plough transferred $173 million of its trade accounts receivables owned by foreign subsidiaries to third-party financial institutions without recourse. During the year ended December 31, 2006, Schering-Plough transferred $38 million of its trade accounts receivables owned by a foreign subsidiary to third-party financial institutions without recourse. The transfer of trade accounts receivable qualified as sales of accounts receivable under SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.” For the years ended December 31, 2007 and 2006, the transfer of these trade accounts receivable

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

did not have a material impact on Schering-Plough's Statement of Consolidated Operations. Cash flows from these transactions are included in the change in accounts receivable in operating activities.

7. INCOME TAXES

The components of consolidated (loss)/income before income taxes for the years ended December 31 are as follows:

	2007	2006	2005
	(Dollars in millions)		
United States	$ (982)	$ (593)	$ (1,436)
Foreign	(233)	2,098	1,933
Total (loss)/income before income taxes and including cumulative effect of a change in accounting principle	$ (1,215)	$ 1,505	$ 497

The 2007 loss included an acquired in-process research and development charge to the amortization of fair values of certain assets acquired as part of the OBS acquisition

Income from the cholesterol joint venture is included in the above table based on the jurisdiction in which the income is earned.

The components of income tax expense for the years ended December 31 are as follows:

	Federal	State	Foreign	Total
		(Dollars in millions)		
2007				
Current	$ 36	$ 20	$ 265	$ 321
Deferred	—	—	(63)	(63)
Total	$ 36	$ 20	$ 202	$ 258
2006				
Current	$ 42	$ 25	$ 251	$ 318
Deferred	(3)	—	47	44
Total	$ 39	$ 25	$ 298	$ 362
2005				
Current	$ (46)	$ 23	$ 227	$ 204
Deferred	—	(9)	33	24
Total	$ (46)	$ 14	$ 260	$ 228

During 2004, Schering-Plough established a valuation allowance on its net U.S. deferred tax assets, including the benefit of U.S. operating losses, as management concluded that it is not more likely than not that the benefit of the U.S. net deferred tax assets can be realized. At December 31, 2007, Schering-Plough continues to maintain a valuation allowance against its U.S. net deferred tax assets.

During 2005, Schering-Plough repatriated approximately $9.4 billion in accordance with its planned repatriation under the provisions of the American Jobs Creation Act, (AJCA) which was the maximum amount of foreign earnings that qualified for an effectively reduced tax rate of 5.25 percent. The tax provision related to the AJCA was recorded in 2004. Schering-Plough's tax provision for the year ended December 31, 2005, includes a U.S. federal income tax benefit of approximately $42 million as a result of an IRS Notice issued in August 2005. The provisions of this Notice resulted in a reduction of the previously accrued tax liability attributable to the AJCA repatriation and also reduced the 2005 U.S. Net Operating Loss (NOL) carried forward to subsequent years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Prior to the AJCA, Schering-Plough's intent was to indefinitely reinvest all unremitted earnings of its international subsidiaries, and except for the amounts repatriated under the AJCA, Schering-Plough maintains its intent to indefinitely reinvest earnings of its international subsidiaries. Schering-Plough has not provided deferred taxes on approximately $5.8 billion of undistributed foreign earnings as of December 31, 2007. Determining the tax liability that would arise if these earnings were remitted is not practicable. That liability would depend on a number of factors, including the amount of the earnings distributed and whether the U.S. operations were generating taxable profits or losses.

Deferred income taxes are provided for temporary differences between the financial reporting basis and the tax basis of Schering-Plough's assets and liabilities. Schering-Plough's deferred tax assets result principally from the recording of certain items that currently are not deductible for tax purposes and net operating loss and other tax credit carryforwards. Schering-Plough's deferred tax liabilities principally result from book over tax basis difference resulting from the OBS acquisition and the use of accelerated depreciation for tax purposes.

The components of Schering-Plough's deferred tax assets and liabilities at December 31 are as follows:

	2007	2006
	(Dollars in millions)	
Deferred tax assets:		
NOL carryforwards	$ 401	$ 374
Other tax credit carryforwards	418	341
Post-retirement and other employee benefits	632	553
Inventory related	272	158
Sales return reserves	144	142
Litigation accruals	88	156
Intangible Assets	132	34
Other	343	205
Total deferred tax assets:	$ 2,430	$ 1,963
Deferred tax liabilities:		
Depreciation	$ (454)	$ (288)
Inventory valuation	(191)	(33)
OBS Intangible Assets	(1,669)	—
Other	(111)	(61)
Total deferred tax liabilities:	$ (2,425)	$ (382)
Deferred tax valuation allowance	$ (1,219)	$ (1,358)
Net deferred tax (liabilities)/assets	$ (1,214)	$ 223

The change in the valuation allowance from 2006 to 2007 is principally related to an increase in deferred tax liabilities related to the acquisition of OBS.

The deferred tax assets for net operating losses and other tax credit carryforwards principally relate to U.S. NOLs, Research and Development (R&D) tax credits, U.S. foreign tax credits and Federal Alternative Minimum Tax (AMT) credit carryforwards. At December 31, 2007, Schering-Plough had approximately $1.7 billion of U.S. NOLs for income tax purposes that are available to offset future U.S. taxable income. U.S. NOLs are U.S. operating losses adjusted for the differences between financial and tax reporting. These U.S. NOLs will expire in varying amounts between 2024 and 2027, if unused. State NOLs related to these U.S. NOLs, as well as an incremental amount related to OBS's state NOLs, expire in varying amounts between 2008 and 2027. At December 31, 2007, Schering-Plough had approximately $164 million of R&D tax credits

carryforwards that will expire between 2022 and 2027; $189 million of foreign tax credit carryforwards that will expire between 2011 and 2017; and $49 million of AMT tax credit carryforwards that have an indefinite life. The U.S. NOL carryforward could be materially reduced after examination of Schering-Plough's income tax returns by the Internal Revenue Service (IRS). Schering-Plough has reduced the deferred tax assets and related valuation allowance recorded for its U.S. NOLs and tax credit carryforwards to reflect the estimated resolution of these examinations.

The difference between income taxes based on the U.S. statutory tax rate and Schering-Plough's income tax expense for the years ending December 31 was due to the following:

	2007	2006	2005
	(Dollars in millions)		
Income tax (benefit)/expense at U.S. statutory rate	$ (425)	$ 527	$ 174
Increase/(decrease) in taxes resulting from:			
Lower rates in other jurisdictions, net	(883)	(436)	(417)
Federal (benefit) on repatriated foreign earnings under the Act, net of credits	—	—	(42)
U.S. operating losses for which no tax benefit was recorded	165	215	437
Permanent differences	1,346	(7)	66
State income tax	20	25	14
Provision for other tax matters	35	38	(4)
Income tax at effective tax rate	$ 258	$ 362	$ 228

The permanent differences in 2007 are largely attributable to the acquired in-process research and development charge of $3.8 billion related to the acquisition of OBS for which no tax benefit was recorded.

The lower tax rates in other jurisdictions in 2007, 2006, and 2005, net, are primarily attributable to Schering-Plough's manufacturing subsidiaries in Singapore, Ireland and Puerto Rico, which operate under various incentive tax grants that begin to expire in 2011. Additionally, most major countries in which Schering Plough conducts its operations have statutory tax rates less than the U.S. tax rate. Overall, income taxes primarily relate to foreign taxes and does not include any benefit related to U.S. operating losses.

Schering-Plough implemented the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," (FIN 48) as of January 1, 2007. As required by FIN 48, the cumulative effect of applying the provisions of the Interpretation was reported as an adjustment to Schering-Plough's retained earnings balance as of January 1, 2007. Schering-Plough reduced its January 1, 2007 retained earnings by $259 million as a result of the adoption of FIN 48.

Schering-Plough's unrecognized tax benefits result primarily from the varying application of statutes, regulations and interpretations and include exposures on intercompany terms of cross border arrangements and utilization of cash held by foreign subsidiaries (investment in U.S. property) as well as Schering-Plough's tax matters litigation (see Note 20, "Legal, Environmental and Regulatory Matters"). At January 1, and December 31, 2007, the total amount of unrecognized tax benefits was $924 million and $859 million, respectively, which includes reductions to deferred tax assets carrying a full valuation allowance, potential refund claims and tax liabilities. At January 1, and December 31, 2007, approximately $645 million and $535 million, respectively, of total unrecognized tax benefits, if recognized, would affect the effective tax rate. Management believes it is reasonably possible that total unrecognized tax benefits could decrease over the next twelve-month period up to $615 million. This would be primarily attributable to a decision in the tax matter currently being litigated in Newark District Court, possible final resolution of Schering-Plough's 1997 — 2002 examination by the IRS and appeals and possible resolutions of various other matters. However, the timing of the ultimate resolution of Schering-Plough's tax matters and the payment and receipt of related cash is dependent on a number of factors, many of which are outside Schering-Plough's control.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Schering-Plough includes interest expense or income as well as potential penalties on uncertain tax positions as a component of income tax expense in the Statement of Consolidated Operations. The total amount of accrued interest related to uncertain tax positions at January 1, and December 31, 2007 was $193 million and $197 million, respectively, and is included in other accrued liabilities.

The tabular reconciliation of Schering-Plough's FIN 48 unrecognized tax benefits from January 1 — December 31, 2007 is as follows:

	(Dollars in millions)
At January 1, 2007	$ 924
Additions for tax positions related to 2007	74
Additions for tax positions related to prior years	46
Additions for tax positions related to acquired entities	37
Reductions for tax positions related to prior years	(25)
Reductions for potential refund claims(1)	(120)
Reductions related to amounts settled with taxing authorities	(77)
Lapses in Statutes of Limitations	—
As of December 31, 2007	$ 859

(1) Schering Plough had been considering the filing of refund claims based on court decisions involving the claim of right doctrine. Two recent courts of appeal decision, clarifying the law in this area have made it clear that Schering Plough would not prevail on these claims. The amount of unrecognized tax benefits has been reduced accordingly and had no impact on net loss in 2007.

Net consolidated income tax payments, exclusive of payments related to the tax examinations and litigation discussed below, during 2007, 2006, and 2005 were $389 million, $234 million, and $592 million, respectively.

In January 2006, the IRS completed its examination of Schering-Plough's 1993-1996 federal income tax returns. Schering-Plough made a cash payment in the third quarter of 2005 in the form of a tax deposit of approximately $239 million in anticipation of the settlement of the 1993-1996 tax examination and to prevent additional IRS interest charges. This payment fully satisfied the liability associated with the tax examination and was consistent with the previously recorded reserves.

During the second quarter of 2007, the IRS completed its examination of Schering-Plough's 1997-2002 federal income tax returns. Schering-Plough is seeking resolution of an issue raised during this examination through the IRS administrative appeals process. Schering-Plough remains open with the IRS for the 1997 — 2007 tax years. For most of its other significant tax jurisdictions (both U.S. state and foreign), Schering-Plough's income tax returns are open for examination for the period 2000 through 2007. In July 2007, Schering-Plough made a payment of $98 million to the IRS pertaining to the 1997-2002 examination.

In October 2001, IRS auditors asserted that two interest rate swaps that Schering-Plough entered into with an unrelated party should be recharacterized as loans from affiliated companies, resulting in additional tax liability for the 1991 and 1992 tax years. In September 2004, Schering-Plough made payments to the IRS in the amount of $194 million for income tax and $279 million for interest. Schering-Plough filed refund claims for the tax and interest with the IRS in December 2004. Following the IRS's denial of Schering-Plough's claims for a refund, Schering-Plough filed suit in May 2005 in the U.S. District Court for the District of New Jersey for refund of the full amount of the tax and interest. This refund litigation is currently being tried in Newark District court. Schering-Plough's tax reserves were adequate to cover the above-mentioned payments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

8. RETIREMENT PLANS AND OTHER POST-RETIREMENT BENEFITS

Plan Descriptions

Schering-Plough has defined benefit pension plans covering eligible employees in the U.S. and certain foreign countries. For the largest U.S. plan (the Schering-Plough Retirement Plan), benefits for normal retirement are primarily based upon the participant's average final earnings, years of service and Social Security income, and are modified for early retirement. Death and disability benefits are also available under the plan. Benefits become fully vested after five years of service. The plan provides for the continued accrual of credited service for employees who opt to postpone retirement and remain employed with Schering-Plough after reaching the normal retirement age. Non-U.S. pension plans offer benefits that are competitive with local market conditions. The defined benefit plans that were assumed by Schering-Plough as part of the OBS acquisition have been included in Schering-Plough's results of operations after the Acquisition Date and financial position as of December 31, 2007. See Note 2, "Acquisition."

In addition, Schering-Plough provides post-retirement medical and life insurance benefits primarily to its eligible U.S. retirees and their dependents through its post-retirement benefit plans.

Effective December 31, 2006, Schering-Plough accounts for its retirement plans and other post-retirement benefit plans (the plans) in accordance with SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," (SFAS 158) an amendment of SFAS No. 87, 88, 106, and 132R. SFAS 158 requires the recognition of an asset for the overfunded plans and a liability for the underfunded plans in Schering-Plough's consolidated balance sheets. This Statement also requires the recognition of changes in the funded status of the plans in the year in which the changes occur. SFAS 158 allows an extended adoption date for the requirement to have the Schering-Plough's year-end date as the measurement date for all defined benefit pension and other postretirement plans. For the plans which had measurement dates other than year-end prior to the adoption of SFAS 158, Schering-Plough adopted the year-end measurement date effective with 2007. The impact on the consolidated financial statements related to this measurement date change was not material.

The incremental effects resulting from the implementation of SFAS 158 on the individual line items of Schering-Plough's Consolidated Balance Sheets at December 31, 2006, are as follows:

	Balance Sheets Amounts Prior to SFAS No. 87/88/158 Adjustments	SFAS No. 87/88 Adjustments	SFAS No. 158 Adjustments	Balance Sheets Amounts After SFAS No. 87/88/158 Adjustments
		(Dollars in millions)		
ASSETS				
Other intangible assets	$ 347	$ (2)	$ (59)	$ 286
Other long-term assets (including deferred tax asset)	780	15	(4)	791
LIABILITIES				
Accrued compensation	$ 779	$ —	$ 15	$ 794
Other long-term liabilities	1,076	(54)	443	1,465
EQUITY				
Accumulated other comprehensive loss, net of tax effects	$ (418)	$ 67	$ (521)	$ (872)

Included in Schering-Plough's accumulated other comprehensive loss at December 31, 2007 and 2006, was $689 million ($553 million, net of tax effects) and $841 million ($692 million, net of tax effects), respectively, of costs that were not recognized as components of net periodic benefit costs pursuant to

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The components of these costs at December 31, 2007 and 2006, were as follows:

	Retirement Plans		Other Post-Retirement Benefits	
	2007	2006	2007	2006
	(Dollars in millions)			
Actuarial loss	$ 447	$ 604	$ 223	$ 216
Prior service cost/(credit)	58	64	(39)	(43)
Total	$ 505	$ 668	$ 184	$ 173

The actuarial losses primarily represent the cumulative difference between the actuarial assumptions and the actual returns from plan assets, changes in discount rates and plans' experience. Total loss amounts, net in excess of certain thresholds, are amortized into net pension and other post-retirement benefit cost over the average remaining service life of employees. The amounts in accumulated other comprehensive loss that are expected to be recognized as components of net periodic costs during 2008 are as follows:

	Retirement Plans	Other Post-Retirement Benefits
	(Dollars in millions)	
Actuarial loss recognition	$ 19	$ 10
Prior service cost/(credit) recognition	7	(5)

Actuarial Assumptions

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

	Retirement Plans		Other Post-Retirement Benefits	
	2007	2006	2007	2006
Discount rate	5.8%	5.5%	6.5%	6.0%
Rate of increase in future compensation	3.7%	3.8%	N/A	N/A

The assumptions above were used to develop the benefit obligations at year-end.

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

	Retirement Plans			Other Post-Retirement Benefits		
	2007	2006	2005	2007	2006	2005
Discount rate	5.5%	5.3%	5.6%	6.0%	5.7%	6.0%
Long-term expected rate of return on plan assets	7.6%	7.7%	7.5%	7.5%	7.5%	7.5%
Rate of increase in future compensation	3.8%	3.8%	3.9%	N/A	N/A	N/A

The assumptions used to determine net periodic benefit costs for each year are established at the end of each previous year while the assumptions used to determine benefit obligations are established at each year-end. The net periodic benefit costs and the actuarial present value of the benefit obligations are based on actuarial assumptions that are determined annually based on an evaluation of long-term trends, as well as market conditions, that may have an impact on the cost of providing retirement benefits.

The long-term expected rates of return on plan assets are derived from return assumptions determined for each of the major asset classes: equities, fixed income and real estate, on a proportional basis. 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 healthcare cost trend rate used for post-retirement measurement purposes is 10.6 percent for 2008, trending down to 5.2 percent by 2017. A one percent increase in the assumed healthcare cost trend rate would increase combined post-retirement service and interest cost by $11 million and the post-retirement benefit obligation by $92 million. A one percent decrease in the assumed health care cost trend rate would decrease combined post-retirement service and interest cost by $9 million and the post-retirement benefit obligation by $74 million.

Average retirement age is assumed based on the annual rates of retirement experienced by Schering-Plough.

Components of Net Periodic Benefit Costs

The net pension and other post-retirement benefit costs totaled $223 million, $204 million, and $165 million in 2007, 2006, and 2005, respectively.

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

	Retirement Plans			Other Post-Retirement Benefits		
	2007	2006	2005	2007	2006	2005
	(Dollars in millions)					
Service cost	$ 137	$ 119	$ 102	$ 21	$ 18	$ 15
Interest cost	135	113	106	29	26	24
Expected return on plan assets	(135)	(113)	(112)	(13)	(13)	(15)
Amortization, net	43	44	31	4	6	2
Termination benefits	—	—	7	—	—	1
Settlements	2	4	4	—	—	—
Net pension and other post-retirement benefit costs	$ 182	$ 167	$ 138	$ 41	$ 37	$ 27

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Benefit Obligations

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

	Retirement Plans		Other Post-Retirement Benefits	
	2007	2006	2007	2006
	(Dollars in millions)			
Benefit obligations at beginning of year	$ 2,369	$ 2,155	$ 509	$ 451
Service cost	137	119	21	18
Interest cost	135	113	29	26
Medicare drug subsidy received	—	—	2	2
Participant contributions	10	6	4	3
Effects of exchange rate changes	51	53	1	—
Benefits paid	(108)	(110)	(27)	(25)
Acquisitions/plan transfers	1,597	14	75	1
Actuarial(gains) / losses (including assumption change)	(165)	33	17	33
Change in measurement date	4	—	—	—
Plan amendments	3	4	(1)	—
Termination benefits	—	—	—	—
Curtailment	—	(6)	—	—
Settlement	(8)	(12)	—	—
Benefit obligations at end of year	$ 4,025	$ 2,369	$ 630	$ 509
Benefit obligations of over-funded plans	$ 250	$ 99	$ —	$ —
Benefit obligations of under-funded plans	3,775	2,270	630	509

Funded Status and Balance Sheet Presentation

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

	Retirement Plans		Other Post-Retirement Benefits	
	2007	2006	2007	2006
	(Dollars in millions)			
Fair value of plan assets, primarily stocks and bonds, at beginning of year	$ 1,673	$ 1,441	$ 189	$ 185
Actual gain on plan assets	101	186	13	24
Employer contributions	196	115	2	2
Participant contributions	10	6	4	3
Acquisitions/plan transfers	1,388	10	—	—
Effects of exchange rate changes	41	37	—	—
Settlements	(8)	(12)	—	—
Benefits paid	(108)	(110)	(27)	(25)
Fair value of plan assets at end of year	$ 3,293	$ 1,673	$ 181	$ 189
Plan assets of over-funded plans	$ 292	$ 120	$ —	$ —
Plan assets of under-funded plans	3,001	1,553	181	189

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The increase in the benefit obligations and retirement plan assets at December 31, 2007 is primarily due to the acquisition and/or plan transfers related to Schering-Plough's acquisition of OBS in November 2007. The OBS benefit obligations and retirement plan assets are based on a preliminary estimate of fair value.

In addition to the plan assets indicated above, at December 31, 2007 and 2006, securities investments of $75 million and $71 million, respectively, were held in a non-qualified trust designated to provide pension benefits for certain under-funded plans.

In accordance with SFAS No. 158, at December 31, 2007 and 2006, the net asset of the over-funded plans was $42 million and $21 million, respectively, all of which related to Schering-Plough's retirement plans, and is included in other long-term assets. The net liability from the under-funded plans at December 31, 2007 and 2006, totaled $1.2 billion and $1.0 billion, respectively, as follows:

	Retirement Plan		Other Post-Retirement Benefits	
	2007	2006	2007	2006
	(Dollars in millions)			
Accrued compensation (current)	$ 18	$ 15	$ 4	$ —
Other long-term liabilities	756	702	445	320
Total	$ 774	$ 717	$ 449	$ 320

At December 31, 2007 and 2006, the accumulated benefit obligations (ABO) for the retirement plans were $3.6 billion and $2.0 billion, respectively. The aggregated accumulated benefit obligations and fair values of plan assets for retirement plans with accumulated benefit obligations in excess of plan assets were $2.7 billion and $2.2 billion, respectively, at December 31, 2007, and $1.8 billion and $1.4 billion, respectively, at December 31, 2006.

Plan Assets at Fair Value

The asset allocation for the consolidated retirement plans at December 31, 2007 and 2006, and the target allocation for 2008 are as follows:

Asset Category	Target Allocation 2008	Percentage of Plan Assets at December 31, 2007	Percentage of Plan Assets at December 31, 2006
Equity securities	53%	54%	62%
Debt securities	40	39	31
Real estate	7	7	7
Total	100%	100%	100%

The asset allocation for the post-retirement benefit trusts at December 31, 2007 and 2006, and the target allocation for 2008 are as follows:

Asset Category	Target Allocation 2008	Percentage of Plan Assets at December 31, 2007	Percentage of Plan Assets at December 31, 2006
Equity securities	70%	75%	76%
Debt securities	30	25	24
Total	100%	100%	100%

Schering-Plough'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 assets are periodically rebalanced back to the target allocations.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Retirement Plans	Other Post-retirement Benefits
	(Dollars in millions)	
2008	$ 158	$ 33
2009	141	34
2010	152	36
2011	165	38
2012	179	40
Years 2013-2017	1,097	242

Schering-Plough's practice is to fund qualified pension plans at least at sufficient amounts to meet the minimum requirements set forth in applicable laws. Schering-Plough expects to contribute approximately $215 million to its retirement plans during 2008, including a minimum of approximately $55 million to the U.S. Schering-Plough Retirement Plan.

Defined Contribution Plans

Schering-Plough maintains defined contribution savings plans in the U.S. including a plan acquired as part of the OBS acquisition. For the largest U.S. plan, Schering-Plough makes contributions to the plan equal to three percent of eligible employee earnings, plus a matching contribution of up to two percent of eligible employee earnings based on employee contributions. The total Schering-Plough contributions to this plan in 2007 and 2006 were $77 million and $70 million, respectively.

Schering-Plough also maintains defined contribution retirement plans in various other jurisdictions. Schering-Plough's contributions to these plans in 2007 and 2006 were not material.

9. EARNINGS PER COMMON SHARE

The following table reconciles the components of the basic and diluted earnings/(loss) per share computations:

	2007	2006	2005
	(Dollars and shares in millions)		
EPS numerator:			
Net (loss)/income available to common shareholders	$ (1,591)	$ 1,057	$ 183
EPS Denominator:			
Weighted average shares outstanding for basic EPS	1,536	1,482	1,476
Dilutive effect of options and deferred stock units	—	9	8
Average shares outstanding for diluted EPS	1,536	1,491	1,484

During the third quarter of 2007, Schering-Plough's 2004 mandatory convertible preferred stock converted into 65 million common shares. These common shares are included in the weighted average shares calculation for the period after conversion.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

For the years ended December 31, 2007, 2006 and 2005, 45 million, 65 million, and 69 million common shares, respectively, obtainable upon conversion of the 2004 mandatory convertible preferred stock were excluded from the computation of diluted (loss)/earnings per common share because their effect would have been antidilutive on a weighted average basis for the period prior to conversion.

In addition, for the year ended December 31, 2007, approximately 91 million common shares obtainable upon conversion of the 2007 mandatory convertible preferred stock were excluded from the computation of diluted (loss)/earnings common per share because their effect would have been antidilutive.

The equivalent common shares issuable under Schering-Plough's stock incentive plans that were excluded from the computation of diluted (loss)/earnings per common share because their effect would have been antidilutive were 100 million, 48 million, and 39 million, respectively, for the years ended December 31, 2007, 2006, and 2005, respectively.

Schering-Plough issued 57,500,000 of common shares on August 15, 2007. These common shares are included in the weighted-average shares calculation for the period after issuance. See note 16 "Shareholders' Equity," for additional information.

10. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss at December 31, 2007 and 2006 were as follows:

	2007	2006
	(Dollars in millions)	
Foreign currency translation adjustment	$ 13	$ (197)
Pension and other-post-retirement liabilities, net of tax effects, in accordance with SFAS No. 158 provisions(1)	(553)	(692)
Accumulated derivative loss	(12)	—
Unrealized gain on investments available for sale, net of tax	18	17
Total	$ (534)	$ (872)

(1) See Note 8, "Retirement Plans and Other Postretirement Benefits," for additional information regarding the impacts on Schering-Plough's financial statements upon the adoption of SFAS No. 158.

Included in foreign currency translation adjustment during 2007 is a $23 million charge to comprehensive loss from Schering-Plough's euro-denominated debt instruments which have been designated as, and are effective as, economic hedges of the net investment in a foreign operation.

Effective December 31, 2006, Schering-Plough accounts for its retirement and other post-retirement benefit plans in accordance with SFAS No. 158. The implementation of SFAS No. 158 resulted in an increase of $521 million, net of tax effects, to accumulated other comprehensive loss that reduced shareholders' equity.

During 2007, Schering-Plough executed a series of interest rate swaps in anticipation of financing the acquisition of OBS. The objective of the swaps was to hedge the interest rate payments to be made on future issuances of debt. As such, the swaps were designated as cash flow hedges of future interest rate payments, and in accordance with SFAS 133, the effective portion of the gains or losses on the hedges are reported in other comprehensive income and any ineffective portion is reported in operations. The effective portion of the swaps of $12 million was recorded in other comprehensive income and is being recognized as interest expense over the life of the related debt. During the year ended December 31, 2007, $1 million of the effective portion of the interest rate swaps was recognized as interest expense. $2 million is expected to be recognized as interest expense during 2008.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Gross unrealized pre-tax gains on investments in 2007 and 2006 were $1 million and $4 million, respectively; unrealized losses were immaterial.

11. INVENTORIES

Inventories consisted of the following at December 31:

	2007	2006
	(Dollars in millions)	
Finished products	$ 1,823	$ 728
Goods in process	1,729	771
Raw materials and supplies	617	248
Total inventories and inventory classified in other non-current assets	$ 4,169	$ 1,747

Included in other assets at December 31, 2007 and 2006 is $96 million and $71 million, respectively, of inventory not expected to be sold within one year.

Inventories valued on a last-in, first-out (LIFO) basis comprised approximately 9 percent and 20 percent of total inventories at December 31, 2007 and 2006, respectively. The estimated replacement cost of total inventories at December 31, 2007 and 2006 was $4.2 billion and $1.8 billion, respectively. The cost of all other inventories is determined by the first-in, first-out method (FIFO).

12. GOODWILL AND OTHER INTANGIBLE ASSETS

During 2007, as part of the purchase accounting for the acquisition of OBS, Schering-Plough recorded $2.7 billion of goodwill, of which $1.8 billion has been assigned to the Human Prescription Pharmaceuticals segment and $888 million has been assigned to the Animal Health segment. None of the goodwill related to the OBS acquisition is deductible for income tax purposes.

The following table summarizes goodwill activity during the years ending December 31,

	2007			2006		
	Human Prescription Pharmaceuticals	Animal Health	Total	Human Prescription Pharmaceuticals	Animal Health	Total
	(Dollars in millions)					
Goodwill balance January 1	$ 35	$ 171	$ 206	$ 35	$ 169	$ 204
Acquisitions	1,828	888	2,716	—	—	—
Foreign exchange	11	4	15	—	2	2
Write-offs	—	—	—	—	—	—
Other	—	—	—	—	—	—
Goodwill balance December 31	$ 1,874	$ 1,063	$ 2,937	$ 35	$ 171	$ 206

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The components of other intangible assets, net, are as follows at December 31:

	2007			2006		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
	(Dollars in millions)					
Patents	$ 4,050	$ 55	$ 3,995	$ 10	$ 7	$ 3
Trademarks	2,851	67	2,784	43	26	17
Licenses and other	740	515	225	660	394	266
Total other intangible assets	$ 7,641	$ 637	$ 7,004	$ 713	$ 427	$ 286

Patents, trademarks and licenses are amortized on the straight-line method over their respective useful lives. The residual value of intangible assets is estimated to be zero.

During 2007, as part of the purchase accounting for the acquisition of OBS, Schering-Plough recorded $6.8 billion of other intangible assets. See Note 2, “Acquisition,” for additional information.

Amortization expense related to other intangible assets in 2007, 2006, and 2005 was $107 million, $47 million, and $49 million, respectively, and is included in cost of sales in the Statement of Consolidated Operations. All 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. Annual amortization expenses related to these intangible assets for the years 2008 to 2013 is expected to be approximately $570 million.

13. PRODUCT LICENSES

In August 2005, Schering-Plough exercised its right to develop and commercialize with Centocor, Inc. (Centocor), golimumab, a new anti-TNF-alpha monoclonal antibody being developed as a therapy for the treatment of rheumatoid arthritis and other immune-mediated inflammatory diseases. Pursuant to the exercise, Schering-Plough received exclusive worldwide marketing rights to golimumab, excluding the U.S., Japan, China (including Hong Kong), Taiwan, and Indonesia. In exchange for its rights under this agreement, Schering-Plough made an upfront payment in the amount of $124 million to Centocor before a tax benefit of $6 million. This payment was included in research and development expenses for the year ended December 31, 2005. Schering-Plough is sharing development costs with Centocor.

In December 2007, Schering-Plough and Centocor revised their distribution agreement regarding the development, commercialization and distribution of both REMICADE and golimumab, extending Schering-Plough’s rights to exclusively market REMICADE to match the duration of Schering-Plough’s exclusive marketing rights for golimumab. Effective upon regulatory approval of golimumab in the EU, Schering-Plough’s marketing rights for both products will now extend for 15 years after the first commercial sale of golimumab within the EU. Centocor will receive a progressively increased share of profits on Schering-Plough’s distribution of both products in the Schering-Plough marketing territory between 2010 and 2014, and the share of profits will remain fixed thereafter for the remainder of the term. The changes to the duration of REMICADE marketing rights and the profit sharing arrangement for the products are all conditioned on approval of golimumab being granted prior to September 1, 2014. Schering-Plough may independently develop and market golimumab for a Crohn’s disease indication in its territories, with an option for Centocor to participate. In addition, Schering-Plough and Centocor agreed to utilize an autoinjector device in the commercialization of golimumab and further agreed to share its development costs. For the rights to this device, Schering-Plough made an upfront payment of $21 million, which is included in research and development expenses for the year ended December 31, 2007

Effective September 1, 2005, Schering-Plough restructured its INTEGRILIN co-promotion agreement with Millennium. Under the terms of the restructured agreement, Schering-Plough acquired exclusive

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

U.S. development and commercialization rights to INTEGRILIN in exchange for an upfront payment of $36 million and royalties on INTEGRILIN sales. Schering-Plough has agreed to pay minimum royalties of $85 million per year to Millennium for 2006 and 2007. Schering-Plough also purchased existing INTEGRILIN inventory from Millennium. The $36 million upfront payment has been capitalized and included in other intangible assets.

14. BORROWINGS AND OTHER COMMITMENTS

Short and Long-Term Borrowings

Schering-Plough's outstanding borrowings at December 31, 2007 and 2006 are as follows:

	2007	2006
	(Dollars in millions)	
Short-term		
Commercial paper	$ 149	$ 149
Other short-term borrowings and current portion of long-term debts	310	91
Current portion of capital leases	2	2
Total short-term borrowings	$ 461	$ 242
Long-term		
5.00% senior unsecured euro-denominated notes due 2010	$ 736	$ —
Floating rate euro-denominated term loan due 2012	1,619	—
5.30% senior unsecured notes due 2013	1,247	1,247
5.375% senior unsecured euro-denominated notes due 2014	2,205	—
6.00% senior unsecured notes due 2017	995	—
6.50% senior unsecured notes due 2033	1,143	1,142
6.55% senior unsecured notes due 2037	994	—
Capital leases	24	25
Other long-term borrowings	56	—
Total long-term borrowings	$ 9,019	$ 2,414

Schering-Plough's short-term borrowings consist of primarily bank loans and commercial paper issued in the U.S. The weighted average interest rate on short-term borrowings was 7.9 percent and 6.4 percent at December 31, 2007 and 2006, respectively.

Senior unsecured notes

On October 1, 2007, Schering-Plough issued Euro 500 million aggregate principal amount of 5.00 percent senior unsecured euro-denominated notes due 2010 and Euro 1.5 billion aggregate principal amount of 5.375 percent senior unsecured euro-denominated notes due 2014. The net proceeds from this offering were approximately $2.8 billion. Interest on the notes is payable annually. The effective interest rate on the 5.00 percent senior unsecured euro-denominated notes and the 5.375 percent senior unsecured euro-denominated notes, which incorporates the initial discount, debt issuance fees and the impact of interest rate hedges, is 5.10 percent and 5.46 percent, respectively. The interest rate payable on these notes is not subject to adjustment. The notes generally restrict Schering-Plough from creating or assuming liens or entering into sale and leaseback transactions unless the aggregate outstanding indebtedness secured by any such liens and related to any such sale and leaseback transactions does not exceed 10 percent of consolidated net tangible assets. These notes are redeemable in whole or in part, at Schering-Plough's option at any time, at a redemption price specified in the prospectus. If a change of control triggering event occurs, as defined in the prospectus, holders of the notes will have the right to require Schering-Plough to repurchase all or any part of the notes for a cash

payment equal to 101 percent of the aggregate principal amount of the notes repurchased plus accrued and unpaid interest, if any, to the date of purchase.

On September 17, 2007, Schering-Plough issued $1.0 billion aggregate principal amount of 6.00 percent senior unsecured notes due 2017 and $1.0 billion aggregate principal amount of 6.55 percent senior unsecured notes due 2037. The net proceeds from this offering were approximately $2.0 billion. Interest on the notes is payable semi-annually. The effective interest rate on the 6.00 percent senior unsecured notes and the 6.55 percent senior unsecured notes, which incorporates the initial discount and debt issuance fees, is 6.13 percent and 6.67 percent, respectively. The interest rate payable on these notes is not subject to adjustment. The notes generally restrict Schering-Plough from creating or assuming liens or entering into sale and leaseback transactions unless the aggregate outstanding indebtedness secured by any such liens and related to any such sale and leaseback transactions does not exceed 10 percent of consolidated net tangible assets. These notes are redeemable in whole or in part, at Schering-Plough'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 to the redemption date on a semiannual basis using the rate of Treasury Notes with comparable remaining terms plus 25 basis points for the 2017 notes or 30 basis points for the 2037 notes. If a change of control triggering event occurs, as defined in the prospectus, holders of the notes will have the right to require Schering-Plough to repurchase all or any part of the notes for a cash payment equal to 101 percent of the aggregate principal amount of the notes repurchased plus accrued and unpaid interest, if any, to the date of purchase.

Schering-Plough used the net proceeds from the issuance of these senior unsecured notes to fund a portion of the purchase price for the OBS acquisition. See Note 2, "Acquisition."

On November 26, 2003, Schering-Plough 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. The net proceeds from this offering were $2.37 billion. Interest on the notes is payable semi-annually and subject to rate adjustment as follows: If the rating assigned to a particular series of notes by either Moody's Investors Service, Inc. (Moody's) or Standard & Poor's Rating Services (S&P) changes to a rating set forth below, the interest rate payable on that series of notes will be the initial interest rate (5.3 percent for the notes due 2013 and 6.5 percent for the notes due 2033) plus the additional interest rate set forth below by Moody's and S&P:

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 either Moody's or S&P below A3 or A−, respectively, the notes are subsequently rated above Baa1 by Moody's and BBB+ by S&P.

Upon issuance, the notes were rated A3 by Moody's and A+ by S&P. On July 14, 2004, Moody's lowered its rating of the notes to Baa1 and, accordingly, the interest payable on each note increased by 25 basis points, effective December 1, 2004, resulted in a 5.55 percent the interest rate payable on the notes due 2013, and a 6.75 percent the interest rate payable on the notes due 2033 increased. At December 31, 2007, the notes were rated Baa1 by Moody's and A− by S&P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

These senior unsecured notes are redeemable in whole or in part, at Schering-Plough'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.

Term Loan

On October 24, 2007, Schering-Plough entered into a five-year senior unsecured euro-denominated term loan facility with a syndicate of banks. On October 31, 2007, Schering-Plough drew Euro 1.1 billion ($1.6 billion) on this term loan to fund a portion of the purchase price for the OBS acquisition. See Note 2, "Acquisition," for additional information. This new term loan has a floating interest rate (4.95% weighted average rate for 2007) and requires Schering-Plough to maintain a net debt to total capital ratio of no more than 65 percent through 2009 and 60 percent thereafter, in which net debt equals total debt less cash, cash equivalents, short-term investments and marketable securities and total capital equals the sum of total debt and total shareholders' equity excluding the cumulative effect of acquired in-process research and development in connection with any acquisition consummated after the closing of the term loan. The term loan also generally restricts Schering-Plough from creating or assuming liens or entering into sale and leaseback transactions unless the aggregate outstanding indebtedness secured by any such liens and related to any such sale and leaseback transactions does not exceed 12 percent of consolidated net tangible assets.

In addition, Schering-Plough's international subsidiaries had approximately $608 million available in unused lines of credit from various financial institutions at December 31, 2007.

Aggregate Amount of Maturities

The aggregate amount of maturities for all long-term debt for each of the next five years and thereafter are as follows:

	2008	2009	2010	2011	2012	Thereafter
			(Dollars in millions)			
Long-term debt	$ 10	$ 8	$ 744	$ 18	$ 1,639	$ 6,610

Credit Facilities

On August 9, 2007, Schering-Plough entered into a $2.0 billion revolving credit agreement with a syndicate of banks and terminated its $1.5 billion credit facility that was to mature in May 2009. This credit facility has a floating interest rate, matures in August 2012 and requires Schering-Plough to maintain a net debt to total capital ratio of no more than 65 percent through 2009 and 60 percent thereafter, in which net debt equals total debt less cash, cash equivalents, short-term investments and marketable securities and total capital equals the sum of total debt and total shareholders' equity excluding the cumulative effect of acquired in-process research and development in connection with any acquisition consummated after the closing of the credit facility. The credit facility also generally restricts Schering-Plough from creating or assuming liens or entering into sale and leaseback transactions unless the aggregate outstanding indebtedness secured by any such liens and related to any such sale and leaseback transactions does not exceed 12 percent of consolidated net tangible assets. This credit line is available for general corporate purposes and is considered as support to Schering-Plough's commercial paper borrowings. Borrowings under this credit facility may be drawn by the U.S. parent company or by its wholly-owned international subsidiaries when accompanied by a parent guarantee. This facility does not require compensating balances, however, a nominal commitment fee is paid. As of December 31, 2007, no borrowings were outstanding under this facility.

Schering-Plough had a $1.5 billion credit facility that was terminated in August 2007. As of December 31, 2005, $325 million was drawn under this facility by a wholly-owned international subsidiary for the purposes

of funding repatriations under the AJCA. During 2006, this borrowing amount was fully repaid. As of December 31, 2006, no borrowings were outstanding under this facility.

In addition to the above credit facility, Schering-Plough entered into a $575 million credit facility during the fourth quarter of 2005 for the purposes of funding repatriations under the AJCA. As of December 31, 2005, the entire amount was drawn by a wholly-owned international subsidiary to fund the repatriations. This facility was paid in full and terminated in 2006.

Other Commitments

Total rent expense amounted to $156 million, $118 million and $110 million in 2007, 2006 and 2005, respectively. Future annual minimum rental commitments in the next five years on non-cancelable operating leases as of December 31, 2007, are as follows: 2008, $338 million; 2009, $199 million; 2010, $131 million; 2011, $95 million; and 2012, $73 million, with aggregate minimum lease obligations of $71 million due thereafter.

At December 31, 2007, Schering-Plough has commitments totaling $232 million and $3 million related to capital expenditures to be made in 2008 and 2009, respectively.

15. FINANCIAL INSTRUMENTS

SFAS 133 requires all derivatives to be recorded on the balance sheets at fair value. In addition, this Statement also requires: (1) the effective portion of qualifying cash flow hedges be recognized in income when the hedged item affects income; (2) 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 (3) 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 the statements of consolidated operations as they occur.

Risks, Policy and Objectives

Schering-Plough 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. Currently, Schering-Plough has not deemed it cost effective to engage in a formula-based program of hedging the profits and cash flows of international operations using derivative financial instruments, but on a limited basis, Schering-Plough will hedge selective foreign currency risks with derivatives. Because Schering-Plough's international 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 can provide a natural level of protection against adverse changes in exchange rates. Furthermore, the risk of adverse exchange rate change is somewhat mitigated by the fact that Schering-Plough's international operations are widespread.

Schering-Plough's senior unsecured euro-denominated notes and euro-denominated term loan have been designated as, and are effective as, economic hedges of the net investment in a foreign operation. In accordance with SFAS No. 52, "Foreign Currency Translation," the foreign currency transaction gains or losses on these euro-denominated debt instruments are included in foreign currency translation adjustment within other comprehensive income.

During 2007, as part of an overall risk management strategy and in consideration of various preliminary financing scenarios associated with the acquisition of OBS, Schering-Plough purchased euro-denominated currency options to mitigate its exposure in the event there was a significant strengthening in the Euro as compared to the U.S. Dollar. Schering-Plough purchased the options for aggregate premiums of approximately $165 million and received proceeds of $675 million upon the termination of these options, resulting in a net realized gain of $510 million. These derivatives did not qualify for hedge accounting in accordance with SFAS 133. Accordingly, the gain on these derivatives was recognized in the Statement of Consolidated Operations. These derivatives were short-term (trading) in nature and did not hedge a specific financing or

investment transaction. Accordingly, the cash impacts of these derivatives have been classified as operating cash flows in the Statement of Consolidated Cash Flows. See Note 6, "Other (Income)/Expense, Net." As of December 31, 2007, there were no open foreign currency option contracts.

During 2007, Schering-Plough executed a series of interest rate swaps in anticipation of financing the acquisition of OBS. The objective of the swaps was to hedge the interest rate payments to be made on future issuances of debt. As such, the swaps were designated as cash flow hedges of future interest payments, and in accordance with SFAS 133, the effective portion of the gains or losses on the hedges are reported in other comprehensive income and any ineffective portion is reported in operations. In connection with the euro-denominated debt issuances as described in Note 14, "Borrowings and Other Commitments," portions of the swaps were deemed ineffective and Schering-Plough recognized a $7 million loss in the Statement of Consolidated Operations. The effective portion of the swaps of $12 million was recorded in other comprehensive income and is being recognized as interest expense over the life of the related debt. The cash flows related to these interest rate swaps have been classified as operating cash flows in the Statement of Consolidated Cash Flows. See Note 6, "Other (Income)/Expense, Net." As of December 31, 2007, there were no open interest rate swaps.

Schering-Plough mitigates credit risk on derivative instruments by dealing only with counterparties considered to be of high credit quality. Accordingly, Schering-Plough does not anticipate loss for non-performance. Schering-Plough does not enter into derivative instruments in a manner to generate trading profits. Schering-Plough classifies cash flows from derivatives accounted for as hedges in the same category as the item being hedged.

The table below presents the carrying values and estimated fair values for certain of Schering-Plough's financial instruments at December 31 2007 and 2006. Estimated fair values were determined based on market prices, where available, or dealer quotes. The carrying values of all other financial instruments, including cash and cash equivalents, approximated their estimated fair values at December 31, 2007 and 2006.

	2007		2006	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(Dollars in millions)			
ASSETS:				
Short-term investments	$ 32	$ 32	$ 3,267	$ 3,267
Long-term investments	200	200	145	145
LIABILITIES:				
Short-term borrowings and current portion of long-term debt	$ 461	$ 461	$ 242	$ 242
Long-term debt	9,019	9,130	2,414	2,497

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 employee benefit obligations.

16. SHAREHOLDERS' EQUITY

Preferred Shares

As of December 31, 2007, Schering-Plough has authorized 50,000,000 shares of preferred stock that consists of 11,500,000 preferred shares designated as 6 percent Mandatory Convertible Preferred Stock and

38,500,000 preferred shares whose designations have not yet been determined. As of December 31, 2007, 10,000,000 of the shares of 6 percent Mandatory Convertible Preferred Stock are issued and outstanding.

2007 Mandatory Convertible Preferred Stock

On August 15, 2007, Schering-Plough issued 10,000,000 shares of 6 percent Mandatory Convertible Preferred Stock (the 2007 Preferred Stock) with a face value of $2.5 billion. Net proceeds to Schering-Plough were approximately $2.4 billion after deducting commissions, discounts and other underwriting expenses. Schering-Plough used the net proceeds from the sale of the 2007 Preferred Stock to fund a portion of the purchase price for the OBS acquisition. See Note 2, "Acquisition", for additional information.

Each share of the 2007 Preferred Stock will automatically convert into between 7.4206 and 9.0909 common shares of Schering-Plough depending on the average closing price of Schering-Plough's common shares over the 20 trading day period ending on the third trading day prior to the mandatory conversion date of August 13, 2010, as defined in the prospectus. The preferred shareholders may elect to convert at any time prior to August 13, 2010, at the minimum conversion ratio of 7.4206 common shares per share of the 2007 Preferred Stock. Additionally, if at any time prior to the mandatory conversion date the closing price of Schering-Plough's common shares exceeds $50.53 (for at least 20 trading days within a period of 30 consecutive trading days), Schering-Plough may elect to cause the conversion of all, but not less than all, of the 2007 Preferred Stock then outstanding at the same minimum conversion ratio of 7.4206 common shares for each share of 2007 Preferred Stock.

The 2007 Preferred Stock accrues dividends at an annual rate of 6 percent on shares outstanding. The dividends are cumulative from the date of issuance and, to the extent Schering-Plough is legally permitted to pay dividends and the Board of Directors declares a dividend payable, Schering-Plough will pay dividends on each dividend payment date. The dividend payment dates are February 15, May 15, August 15 and November 15 of each year, with the first dividend to be paid on November 15, 2007.

2004 Mandatory Convertible Preferred Stock

During the year ended December 31, 2007, all shares of 6 percent Mandatory Convertible Preferred Stock issued on August 10, 2004 (the 2004 Preferred Stock) were converted into 64,584,929 shares of Schering-Plough common stock. Following conversion, all 28,750,000 shares of 2004 Preferred Stock resumed their status as authorized and unissued preferred stock, undesignated as to series and available for future issuance.

Equity Issuance and Treasury Shares

On August 15, 2007, Schering-Plough issued 57,500,000 common shares from treasury shares at $27.50 per share. Net proceeds to Schering-Plough were approximately $1.5 billion after deducting commissions, discounts and other underwriting expenses. Schering-Plough used the net proceeds from the sale of the common shares to fund a portion of the purchase price for the OBS acquisition. See Note 2, "Acquisition," for additional information.

A summary of treasury share transactions for the years ended December 31 is as follows:

	2007	2006	2005
	(Shares in millions)		
Share balance at January 1	547	550	555
Issuance of common shares	(57)	—	—
Stock incentive plans activities	—	(3)	(5)
Share balance at December 31	490	547	550

Included in the treasury share balance is 70.2 million shares that were acquired by a subsidiary of Schering-Plough through an open-market purchase program in 1994-1995. These shares are not considered

treasury shares under New Jersey law; however, like treasury shares, they may not be voted and are not considered outstanding shares for determining the necessary votes to approve a matter submitted to a stockholder vote. The subsidiary does not receive dividends on these shares.

Effective September 17, 2007, the Board of Directors of Schering-Plough adopted an amended and restated certificate of incorporation, reflecting both the automatic conversion of the 2004 Preferred Stock issued into shares of common stock on September 14, 2007 and the terms of the 2007 Preferred Stock.

17. INSURANCE COVERAGE

Schering-Plough 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. Schering-Plough self-insures a substantial proportion of risk as it relates to products' liability, as the availability of commercial insurance has become more restrictive. Schering-Plough continually assesses the best way to provide for its insurance needs

18. SEGMENT INFORMATION

Schering-Plough has three reportable segments: Human Prescription Pharmaceuticals, Animal Health and Consumer Health Care. The segment sales and (loss)/profit data that follow are consistent with Schering-Plough's current management reporting structure. The Human Prescription Pharmaceuticals segment discovers, develops, manufactures and markets human pharmaceutical products. The Animal Health segment discovers, develops, manufactures and markets animal health products. The Consumer Health Care segment develops, manufactures and markets over-the-counter, foot care and sun care products, primarily in the U.S.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Net Sales by Major Product and by Segment:

	2007	2006	2005
		(Dollars in millions)	
HUMAN PRESCRIPTION PHARMACEUTICALS	**$ 10,173**	**$ 8,561**	**$ 7,564**
REMICADE	1,648	1,240	942
NASONEX	1,092	944	737
PEGINTRON	911	837	751
TEMODAR	861	703	588
CLARINEX/AERIUS	799	722	646
CLARITIN Rx	391	356	371
AVELOX	384	304	228
INTEGRILIN	332	329	315
REBETOL	277	311	331
CAELYX	257	206	181
INTRON A	233	237	287
SUBUTEX/SUBOXONE	220	203	197
ASMANEX	162	103	11
Other Pharmaceutical	2,606	2,066	1,979
ANIMAL HEALTH	**1,251**	**910**	**851**
CONSUMER HEALTH CARE	**1,266**	**1,123**	**1,093**
OTC	682	558	556
Foot Care	345	343	333
Sun Care	239	222	204
CONSOLIDATED NET SALES	**$ 12,690**	**$ 10,594**	**$ 9,508**

Net Sales by Geographic Area:

	2007	2006	2005
		(Dollars in millions)	
United States	$ 4,597	$ 4,192	$ 3,589
Europe and Canada	5,500	4,403	4,040
Latin America	1,359	990	884
Pacific Area and Asia	1,234	1,009	995
Consolidated net sales	$ 12,690	$ 10,594	$ 9,508

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Schering-Plough has subsidiaries in more than 55 countries outside the U.S. Net sales are presented in the geographic area in which Schering-Plough's customers are located. The following foreign countries accounted for 5 percent or more of consolidated net sales during the past three years:

	2007		2006		2005	
	Net Sales	% of Consolidated Net Sales	Net Sales	% of Consolidated Net Sales	Net Sales	% of Consolidated Net Sales
	(Dollars in millions)					
Total International net sales	$ 8,093	64%	$ 6,402	60%	$ 5,919	62%
France	965	8%	809	8%	771	8%
Japan	709	6%	669	6%	687	7%
Canada	578	5%	478	5%	418	4%
Italy	498	4%	441	4%	457	5%

Net sales by customer:

Sales to a single customer that accounted for 10 percent or more of Schering-Plough's consolidated net sales during the past three years are as follows:

	2007		2006		2005	
	Net Sales	% of Consolidated Net Sales	Net Sales	% of Consolidated Net Sales	Net Sales	% of Consolidated Net Sales
	(Dollars in millions)					
McKesson Corporation	$ 1,526	12%	$ 1,159	11%	$ 1,073	11%
Cardinal Health	1,196	9%	1,019	10%	841	9%

(Loss)/Profit by segment

	Year Ended December 31,		
	2007(1)	2006	2005
	(Dollars in millions)		
Human Prescription Pharmaceuticals	$ (1,206)	$ 1,394	$ 733
Animal Health	(582)	120	120
Consumer Health Care	275	228	235
Corporate and other (including net interest income of $150 million, $125 million and $13 million in 2007, 2006 and 2005, respectively	298	(259)	(591)
Consolidated (loss)/profit before tax and cumulative effect of a change in accounting principle	$ (1,215)	$ 1,483	$ 497

(1) In 2007, the Human Prescription Pharmaceuticals segment's loss includes $3.4 billion of purchase accounting items, including acquired in-process research and development of $3.2 billion. In 2007, the Animal Health segment's loss includes $721 million of purchase accounting items, including acquired in-process research and development of $600 million.

Schering-Plough's net sales do not include sales of VYTORIN and ZETIA, which are managed in the joint venture with Merck, as Schering-Plough accounts for this joint venture under the equity method of accounting (see Note 4, "Equity Income," for additional information). The Human Prescription Pharmaceuticals segment includes equity income from the Merck/Schering-Plough joint venture.

"Corporate and other" includes interest income and expense, foreign exchange gains and losses, currency option gains, headquarters expenses, special charges and other miscellaneous items. The accounting policies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

used for segment reporting are the same as those described in Note 1, "Summary of Significant Accounting Policies."

In 2007, "Corporate and other" includes special and acquisition related charges of $84 million, comprised of $61 million of integration-related costs for the OBS acquisition and $23 million of severance charges as part of integration activities. It is estimated the charges relate to the reportable segments as follows: Human Prescription Pharmaceuticals — $27 million, Animal Health — $11 million and Corporate and other — $46 million.

In 2006, "Corporate and other" includes special charges of $102 million primarily related to changes to Schering-Plough's manufacturing operations in the U.S. and Puerto Rico announced in June 2006, all of which related to the Human Prescription Pharmaceuticals segment. Included in 2006 cost of sales were charges of approximately $146 million from the manufacturing streamlining actions that were primarily related to the Human Prescription Pharmaceuticals segment.

In 2005, "Corporate and other" includes special charges of $294 million, including $28 million of employee termination costs, $16 million of asset impairment and other charges, and an increase in litigation reserves by $250 million resulting in a total reserve of $500 million representing Schering-Plough's current estimate to resolve the Massachusetts Investigation as well as the investigations and the state litigation disclosed under "AWP Litigation and Investigations" in Note 20, "Legal, Environmental and Regulatory Matters." It is estimated that the charges relate to the reportable segments as follows: Human Prescription Pharmaceuticals — $289 million; Consumer Health Care — $2 million; Animal Health — $1 million; and Corporate and other — $2 million.

Supplemental sales information:

Sales of products comprising 10 percent or more of Schering-Plough's U.S. or international sales for the year ended December 31, 2007, were as follows:

	Amount	Percentage
	(Dollars in millions)	
U.S.		
NASONEX	$ 667	15%
OTC CLARITIN	445	10%
International		
REMICADE	$ 1,648	20%

Long-lived Assets by Geographic Location

	2007	2006	2005
	(Dollars in millions)		
United States	$ 4,310	$ 2,547	$ 2,538
Netherlands	7,057	1	1
Ireland	3,414	488	486
Singapore	678	824	840
Other	1,823	804	908
Total	$ 17,282	$ 4,664	$ 4,773

Long-lived assets shown by geographic location are primarily intangibles and property. The significant increase in long-lived assets as of December 31, 2007 is due to the OBS acquisition.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

19. CONSENT DECREE

In May 2002, Schering-Plough agreed with the FDA to the entry of a Consent Decree to resolve issues related to compliance with current Good Manufacturing Practices (cGMP) at certain of Schering-Plough's facilities in New Jersey and Puerto Rico (the "Consent Decree" or the "Decree"). In summary, the Decree required Schering-Plough to make payments totaling $500 million in two equal installments of $250 million, which were paid in 2002 and 2003. In addition, the Decree required Schering-Plough to complete revalidation programs for manufacturing processes used to produce bulk active pharmaceutical ingredients and finished drug products at the covered facilities, as well as to implement a comprehensive cGMP Work Plan for each such facility. Schering-Plough completed all of the requirements in accordance with the schedules required by the Decree and obtained third-party certification of its completion of the Work Plan as required under the Decree.

On August 2, 2007, Schering-Plough announced the dissolution of the Consent Decree by the U.S. District Court for the District of New Jersey.

20. LEGAL, ENVIRONMENTAL AND REGULATORY MATTERS

Background

Schering-Plough is involved in various claims, investigations and legal proceedings.

Schering-Plough records a liability for contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. Schering-Plough adjusts its liabilities for contingencies to reflect the current best estimate of probable loss or minimum liability, as the case may be. Where no best estimate is determinable, Schering-Plough records the minimum amount within the most probable range of its liability. Expected insurance recoveries have not been considered in determining the amounts of recorded liabilities for environmental related matters.

If Schering-Plough believes that a loss contingency is reasonably possible, rather than probable, or the amount of loss cannot be estimated, no liability is recorded. However, where a liability is reasonably possible, disclosure of the loss contingency is made.

Schering-Plough reviews the status of all claims, investigations and legal proceedings on an ongoing basis, including related insurance coverages. From time to time, Schering-Plough may settle or otherwise resolve these matters on terms and conditions management believes are in the best interests of Schering-Plough. Resolution of any or all claims, investigations and legal proceedings, individually or in the aggregate, could have a material adverse effect on Schering-Plough's consolidated results of operations, cash flows or financial condition.

Except for the matters discussed in the remainder of this Note, the recorded liabilities for contingencies at December 31, 2007, and the related expenses incurred during the year ended December 31, 2007, were not material. In the opinion of management, based on the advice of legal counsel, the ultimate outcome of these matters, except matters discussed in the remainder of this Note, will not have a material impact on Schering-Plough's consolidated results of operations, cash flows or financial condition.

ENHANCE Matter

On January 14, 2008, the Merck / Schering-Plough cholesterol joint venture announced the primary endpoint and other results of the ENHANCE (Effect of Combination Ezetimibe and High-Dose Simvastatin vs. Simvastatin Alone on the Atherosclerotic Process in Patients with Heterozygous Familial Hypercholesterolemia) clinical trial. Schering-Plough encountered a challenge when results of the ENHANCE trial and joint venture products, ZETIA and VYTORIN, became the subject of much media scrutiny prior to fuller discussions of the trial results at appropriate medical forums. A discussion is scheduled for the American College of Cardiology meeting on March 30, 2008.

Schering-Plough, the joint venture and/or its joint venture partner, Merck & Co., Inc. ("Merck"), have received several letters from Congress, including the House Committee on Energy and Commerce, the House Subcommittee on Oversight and Investigations, and the ranking minority member of the Senate Finance

Committee, collectively seeking a combination of witness interviews, documents and information on a variety of issues related to the Merck/Schering-Plough cholesterol joint venture's ENHANCE clinical trial, the companies' sale and promotion of VYTORIN, as well as sales of stock by the companies' corporate officers since April 2006; and several subpoenas from state officials (such as the State Attorney General or State Department of Justice) in several states, including Connecticut, New York and Oregon, seeking similar information and documents.

Schering-Plough is cooperating with these investigations and working with Merck to respond to the inquiries.

In addition, since mid-January 2008, Schering-Plough has become aware of or been served with litigation, including civil class action lawsuits alleging common law and state consumer fraud claims in connection with Schering-Plough's sale and promotion of the Merck/Schering-Plough joint-venture products' VYTORIN and ZETIA; several putative shareholder securities class action lawsuits (where several officers are also named defendants) alleging false and misleading statements and omissions by Schering-Plough and its representatives related to the timing of disclosures concerning the ENHANCE results, allegedly in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934; a Shareholder Derivative Action alleging that the Board of Directors breached its fiduciary obligations relating to the timing of the release of the ENHANCE results; and a letter on behalf of a single shareholder requesting that the Board of Directors investigate the allegations of the putative securities class actions and, if warranted, bring any appropriate legal action on behalf of Schering-Plough.

Schering-Plough is cooperating fully in the government investigations and intends to vigorously defend the lawsuits that have been filed related to the ENHANCE study.

Patent Matters

As described in "Patents, Trademarks, and Other Intellectual Property Rights" under Item I, Business, of this 10-K, intellectual property protection is critical to Schering-Plough's ability to successfully commercialize its product innovations. The potential for litigation regarding Schering-Plough's intellectual property rights always exists and may be initiated by third parties attempting to abridge Schering-Plough's rights, as well as by Schering-Plough in protecting its rights. Patent matters described below have a potential material effect on Schering-Plough.

DR. SCHOLL'S FREEZE AWAY

On July 26, 2004, OraSure Technologies filed an action in the U.S. District Court for the Eastern District of Pennsylvania alleging patent infringement by Schering-Plough Healthcare Products by its sale of DR. SCHOLL'S FREEZE AWAY wart removal product. This matter was settled with no material impact on Schering-Plough's financial statements and a stipulation dismissing the action was filed by the parties on February 15, 2008.

AWP Litigation and Investigations

Schering-Plough continues to respond to existing and new litigation by certain states and private payors and investigations by the Department of Health and Human Services, the Department of Justice and several states into industry and Schering-Plough practices regarding average wholesale price (AWP). Schering-Plough is cooperating with these investigations.

These litigations and investigations relate to whether the AWP used by pharmaceutical companies for certain drugs improperly exceeds the average prices paid by providers and, as a consequence, results in unlawful inflation of certain reimbursements for drugs by state programs and private payors that are based on AWP. The complaints allege violations of federal and state law, including fraud, Medicaid fraud and consumer protection violations, among other claims. In the majority of cases, the plaintiffs are seeking class certifications. In some cases, classes have been certified. The outcome of these litigations and investigations could include substantial damages, the imposition of substantial fines, penalties and injunctive or administrative remedies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Securities and Class Action Litigation

Federal Securities Litigation

Following Schering-Plough's announcement that the FDA had been conducting inspections of Schering-Plough's manufacturing facilities in New Jersey and Puerto Rico and had issued reports citing deficiencies concerning compliance with current Good Manufacturing Practices, several lawsuits were filed against Schering-Plough and certain named officers. These lawsuits allege that the defendants violated the federal securities law by allegedly failing to disclose material information and making material misstatements. Specifically, they allege that Schering-Plough failed to disclose an alleged serious risk that a new drug application for CLARINEX would be delayed as a result of these manufacturing issues, and they allege that Schering-Plough failed to disclose the alleged depth and severity of its manufacturing issues. These complaints were consolidated into one action in the U.S. District Court for the District of New Jersey, and a consolidated amended complaint was filed on October 11, 2001, purporting to represent a class of shareholders who purchased shares of Schering-Plough stock from May 9, 2000 through February 15, 2001. The complaint seeks compensatory damages on behalf of the class. The Court certified the shareholder class on October 10, 2003. Notice of pendency of the class action was sent to members of that class in July 2007. Discovery has been completed, and motions for summary judgment have been briefed and are pending.

ERISA Litigation

On March 31, 2003, Schering-Plough was served with a putative class action complaint filed in the U.S. District Court in New Jersey alleging that Schering-Plough, retired Chairman, CEO and President Richard Jay Kogan, Schering-Plough's Employee Savings Plan (Plan) administrator, several current and former directors, and certain corporate officers (Messrs. LaRosa and Moore) breached their fiduciary obligations to certain participants in the Plan. The complaint seeks damages in the amount of losses allegedly suffered by the Plan. The complaint was dismissed on June 29, 2004. The plaintiffs appealed. On August 19, 2005 the U.S. Court of Appeals for the Third Circuit reversed the dismissal by the District Court and the matter has been remanded back to the District Court for further proceedings.

K-DUR Antitrust Litigation

Schering-Plough had settled patent litigation with Upsher-Smith, Inc. (Upsher-Smith) and ESI Lederle, Inc. (Lederle) relating to generic versions of K-DUR, Schering-Plough's long-acting potassium chloride product supplement used by cardiac patients, for which Lederle and Upsher Smith had filed Abbreviated New Drug Applications. Following the commencement of an FTC administrative proceeding alleging anti-competitive effects from those settlements (which has been resolved in Schering-Plough's favor), alleged class action suits were filed in federal and state courts on behalf of direct and indirect purchasers of K-DUR against Schering-Plough, Upsher-Smith and Lederle. These suits claim violations of federal and state antitrust laws, as well as other state statutory and common law causes of action. These suits seek unspecified damages. Discovery is ongoing.

Third-party Payor Actions

Several purported class action litigations have been filed following the announcement of the settlement of the Massachusetts Investigation. Plaintiffs in these actions seek damages on behalf of third-party payors resulting from the allegations of off-label promotion and improper payments to physicians that were at issue in the Massachusetts Investigation.

Tax Matters

In October 2001, IRS auditors asserted that two interest rate swaps that Schering-Plough entered into with an unrelated party should be recharacterized as loans from affiliated companies, resulting in additional tax liability for the 1991 and 1992 tax years. In September 2004, Schering-Plough made payments to the IRS in the amount of $194 million for income tax and $279 million for interest. Schering-Plough filed refund claims for the tax and interest with the IRS in December 2004. Following the IRS's denial of Schering-Plough's

claims for a refund, Schering-Plough filed suit in May 2005 in the U.S. District Court for the District of New Jersey for refund of the full amount of the tax and interest. This refund litigation is currently being tried in Newark District court. Schering-Plough's tax reserves were adequate to cover the above-mentioned payments.

Pending Administrative Obligations

In connection with the settlement of an investigation with the U.S. Department of Justice and the U.S. Attorney's Office for the Eastern District of Pennsylvania, Schering-Plough entered into a five-year corporate integrity agreement (CIA). The CIA was amended in August of 2006 in connection with the settlement of the Massachusetts Investigation, commencing a new five-year term. Failure to comply with the obligations under the CIA could result in financial penalties.

Other Matters

Products Liability

Beginning in May of 2007, a number of complaints have been filed in various jurisdictions asserting claims against Organon USA, Inc., Organon Pharmaceuticals USA, Inc., and/or Organon International ("Organon") arising from Schering-Plough's marketing and sale of NUVARING, a combined hormonal contraceptive vaginal ring. The plaintiffs contend that Organon failed to adequately warn of the alleged increased risk of venous thromboembolism ("VTE") posed by NUVARING, and/or downplayed the risk of VTE. The plaintiffs seek damages for injuries allegedly sustained from their product use, including some alleged deaths, heart attacks and strokes. The majority of the cases are currently pending in the United States District Court for the District of New Jersey. Other cases are pending in Wisconsin, Missouri, New York and Georgia.

French Matter

Based on a complaint to the French competition authority from a competitor in France and pursuant to a court order, the French competition authority has obtained documents from a French subsidiary of Schering-Plough relating to SUBUTEX, one of the products that the subsidiary markets and sells. Any resolution of this matter adverse to the French subsidiary could result in the imposition of civil fines and injunctive or administrative remedies. On July 17, 2007, the Juge des Libertés et de la Détention ordered the annulment of the search and seizure on procedural grounds. On July 19, 2007, the French authority appealed the order to the French Supreme Court.

In April 2007, the competitor also requested interim relief, a portion of which was granted by the French competition authority in December 2007. The interim relief required Schering-Plough's French subsidiary to publish in two specialized newspapers information including that the generic has the same quantitative and qualitative composition and the same pharmaceutical form as, and is substitutable for, SUBUTEX. In February 2008, the Paris Court of Appeal confirmed the decision of the French competition authority.

Environmental

Schering-Plough 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), Schering-Plough is alleged to be a potentially responsible party (PRP). Schering-Plough believes that it is remote at this time that there is any material liability in relation to such sites. Schering-Plough 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. Schering-Plough 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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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 (the "Company") at December 31, 2007 and 2006, and the related statements of consolidated operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company'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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Schering-Plough Corporation and subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, 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.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), *Share-Based Payment*. As discussed in Note 8 to the consolidated financial statements, effective December 31, 2006, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. As discussed in Note 1 to the consolidated financial statements, effective January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes.*

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 29, 2008 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey
February 29, 2008

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

QUARTERLY DATA (UNAUDITED)

	Three Months Ended							
	March 31		June 30		September 30		December 31	
	2007	2006	2007	2006	2007	2006	2007	2006
	(Dollars in millions, except per share figures)							
Net sales	$ 2,975	$ 2,551	$ 3,178	$ 2,818	$ 2,812	$ 2,574	$ 3,724	$ 2,650
Cost of sales	937	893	977	1,004	925	885	1,566	915
Gross margin	2,038	1,658	2,201	1,814	1,887	1,689	2,158	1,735
Selling, general and administrative	1,213	1,086	1,358	1,224	1,262	1,158	1,634	1,250
Research and development	707	481	696	539	669	536	855	631
Acquired in-process research and development	—	—	—	—	—	—	3,754	—
Other (income)/expense, net	(48)	(34)	(16)	(19)	(390)	(37)	(231)	(46)
Special charges and acquisition-related charges	1	—	11	80	20	10	52	12
Equity income from cholesterol joint venture	(487)	(311)	(490)	(355)	(506)	(390)	(566)	(403)
Income/(loss) before income taxes	652	436	642	345	832	412	(3,340)	291
Income tax expense	87	86	103	86	82	103	(14)	87
Net income/(loss) before cumulative effect of a change in accounting principle	$ 565	$ 350	$ 539	$ 259	$ 750	$ 309	$ (3,326)	$ 204
Cumulative effect of a change in accounting principle, net of tax	—	(22)	—	—	—	—	—	—
Net income/(loss)	$ 565	$ 372	$ 539	$ 259	$ 750	$ 309	$ (3,326)	$ 204
Dividends on preferred shares	22	22	22	22	37	22	38	22
Net income/(loss) available to common shareholders	$ 543	$ 350	$ 517	$ 237	$ 713	$ 287	$ (3,364)	$ 182
Diluted earnings/(loss) per common share:								
Earnings/(loss) available to common shareholders before cumulative effect of a change in accounting principle	$ 0.36	$ 0.22	$ 0.34	$ 0.16	$ 0.45	$ 0.19	$ (2.08)	$ 0.12
Cumulative effect of a change in accounting principle, net of tax	—	0.02	—	—	—	—	—	—
Diluted earnings per common share	$ 0.36	$ 0.24	$ 0.34	$ 0.16	$ 0.45	$ 0.19	$ (2.08)	$ 0.12
Basic earnings/(loss) per common share:								
Earnings/(loss) available to common shareholders before cumulative effect of a change in accounting principle	$ 0.37	$ 0.22	$ 0.35	$ 0.16	$ 0.46	$ 0.19	$ (2.08)	$ 0.12
Cumulative effect of a change in accounting principle, net of tax	—	0.02	—	—	—	—	—	—
Basic earnings/(loss) per common share:	$ 0.37	$ 0.24	$ 0.35	$ 0.16	$ 0.46	$ 0.19	$ (2.08)	$ 0.12
Dividends per common share	0.065	0.055	0.065	0.055	0.065	0.055	0.065	0.055
Common share prices:								
High	25.51	20.93	33.34	20.00	32.83	22.09	32.94	23.90
Low	22.75	18.00	25.42	18.25	27.26	18.60	26.20	21.25
Average shares outstanding for diluted EPS (in millions)	1,571	1,486	1,587	1,489	1,622	1,492	1,621	1,497
Average shares outstanding for basic EPS (in millions)	1,489	1,480	1,496	1,481	1,620	1,482	1,621	1,484

Operating results for the three month period ended December 31, 2007 reflects the closing of the OBS acquisition on November 19, 2007, including the impacts of purchase accounting in accordance with SFAS No. 141, "Business Combinations."

Net sales in the third quarter of 2006 included a favorable impact of approximately $47 million resulting from the reversal of previously accrued rebate amounts for the TRICARE Retail Pharmacy Program that a U.S. Federal Court of Appeals ruled pharmaceutical manufacturers are not obligated to pay.

Diluted earnings per common share for the three month period ended September 30, 2007 is calculated using a numerator of $731 million, which is the arithmetic sum of net income available to common shareholders of $713 million plus dividends of $18 million related to the 2004 preferred stock which are dilutive, and a denominator of 1,622 which represents the average diluted shares outstanding for the third quarter of 2007.

See Note 3, "Special and Acquisition Related Charges and Manufacturing Changes," to the Consolidated Financial Statements for additional information relating to special and acquisition-related charges and charges from Schering-Plough's announced manufacturing changes.

Schering-Plough's approximate number of holders of record of common shares as of January 31, 2008 was 34,185.

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

As part of the changing business environment in which Schering-Plough operates, Schering-Plough is replacing and upgrading a number of information systems. This process will be ongoing for several years. In connection with these changes, as part of Schering-Plough's management of both internal control over financial reporting and disclosure controls and procedures, management has concluded that the new systems are at least as effective with respect to those controls as the prior systems.

Management's Report on Internal Control over Financial Reporting

The Management of Schering-Plough Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Schering-Plough's internal control system is designed to provide reasonable assurance to Schering-Plough's Management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Schering-Plough's Management assessed the effectiveness of Schering-Plough's internal control over financial reporting as of December 31, 2007. In making this assessment, Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Management's assessment of and conclusion on the effectiveness of internal control over financial reporting as of December 31, 2007 did not include a review of the business process controls of the OBS N.V. Management did not assess the internal control over financial reporting of OBS N.V., because the acquisition occurred on November 19, 2007, which is within one year prior to the date of the consolidated financial statements, as allowable under Securities and Exchange Commission guidelines. OBS N.V. represented approximately 18% of consolidated total assets at December 31, 2007 and approximately 5% of consolidated revenues for the year ended December 31, 2007. Based on its assessment, Management believes that, as of December 31, 2007, Schering-Plough's internal control over financial reporting is effective.

Schering-Plough's independent registered public accounting firm, Deloitte & Touche LLP, has issued an attestation report on the effectiveness of Schering-Plough's internal control over financial reporting. Their report follows.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Schering-Plough Corporation and subsidiaries (the "Company") as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Organon BioSciences N.V., which was acquired on November 19, 2007, and whose financial statements constitute 18% of total assets and 5% of total revenues of the consolidated financial statement amounts as of and for the year ended December 31, 2007. Accordingly, our audit did not include the internal control over financial reporting at Organon BioSciences N.V. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2007, of the Company and our report dated February 29, 2008, expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), *Share-Based Payment*, SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, and Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey
February 29, 2008

Part III

Item 10. ***Directors and Executive Officers of the Registrant***

Information concerning Directors and nominees for Directors is incorporated by reference to "Proposal One: Elect Thirteen Directors for a One-Year Term" in Schering-Plough's Proxy Statement for the Annual Meeting of Shareholders on May 16, 2008.

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

Information concerning compliance with Section 16(a) of the Exchange Act is incorporated by reference to "Section 16(a) Beneficial Ownership Reporting Compliance" in Schering-Plough's Proxy Statement for the Annual Meeting of Shareholders on May 16, 2008.

Information concerning the audit committee and the audit committee financial expert is incorporated by reference to "Information About the Audit Committee of the Board of Directors and Its Practices" and "Audit Committee Report" in Schering-Plough's Proxy Statement for the Annual Meeting of Shareholders on May 16, 2008.

Schering-Plough has adopted a code of business conduct and ethics, the Standards of Global Business Practices, applicable to all employees, including the chief executive officer, chief financial officer and controller. Schering-Plough's Standards of Global Business Practices are available in the Investor Relations section of Schering-Plough's website at www.schering-plough.com. In addition, a written copy of the materials will be provided at no charge by writing to: Office of the Corporate Secretary, Schering-Plough Corporation, 2000 Galloping Hill Road, Mail Stop: K-1-4-4525, Kenilworth, New Jersey 07033. Schering-Plough intends to satisfy any disclosure requirement under Item 5.05 of Form 8-K regarding an amendment to, or waiver from, a provision of the Standards of Global Business Practices by posting such information on its website at the address specified above.

Item 11. ***Executive Compensation***

Information concerning executive compensation is incorporated by reference to "Executive Compensation" in Schering-Plough's Proxy Statement for the Annual Meeting of Shareholders on May 16, 2008.

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

Information concerning security ownership of certain beneficial owners and management is incorporated by reference to "Stock Ownership" in Schering-Plough's Proxy Statement for the Annual Meeting of Shareholders on May 16, 2008.

Equity Compensation Plan Information — The following information relates to plans under which equity securities of Schering-Plough may be issued to employees or Directors. Schering-Plough has no plans under which equity securities may be issued to non-employees (except that under the 2006 Stock Incentive Plan 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			
1992 Stock Incentive Plan	0	N/A	
1997 Stock Incentive Plan	28,560,396	$ 41.53	
2002 Stock Incentive Plan	39,506,874	$ 15.64	
2006 Stock Incentive Plan	29,725,647	$ 15.78	61,843,213
Directors Compensation Plan	N/A	N/A	976,542
Equity compensation plans not approved by security holders			
Schering-Plough (Ireland) Approved Profit Sharing Scheme*	N/A	N/A	*
Organon (Ireland) Limited Employee Share Participation Scheme*	N/A	N/A	*
Intervet (Ireland) Limited Employee Share Participation Scheme*	N/A	N/A	*
Total	97,792,917	$ 23.24	62,819,755

* The Plans permit eligible employees who work for certain Schering-Plough Irish subsidiaries to enjoy tax advantages by having some or all of their annual bonus and an amount varying between 1 percent and up to 7.5 percent 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 Euro 12,700 may be deferred in a year by an employee. Employees may not sell or withdraw shares allocated to their accounts for two to three years.

Item 13. ***Certain Relationships and Related Transactions***

Information concerning certain relationships and related transactions is incorporated by reference to "Certain Transactions" and "Procedures for Related Party Transactions and Director Independence Assessments" in Schering-Plough's Proxy Statement for the Annual Meeting of Shareholders on May 16, 2008.

Information concerning director independence is incorporated by reference to "Director Independence" in Schering-Plough's Proxy Statement for the Annual Meeting of Shareholders on May 16, 2008.

Item 14. ***Principal Accountant Fees and Services***

Information concerning principal accountant fees and services is incorporated by reference to "Proposal Two: Ratify the Designation of Deloitte & Touche LLP to Audit Schering-Plough's Books and Accounts for 2008" in Schering-Plough's Proxy Statement for the Annual Meeting of Shareholders on May 16, 2008.

Part IV

Item 15. ***Exhibits and Financial Statement Schedules***

(a) The following documents are filed as part of this report

(1) Financial Statements: The financial statements are set forth under Item 8 of this 10-K

(2) Financial Statement Schedules:

Merck/Schering-Plough Cholesterol Partnership Combined Financial Statements

Schedules other than those listed above have been omitted because they are not applicable or not required.

(3) Index to Exhibits:

Unless otherwise indicated, all exhibits are part of Commission File Number 1-6571.

Exhibit Number	Description	Location
3(a)	Amended and Restated Certificate of Incorporation.	Incorporated by reference to Exhibit 3.1 to Schering-Plough's 8-K filed September 18, 2007.
3(b)	Amended and Restated By-laws.	Incorporated by reference to Exhibit 3.2 to Schering-Plough's 8-K filed June 28, 2007.
4(a)	Rights Agreement between Schering-Plough and the Bank of New York dated June 24, 1997.	Incorporated by reference to Exhibit 1 to Schering-Plough's 8-A filed on June 30, 1997.
4(b)	Form of Participation Rights Agreement between Schering-Plough and the Chase Manhattan Bank (National Association) as Trustee.	Incorporated by reference to Exhibit 4.6 to Schering-Plough's Registration Statement on Form S-4, Amendment No. 1, filed December 29, 1995. File No. 33-65107.
4(c)(i)	Indenture, dated November 26, 2003, between Schering-Plough and The Bank of New York as Trustee.	Incorporated by reference to Exhibit 4.1 to Schering-Plough's 8-K filed November 28, 2003.
4(c)(ii)	First Supplemental Indenture (including Form of Note), dated November 26, 2003.	Incorporated by reference to Exhibit 4.2 to Schering-Plough's 8-K filed November 28, 2003.
4(c)(iii)	Second Supplemental Indenture (including Form of Note), dated November 26, 2003.	Incorporated by reference to Exhibit 4.3 to Schering-Plough's 8-K filed November 28, 2003.
4(c)(iv)	5.30% Global Senior Note, due 2013.	Incorporated by reference to Exhibit 4(c)(iv) to Schering-Plough's 10-K for the year ended December 31, 2003.
4(c)(v)	6.50% Global Senior Note, due 2033.	Incorporated by reference to Exhibit 4(c)(v) to Schering-Plough's 10-K for the year ended December 31, 2003.
4(c)(vi)	Third Supplemental Indenture (including Form of Note), dated September 17, 2007	Incorporated by reference to Exhibit 4.1 to Schering-Plough's 8-K filed September 17, 2007.
4(c)(vii)	Fourth Supplemental Indenture (including Form of Note), dated October 1, 2007.	Incorporated by reference to Exhibit 4.1 to Schering-Plough's 8-K filed October 2, 2007.
10(a)	Directors Compensation Plan (as amended and restated effective June 1, 2006 with amendments through September 19, 2006).*	Incorporated by reference to Exhibit 10(h)(iii) to Schering-Plough's 10-Q for the period ended September 30, 2006.
10(b)(i)	1997 Stock Incentive Plan.*	Incorporated by reference to Exhibit 10 to Schering-Plough's 10-Q for the period ended September 30, 1997.
10(b)(ii)	Amendment to 1997 Stock Incentive Plan (effective February 22, 1999).*	Incorporated by reference to Exhibit 10(a) to Schering-Plough's 10-Q for the period ended March 31, 1999.
10(b)(iii)	Amendment to the 1997 Stock Incentive Plan (effective February 25, 2003).*	Incorporated by reference to Exhibit 10(c) to Schering-Plough's 10-K for the year ended December 31, 2002.
10(c)	2002 Stock Incentive Plan (as amended to February 25, 2003).*	Incorporated by reference to Exhibit 10(d) to Schering-Plough's 10-K for the year ended December 31, 2002.

Exhibit Number	Description	Location
10(d)	2006 Stock Incentive Plan (as amended and restated effective February 29, 2008)*	Attached.
10(e)(i)	Letter agreement dated November 4, 2003 between Robert Bertolini and Schering-Plough.*	Incorporated by reference to Exhibit 10(e)(iii) to Schering-Plough's 10-K for the year ended December 31, 2003.
10(e)(ii)	Employment Agreement effective upon a change of control dated as of December 19, 2006 between Robert Bertolini and Schering-Plough Corporation.*	Incorporated by reference to Exhibit 99.1 to Schering-Plough's 8-K filed December 21, 2006.
10(e)(iii)	Employment Agreement dated as of May 12, 2003 between Carrie Cox and Schering-Plough.*	Incorporated by reference to Exhibit 99.6 to Schering-Plough's 8-K filed May 13, 2003.
10(e)(iv)	Employment Agreement dated as of April 20, 2003 between Fred Hassan and Schering-Plough.*	Incorporated by reference to Exhibit 99.2 to Schering-Plough's 8-K filed April 21, 2003.
10(e)(v)	Employment Agreement dated as of December 19, 2006 between Thomas P. Koestler, Ph.D. and Schering-Plough.*	Incorporated by reference to Exhibit 10(e)(v) to Schering-Plough's 10-K for the year ended December 31, 2006.
10(e)(vi)	Letter agreement dated March 11, 2004 between Thomas J. Sabatino, Jr. and Schering-Plough.*	Incorporated by reference to Exhibit 10 to Schering-Plough's 10-Q for the period ended March 31, 2004.
10(e)(vii)	Employment Agreement effective upon a change of control dated as of April 15, 2004 between Thomas J. Sabatino, Jr. and Schering-Plough.*	Incorporated by reference to Exhibit 10(e)(v) to Schering-Plough's 10-K for the year ended December 31, 2006.
10(e)(viii)	Employment Agreement dated as of December 19, 2006 between Brent Saunders and Schering-Plough.*	Attached.
10(e)(ix)	Form of employment agreement effective upon a change of control between Schering-Plough and certain executives for new agreements beginning in December 14, 2006.*	Incorporated by reference to Exhibit 10(e)(v) to Schering-Plough's 10-K for the year ended December 31, 2006.
10(f)	Operations Management Team Incentive Plan (as amended and restated effective June 26, 2006).*	Incorporated by reference to Exhibit 10(m)(ii) to Schering-Plough's 10-Q for the period ended September 30, 2006.
10(g)	Cash Long-Term Incentive Plan (as amended and restated effective January 24, 2005).*	Incorporated by reference to Exhibit 10(n) to Schering-Plough's 10-K for the year ended December 31, 2004.
10(h)	Long-Term Performance Share Unit Incentive Plan (as amended and restated effective January 24, 2005).*	Incorporated by reference to Exhibit 10(o) to Schering-Plough's 10-K for the year ended December 31, 2004.
10(i)	Transformational Performance Contingent Shares Program.*	Incorporated by reference to Exhibit 10(p) to Schering-Plough's 10-K for the year ended December 31, 2003.
10(j)	Severance Benefit Plan (as amended and restated effective January 1, 2008)*	Attached.
10(k)	Savings Advantage Plan (as amended and restated effective January 1, 2006).*	Incorporated by reference to Exhibit 10(e)(xiii) to Schering-Plough's 10-Q for the period ended September 30, 2006.

Exhibit Number	Description	Location
10(l)	Supplemental Executive Retirement Plan (amended and restated to January 1, 2005).*	Incorporated by reference to Exhibit 10(e)(v) to Schering-Plough's 10-K for the year ended December 31, 2006.
10(m)	Retirement Benefits Equalization Plan (as amended and restated as of January 1, 2005).*	Incorporated by reference to Exhibit 10(l) to Schering-Plough's 10-K for the year ended December 31, 2005.
10(n)	Executive Incentive Plan (as amended and restated to October 1, 2000).*	Incorporated by reference to Exhibit 10(a)(i) to Schering-Plough's 10-K for the year ended December 31, 2000.
10(o)	Deferred Compensation Plan (as amended and restated to October 1, 2000).*	Incorporated by reference to Exhibit 10(i) to Schering-Plough's 10-K for the year ended December 31, 2000.
10(p)	Amended and Restated Defined Contribution Trust.*	Incorporated by reference to Exhibit 10(a)(ii) to Schering-Plough's 10-K for the year ended December 31, 2000.
10(q)	Amended and Restated SERP Rabbi Trust Agreement.*	Incorporated by reference to Exhibit 10(g) to Schering-Plough's 10-K for the year ended December 31, 1998.
10(r)	Cholesterol Governance Agreement, dated as of May 22, 2000, by and among Schering-Plough, Merck & Co., Inc. and the other parties signatory thereto.†	Incorporated by reference to Exhibit 99.2 to Schering-Plough's 8-K dated October 21, 2002.
10(s)	First Amendment to the Cholesterol Governance Agreement, dated as of December 18, 2001, by and among Schering-Plough, Merck & Co., Inc. and the other parties signatory thereto.†	Incorporated by reference to Exhibit 99.3 to Schering-Plough's 8-K filed October 21, 2002.
10(t)	Master Agreement, dated as of December 18, 2001, by and among Schering-Plough, Merck & Co., Inc. and the other parties signatory thereto.†	Incorporated by reference to Exhibit 99.4 to Schering-Plough's 8-K filed October 21, 2002.
10(u)	Letter Agreement dated April 14, 2003 relating to Consent Decree.	Incorporated by reference to Exhibit 99.3 to Schering-Plough's 10-Q for the period ended March 31, 2003.
10(v)	Distribution agreement between Schering-Plough and Centocor, Inc., dated April 3, 1998.†	Incorporated by reference to Exhibit 10(u) to Schering-Plough's Amended 10-K for the year ended December 31, 2003, filed May 3, 2004.
10(w)	Amendment Agreement to the Distribution Agreement between Centocor, Inc., CAN Development, LLC, and Schering-Plough (Ireland) Company.†	Incorporated by reference to Exhibit 10.1 to Schering-Plough's 8-K filed December 21, 2007.
10(x)	Share Purchase Agreement between Akzo Nobel N.V., Schering-Plough International C.V., and Schering-Plough Corporation.	Incorporated by reference to Exhibit 10.1 to Schering-Plough's 8-K filed October 2, 2007.
12	Computation of Ratio of Earnings to Fixed Charges.	Attached.
14	Standards of Global Business Practices (covers all employees, including Senior Financial Officers).	Incorporated by reference to Exhibit 14 to Schering-Plough's 8-K filed September 30, 2004.
21	Subsidiaries of the registrant.	Attached.

Exhibit Number	Description	Location
23.1	Consent of Independent Registered Public Accounting Firm.	Attached.
23.2	Independent Auditors' Consent.	Attached.
24	Power of attorney.	Attached.
31.1	Sarbanes-Oxley Act of 2002, Section 302 Certification for Chairman of the Board and Chief Executive Officer.	Attached.
31.2	Sarbanes-Oxley Act of 2002, Section 302 Certification for Executive Vice President and Chief Financial Officer.	Attached.
32.1	Sarbanes-Oxley Act of 2002, Section 906 Certification for Chairman of the Board and Chief Executive Officer.	Attached.
32.2	Sarbanes-Oxley Act of 2002, Section 906 Certification for Executive Vice President and Chief Financial Officer.	Attached.

* Compensatory plan, contract or arrangement.

† Certain portions of the exhibit have been omitted pursuant to a request for confidential treatment. The non-public information has been filed separately with the Securities and Exchange Commission pursuant to rule 24b-2 under the Securities Exchange Act of 1934, as amended.

Copies of the above exhibits will be furnished upon request.

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)

By /s/ Steven H. Koehler

Steven H. Koehler
Vice President and Controller
(Duly Authorized Officer
and Chief Accounting Officer)

Date: March 3, 2008

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.

*	Chairman of the Board and Chief Executive Officer
Fred Hassan	
*	Executive Vice President and Chief Financial Officer
Robert J. Bertolini	
/s/ Steven H. Koehler	Vice President and Controller
Steven H. Koehler	
*	Director
Hans W. Becherer	
*	Director
Thomas J. Colligan	
*	Director
C. Robert Kidder	
*	Director
Philip Leder, M.D.	
*	Director
Eugene R. McGrath	
*	Director
Carl E. Mundy, Jr.	
*	Director
Antonio M. Perez	

*	Director
Patricia F. Russo	
*	Director
Jack L. Stahl	

*	Director
Craig B. Thompson, M.D.	
*	Director
Kathryn C. Turner	
*	Director
Robert F. W. van Oordt	
*	Director
Arthur F. Weinbach	

*By /s/ Steven H. Koehler
Steven H. Koehler
Attorney-in-fact

Date: March 3, 2008

Merck/Schering-Plough Cholesterol Partnership

Combined Statements of Net Sales and Contractual Expenses

	Years Ended December 31,		
	2007	2006	2005
	(Dollars in millions)		
Net sales	$ 5,186	$ 3,884	$ 2,425
Cost of sales	216	179	93
Selling, general and administrative	1,151	1,056	945
Research and development	156	161	134
	1,523	1,396	1,172
Income from operations	$ 3,663	$ 2,488	$ 1,253

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

Merck/Schering-Plough Cholesterol Partnership

Combined Balance Sheets

	December 31, 2007	December 31, 2006
	(Dollars in millions)	
Assets		
Cash and cash equivalents	$ 491	$ 36
Accounts receivable, net	402	293
Inventories	105	87
Prepaid expenses and other assets	16	14
Total assets	$ 1,014	$ 430
Liabilities and Partners' Capital (Deficit)		
Rebates payable	$ 377	$ 271
Payable to Merck, net	119	64
Payable to Schering-Plough, net	115	169
Accrued expenses and other liabilities	45	7
Total liabilities	656	511
Commitments and contingent liabilities (notes 3 and 5)		
Partners' capital (deficit)	358	(81)
Total liabilities and Partners' capital (deficit)	$ 1,014	$ 430

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

Merck/Schering-Plough Cholesterol Partnership

Combined Statements of Cash Flows

	Years Ended December 31,		
	2007	2006	2005
	(Dollars in millions)		
Operating Activities:			
Income from operations	$ 3,663	$ 2,488	$ 1,253
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Accounts receivable, net	(109)	(63)	(46)
Inventories	(18)	(21)	(2)
Prepaid expenses and other assets	(2)	(1)	(12)
Rebates payable	106	151	85
Payable to Merck and Schering-Plough, net	1	(130)	36
Accrued expenses and other liabilities	38	5	2
Non-cash charges	60	52	—
Net cash provided by operating activities	3,739	2,481	1,316
Financing Activities:			
Contributions from Partners	722	721	710
Distributions to Partners	(4,006)	(3,206)	(2,033)
Net cash used for financing activities	(3,284)	(2,485)	(1,323)
Net increase/(decrease) in cash and cash equivalents	455	(4)	(7)
Cash and cash equivalents, beginning of period	36	40	47
Cash and cash equivalents, end of period	$ 491	$ 36	$ 40

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

Merck/Schering-Plough Cholesterol Partnership

Combined Statements of Partners' Capital (Deficit)

	Schering-Plough	Merck	Total
		(Dollars in millions)	
Balance, January 1, 2005	$ 56	$ (122)	$ (66)
Contributions from Partners	330	380	710
Income from operations	689	564	1,253
Distributions to Partners	(1,042)	(991)	(2,033)
Balance, December 31, 2005	33	(169)	(136)
Contributions from Partners	344	429	773
Income from operations	1,273	1,215	2,488
Distributions to Partners	(1,648)	(1,558)	(3,206)
Balance, December 31, 2006	2	(83)	(81)
Contributions from Partners	276	506	782
Income from operations	1,831	1,832	3,663
Distributions to Partners	(1,944)	(2,062)	(4,006)
Balance, December 31, 2007	$ 165	$ 193	$ 358

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

Merck/Schering-Plough Cholesterol Partnership

Notes to Combined Financial Statements

1. Description of Business and Basis of Presentation

Description of Business

In May 2000, Merck & Co., Inc. ("Merck") and Schering-Plough Corporation ("Schering-Plough") (collectively "Management" or the "Partners") entered into agreements (the "Agreements") to jointly develop and market in the United States, Schering-Plough's then investigational cholesterol absorption inhibitor ("CAI") ezetimibe (marketed today in the United States as ZETIA and as EZETROL in most other countries) (the "Cholesterol Collaboration") and a fixed-combination tablet containing the active ingredients montelukast sodium and loratadine (the "Respiratory Collaboration"). Montelukast sodium, a leukotriene receptor antagonist, is sold by Merck as SINGULAIR and loratadine, an antihistamine, is sold by Schering-Plough as CLARITIN, both of which are indicated for the relief of symptoms of allergic rhinitis.

The Cholesterol Collaboration is formally referred to as the Merck/Schering-Plough Cholesterol Partnership (the "Partnership"). In December 2001, the Cholesterol Collaboration Agreements were expanded to include all countries of the world, except Japan. The Cholesterol Collaboration Agreements provide for ezetimibe to be developed and marketed in the following forms:

- Ezetimibe, a once daily CAI, non-statin cholesterol reducing medicine used alone or co-administered with any statin drug, and
- Ezetimibe and simvastatin (Merck's existing ZOCOR statin cholesterol modifying medicine) combined into one tablet (marketed today in the United States as VYTORIN and as INEGY in most other countries).

VYTORIN and ZETIA were approved by the U.S. Food and Drug Administration in July 2004 and October 2002, respectively. Together, these products, whether marketed as VYTORIN, ZETIA or under other trademarks locally, are referred to as the "Cholesterol Products."

Under the Cholesterol Collaboration Agreements, the Partners established jointly-owned, limited purpose legal entities based in Canada, Puerto Rico, and the United States through which to carry out the contractual activities of the Partnership in these countries. An additional jointly-owned, limited purpose legal entity based in Singapore was established to own the rights to the intellectual property and to fund and oversee research and development and manufacturing activities of the Cholesterol and Respiratory Collaborations. In all other markets except Latin America, subsidiaries of Merck or Schering-Plough perform marketing activities for Cholesterol Products under contract with the Partnership. These legal entity and subsidiary operations are collectively referred to as the "Combined Companies." In Latin America, the Partnership sells directly to Schering-Plough and Merck's Latin American subsidiaries and Schering-Plough and Merck compete against one another in the cholesterol market. Consequently, selling, promotion and distribution activities for the Cholesterol Products within Latin America are not included in the Combined Companies.

The Partnership is substantially reliant on the infrastructures of Merck and Schering-Plough. There are a limited number of employees of the legal entities of the Partnership and most activities are performed by employees of either Merck or Schering-Plough under service agreements with the Partnership. Profits, which are shared by the Partners under differing arrangements in countries around the world, are generally defined as net sales minus (1) agreed upon manufacturing costs and expenses incurred by the Partners and invoiced to the Partnership, (2) direct promotion expenses incurred by the Partners and invoiced to the Partnership, (3) expenses for a limited specialty sales force in the United States incurred by the Partners and invoiced to the Partnership, and certain amounts for sales force physician detailing of the Cholesterol Products in the United States, Puerto Rico, Canada and Italy, (4) administration expenses based on a percentage of Cholesterol Product net sales, which are invoiced by one of the Partners, and (5) other costs and expenses incurred by the Partners that were not contemplated when the Cholesterol Collaboration Agreements were entered into but that were subsequently agreed to by both Partners. Agreed upon research and development expenses incurred by

the Partners and invoiced to the Partnership are shared equally by the Partners, after adjusting for special allocations in the nature of milestones due to one of the Partners.

The Partnership's future results of operations, financial position, and cash flows may differ materially from the historical results presented herein because of the risks and uncertainties related to the Partnership's business. The Partnership's future operating results and cash flows are dependent on the Cholesterol Products. Any events that adversely affect the market for those products could have a significant impact on the Partnership's results of operations and cash flows. These events could include loss of patent protection, increased costs associated with manufacturing, increased competition from the introduction of new, more effective treatments, exclusion from government reimbursement programs, discontinuation or removal from the market of a product for safety or other reason, and the results of future clinical or outcomes studies. (Note 5)

Basis of Presentation

The accompanying combined balance sheets and combined statements of net sales and contractual expenses, cash flows and partners' capital (deficit) include the Cholesterol and Respiratory Collaboration activities of the Combined Companies. The Respiratory Collaboration activities primarily pertain to clinical development work and pre-launch marketing activities. Spending on respiratory-related activities is not material to the income from operations in any of the years presented. In August 2007, the Partners announced that the New Drug Application filing for montelukast sodium/loratadine had been accepted by the U.S. Food and Drug Administration for standard review. The Partners are seeking U.S. marketing approval of the medicine for treatment of allergic rhinitis symptoms in patients who want relief from nasal congestion.

Net sales include the net sales of the Cholesterol Products sold by the Combined Companies. Expenses include amounts that Merck and Schering-Plough have contractually agreed to directly invoice to the Partnership, or are shared through the contractual profit sharing arrangements between the Partners, as described above.

The accompanying combined financial statements were prepared for the purpose of complying with certain rules and regulations of the Securities and Exchange Commission and reflect the activities of the Partnership based on the contractual agreements between the Partners. Such combined financial statements include only the expenses agreed by the Partners to be shared or included in the calculation of profits under the contractual agreements of the Partnership, and are not intended to be a complete presentation of all of the costs and expenses that would be incurred by a stand-alone pharmaceutical company for the discovery, development, manufacture, distribution and marketing of pharmaceutical products.

Under the Cholesterol Collaboration Agreements, certain activities are charged to the Partnership by the Partners based on contractually agreed upon allocations of Partner-incurred expenses as described below. In the opinion of Management, any allocations of expenses described below are made on a basis that reasonably reflects the actual level of support provided. All other expenses are expenses of the Partners and accordingly, are reflected in each Partner's respective expense line items in their separate consolidated financial statements.

As described above, the profit sharing arrangements under the Cholesterol Collaboration Agreements provide that only certain Partner-incurred costs and expenses be invoiced to the Partnership by the Partners and therefore become part of the profit sharing calculation. The following paragraphs list the typical categories of costs and expenses that are generally incurred in the discovery, development, manufacture, distribution and marketing of the Cholesterol Products and provide a description of how such costs and expenses are treated in the accompanying combined statements of net sales and contractual expenses, and in determining profits under the contractual agreements.

- Manufacturing costs and expenses — All contractually agreed upon manufacturing plant costs and expenses incurred by the Partners related to the manufacture of the Partnership products are included as "Cost of sales" in the accompanying combined statements of net sales and contractual expenses,

including direct production costs, certain production variances, expenses for plant services and administration, warehousing, distribution, materials management, technical services, quality control, and asset utilization. All other manufacturing costs and expenses incurred by the Partners not agreed to be included in the determination of profits under the contractual agreements are not invoiced to the Partnership and, therefore, are excluded from the accompanying combined financial statements. These costs and expenses include but are not limited to yield gains and losses in excess of jointly agreed upon yield rates and excess/idle capacity of manufacturing plant assets.

- Direct promotion expenses — Direct promotion represents direct and identifiable out-of-pocket expenses incurred by the Partners on behalf of the Partnership, including but not limited to contractually agreed upon expenses related to market research, detailing aids, agency fees, direct-to-consumer advertising, meetings and symposia, trade programs, launch meetings, special sales force incentive programs and product samples. All such contractually agreed upon expenses are included in "Selling, general and administrative" in the accompanying combined statements of net sales and contractual expenses. All other promotion expenses incurred by the Partners not agreed to be included in the determination of profits under the contractual agreements are excluded from the accompanying combined financial statements.
- Selling expenses — In the United States, Canada, Puerto Rico and other markets outside the United States (primarily Italy), the general sales forces of the Partners provide a majority of the physician detail activity at an agreed upon cost which is included in "Selling, general and administrative" in the accompanying combined statements of net sales and contractual expenses. In addition, the agreed upon costs of a limited specialty sales force for the United States market that calls on opinion leaders in the field of cholesterol medicine are also included in "Selling, general and administrative." All other selling expenses incurred by the Partners not agreed to be included in the determination of profits under the contractual agreements are excluded from the accompanying combined financial statements. These expenses include the total costs of the general sales forces of the Partners detailing the Cholesterol Products in most countries other than the United States, Canada, Puerto Rico and Italy.
- Administrative expenses — Administrative support is primarily provided by one of the Partners. The contractually agreed upon expenses for support are determined based on a percentage of Cholesterol Product net sales. Such amounts are included in "Selling, general and administrative" in the accompanying combined statements of net sales and contractual expenses. Selected contractually agreed upon direct costs of employees of the Partners for support services and out-of-pocket expenses incurred by the Partners on behalf of the Partnership are also included in "Selling, general and administrative." All other expenses incurred by the Partners not agreed to be included in the determination of profits under the contractual agreements are excluded from the accompanying combined financial statements. These expenses include, but are not limited to, certain U.S. managed care services, Partners' subsidiary management in most international markets, and other indirect expenses such as corporate overhead and interest.
- Research and development ("R&D") expenses — R&D activities are performed by the Partners and agreed upon costs and expenses are invoiced to the Partnership. These agreed upon expenses generally represent an allocation of each Partner's estimate of full time equivalents devoted to the research and development of the cholesterol and respiratory products and include grants and other third-party expenses. These contractually agreed upon allocated costs are included in "Research and development" in the accompanying combined statements of net sales and contractual expenses. All other R&D costs that are incurred by the Partners but not jointly agreed upon, are excluded from the accompanying combined financial statements.

2. Summary of Significant Accounting Policies

Principles of Combination

The accompanying combined balance sheets and combined statements of net sales and contractual expenses, cash flows and partners' capital (deficit) include the Cholesterol and Respiratory Collaboration activities of the Combined Companies. Interpartnership balances and profits are eliminated.

Use of Estimates

The combined financial statements are prepared based on contractual agreements between the Partners, as described above, and include certain amounts that are based on Management's best estimates and judgments. Estimates are used in determining such items as provisions for sales discounts and returns and government and managed care rebates. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Foreign Currency Translation

The net assets of the Partnership's foreign operations are translated into U.S. dollars at current exchange rates. The U.S. dollar effects arising from translating the net assets of these operations are included in Partners' capital (deficit), and are not significant.

Cash and Cash Equivalents

Cash and cash equivalents primarily consist of highly liquid money market instruments with original maturities of less than three months. In 2007, the Partnership changed certain cash management practices, increasing the amount of cash held by the Partnership. The Partnership's cash, which is primarily invested in highly liquid money market instruments, is used to fund trade obligations coming due in the month and for distributions to the Partners. Interest income earned on cash and cash equivalents is reported in "Selling, general and administrative" in the accompanying combined statements of net sales and contractual expenses and amounted to $8 million, $5 million and $2 million in 2007, 2006 and 2005, respectively.

Inventories

Substantially all inventories are valued at the lower of first in, first out cost or market.

Intangible Assets

Intangible assets consist of licenses, trademarks and trade names owned by the Partnership. These intangible assets were recorded at the Partners' historical cost at the date of contribution, at a nominal value.

Revenue Recognition, Rebates, Returns and Allowances

Revenue from sales of Cholesterol Products are recognized when title and risk of loss pass to the customer. Recognition of revenue also requires reasonable assurance of collection of sales proceeds and completion of all performance obligations. Net sales of VYTORIN/INEGY are $2,779 million, $1,955 million and $1,028 million in 2007, 2006 and 2005, respectively. Net sales of ZETIA/EZETROL are $2,407 million, $1,929 million and $1,397 million in 2007, 2006 and 2005, respectively.

In the United States, sales discounts are issued to customers as direct discounts at the point-of-sale or indirectly through an intermediary wholesale purchaser, known as chargebacks, or indirectly in the form of rebates. Additionally, sales are generally made with a limited right of return under certain conditions. Revenues are recorded net of provisions for sales discounts and returns for which reliable estimates can be made at the time of sale. Reserves for chargebacks, discounts and returns and allowances are reflected as a

direct reduction to accounts receivable and amounted to $44 million and $37 million at December 31, 2007 and 2006, respectively. Accruals for rebates are reflected as "Rebates payable," shown separately in the combined balance sheets.

Income Taxes

Generally, taxable income or losses of the Partnership are allocated to the Partners and included in each Partner's income tax return. In some state jurisdictions, the Partnership is subject to an income tax, which is included in the combined financial statements and shared between the Partners. Except for these state income taxes, which are not significant to the combined financial statements, no provision has been made for federal, foreign or state income taxes. In January 2007, the Partnership adopted Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). Adoption of FIN 48 had no impact on the Partnership's financial statements.

Concentrations of Credit Risk

The Partnership's concentrations of credit risk consist primarily of accounts receivable. At December 31, 2007, three customers each represented 28%, 27% and 15% of "Accounts receivable, net." These same three customers accounted for more than 70% of net sales in 2007. Bad debts for the years ended December 31, 2007, 2006 and 2005 have been minimal. The Partnership does not normally require collateral or other security to support credit sales. In 2007, 2006 and 2005, the Partnership derived approximately 75%, 80% and 81%, respectively, of its combined net sales from the United States.

3. Inventories

Inventories at December 31 consisted of:

	2007	2006
	(Dollars in Millions)	
Finished goods	$ 37	$ 25
Raw materials and work in process	68	62
	$ 105	$ 87

The Partnership has entered into long-term agreements with the Partners for the supply of active pharmaceutical ingredients (API) and for the formulation and packaging of the Cholesterol Products at an agreed upon cost. In connection with these supply agreements, the Partnership has entered into capacity agreements under which the Partnership has committed to take a specified annual minimum supply of API and formulated tablets or pay a penalty. These capacity agreements are in effect for a period of seven years following the first full year of production by one of the Partners and expire beginning in 2011. The Partnership has met its commitments under the capacity agreements through December 31, 2007.

Merck/Schering-Plough Cholesterol Partnership

Notes to Combined Financial Statements — (Continued)

4. Related Party Transactions

The Partnership receives substantially all of its goods and services, including pharmaceutical product, manufacturing services, sales force services, administrative services and R&D services, from its Partners. Summarized information about related party balances is as follows:

	December 31, 2007			December 31, 2006		
	Merck	Schering-Plough	Total	Merck	Schering-Plough	Total
	(Dollars in Millions)					
Receivables	$ 128	$ 6	$ 134	$ 399	$ 11	$ 410
Payables	247	121	368	463	180	643
Payables, net	$ 119	$ 115	$ 234	$ 64	$ 169	$ 233

Selling, general and administrative expense includes contractually defined costs for physician detailing provided by Schering-Plough and Merck of $242 million and $197 million, respectively, in 2007; $204 million and $203 million, respectively, in 2006; and $196 million and $181 million, respectively, in 2005. These expenses are not necessarily reflective of the actual cost of the Partners' sales efforts in the countries in which the amounts are contractually defined. Included in the 2007 and 2006 amounts are $60 million and $52 million, respectively, relating to contractually defined costs of physician detailing in Italy. These amounts were not paid by the Partnership to the Partners, but are a component of the profit sharing calculation.

Cost of sales and selling, general and administrative expense also includes contractually defined costs for distribution and administrative services provided by Merck and Schering-Plough of $34 million, $27 million, and $21 million in 2007, 2006 and 2005, respectively. These amounts are not necessarily reflective of the actual costs for such distribution and administrative services.

The Partnership sells Cholesterol Products directly to the Partners, principally to Merck and Schering-Plough affiliates in Latin America. In Latin America, where the Partners compete with one another in the cholesterol market, Merck and Schering-Plough purchase Cholesterol Products from the Partnership and sell directly to third parties. Sales to Partners are included in "Net sales" at their invoiced price in the accompanying combined statements of net sales and contractual expenses and are $82 million, $61 million, and $36 million in 2007, 2006, and 2005, respectively.

5. Legal and Other Matters

The Partnership may become party to claims and legal proceedings of a nature considered normal to its business, including product liability and intellectual property. The Partnership records a liability in connection with such matters when it is probable a liability has been incurred and an amount can be reasonably estimated. Legal costs associated with litigation and investigation activities are expensed as incurred.

In February 2007, Schering-Plough received a notice from Glenmark Pharmaceuticals, a generic company, indicating that it had filed an Abbreviated New Drug Application for a generic form of ZETIA and that it is challenging the U.S. patents that are listed for ZETIA. Schering-Plough and the Partnership intend to vigorously defend its patents, which they believe are valid, against infringement by generic companies attempting to market products prior to the expiration dates of such patents. As with any litigation, there can be no assurances of the outcomes which, if adverse, could result in significantly shortened periods of exclusivity.

On January 14, 2008, the Partnership announced the primary endpoint and other results of the ENHANCE trial (Effect of Combination Ezetimibe and High-Dose Simvastatin vs. Simvastatin Alone on the Atherosclerotic Process in Patients with Heterozygous Familial Hypercholesterolemia). ENHANCE was a surrogate endpoint trial conducted in 720 patients with Heterozygous Familial Hypercholesterolemia, a rare condition that affects approximately 0.2% of the population. The primary endpoint was the mean change in the intima-

media thickness measured at three sites in the carotid arteries (the right and left common carotid, internal carotid and carotid bulb) between patients treated with ezetimibe/simvastatin 10/80 mg versus patients treated with simvastatin 80 mg alone over a two year period. There was no statistically significant difference between treatment groups on the primary endpoint. There was also no statistically significant difference between the treatment groups for each of the components of the primary endpoint, including the common carotid artery. The Partnership has been closely monitoring sales of the Cholesterol Products following release of the ENHANCE clinical trial results. To date, 2008 net sales of the Cholesterol Products have been below the Partnership's prior expectations.

During December 2007 and through February 26, 2008, Merck and Schering-Plough received joint letters from the House Committee on Energy and Commerce and the House Subcommittee on Oversight and Investigations and one letter from the Senate Finance Committee collectively seeking a combination of witness interviews, documents and information on a variety of issues related to the ENHANCE clinical trial, the sale and promotion of VYTORIN, as well as sales of stock by corporate officers of Merck and Schering-Plough. On January 25, 2008, Merck, Schering-Plough and the Partnership each received two subpoenas from the New York State Attorney General's Office seeking similar information and documents. Merck and Schering-Plough have also each received a letter from the Office of the Connecticut Attorney General dated February 1, 2008, requesting documents related to the marketing and sale of the Cholesterol Products and the timing of disclosures of the results of ENHANCE. The Partners and the Partnership are cooperating with these investigations and are working to respond to the inquiries. In addition, since mid-January 2008, the Partners and the Partnership have become aware of or been served with approximately 85 civil class action lawsuits alleging common law and state consumer fraud claims in connection with the sale and promotion of the Cholesterol Products. While it is not feasible to predict the outcome of the investigations or lawsuits arising from the ENHANCE trial, unfavorable outcomes could have a significant adverse effect on the Partnership's financial position, results of operations and cash flows.

The Partnership maintains insurance coverage with deductibles and self-insurance as Management believes is cost beneficial. The Partnership self-insures all of its risk as it relates to product liability and accrues an estimate of product liability claims incurred but not reported.

INDEPENDENT AUDITORS' REPORT

The Partners of the Merck/Schering-Plough Cholesterol Partnership

We have audited the accompanying combined balance sheets of the Merck/Schering-Plough Cholesterol Partnership (the "Partnership") as of December 31, 2007 and 2006, as described in Note 1, and the related combined statements of net sales and contractual expenses, partners' capital (deficit) and cash flows, as described in Note 1, for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the management of the Partnership, Merck & Co., Inc., and Schering-Plough Corporation. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

The accompanying statements were prepared for the purpose of complying with certain rules and regulations of the Securities and Exchange Commission and, as described in Note 1, are not intended to be a complete presentation of the financial position, results of operations or cash flows of all the activities of a stand-alone pharmaceutical company involved in the discovery, development, manufacture, distribution and marketing of pharmaceutical products.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Merck/Schering-Plough Cholesterol Partnership, as described in Note 1, as of December 31, 2007 and 2006, and the combined results of its net sales and contractual expenses and its combined cash flows, as described in Note 1, for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Parsippany, New Jersey
February 27, 2008

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

SCHEDULE II. VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2007, 2006 and 2005

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
	(Dollars in millions)			
2007				
Balance at beginning of year	$ 53	$ 32	$ 152	$ 237
OBS reserves acquired November 19, 2007	9	—	1	10
Additions:				
Charged to costs and expenses	18	94	143	255
Deductions from reserves	(30)	(94)	(124)	(248)
Effects of foreign exchange	2	2	3	7
Balance at end of year	$ 52	$ 34	$ 175	$ 261
2006				
Balance at beginning of year	$ 54	$ 31	$ 126	$ 211
Additions:				
Charged to costs and expenses	25	150	493	668
Deductions from reserves	(29)	(150)	(468)	(647)
Effects of foreign exchange	3	1	1	5
Balance at end of year	$ 53	$ 32	$ 152	$ 237
2005				
Balance at beginning of year	$ 67	$ 25	$ 81	$ 173
Additions:				
Charged to costs and expenses	14	138	271	423
Deductions from reserves	(25)	(131)	(225)	(381)
Effects of foreign exchange	(2)	(1)	(1)	(4)
Balance at end of year	$ 54	$ 31	$ 126	$ 211

SCHERING-PLOUGH CORPORATION

2006 STOCK INCENTIVE PLAN

(As Amended and Restated Effective as of February 29, 2008)

SCHERING-PLOUGH CORPORATION
2006 STOCK INCENTIVE PLAN

(As Amended and Restated Effective as of February 29, 2008)

I. ESTABLISHMENT AND PURPOSE

1.1 Purpose. The purpose of this Schering-Plough Corporation 2006 Stock Incentive Plan (the "Plan") is to enable Schering-Plough Corporation to achieve superior financial performance, as reflected in the performance of its Shares and other key financial or operating indicators by (i) providing incentives and rewards to certain Employees who are in a position to contribute materially to the success and long-term objectives of Schering-Plough, (ii) aiding in the recruitment and retention of Employees of outstanding ability and (iii) providing Employees an opportunity to acquire or expand equity interests in Schering-Plough, thus aligning the interests of such Employees with those of Schering-Plough's shareholders. Schering-Plough expects that it will benefit from the added interest that such Employees will have in the welfare of Schering-Plough as a result of their ownership or increased ownership of Schering-Plough's Shares.

1.2 Effective Date; Shareholder Approval. The Plan is effective as of May 19, 2006, subject to the approval of the Plan by the affirmative vote of the holders of a majority of the Shares present in person or by proxy and entitled to vote at the 2006 Annual Meeting of Shareholders of Schering-Plough, or any adjournment of such meeting. Any Awards granted under the Plan prior to the approval of the Plan by Schering-Plough's shareholders, as provided herein, shall be contingent on such approval; if such approval is not obtained, the Plan shall have no effect, and any Awards granted under the Plan shall be rescinded.

II. DEFINITIONS

Capitalized terms used in the Plan have the following meanings, unless another definition is indicated clearly by particular usage and context.

"*Acquired Company*" means any business, corporation or other entity acquired by Schering-Plough or its Affiliates or Subsidiaries.

"*Acquired Grantee*" means the grantee of a stock-based award of an Acquired Company.

"*Affiliate*" means a corporation or other entity controlled by, controlling or under common control with Schering-Plough.

"*Award*" means any form of incentive or performance award granted under the Plan, whether singly or in combination, to a Participant by the Committee pursuant to such

terms, conditions, restrictions and/or limitations (if any) as the Committee may establish and set forth in the applicable Award Certificate. Awards granted under the Plan may consist of:

(a) "Stock Options" awarded pursuant to Section 4.4;

(b) "Restricted Stock" awarded pursuant to Section 4.5;

(c) "Deferred Stock Units" awarded pursuant to Section 4.6;

(d) "Other Stock-Based Awards" awarded pursuant to Section 4.7;

(e) "Performance Awards", including "Qualified Performance Awards," awarded pursuant to Section 4.8; and

(f) "Substitute Awards" awarded pursuant to Section 4.9.

"*Award Certificate*" means the document issued, either in writing or by electronic means, by Schering-Plough to a Participant evidencing the grant of an Award and setting forth the specific terms, conditions, restrictions and limitations applicable to the Award.

"*Beneficiary*" means the person or persons designated by the Participant in accordance with Section 7.6 to acquire the Participant's right in the Plan in the event of the Participant's death.

"*Board*" means the Board of Directors of Schering-Plough.

"*Change in Control*" means the happening of any of the following events:

(a) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of securities of Schering-Plough where such acquisition causes such Person to own more than 50% of either (*x*) the then outstanding Shares of Schering-Plough (the "Outstanding Shares") or (*y*) the combined voting power of the then outstanding voting securities of Schering-Plough entitled to vote generally in the election of directors (the "Outstanding Voting Securities"); provided, however, that for purposes of this subsection (a) the following acquisitions will not constitute a Change in Control: (i) any acquisition directly from Schering-Plough, (ii) any acquisition by Schering-Plough, (iii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by Schering-Plough or any corporation controlled by Schering-Plough or (iv) any acquisition by any corporation pursuant to a transaction which complies with clauses (i), (ii) and (iii) of subsection (c) below; and provided, further, that if any Person's beneficial ownership of the Outstanding Shares or Outstanding Voting Securities reaches or exceeds 50% as a result of a prior transaction, and such Person subsequently acquires beneficial ownership of additional

Shares or additional voting securities of Schering-Plough, such subsequent acquisition will not be treated as an acquisition that causes such Person to own more than 50% of the Outstanding Shares or Outstanding Voting Securities;

(b) during any 12-month period, individuals who, as of the first day of such period, 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 beginning of such 12-month period whose election, or nomination for election by the Schering-Plough's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered as though such individual were a member of the Incumbent Board;

(c) consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving Schering-Plough, or the acquisition of assets or stock of another entity by Schering-Plough (each a "Business Combination"), in each case, unless, following such Business Combination, (i) all or substantially all of the individuals and entities who were beneficial owners, respectively, of the Outstanding Shares or Outstanding Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectfully, the then outstanding shares of the 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 Schering-Plough or substantially all of Schering-Plough'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 Shares and Outstanding 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 Schering-Plough or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, more than 50% of, respectfully, 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 on the later of (A) the time of the execution of the initial agreement, (B) the action of the Board providing for such Business Combination or (C) the beginning of the 12-month period ending on the effective date of the Business Combination;

(d) any one Person acquires (or has acquired during any 12-month period ending on the date of the most recent acquisition by such Person) assets of Schering-Plough having a fair market value equal to or more than 40% of the total gross fair market value of all of the assets of Schering-Plough immediately prior to such sale, other than an acquisition by (i) a Person who was a shareholder of Schering-Plough immediately

before the asset acquisition in exchange for or with respect to such Person's Shares, (ii) an entity whose total or voting power immediately after the transfer is at least 50% owned, directly or indirectly, by Schering-Plough, (iii) a person or group that, immediately after the transfer, directly or indirectly owns at least 50% of the total value or voting power of the outstanding stock of Schering-Plough or (iv) an entity whose total value or voting power immediately after the transfer is at least 50% owned, directly or indirectly, by a person described in clause (iii) above; or

(e) the complete liquidation of Schering-Plough.

The definition of Change in Control for purposes of the Plan is intended to conform to the description of "Change in Control Events" in Treas. Prop. Reg. 1.409A-3(g)(5), or in subsequent IRS guidance describing what constitutes a change in control event for purposes of Code section 409A. Accordingly, no Change in Control will be deemed to occur with respect to a transaction or event described in paragraphs (a) through (e) above unless the transaction or event would constitute a "Change in Control Event" as described in Treas. Prop. Reg. 1.409A-3(g)(5), or in subsequent IRS guidance under Code section 409A.

"*Change in Control Price*" means the higher of (a) the highest reported sales price of a Share in any transaction reported on the New York Stock Exchange Composite Tape or other national exchange on which Shares may then be listed during the 60-day period prior to and including the effective date of a Change in Control or (b) if the Change in Control is the result of a tender or exchange offer or a business combination, the highest price per Share paid in such tender or exchange offer or business combination; provided, however, that in the case of Stock Options, the Change in Control Price shall be in all cases the Fair Market Value of a Share on the date such Stock Option is exercised or cancelled. To the extent that the consideration paid in any transaction described in clause (b) above consists all or in part of securities or other non-cash consideration, the value of such securities or other non-cash consideration shall be determined in the sole discretion of the Committee.

"*Code*" means the Internal Revenue Code of 1986, as amended.

"*Committee*" means the Compensation Committee of the Board of Directors, or such other successor committee or subcommittee of the Board formed to act on performance-based compensation for Covered Employees, which is comprised solely of two or more persons who are outside directors within the meaning of Section 162(m)(4)(C)(i) of the Code and the applicable regulations and non-employee directors within the meaning of Rule 16b-3(b)(3) under the Exchange Act.

"*Controlled Group Member*" means Schering-Plough and each other company that is required to be aggregated with Schering-Plough under Code Sections 414(b), (c) and (m).

"*Corporation*" means Schering-Plough Corporation.

"*Covered Employee*" means an Employee who is, or who the Committee determines may be, a "covered employee" within the meaning of Section 162(m)(3) of the Code in the fiscal year in which Schering-Plough would expect to be able to claim a tax deduction with respect to a Performance Award.

"*Deferred Stock Account*" means a hypothetical bookkeeping account established and maintained by Schering-Plough on behalf of a Participant pursuant to Section 4.6(a) to track Deferred Stock Units awarded to the Participant pending the distribution of Shares in settlement of such units.

"*Deferred Stock Unit*" means the Award of an unfunded contractual right granted under Section 4.6 to receive one Share in the future, subject to any restrictions, as the Committee, in its discretion, may determine.

"*Disabled*" or "*Disability*" means an inability to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

"*Dividend Equivalent*" means an amount equal to the cash dividend or the Fair Market Value of the stock dividend that would be paid on each Share underlying an Award if the Share were duly issued and outstanding on the dividend record date.

"*Effective Date*" means May 19, 2006.

"*Employee*" means any individual who performs services as a common law employee for Schering-Plough or an Affiliate or Subsidiary.

"*Exchange Act*" means the United States Securities Exchange Act of 1934, as amended.

"*Exercise Price*" means the price per Share, as fixed by the Committee, at which Shares may be purchased under a Stock Option.

"*Fair Market Value*" of a Share means either:

(a) The closing sales price of a Share as reported on the New York Stock Exchange on the applicable date,

(b) If no sales of Shares are reported for such date, the mean between the bid and asked price of a Share on such Exchange at the close of the market on such date, or

(c) In the event that the method for determining fair market value described in clauses (a) or (b) is not practicable, the fair market value of a Share determined in

accordance with any other reasonable method approved by the Committee in its discretion.

"*GAAP*" means United States generally accepted accounting principles.

"*Incentive Stock Option*" means a Stock Option granted under Section 4.4 of the Plan that meets the requirements of Section 422 of the Code and any regulations or rules promulgated thereunder and is designated in the Award Certificate to be an Incentive Stock Option.

"*Involuntary Termination*" means a Termination of Employment initiated by Schering-Plough or an Affiliate or Subsidiary other than a Termination for Cause or a Termination Due to Business Divestiture.

"*Nonqualified Stock Option*" means any Stock Option granted under Section 4.4 of the Plan that is not an Incentive Stock Option.

"*Other Stock-Based Award*" means an Award (other than a Stock Option, Restricted Stock or Deferred Stock Unit) granted under Section 4.7 of the Plan that consists of, or is denominated in, payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares.

"*Participant*" means an Employee or Acquired Grantee who has been granted an Award under the Plan.

"*Performance Award*" means an Award granted under Section 4.8 of the Plan that is granted, vested or paid solely on account of the attainment of a specified performance target in relation to one or more Performance Measures.

"*Performance Cycle*" means a period typically measured by Schering-Plough's fiscal year or years over which the level of attainment of one or more Performance Measures shall be assessed; provided, however, that the Committee, in its discretion, may determine to designate a Performance Cycle that is less than a full fiscal year.

"*Performance Measure*" means, with respect to any Performance Award, the business criteria selected by the Committee to measure the level of performance of Schering-Plough during a Performance Cycle. The Committee may select as the Performance Measure for a Performance Cycle any one or combination of the following corporate measures, as interpreted by the Committee:

(a) Net operating profit after taxes;

(b) Operating profit before taxes;

(c) Return on equity;

(d) Return on assets or net assets;

(e) Total shareholder return;

(f) Total shareholder return (as compared with a peer group of Schering-Plough);

(g) Earnings before income taxes;

(h) Earnings per Share;

(i) Net income;

(j) Free cash flow;

(k) Free cash flow per Share;

(l) Revenue (or any component thereof);

(m) Revenue growth;

(n) Share performance;

(o) Relative Share performance;

(p) Economic value added; and/or

(q) Return on capital.

"*Plan*" means the Schering-Plough Corporation 2006 Stock Incentive Plan, as set forth in this document and as may be amended from time to time.

"*Prior Plan*" means the Schering-Plough Corporation 2002 Stock Incentive Plan.

"*Qualified Performance Award*" means a Performance Award that is intended by the Committee to meet the requirements for "qualified performance-based compensation" within the meaning of Code Section 162(m) and Treasury Regulation Section 1.162-27(e).

"*Qualified Performance Award Determination Period*" means the period within which Committee determinations regarding Performance Measures, targets and payout formulas in connection with a Qualified Performance Award must be made. The Qualified Performance Award Determination Period is the period beginning on the first day of a Performance Cycle and ending no later than 90 days after commencement of the Performance Cycle; provided, however, that in the case of a Performance Cycle that is less than 12 months in duration, the Qualified Performance Award Determination Period shall end no later than the date on which 25% of the Performance Cycle has elapsed.

"*Reporting Person*" means an Employee who is subject to the reporting requirements of Section 16(a) of the Exchange Act.

"*Restricted Stock*" means Shares issued pursuant to Section 4.5, which are subject to such restrictions as the Committee, in its discretion, shall impose.

"*Restriction Period*" means the period of time during which the Restricted Stock Awards will remain subject to restrictions imposed by the Committee and set forth in the Award Certificate.

"*Retirement*" means, for purposes of a particular Award, an Employee's "retirement" as defined in the Committee's grant guidelines in effect as of the date the Award is granted to the Employee or, if no such grant guidelines are in effect as of the date of grant (or if such guidelines are in effect, but do not define "retirement"), an Employee's Termination of Employment on or after the earliest date the Employee is eligible to retire under Schering-Plough's tax-qualified retirement plans, or in the case of a non-U.S. Employee, under the Worldwide Retirement Plan.

"*Section 409A Specified Employee*" means, with respect to Terminations of Employment that occur between April 1st of a calendar year (beginning with the 2006 calendar year) and the following March 31st, any Employee who meets the requirements of paragraphs (a), (b) or (c) below at any time during the 12-month period ending on December 31st of the calendar year immediately preceding such April 1st.

(a) An officer of Schering-Plough or any other Controlled Group Member having annual compensation greater than $135,000 in 2005 or $140,000 in 2006 (and as adjusted under Section 416(i)(1) of the Code for years after 2006). Notwithstanding the foregoing, an Employee will be treated as an officer for purposes of the Plan only if such Employee is one of the top 50 highest paid employees of Schering-Plough and all other Controlled Group Members who exceed the applicable annual compensation threshold described herein at any time during a calendar year.

(b) A "5% owner" of Schering-Plough. A "5% owner" means any person who owns (or is considered as owning within the meaning of Code Section 318) more than 5% of the outstanding stock of Schering-Plough or stock possessing more than 5% of the total combined voting power of all stock of Schering-Plough. In determining percentage ownership hereunder, Controlled Group Members shall be treated as separate employers.

(c) A "1% owner" of Schering-Plough having an annual compensation from Schering-Plough of more than $150,000. "1% owner" means any person who owns (or is considered as owning within the meaning of Code Section 318) more than 1% of the outstanding stock of Schering-Plough or stock possessing more than 1% of the total combined voting power of all stock of Schering-Plough. In determining percentage ownership, Controlled Group Members shall be treated as separate employers.

However, in determining whether an individual has annual compensation or more than $150,000, compensation from each Controlled Group Member shall be taken into account.

(d) For purposes of paragraphs (a), (b) and (c) above, "annual compensation" shall mean the Form W-2 compensation of a Participant for the applicable calendar year.

"*Shares*" means shares of common stock, $.50 par value per share, of Schering-Plough.

"*Stock Option*" means a right granted under Section 4.4 of the Plan to purchase from Schering-Plough a stated number of Shares at the Exercise Price. Stock Options awarded under the Plan shall be in the form of either Incentive Stock Options or Nonqualified Stock Options.

"*Subsidiary*" means any corporation, partnership, joint venture or other entity during any period in which at least a 50% voting or profit interest is owned, directly or indirectly, by Schering-Plough or any successor to Schering-Plough.

"*Termination Due to Business Divestiture*" means a Termination of Employment due to a transaction or series of related transactions (other than a transaction or series of transactions that are a part of a Change in Control) that result in a divestiture, sale, transfer, assignment or other disposition of any division, subsidiary, business unit, product line or group, or any other asset of Schering-Plough or any of its affiliates.

"*Termination for Cause*" shall have the definition prescribed in the current employment agreement, if any, between Schering-Plough and the relevant Employee or, in the absence of such definition, shall mean a Termination of Employment initiated by Schering-Plough or an Affiliate or Subsidiary incident to or connected with a determination that the Employee has engaged in misappropriation, theft, embezzlement, kick-backs, bribery or similar deliberate, gross or willful misconduct or dishonest acts or omissions. Termination for Cause shall also include such a Termination of Employment incident to or in connection with acts or omissions of the Employee that the Committee reasonably determines to be willfully or wantonly harmful to, or detrimental to the interests of, Schering-Plough or any of its Affiliates or Subsidiaries, monetarily or otherwise.

"*Termination of Employment*" means the date of cessation of an Employee's employment relationship with Schering-Plough and any Affiliate or Subsidiary for any reason, with or without cause, as determined by Schering-Plough. A transfer of an Employee between and among Schering-Plough, an Affiliate or a Subsidiary shall not be deemed a Termination of Employment for purposes of the Plan.

III. ADMINISTRATION

3.1 The Committee. The Plan shall be administered by the Committee.

3.2 Authority of the Committee. The Committee shall have authority, in its sole and absolute discretion and consistent with applicable law and regulation, and subject to the terms of the Plan, to:

(a) Interpret and administer the Plan and any instrument or agreement relating to the Plan;

(b) Prescribe the rules and regulations that it deems necessary for the proper operation and administration of the Plan, and amend or rescind any existing rules or regulations relating the Plan;

(c) Select Employees to receive Awards under the Plan;

(d) Determine the form of an Award, the number of Shares subject to each Award, all the terms and conditions of an Award, including, without limitation, the conditions on exercise or vesting, the designation of Stock Options as Incentive Stock Options or Nonqualified Stock Options, and the circumstances in which an Award may be settled in cash or Shares or may be cancelled, forfeited or suspended, and the terms of the Award Certificate;

(e) Determine whether Awards will be granted singly, in combination or in tandem;

(f) Establish and interpret Performance Measures in connection with Performance Awards, evaluate the level of performance over a Performance Cycle and, in the case of Qualified Performance Awards, certify the level of performance attained with respect to Performance Measures;

(g) Waive or amend any terms, conditions, restrictions or limitations on an Award, except that the prohibition on the repricing of Stock Options, as described in Section 4.4(h), and the limitations on elections to defer payment of Deferred Stock Units, as described in Section 4.6(e), may not be waived;

(h) Except to the extent that any such action would result in the imposition on a Participant of an "additional tax" under Section 409A of the Code, accelerate the vesting, exercise or lapse of restrictions on an Award when such action or actions would be in the best interest of Schering-Plough;

(i) Make any adjustments permitted by the Plan (including but not limited to adjustment of the number of Shares available under the Plan or any Award) and any Award granted under the Plan as may be appropriate pursuant to Article V;

(j) Subject to the requirements of Section 409A of the Code, determine under which circumstances Awards may be deferred and the extent to which a deferral will be credited with Dividend Equivalents and interest thereon;

(k) Determine whether a Nonqualified Stock Option or Restricted Stock Award may be transferable to family members, a family trust or a family partnership;

(l) Establish any sub-plans and make any modifications to the Plan that the Committee may determine to be necessary to implement and administer the Plan in countries outside the United States;

(m) Appoint such agents as it shall deem appropriate for proper administration of the Plan; and

(n) Take any and all other actions it deems necessary or advisable for the proper operation or administration of the Plan.

3.3 Committee Determinations. All determinations of the Committee shall be made in its sole discretion, in the best interest of Schering-Plough, not as a fiduciary, and in keeping with the objectives of the Plan and need not be uniform as to similarly situated individuals. Committee determinations shall be made by a majority of its members present at a meeting at which a quorum is present and shall be final, conclusive and binding on all persons having an interest in the Plan and any Awards granted under the Plan. Any determination of the Committee that is reduced to writing and signed by all of the members of the Committee shall be as fully effective as if it had been made at a meeting duly held.

3.4 Delegation of Authority. The Committee, in its discretion and consistent with applicable law and regulations, may delegate some or all of its authority and duties under the Plan to such other individual, individuals or committee as it may deem advisable, under such conditions and subject to such limitations as the Committee may establish. Notwithstanding the foregoing, only the Committee shall have authority to grant and administer Awards to Covered Employees and other Reporting Persons, to establish and certify Performance Measures for Qualified Performance Awards and to grant Awards to any Employee who is acting as a delegate of the Committee in respect of the Plan.

3.5 Employment of Advisors. The Committee may employ attorneys, consultants, accountants and other advisors, and the Committee, Schering-Plough and the officers and directors of Schering-Plough may rely upon the advice, opinions or valuations of the advisors employed.

3.6 No Liability. No member of the Committee, nor any person acting as a delegate of the Committee in respect of the Plan, shall be liable for any losses incurred by any person resulting from any action, interpretation or construction made in good faith with respect to the Plan or any Award granted under the Plan.

IV. AWARDS

4.1 Eligibility. All Employees shall be eligible to receive Awards under the Plan.

4.2 Participation. The Committee, at its sole discretion, shall select from time to time Participants from those persons eligible under Section 4.1 to receive Awards under the Plan.

4.3 Forms of Award. Awards shall be in the form determined by the Committee, in its discretion, and shall be evidenced by an Award Certificate. Awards may be granted singly or in combination or tandem with other Awards.

4.4 Stock Options. The Committee may grant Stock Options under the Plan to those Employees whom the Committee may from time to time select, in the amounts and pursuant to such other terms and conditions that the Committee, in its discretion, may determine and set forth in the Award Certificate, subject to the following provisions.

(a) Form. Stock Options granted under the Plan may, at the discretion of the Committee, be in the form of Nonqualified Stock Options, Incentive Stock Options or a combination of the two, subject to the restrictions set forth in paragraph (g) below with respect to grants of Incentive Stock Options. The Committee shall designate the form of the Stock Option at the time of grant and such form shall be specified in the Award Certificate. Where both a Nonqualified Stock Option and an Incentive Stock Option are granted to an Employee at the same time, such Awards shall be deemed to have been granted in separate grants, shall be clearly identified, and in no event will the exercise of one such Award affect the right to exercise the other Award.

(b) Amount of Shares. The Committee may grant Stock Options to an Employee in such amounts as the Committee may determine, subject to the limitations set forth in Section 5.1 of the Plan. The number of Shares subject to a Stock Option shall be set forth in the Award Certificate.

(c) Exercise Price. The Exercise Price of Stock Options granted under the Plan shall be determined by the Committee at the time of grant and set forth in the Award Certificate. In no event shall the Exercise Price with respect to any Share subject to a Stock Option be set at a price that is less than the grant date Fair Market Value of a Share.

(d) Option Term. Except as otherwise provided in paragraph (e)(iv) of this Section 4.4, all Stock Options granted under the Plan shall lapse no later than the tenth anniversary of the date of grant.

(e) Timing of Exercise. Except as the Committee may otherwise determine at the time of grant, and subject to (1) the Committee's authority under Section 3.2(g) to waive or amend any terms, conditions, limitations or restrictions of an Award, (2)

Section 5.4 relating to Changes in Control and (3) the special forfeiture provisions of Section 7.2, each Stock Option granted under the Plan shall be exercisable in whole or in part, subject to the following conditions, limitations and restrictions.

(i) ***Vesting***. The Committee will determine and set forth in the Award Certificate the date on which the Stock Options subject to the Award may first be exercised. Unless the Award Certificate provides otherwise, and except as otherwise provided in this Section 4.4(e) and in Section 5.4 relating to Changes in Control, no Stock Option shall be exercisable prior to the one-year anniversary of the date of grant.

(ii) ***Retirement***. Upon a Participant's Retirement,

(A) All Stock Options granted to the Participant during the one-year period immediately preceding the Participant's Retirement date that have not become exercisable as of the such Retirement date shall be forfeited;

(B) All Stock Options granted to the Participant more than one year prior to the Participant's Retirement date that have not become exercisable as of such Retirement date shall continue to become exercisable in accordance with the vesting schedule set out in the applicable Award Certificate; and

(C) To the extent that Stock Options have become exercisable as of the Participant's Retirement date, or become exercisable after such date in accordance with paragraph (B) above, such Stock Options must be exercised, if at all, within five years after the Participant's Retirement date, or, if earlier, no later than the original expiration date of the Stock Option.

(D) In the event the Participant's death occurs after Retirement, the Participant's Stock Options that have not become exercisable in accordance with paragraph (B) as of the date of the Participant's death shall become immediately exercisable and all of the Participant's Stock Options must be exercised, if at all, within the later of (x) five years from the Participant's Retirement date or, if earlier, the original expiration date of Stock Option and (y) one year from the Participant's date of death.

(iii) ***Termination Due to Business Divestiture***. Upon a Participant's Termination Due to Business Divestiture, all Stock Options granted to the Participant that have not become exercisable as of the date of such Termination Due to Business Divestiture shall become immediately exercisable and must be exercised, if at all, within five years after such termination date, but in no event later than the original expiration date of the Stock Option.

(iv) ***Disability***. Upon the Disability of a Participant, all Stock Options granted to the Participant that have not become exercisable as of the date of

Disability shall become immediately exercisable and shall remain exercisable for the full duration of the Stock Option's original term.

(v) ***Death***. Upon a Participant's Termination of Employment due to his or her death during the term of a Stock Option, all Stock Options held by the Participant at the time of his or her death that are not already exercisable shall become immediately exercisable and all Stock Options shall remain exercisable for the longer of (A) the full duration of the Stock Option's original term and (B) one year from the Participant's date of death. Stock Options of a deceased Participant may be exercised only by the Participant's Beneficiary or, if none, by the legal representative of the Participant's estate or by the person given authority to exercise such Stock Options by the Participant's will or by operation of law. In the event a Stock Option is exercised by the executor or administrator of a deceased Participant, or by the person or persons to whom the Stock Option has been transferred under the Participant's will or the applicable laws of descent and distribution, Schering-Plough shall be under no obligation to deliver Shares unless and until Schering-Plough is satisfied that the person or persons exercising the Stock Option is or are the duly appointed executor(s) or administrator(s) of the deceased Participant or the person to whom the Stock Option has been transferred under the Participant's will or by the applicable laws of descent and distribution.

(vi) ***Other Terminations***. Upon an Employee's Termination of Employment for any reason other than death, Disability, Retirement, Termination Due to Business Divestiture or Termination for Cause, all Stock Options that have not become exercisable as of the date of termination shall be forfeited and to the extent that Stock Options have become exercisable as of such date, such Stock Options must be exercised, if at all, within three months after such Termination of Employment (one year in the case of an Involuntary Termination), but in no event later than the original expiration date of the Stock Option.

(f) Method of Exercise; Payment of Exercise Price. A Stock Option may be exercised by giving written notice to Schering-Plough specifying the number of Shares to be purchased, which shall be accompanied by full payment of the Exercise Price plus applicable taxes, if any. No Stock Option shall be exercised for less than the lesser of 100 Shares or the full number of Shares for which the Stock Option is then exercisable. No stock certificates shall be registered and delivered, and no Participant shall have any rights to dividends or other rights of a shareholder with respect to Shares subject to the Stock Option until the Participant has given written notice of exercise, made full payment of the Exercise Price for such Shares (including taxes) and, if requested by Schering-Plough, has given the representation described in Section 7.4. Payment of the Exercise Price may be made in cash or by certified check, bank draft, wire transfer, or postal or express money order. In addition, at the discretion of the Committee, payment of all or a portion of the Exercise Price may be made by —

(i) Delivering a properly executed exercise notice to Schering-Plough or its agent, together with irrevocable instructions to a broker to deliver promptly to Schering-Plough the amount of sale proceeds with respect to the portion of the Shares to be acquired having a Fair Market Value on the date of exercise equal to the sum of the applicable portion of the Exercise Price being so paid;

(ii) Tendering (actually or by attestation) to Schering-Plough previously acquired Shares that have been held by the Participant for at least six months, subject to paragraph (iv), and that have a Fair Market Value on the day prior to the date of exercise equal to the applicable portion of the Exercise Price being so paid, provided that the Board has specifically approved the repurchase of such Shares (unless such approval is not required by the terms of the By-Laws of Schering-Plough) and the Committee has determined that, as of the date of repurchase, Schering-Plough is, and after the repurchase will continue to be, able to pay its liabilities as they become due; or

(iii) Provided such payment method has been expressly authorized by the Board or the Committee in advance and subject to any requirements of applicable law and regulations, instructing Schering-Plough to reduce the number of Shares that would otherwise be issued by such number of Shares as have in the aggregate a Fair Market Value on the date of exercise equal to the applicable portion of the Exercise Price being so paid.

(iv) The Committee, in consideration of applicable accounting standards, may waive any holding period on Shares required to tender pursuant to clause (ii).

(g) Incentive Stock Options. Incentive Stock Options granted under the Plan shall be subject to the following additional conditions, limitations and restrictions:

(i) ***Eligibility***. Incentive Stock Options may be granted only to Employees of Schering-Plough or an Affiliate or Subsidiary that is a "subsidiary" or "parent corporation", within the meaning of Code Section 424, of Schering-Plough. In no event may an Incentive Stock Option be granted to an Employee who owns stock possessing more than 10% of the total combined voting power of all classes of stock of Schering-Plough or such Affiliate or Subsidiary.

(ii) ***Timing of Grant***. No Incentive Stock Option shall be granted under the Plan after the 10-year anniversary of earlier of (A) the date the Plan is adopted by the Board and (B) the date the Plan is approved by Schering-Plough's shareholders.

(iii) ***Amount of Award***. The aggregate Fair Market Value on the date of grant of the Shares with respect to which such Incentive Stock Options first become exercisable during any calendar year under the terms of the Plan for any Participant may not exceed $100,000. For purposes of this $100,000 limit, the Participant's Incentive Stock Options under this Plan and all Plans maintained by

Schering-Plough and its Affiliates and Subsidiaries shall be aggregated. To the extent any Incentive Stock Option first becomes exercisable in a calendar year and such limit would be exceeded, such Incentive Stock Option shall thereafter be treated as a Nonqualified Stock Option for all purposes.

(iv) ***Timing of Exercise***. In the event that an Incentive Stock Option is exercised by a Participant more than three months after a Participant's Termination of Employment (or more than 12 months after the Participant is Disabled), such Incentive Stock Option shall thereafter be treated as a Nonqualified Stock Option for all purposes. For this purpose, an Employee's employment relationship shall be treated as continuing intact while the Employee is on military leave, sick leave or other bona fide leave of absence (such as temporary employment with the Government) duly authorized in writing by Schering-Plough if the period of such leave does not exceed three months or, if longer, so long as the Employee's right to reemployment with Schering-Plough or an Affiliate or Subsidiary is guaranteed either by statute or by contract. If the period of leave exceeds three months and the Employee's right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to terminate on the first date immediately following such three-month period.

(v) ***Transfer Restrictions***. In no event shall the Committee permit an Incentive Stock Option to be transferred by a Participant other than by will or the laws of descent and distribution, and any Incentive Stock Option granted hereunder shall be exercisable, during his or her lifetime, only by the Participant.

(h) No Repricing. Except as otherwise provided in Section 5.3, in no event shall the Committee decrease the Exercise Price of a Stock Option after the date of grant or cancel outstanding Stock Options and grant replacement Stock Options with a lower Exercise Price without first obtaining the approval of the holders of a majority of the Shares present in person or by proxy at a meeting of Schering-Plough's shareholders and entitled to vote at such meeting.

4.5 Restricted Stock. The Committee may grant Restricted Stock under the Plan to such Employees as the Committee may from time to time select, in such amounts and subject to such terms, conditions and restrictions (including, without limitation, transfer restrictions) and Restriction Periods as the Committee, in its discretion, may determine and set forth in the Award Certificate. The Committee, in its discretion, may condition an Award of Restricted Stock on the Participant giving the representation described in Section 7.4.

(a) Payment of Restricted Stock. As soon as practicable after Restricted Stock is awarded, a certificate or certificates for all such Shares of Restricted Stock shall be registered in the name of the Participant and, at the discretion of Schering-Plough, be either (i) delivered to the Participant or (ii) held by Schering-Plough on behalf of the Participant until all restrictions have lapsed. The Participant shall

thereupon have all the rights of a shareholder with respect to such Shares, including the right to vote and receive dividends or other distributions made or paid with respect to such Shares, except that such Shares shall be subject to the forfeiture provisions of clause (i) below. The Committee may, in its discretion, impose and set forth in the Award Certificate such other restrictions on Restricted Stock for such Restriction Period or Periods as it deems appropriate. Except as the Committee may otherwise determine, and subject to (1) the Committee's authority under Section 3.2 to waive or amend any terms, conditions, limitations or restrictions of an Award, (2) Section 5.4 relating to Changes in Control and (3) the special forfeiture provisions of Section 7.2, such Shares shall be subject to the following provisions.

(i) ***Forfeiture and Lapse of Restriction***. Shares of Restricted Stock shall be forfeited by a Participant upon the Participant's Termination of Employment during the Restriction Period for any reason other than the Participant's death, Disability or Termination Due to Business Divestiture. Subject to clause (ii) below and Section 5.4 relating to Changes in Control, restrictions on Shares of Restricted Stock shall lapse at the end of the Restriction Period set forth in the Award Certificate.

(ii) ***Accelerated Lapse***. Notwithstanding the foregoing, all restrictions on Shares of Restricted Stock shall immediately lapse upon the death or Disability of the Participant. The Committee may, in its discretion, provide in the applicable Award Certificate that restrictions on Shares of Restricted Stock shall also lapse upon the Participant's Retirement or Involuntary Termination.

(b) Legend. In order to enforce any restrictions that the Committee may impose on Restricted Stock, the Committee shall cause a legend or legends setting forth a specific reference to such restrictions to be placed on all certificates for Shares of Restricted Stock. As restrictions are released, a new certificate, without the legend, for the number of Shares with respect to which restrictions have been released shall be issued and delivered to the Participant as soon as possible thereafter.

4.6 Deferred Stock Units. The Committee may grant Deferred Stock Units under the Plan to those Employees whom the Committee may from time to time select, in such amounts and pursuant to such other terms and conditions that the Committee, in its discretion, may determine and set forth in the Award Certificate, subject to the following provisions.

(a) Deferred Stock Account. Deferred Stock Units awarded to a Participant shall be credited to a Deferred Stock Account established and maintained by Schering-Plough on behalf of the Participant. No Participant shall be a shareholder with respect to any Shares underlying Deferred Stock Units credited to his Deferred Stock Account, nor shall the Participant (or the Participant's Beneficiary) have any right to or interest in any specific assets of Schering-Plough or its Affiliates or

Subsidiaries, including any Shares reserved for issuance under the Plan, until such Shares are actually distributed to the Participant.

(b) Dividend Equivalents. Unless the Committee determines otherwise at the time of grant and sets forth in the applicable Award Certificate, in the event of Schering-Plough's payment of dividends on Shares, Dividend Equivalents shall be applied as follows.

(i) ***Stock Dividends***. Dividend Equivalents relating to stock dividends shall be credited to a Participant's Deferred Stock Account as of the dividend payment date in the form of additional Deferred Stock Units, based on the Fair Market Value of a Share on the dividend payment date.

(ii) ***Non-Stock Dividends***. Dividend Equivalents relating to dividends other than stock dividends shall be distributed immediately to the Participant as additional compensation on the dividend payment date.

(c) Payment of Shares. Subject to paragraph (d) below and Section 5.4 relating to Changes in Control, Deferred Stock Units shall be paid in Shares, at the rate of one Share per each Deferred Stock Unit, at such time or times and in such manner as the Committee shall determine at the time of grant and set forth in the applicable Award Certificate, which can be either:

(i) ***Lump Sum***. A single lump sum payable on a specified date not earlier than the six-month anniversary of the date the Deferred Stock Units were awarded to the Participant, or

(ii) ***Installments***. In a set number of equal or unequal periodic installments commencing on a specified date not earlier than the six-month anniversary of the date the Deferred Stock Units were awarded to the Participant.

The timing and form of payment of Shares in settlement of Deferred Stock Units shall be set forth in the Award Certificate at the time of grant and, to the extent such Deferred Stock Units are subject to the requirements of Section 409A of the Code, shall not be subject to modification or acceleration by the Committee, except as provided in paragraph (d) below and in Section 5.4. The Committee, in its discretion, may condition the issuance of Shares in connection with Deferred Stock Units on the Participant giving the representation described in Section 7.4.

(d) Termination and Forfeiture. Unless the Award Certificate provides otherwise, and subject to (1) the Committee's authority under Section 3.2 to waive or amend any terms, conditions, limitations or restrictions of an Award, (2) Section 5.4 relating to Changes in Control and (3) the special forfeiture provisions of Section 7.2, any undistributed Deferred Stock Units remaining in a Participant's Deferred Stock Account shall be forfeited by the Participant upon the Participant's Termination of Employment for any reason other than other than the death,

Disability, Retirement, Termination Due to Business Divestiture or Involuntary Termination of the Participant.

(i) ***Death***. Upon the death of a Participant prior to full payment of the Participant's Deferred Stock Account, the remaining balance of the Participant's Deferred Stock Account shall be paid in Shares to the Participant's Beneficiary or, if none, to the legal representative of the Participant's estate or to the person to whom the Participant's Deferred Stock Unit payment rights are transferred under Participant's will or by operation of law, in a single lump sum payment as soon as administratively feasible after the Participant's death. Schering-Plough shall be under no obligation to deliver Shares in satisfaction of a Deferred Stock Unit unless and until Schering-Plough is satisfied that the person or persons to whom the Shares are being transferred are the duly appointed executor(s) or administrator(s) of the deceased Participant or the person to whom the Deferred Stock Units have been transferred under the Participant's will or by the applicable laws of descent and distribution.

(ii) ***Disability***. In the event a Participant becomes Disabled prior to full payment of the Participant's Deferred Stock Account, the remaining balance of the Participant's Deferred Stock Account shall be paid in Shares at the scheduled time and in the scheduled manner set out in the applicable Award Certificate at the time of grant; provided, however that the Committee may determine at the time of grant and set forth in an Award Certificate that if the Participant becomes Disabled prior to the scheduled payment date or dates of the Deferred Stock Units, the remaining balance the Participant's Deferred Stock Account shall be paid to the Participant in a single lump sum distribution as soon as administratively feasible after the date the Participant becomes Disabled.

(iii) ***Retirement***. Upon the Retirement of a Participant prior to full payment of the Participant's Deferred Stock Account, the Participant shall forfeit all unpaid Deferred Stock Units that were awarded to the Participant during the one-year period immediately preceding the Participant's Retirement date and all other Deferred Stock Units remaining in the Participant's Deferred Stock Account shall be paid at the scheduled time and in the scheduled manner set out in the applicable Award Certificate at the time of grant; provided, however that the Committee may determine at the time of grant and set forth in an Award Certificate that the entire unpaid balance of the a Participant's Deferred Stock Account shall be forfeited upon the Participant's Retirement. Alternatively, to the extent permitted under Section 409A of the Code, the Committee may determine at the time of grant and set forth in an Award Certificate that, in the event of the Participant's Retirement prior to the scheduled payment date or dates of the Deferred Stock Units, the remaining balance the Participant's Deferred Stock Account shall be paid to the Participant in a single lump sum distribution as soon as administratively feasible after the Participant's Retirement date, but not earlier than the six-month anniversary of the Participant's Retirement date if the Participant is a Section 409A Specified Employee.

(iv) ***Termination Due to Business Divestiture***. Upon a Participant's Termination Due to Business Divestiture prior to full payment of the Participant's Deferred Stock Account, the remaining balance of the Participant's Deferred Stock Account shall be paid in Shares at the scheduled time and in the scheduled manner set out in the applicable Award Certificate at the time of grant. Alternatively, to the extent permitted under Section 409A of the Code, the Committee may determine at the time of grant and set forth in an Award Certificate that, in the event of the Participant's Termination Due to Business Divestiture prior to the scheduled payment date or dates of the Deferred Stock Units, the remaining balance the Participant's Deferred Stock Account shall be paid to the Participant in a single lump sum distribution as soon as administratively feasible after the Participant's termination date, but not earlier than the six-month anniversary of the Participant's termination date if the Participant is a Section 409A Specified Employee.

(v) ***Involuntary Termination***. Upon the Involuntary Termination of a Participant prior to full payment of the Participant's Deferred Stock Account, the Participant shall forfeit —

(A) All unpaid Deferred Stock Units that were awarded to the Participant during the one-year period immediately preceding the Participant's Involuntary Termination date; and

(B) A prorated portion of the remaining Deferred Stock Units under each Deferred Stock Unit Award determined by subtracting from the number of unpaid Deferred Stock Units remaining under such Award the product of (I) the number of unpaid Deferred Stock Units remaining under such Award, multiplied by (II) a fraction, the numerator of which is the number of full months worked by the Participant between the date of grant and the Involuntary Termination date, and the denominator of which is the total number of full months between the date of grant and the originally scheduled payment date.

All other Deferred Stock Units remaining in the Participant's Deferred Stock Account shall be paid at the scheduled time and in the scheduled manner set out in the applicable Award Certificate at the time of grant.

(e) Payment Deferrals. Subject to the requirements of Section 409A of the Code, the Committee may from time to time and on a case by case basis permit a Participant to elect to defer payment of his Deferred Stock Units, or change the form of payment of Shares issued in connection with Deferred Stock Units. Elections to defer the payment date or change the form of payment shall be subject to the following limitations, which may not be waived by the Committee:

(i) Such election must be made, if at all, no less than 12 months prior to the originally scheduled payment date set out in the Award Certificate for the Deferred Stock Units with respect to which the election is made;

(ii) Such election may not take effect until at least 12 months after the date on which the election is made; and

(iii) Except with respect to an election to receive payment upon Disability, the first scheduled payment must be deferred pursuant to the election for a period of at least five years from the original payment date set out in the Award Certificate for the Deferred Stock Units with respect to which the election is made.

For purposes of this paragraph (e), each scheduled installment payment under a Deferred Stock Unit Award shall be deemed to be a separate payment.

(f) Committee Discretion. Notwithstanding anything in the Plan to the contrary (including anything in Section 3.2 relating to the authority of the Committee or Section 5.4 relating to Changes in Control) in no event shall the Committee have discretion under the Plan to accelerate the payment date or deferred payment date of Deferred Stock Units, except to the extent permitted under Section 409A of the Code and applicable U.S. Treasury Department or Internal Revenue Service guidance issued in connection with Section 409A of the Code.

4.7 Other Stock-Based Awards. Subject to compliance with the requirements of Section 409A of the Code, the Committee may, from time to time, grant to an Employee Other Stock-Based Awards under the Plan. These Awards may include, among other things Shares, restricted stock options, stock appreciation rights that are settled in Shares, and phantom or hypothetical Shares. The Committee shall determine, in its discretion, the terms, conditions, restrictions and limitations, if any, that shall apply to Other Stock-Based Awards granted pursuant to this Section 4.7 (including whether Dividend Equivalents shall be credited or paid with respect to any such Award), which terms, conditions, restrictions and/or limitations shall be set forth in the Award Certificate. The Committee, in its discretion, may condition the delivery of Shares in connection with an Award under this Section 4.7 on the Participant giving the representation described in Section 7.4.

4.8 Performance Awards. The Committee may grant Performance Awards under the Plan only to such Employees as the Committee may from time to time select, in such amounts and subject to such terms and conditions as the Committee, in its discretion, may determine. Performance Awards granted under the Plan shall be subject to the following provisions.

(a) General. Performance Awards that are not Qualified Performance Awards shall be based on such Performance Cycles, Performance Measures and vesting or payout formulas (which may be the same as or different than those applicable to

Performance Awards that are designated as Qualified Performance Awards) as the Committee, in its discretion, may establish for such purposes.

(b) Form of Payment. Performance Awards may be paid in cash, Shares, Stock Options, Restricted Stock, Deferred Stock Units, Other Stock-Based Awards or any combination of the foregoing in such proportions as the Committee may determine, in its discretion, and set forth in the Award Certificate. To the extent that a Performance Award is paid in Shares, Stock Options, Restricted Stock, Deferred Stock Units and/or Other Stock-Based Awards, the amount of each such form of Award that is payable shall be based on the Fair Market Value of a Share on the date of grant, subject to such reasonable Restricted Stock and Deferred Stock Unit discount factors and/or Stock Option valuation methodologies as the Committee may, in its discretion, apply. Stock Options, Restricted Stock, Deferred Stock Units and Other Stock-Based Awards granted in connection with a Performance Award shall be subject to the provisions of Sections 4.4, 4.5, 4.6 and 4.7, respectively.

(c) Qualified Performance Awards. A Performance Award granted to a Covered Employee under the Plan may, at the discretion of the Committee, be designated as a Qualified Performance Award. Qualified Performance Awards under the Plan may be granted either separately or at the same time as Awards that are not designated as Qualified Performance Awards; provided, however, that in no event may the payment of an Award that is not a Qualified Performance Award be contingent upon the failure to attain a specific level of performance on the Performance Measure(s) applicable to a Qualified Performance Award for the same Performance Cycle. In the event the Committee designates an Award as a Qualified Performance Award, any determinations of the Committee pertaining to Performance Measures and other terms and conditions of such Qualified Performance Award (other than a determination under paragraph (iii)(D) below to reduce the amount of the Award) shall be in writing and made within the Qualified Performance Award Determination Period. A Performance Award that the Committee designates as a Qualified Performance Award shall be subject to the following additional requirements.

(i) ***Performance Cycles***. Performance Awards that are designated as Qualified Performance Awards shall be awarded in connection with a Performance Cycle. The Committee shall determine the length of a Performance Cycle within the Qualified Performance Award Determination Period. In the event that the Committee determines that a Performance Cycle shall be a period greater than one fiscal year, a new Qualified Performance Award may be granted and a new Performance Cycle may commence prior to the completion of the Performance Cycle associated with the prior Qualified Performance Award.

(ii) ***Participants***. Within the Qualified Performance Award Determination Period, the Committee shall determine the Covered Employees who shall be eligible to receive a Qualified Performance Award for such Performance Cycle.

(iii) ***Performance Measures; Targets; Vesting and Payout Formulas***.

(A) Within the Qualified Performance Award Determination Period, the Committee shall fix and establish, in writing, (1) the Performance Measure(s) that shall apply to the Qualified Performance Award for the Performance Cycle; (2) the target amount of such Qualified Performance Award that shall be payable to each such Covered Employee; and (3) the vesting and/or payout formula for computing the actual amount of such Qualified Performance Award that shall become vested and/or payable with respect to each level of attained performance. Towards this end, such vesting and/or payout formula shall, based on objective criteria, set forth for the applicable Performance Measure(s) the minimum level of performance that must be attained during the Performance Cycle before any such Qualified Performance Award shall become vested and/or payable and the percentage of the target amount of such Award that shall be vested and/or payable to each Covered Employee upon attainment of various levels of performance that equal or exceed the minimum required level.

(B) The Committee may, in its discretion, select Performance Measures that measure the performance of Schering-Plough or one or more business units, divisions, Affiliates or Subsidiaries of Schering-Plough. The Committee may select Performance Measures that are absolute or relative to the performance of one or more comparable companies or an index of comparable companies.

(C) In applying Performance Measures, the Committee may, in its discretion, exclude unanticipated, unusual or infrequently occurring items (including any event described in Section 5.3 and the cumulative effect of changes in the law, regulations or accounting rules), and may determine within the Qualified Performance Award Determination Period to exclude other items.

(D) Notwithstanding anything in this paragraph (c)(iii) to the contrary, the Committee may, on a case by case basis and in its sole discretion, reduce, but not increase, the amount of any Qualified Performance Award that is payable to a Covered Employee with respect to a Performance Cycle, provided, however, that no such reduction shall result in an increase in the dollar amount of any such Qualified Performance Award payable to any other Covered Employee.

(iv) ***Committee Certification***. No Qualified Performance Award shall vest or be paid to a Covered Employee under the Plan unless and until the Committee certifies in writing the level of attainment of the applicable Performance Measure(s) for the applicable Performance Cycle.

(v) ***Limitation on Awards***. Subject to Sections 5.1 and 5.3, the dollar value of any Qualified Performance Award payable in cash to any Covered Employee shall not exceed $3 million (or, in the case of the Chief Executive Officer, $6,000,000) for any 12-month Performance Cycle; provided that for any Performance Cycle that is the same as a performance period under the Operations Management Team Incentive Plan, such amounts shall serve as combined limits under both this Plan and the Operations Management Team Incentive Plan. For any Performance Cycle greater than 12 months in duration, this maximum will be adjusted proportionately.

(vi) ***Code Section 162(m)***. It is the intent of Schering-Plough that Qualified Performance Awards granted to Covered Employees under the Plan shall satisfy the applicable requirements of Code Section 162(m) and the regulations thereunder so that Schering-Plough's tax deduction for Qualified Performance Awards is not disallowed in whole or in part by operation of Code Section 162(m). If any provision of this Plan pertaining to Qualified Performance Awards, or any Award to a Covered Employee under the Plan that the Committee designates as a Qualified Performance Award, would otherwise frustrate or conflict with such intent, that provision or Award shall be interpreted and deemed amended so as to avoid such conflict.

4.9 Substitute Awards. The Committee may make Awards under the Plan to Acquired Grantees through the assumption of, or in substitution for, outstanding stock-based awards previously granted to such Acquired Grantees. Such assumed or substituted Awards will be subject to the terms and conditions of the original awards made by the Acquired Company, with such adjustments therein as the Committee considers appropriate to give effect to the relevant provisions of any agreement for the acquisition of the Acquired Company. Any grant of Stock Options pursuant to this Section 4.9 will be subject to the rules set out in Section 424 of the Code and any final regulations published thereunder, regardless of whether the Stock Option is intended to be an Incentive Stock Option or a Nonqualified Stock Option.

4.10 Termination for Cause. Notwithstanding anything to the contrary herein, if a Participant incurs a Termination for Cause, then all of the Participant's outstanding Awards under the Plan (whether or not vested or exercisable) will immediately be cancelled and forfeited and the special forfeiture provisions of Section 7.2 shall apply. The exercise of any Stock Option or the payment of any Award may be delayed, in the Committee's discretion, in the event that a potential Termination for Cause is pending.

V. SHARES SUBJECT TO THE PLAN; ADJUSTMENTS

5.1 Shares Available. The Shares issuable under the Plan are authorized but unissued Shares or Shares held in Schering-Plough's treasury. Subject to adjustment in accordance with Section 5.3, the total number of Shares with respect to which Awards may be issued under the Plan may not exceed 92,000,000 Shares, which includes the number of Shares that have been approved by Schering-Plough shareholders for issuance under the Prior

Plan, but which have not been awarded under the Prior Plan as of the Effective Date and which are no longer available for issuance under Prior Plan for any reason (including without limitation, the discontinuance or termination of the Prior Plan). Subject to adjustment in accordance with Section 5.3, from such aggregate limit:

(a) No more than an aggregate of 46,000,000 Shares may be issued under Incentive Stock Options during the term of the Plan;

(b) No more than an aggregate of 46,000,000 Shares may be issued in the form of Restricted Stock, Deferred Stock Units or Other Stock-Based Awards payable in Shares during the term of the Plan; and

(c) The maximum aggregate number of Shares with respect to which Stock Options may be granted to any one Participant during any fiscal year of Schering-Plough may not exceed 3,000,000 Shares.

5.2 Counting Rules.

(a) Shares Counted. For purposes of determining the number of Shares remaining available for issuance under the Plan (including Shares originally approved under the Prior Plan, but made available for issuance under this Plan in accordance with Section 5.1), only Awards payable in Shares shall be counted. In addition, Shares that are tendered or withheld in payment of all or part of the Exercise Price of a Stock Option, or in satisfaction of the withholding obligations of an Award shall be counted against the remaining Shares and shall no longer be available for issuance under the Plan.

(b) Shares Not Counted. The following Shares relating to Awards under this Plan (or Awards under the Prior Plan that are outstanding as of the Effective Date) are not counted as issued Shares for purposes of determining the number of Shares remaining available for issuance under the Plan, and shall remain available for issuance under the Plan.

(i) Shares underlying awards that are settled in cash in lieu of Shares;

(ii) Shares underlying Awards that expire, are forfeited, cancelled or terminate for any other reason without the issuance of Shares;

(iii) Shares issued in connection with Awards that are assumed, converted or substituted as the result of Schering-Plough's acquisition of an Acquired Company or the combination of Schering-Plough with another company; and

(iv) Shares of Restricted Stock that are forfeited and returned to Schering-Plough upon a Participant's Termination of Employment.

5.3 Adjustments. If there is a change in the outstanding Shares by reason of any stock split, reverse stock split, dividend or other distribution (whether in the form of cash, Shares, other securities or other property), extraordinary cash dividend, recapitalization, split-up, spin-off, reorganization, combination, repurchase or exchange of Shares or other securities, the issuance of warrants or other rights to purchase Shares or other securities, or other similar corporate transaction or event, then in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, an adjustment in the number or kind of Shares that may be issued under the Plan, the number of Shares underlying an outstanding Award, the Exercise price of a Stock Option or the number of Deferred Stock Units credited to a Deferred Stock Account will be made by the Committee and such adjustment will be conclusive and binding for all purposes under the Plan. Notwithstanding the foregoing, no adjustments shall be made with respect to Qualified Performance Awards granted to a Covered Employee to the extent such adjustment would cause the Award to fail to qualify as performance-based compensation under Section 162(m) of the Code.

5.4 Consequences of a Change in Control. Notwithstanding any other provision of the Plan, Awards that are outstanding as of the effective date of a Change in Control shall be subject to the following provisions.

(a) Replacement Awards. Any Award granted hereunder shall be deemed to apply to the securities, cash or other property (subject to adjustment by cash payment in lieu of fractional interests) to which a holder of the number of Shares equal to the number of Shares underlying the Participant's Awards would have been entitled pursuant to the Change in Control, and proper provisions shall be made to ensure that this clause is a condition to any transaction that would result in a Change in Control; provided, however, that during the 60-day period beginning on the date of Change in Control, the Committee (or, if applicable, the board of directors of the entity assuming Schering-Plough's obligations under the Plan) may, in its discretion, take any of the following actions with respect to each Award that is outstanding as of the effective date of Change in Control:

(i) Modify or adjust the Award to reflect the Change in Control; or

(ii) Cancel the Award and cause the acquiring or surviving corporation to replace it with an equivalent right after the Change in Control.

(b) Stock Options. All outstanding Stock Options that have not become exercisable as of the effective date of a Change in Control shall continue to become exercisable in accordance with the vesting schedule set out in the applicable Award Certificate. Notwithstanding the foregoing, in the event a Participant incurs an Involuntary Termination within two years after the effective date of a Change in Control, all of the Participant's outstanding Stock Options shall become immediately vested and exercisable as of the date of such Involuntary Termination and shall remain exercisable for the full duration of the Stock Option's original term, notwithstanding the Participant's Termination of Employment. In addition,

during the 60-day period beginning on the date of Change in Control, the Committee may, in its discretion, cancel all or a portion of a Participant's remaining Stock Options and, in consideration of such cancellation, pay the Participant with respect to each Share issuable under the cancelled Stock Option an amount in cash equal to the amount by which the Change in Control Price exceeds the Exercise Price of the cancelled Stock Option.

(c) Deferred Stock Units. All Deferred Stock Units credited to a Participant's Deferred Stock Account but not yet distributed as of the effective date of the Change in Control shall be paid in Shares at the scheduled time and in the scheduled manner set out in the applicable Award Certificate at the time of grant. Notwithstanding the foregoing, in the event a Participant incurs an Involuntary Termination within two years after the effective date of a Change in Control, all Deferred Stock Units credited to a Participant's Deferred Stock Account but not yet distributed as of the date of such Involuntary Termination shall become immediately vested and non-forfeitable and shall be distributed in a single lump sum cash payment, in lieu of Shares, as soon practicable thereafter (but in no event more than 30 days after the date of such Involuntary Termination) at a dollar value per Deferred Stock Unit equal to the Fair Market Value of a Share on the date of termination.

(d) Restricted Stock and Other Stock-Based Awards. All restrictions and conditions on any Shares of Restricted Stock or Other Stock-Based Awards shall continue to apply for the duration of the Restriction Period. Notwithstanding the foregoing, in the event a Participant incurs an Involuntary Termination within two years after the effective date of a Change in Control, all restrictions and conditions on any Shares of Restricted Stock or Other Stock-Based Awards shall immediately lapse or be deemed satisfied, as the case may be, as of the date of such Involuntary Termination and all such Awards shall become vested and non-forfeitable as of such date.

(e) Performance Awards. The Committee shall set out in the Award Certificate for each Performance Award the terms and conditions that shall apply to such Performance Award in the event the Award is outstanding as of the effective date of a Change in Control.

5.5 Fractional Shares. No fractional Shares shall be issued under the Plan. In the event that a Participant acquires the right to receive a fractional Share under the Plan, such Participant shall receive, in lieu of such fractional Share, cash equal to the Fair Market Value of the fractional Share as of the date of settlement.

VI. AMENDMENT AND TERMINATION

6.1 Amendment. The Plan may be amended at any time and from time to time by the Board without the approval of shareholders of Schering-Plough, except that no material revision to the terms of the Plan will be effective without first obtaining the approval of

the amendment by the holders of a majority of the Shares present in person or by proxy at a meeting of Schering-Plough's shareholders and entitled to vote at such meeting. A revision is "material" for this purpose if, among other changes, it (a) materially increases the number of Shares that may be issued under the Plan (other than an increase pursuant to Section 5.3 of the Plan), (b) changes the types of Awards available under the Plan, (c) expands the class of persons eligible to receive Awards under the Plan, (d) extends the term of the Plan, (e) decreases the Exercise Price at which Stock Options may be granted, (f) reduces the Exercise Price of outstanding Stock Options, or (g) results in the replacement of outstanding Stock Options with new Awards that have an Exercise Price that is lower than the Exercise Price of the replaced Stock Options. No amendment of the Plan made without the Participant's written consent may adversely affect any right of a Participant with respect to an outstanding Award. Notwithstanding the foregoing, this Plan is intended to incorporate all applicable requirements of Section 409A of the Code and guidance issued thereunder by the U.S. Treasury Department and the Internal Revenue Service, and the Plan will be deemed to be amended as necessary to comply with those requirements.

6.2 Termination. The Plan shall terminate upon the earlier of the following dates or events to occur:

(a) The adoption of a resolution of the Board terminating the Plan; or

(b) December 31, 2011.

No Awards shall be granted under this Plan after it has been terminated. However, the termination of the Plan shall not alter or impair any of the rights or obligations of any person, without such person's consent, under any Award theretofore granted under the Plan. After the termination of the Plan, any previously granted Awards shall remain in effect and shall continue to be governed by the terms of the Plan and the applicable Award Certificate.

VII. GENERAL PROVISIONS

7.1 Nontransferability of Awards. No Award under the Plan shall be subject in any manner to alienation, anticipation, sale, assignment, pledge, encumbrance or transfer, and no other persons will otherwise acquire any rights therein, except as provided below.

(a) Any Award may be transferred by will or by the laws of descent or distribution.

(b) The Committee may provide in the Award Certificate that all or any part of the vested portion of a Nonqualified Stock Option may, subject to the prior written consent of the Committee, be transferred to one or more of the following classes of donees:

(i) a family member;

(ii) a trust for the benefit of a family member; or

(iii) a limited partnership whose partners are solely family members, or any other legal entity set up for the benefit of family members.

For purposes of this paragraph (b), a family member means a Participant's spouse, children, grandchildren, parents, grandparents, siblings, nieces, nephews, grandnieces and grandnephews, including adopted, in-laws and step family members.

(c) Any transferred Award will be subject to all of the same terms and conditions as provided in the Plan and the applicable Award Certificate. The Participant or the Participant's estate will remain liable for any withholding tax that may be imposed by any federal, state or local tax authority. The Committee may, in its discretion, disallow all or a part of any transfer of an Award pursuant to paragraph (b) above unless and until the Participant makes arrangements satisfactory to the Committee for the payment of any withholding tax. The Participant must immediately notify the Committee, in the form and manner required by the Committee, of any proposed transfer of an Award pursuant to paragraph (b). No transfer will be effective until the Committee consents to the transfer in writing.

(d) Except as otherwise provided in the Award Certificate, any Nonqualified Stock Option transferred by a Participant pursuant to this paragraph (d) may be exercised by the transferee only to the extent that the Award would have been exercisable by the Participant had no transfer occurred. The transfer of Shares upon exercise of the Award will be conditioned on the payment of any withholding tax.

(e) Restricted Stock may be freely transferred after the restrictions lapse or are satisfied and the Shares are delivered; provided, however, that Restricted Stock awarded to an affiliate of Schering-Plough may be transferred only pursuant to Rule 144 under the Securities Act, or pursuant to an effective registration for resale under the Securities Act. For purposes of this paragraph (e), "affiliate" will have the meaning assigned to that term under Rule 144.

(f) In no event may a Participant transfer an Incentive Stock Option other than by will or the laws of descent and distribution.

7.2 Special Forfeiture Provision. Except as otherwise provided in the current employment agreement between Schering-Plough and the relevant Employee (which agreement shall take precedent over this Section 7.2), and if the Committee, in its discretion, provides otherwise in the applicable Award Certificate, if a Participant either —

(a) incurs a Termination for Cause or

(b) incurs a Termination of Employment for any reason other than other than death, Disability, Retirement, Termination Due to Business Divestiture or Involuntary Termination and, within one year after such Termination of Employment, without prior written approval of the Committee, enters into an employment or consulting arrangement (including service as an agent, partner, stockholder, consultant, officer or director) with any entity or person engaged in any business in which Schering-Plough or its Affiliates or Subsidiaries is engaged that, in the sole judgment of the Committee, is competitive with Schering-Plough or any Affiliate or Subsidiary, then the Participant shall forfeit and return to Schering-Plough —

(i) the amount of any profit realized upon the exercise of any Stock Options at any time on or after the date that is ninety (90) days immediately prior to the date of the Participant's Termination of Employment;

(ii) all shares of Restricted Stock that are not then vested or which vested during the three-month period immediately preceding such Termination of Employment; and

(iii) all Shares issued to the Participant in payment of the Participant's Deferred Stock Units during the three-month period immediately preceding such Termination of Employment.

7.3 Withholding of Taxes. The Committee, in its discretion, may satisfy a Participant's tax withholding obligations by any of the following methods or any method as it determines to be in accordance with the laws of the jurisdiction in which the Participant resides, has domicile or performs services.

(a) Stock Options. As a condition to the delivery of Shares pursuant to the exercise of a Stock Option, the Committee may require that the Participant, at the time of exercise, pay to Schering-Plough by cash, certified check, bank draft, wire transfer or postal or express money order an amount sufficient to satisfy any applicable tax withholding obligations. The Committee may, however, in its discretion, accept payment of tax withholding obligations through any of the Exercise Price payment methods described in Section 4.4(f).

(b) Other Awards Payable in Shares. The Participant shall satisfy the Participant's tax withholding obligations arising in connection with the release of restrictions on Restricted Stock or the payment of Deferred Stock Units or Other Stock-Based Awards by payment to Schering-Plough by cash, certified check, bank draft, wire transfer or postal or express money order an amount sufficient to satisfy any applicable tax withholding obligations, provided that the format is approved by Schering-Plough or a designated third-party administrator. Notwithstanding the foregoing, subject to the requirements of applicable law, Schering-Plough may also satisfy the Participant's tax withholding obligations by other methods, including selling or withholding Shares that would otherwise be available for delivery,

provided that the Committee has specifically approved such payment method in advance.

(c) Cash Awards. Schering-Plough may satisfy a Participant's tax withholding obligations arising in connection with the payment of any Award in cash by withholding cash from such payment.

7.4 Investment Representation. As a condition to any distribution of Shares pursuant to Awards under the Plan, Schering-Plough may require a Participant to represent in writing that such Shares are being acquired for the Participant's own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof.

7.5 Code Section 83(b) Elections. Neither Schering-Plough, any Affiliate or Subsidiary, nor the Committee shall have any responsibility in connection with a Participant's election, or attempt to elect, under Code Section 83(b) to include the value of a Restricted Stock Award in the Participant's gross income for the year of payment. Any Participant who makes a Code Section 83(b) election with respect to any such Award shall promptly notify the Committee of such election and provide the Committee with a copy thereof.

7.6 Beneficiary Designations. Designations of Beneficiaries by a Participant shall be made in writing and filed with Schering-Plough in such form and in such manner as the Committee may from time to time prescribe. A Participant may change his or her Beneficiaries in the same manner at any time prior to the death of the Participant. If a Participant dies without having designated any surviving Beneficiaries, the Participant's remaining interests in Awards under the Plan shall be distributed to the legal representative of his estate or in accordance with the Participant's will.

7.7 No Implied Rights. The establishment and operation of the Plan, including eligibility as a Participant, shall not be construed as conferring any legal or other right upon any Employee for the continuation of his or her employment for any Performance Cycle or any other period. Schering-Plough expressly reserves the right, which may be exercised at any time and in Schering-Plough's sole discretion, to discharge any individual and/or treat him or her without regard to the effect which such treatment might have upon him or her as a Participant in the Plan.

7.8 No Obligation to Exercise Options. The granting of a Stock Option shall impose no obligation upon the Participant to exercise such Stock Option.

7.9 No Rights as Shareholders. A Participant granted an Award under the Plan shall have no rights as a shareholder of Schering-Plough with respect to the Award unless and until such time as certificates for the Shares underlying the Award are registered in such Participant's name. The right of any Participant to receive an Award by virtue of participation in the Plan shall be no greater than the right of any unsecured general creditor of Schering-Plough.

7.10 Indemnification of Committee. Schering-Plough shall indemnify, to the full extent permitted by law, each person made or threatened to be made a party to any civil or criminal action or proceeding by reason of the fact that he, or his testator or intestate, is or was a member of the Committee or a delegate of the Committee so acting.

7.11 No Required Segregation of Assets. Neither Schering-Plough nor any Affiliate or Subsidiary shall be required to segregate any assets that may at any time be represented by Awards granted pursuant to the Plan. In no event shall any interest be paid or accrued on any Award, including unpaid installments of an Award.

7.12 Nature of Payments. All Awards made pursuant to the Plan are in consideration of services for Schering-Plough or its Affiliates or Subsidiaries. Any gain realized pursuant to Awards under the Plan constitutes a special incentive payment to the Participant and shall not be taken into account as compensation for purposes of any of the employee benefit plans of Schering- Plough or any Affiliate or Subsidiary except as may otherwise be specifically provided in the applicable employee benefit plan.

7.13 Compliance with Applicable Law. The obligations of Schering-Plough to issue or transfer Shares pursuant to Awards shall be subject to (a) the effectiveness of a registration statement under the Securities Act of 1933, as amended, with respect to the Shares, (b) the condition that the Shares be listed (or authorized for listing upon official notice of issuance) upon each stock exchange upon which Shares are listed and (c) compliance with all applicable laws and approvals by all governmental or regulatory agency as may be required. With respect to Reporting Persons, it is the intent of Schering-Plough that the Plan and all transactions under the Plan comply with all applicable provisions of Rule 16b-3 or its successors under the Exchange Act. If any provision or this Plan or of any grant of an Award would otherwise frustrate or conflict with such intent, that provision shall be interpreted and deemed amended so as to avoid such conflict. No Participant will be entitled to a grant, exercise, transfer or payment of any Award if the grant, exercise, transfer or payment would violate the provisions of the Sarbanes-Oxley Act of 2002 or any other applicable law. In addition, it is the intent of Schering-Plough that the Plan and applicable Awards under the Plan comply with the applicable provisions of Sections 162(m) and 422 of the Code, and to the extent an Award is subject to the requirements of Section 409A of the Code, it is the intent of Schering-Plough that the Award be administered in a manner that satisfies such requirements. To the extent that any legal requirement of Section 16 of the Exchange Act or Section 162(m), 409A or 422 of the Code as set forth in the Plan ceases to be required under such Section, that Plan provision shall cease to apply. The Committee may revoke any Award if it is contrary to law or modify a Award (to the extent permitted by applicable law) to bring it into compliance with any valid and mandatory government regulation.

7.14 Headings. Section and paragraph headings are for reference only. In the event of a conflict between the title and content of a section or paragraph, the content shall control.

7.15 Governing Law; Severability. The Plan and all determinations made and actions taken thereunder shall be governed by the internal substantive laws, and not the choice of law rules, of the State of New Jersey and construed accordingly, to the extent not superseded by applicable federal law. If any provision of the Plan shall be held unlawful or otherwise invalid or unenforceable in whole or in part, the unlawfulness, invalidity or unenforceability shall not affect any other provision of the Plan or part thereof, each of which shall remain in full force and effect.

Exhibit 10(e)(viii)

EMPLOYMENT AGREEMENT

This Agreement is made by and between Schering-Plough Corporation, a New Jersey Corporation (the "Company"), and Brent Saunders (the "Executive"), as of the 19th day of December, 2006 (the "Commencement Date"). This Agreement is a restatement of and supersedes and replaces (i) the letter from the Company to Executive dated October 6, 2003 offering employment as Senior Vice President, Global Compliance and Business Practices and (ii) the change of control Employment Agreement between the Company and the Executive dated as of November 1, 2003.

Definitions applicable to capitalized terms not defined where first mentioned below are set forth in Section 7 of this Agreement.

1. Employment Period.

Executive joined the Company on November 1, 2003. Beginning on the Commencement Date until the later of the fifth anniversary thereof and for successive one-year periods thereafter (the "Employment Period"), the Company agrees to continue in its employ and the Executive hereby agrees to remain in the employ of the Company in accordance with the terms and conditions of this Agreement, provided, however, that either party may terminate the Employment Period by providing the other party with written notice of such termination at least one-year prior to the fifth anniversary (or a subsequent anniversary) of the Commencement Date on which such termination is to be effective. Subject to the Company's obligation to provide severance benefits as may be specified in this Agreement and except as otherwise specifically provided in this Agreement, Executive and the Company acknowledge that this employment relationship may be terminated at any time and for any or no cause or reason, at the option of either the Company or Executive.

2. Duties and Scope of Employment.

(a) Position. During the Employment Period, the Company shall continue to employ Executive as Senior Vice President, Global Compliance and Business Practices of the Company or in such other substantially equivalent position requested by the Company's Chief Executive Officer ("CEO") for which the Executive is qualified by education, training, and experience. Executive shall continue to serve as an officer of the Company and be a member of the Executive Management Team (the "EMT"). Further, so long as Executive is required on the Company's behalf to make (i) Certifications pursuant to the Corporate Integrity Agreement between the Company and the Office of Inspector General of the U.S. Department of Health and Human Services, effective July 29, 2004, or (ii) the CMS-required ASP certification under Medicare, Part B, Executive shall not be required to report to anyone other than Mr. Hassan and shall, be provided with the opportunity to report to and discuss related matters directly with the Board of Directors (or an appropriate sub-committee thereof) at the regular meetings of the Board held during the time period covered by his required certifications.

(b) Duties. 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 and duties assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities and duties. During the Employment Period it shall not be a violation of this Agreement for the Executive to (i) serve on civic or charitable boards or committees, or with the written approval of the CEO, on corporate boards or committees, (ii) deliver lectures, fulfill speaking engagements or teach at educational institutions, and (iii) 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.

3. Compensation.

During the Employment Period, the Company shall pay Executive the following as compensation for services to the Company:

(a) Base Salary. Executive's annualized base salary is currently $500,000 less applicable deductions payable in accordance with the Company's normal payroll practices as in effect from time to time for its senior executives. From time to time and at least annually, Executive's base salary shall be subject to review and increase above Executive's then current base salary pursuant to the Company's normal review policy for other similarly situated senior executives of the Company. Executive's base salary shall not be subject to any decrease without Executive's consent.

(b) Operations Management Team Incentive Plan. During the Employment Period, Executive shall be eligible to participate in the Company's Operations Management Team Incentive Plan or any successor or replacement plan (the "Incentive Plan") at a level determined by the Compensation Committee of the Board of Directors or its delegate (the "Compensation Committee") to be appropriate based on Executive's position, job performance and Company policy. Executive's current target annual incentive under the Incentive Plan is 55% of Executive's annual base salary. Executive's target annual incentive as a percentage of base salary shall not be subject to any decrease without Executive's consent. Payment of incentive compensation, if the performance criteria determined by the Compensation Committee are met, will be made by March 15 of the year following the relevant Incentive Plan year, unless Executive elects to defer payment pursuant to an applicable deferred compensation plan of the Company.

(c) Long Term Incentive Plans. Executive is, and shall remain, a participant at the levels determined by the Compensation Committee, in the (i) Schering-Plough Corporation Cash Long Term Incentive Plan and the Schering-Plough Corporation Long-Term Performance Share Unit Incentive Plan for the performance period beginning January 1, 2004 and ending December 31, 2006, and (ii) Schering-Plough Corporation Transformational Performance Contingent Shares Program for the performance period beginning January 1, 2004 and ending December 31, 2008. Executive shall participate in successor or replacement plans at a level determined by the Compensation Committee.

(d) Incentive Equity Awards. During the Employment Period, Executive shall be eligible to participate in the Company's 2006 Stock Incentive Plan and any successor or replacement plan, in accordance with the terms of the Stock Plan and any applicable grants (except as provided herein), at a level determined by the Compensation Committee.

4. Enhanced Benefits and Perquisites.

(a) General Benefits. During the Employment Period, Executive shall, to the extent eligible, be entitled to participate in all employee welfare and retirement benefit plans and programs provided by the Company to its senior executives in accordance with the terms of those plans or programs as they may be modified from time to time. Executive shall be entitled to post-retirement welfare benefits on the same terms as such benefits are made available by the Company to its senior executives at the time of Executive's retirement. If, however, Executive's participation in any such plan or program could result in adverse or unintended tax consequences to any participant in such plan or program, the Company shall be entitled to pay to Executive the cost of equivalent benefits outside such plan or program or provide Executive with substantially equivalent benefits through a separate program without regard to the tax treatment applicable to such payment or separate program in lieu of permitting the Executive to participate in such program.

(b) Supplemental Executive Retirement Plan. Executive shall participate in the Company's SERP.

(c) Executive Life Insurance. During the Employment Period, Executive shall be eligible for Executive Life Insurance coverage with a face amount of $1,750,000 in accordance with the terms of the Company's Executive Life Insurance program.

(d) Vacation. During the Employment Period, Executive shall be entitled to four weeks paid vacation per annum, subject to adjustment in accordance with the Company's normal vacation policies applicable to senior executives.

(e) Relocation Benefits. Executive acknowledges that the Company may, at any time during the Employment Period, relocate his place of employment to such location as may at that time constitute the Company's principal offices. Executive shall be entitled to relocation benefits pursuant to the Company's relocation benefit program.

(f) Expenses. Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by Executive during the Employment Period for business purposes in accordance with the policies, practices, and procedures of the Company and its Affiliated Companies provided generally to other peer executives of the Company and its Affiliated Companies.

(g) Fringe Benefits. During the Employment Period, Executive shall be entitled to fringe benefits as in effect generally with respect to senior executives of the Company and its Affiliated Companies. As of the date of this Agreement, these fringe benefits include tax and financial planning services. Executive shall be entitled to prompt reimbursement (in no event to be made later than two and one half months after the year in which the costs were incurred) for

(i) financial planning services in an amount up to $8,000 in the first year of utilization and up to $5,000 annually thereafter as needed, and (ii) tax preparation in an amount up to $2,500 annually. Executive shall first submit invoices for such services to the Company for payment and seek reimbursement if unpaid. To the extent required by applicable law, such fringe benefits shall result in imputed income which shall be subject to withholding from the Executive's wages in the amount and manner prescribed by such law.

(h) Office and Support Staff. During the Employment Period, 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 on the same or similar terms as those provided generally to senior executives of the Company and its Affiliated Companies.

(i) Directors and Officers Insurance. The Company will not diminish the amount or change the type of Directors and Officers Liability insurance coverage applicable to Executive (as an executive during the Employment Period and as a former executive thereafter), as in effect on the date of this Agreement, without his advance written consent.

5. Cause, Voluntary, Involuntary and Good Reason Terminations.

(a) Death, Disability, Cause and Voluntary Terminations without Good Reason. If, during the Employment Period, Executive's employment is terminated due to Executive's death or Disability, by the Executive without Good Reason or by the Company for Cause, the Company shall have no obligation to the Executive other than the obligation to promptly pay to the Executive his unpaid accrued base salary through the Termination Date and to pay or provide, promptly when due, any Other Benefits, as well as payments or benefits required by applicable law.

(b) Involuntary and Good Reason Terminations. If, during the Employment Period, Executive's employment is terminated by the Company other than for Cause, Disability or by non-renewal of the Employment Period pursuant to Section 1, or if the Executive terminates employment for Good Reason, the Company shall provide the Executive with the Other Benefits promptly when due. In addition, provided that the Executive signs a Satisfactory Release within 35 days following the Termination Date and the Executive does not revoke it within 7 days after the date he executes such Release, then Executive shall be entitled to:

(i) payment, within 30 days following the effective date of the Satisfactory Release, of a severance benefit equal to the product of two multiplied by the sum of the Executive's current base salary plus the highest target incentive opportunity under the Incentive Plan for any of the past three years (each as in effect immediately prior to the Executive's Termination Date but without regard for any reduction that constituted the grounds, or part of the grounds, for Executive's Good Reason termination);

(ii) during the 2-year period following Executive's employment termination, continue to participate in the Company's health and welfare programs applicable to, and (to the extent permissible under applicable law) on the same terms as, other senior executives of the Company at the time of the termination of the Executive's employment; provided, however that such benefits shall cease on the date that Executive becomes eligible for similar benefits from a

new employer and Executive shall notify the Company in writing of such benefits eligibility within 30 days following the effective date of Executive's benefits eligibility from the new employer; and provided further, that if Executive's participation in any such program of the Company could result in adverse or unintended tax consequences to any participant in such program (including the Executive), the Company shall be entitled to provide Executive with substantially equivalent benefits through a separate program (including the provision of such benefits through the purchase of insurance) without regard to the tax treatment applicable to such separate program in lieu of permitting the Executive to participate in such program;

(iii) payment, within 30 days following the effective date of the Satisfactory Release, of the Enhanced SERP Benefit; and

(iv) credit for two additional years of service and age for purposes of determining eligibility for coverage and rate of contribution under the Company's retiree medical plan or any replacement or successor plan.

For purposes of this provision, "Satisfactory Release" shall mean a release of claims in a form reasonably prescribed by the Company that (1) releases, and forever discharges, all claims that Executive has or may have against the Company and its Affiliated Companies and its and their employees, directors and agents (other than claims relating to Other Benefits), and (2) becomes irrevocable if not revoked by Executive within seven (7) days after he signs it; provided that the form of release shall not contain any post-employment covenants, including those covenants to which the Executive may be subject pursuant to Subsection 5(c) below or otherwise.

(c) Non-competition and Non-solicitation. In the event of voluntary termination of the Executive's employment during the Employment Period by the Executive without Good Reason (i) the Executive shall not engage in Competition (as defined below) during the one-year period immediately following Executive's termination of employment, and (ii) the Executive shall not engage in Solicitation (as defined below) during the two-year period immediately following Executive's termination of employment. For purposes of this Section 5, the term Competition shall mean that Executive, without the written approval of the CEO, commences employment with, or provides consulting services to, any pharmaceutical enterprise that is engaged in research, development, and/or sales of human and/or pharmaceutical products (unless sales from pharmaceutical products constitute less than 20% of total sales of the company conducting the enterprise and the consolidated affiliates of that company); provided that service solely as a member of the Board of Directors of a company whose annual sales are less than $100 million on a consolidated basis with all affiliated companies shall not be considered Competition. Further, the term Competition specifically excludes (i) companies whose primary purpose is to provide consulting and/or audit services so long as those companies have revenues in excess of $100 million, and (ii) law firms whose primary purpose is to provide legal services. For purposes of this Section 5, the term Solicitation shall mean that without the written approval of the CEO or his delegate, the Executive, directly or indirectly, solicits, encourages or participates in the solicitation or hiring of, any person who is currently an employee of the Company or independent contractor doing business with the Company or who was an employee of the Company at any time during the last three (3) months of the Employment Period by any employer other than the Company for any position as an employee, independent contractor, consultant or otherwise; provided that the Executive shall not be considered to have engaged in

Solicitation for purposes of this Section 5 if an employer other than the Company solicits or hires, with no participation or involvement by the Executive, any current or former employee, independent contractor or consultant of the Company who is not or was not employed in, or providing direct services to, a business area of the Company for which Executive (immediately prior to the termination of his employment) had no direct authority or responsibility; and provided further that the term Solicitation shall not preclude Executive from giving references.

6. Change of Control.

(a) General. In the event of any Change of Control following the effective date of this Agreement and during the Employment Period, Subsection 6(b) shall supersede Section 2; Subsection 6(d) shall supersede Subsection 3(a); Subsection 6(e) shall supersede Subsections 3(b); Subsections 6(f) through (i) shall supersede Section 5; and the other provisions of this Section 6 shall supplement the other provisions of Sections 3 and 4; in each case until the expiration of the COC Employment Period triggered by such Change of Control. If the Executive's employment is not terminated before the end of the applicable COC Employment Period, immediately following such COC Employment Period, the provisions of this Section 6 shall cease to apply unless and until another Change of Control occurs during the Employment Period and the provisions of Sections 2, 3(a), 3(b) and 5 shall again apply if the Employment Period has not yet expired. Effective upon the termination of Executive's employment for any reason during a COC Employment Period, any previous restrictions imposed under this Agreement or any other agreement upon the Executive regarding engaging in post-termination competitive activity against the Company or soliciting current or former employees or independent contractors of the Company shall immediately cease to be applicable.

For purposes of this Section 6, if (i) the Executive's employment with the Company is terminated prior to a Change of Control, (ii) the Executive reasonably demonstrates that such termination of employment either (A) was at the request of a third party who has taken steps reasonably calculated to effect a Change of Control or a Section 409A Change in Control Event or (B) otherwise arose in connection with or in anticipation of a Change of Control or a Section 409A Change in Control Event and (iii) a Section 409A Change in Control Event is actually consummated, then such termination shall be deemed to have occurred during a COC Employment Period.

(b) Position and Duties. During a COC Employment Period, (i) 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 COC Employment Period; and (ii) the Executive's services shall be performed at the location where the Executive was employed immediately preceding any such Change of Control or any office or location less than 35 miles from such location and that is not in a different state than such location. It is expressly understood and agreed that to the extent that any activities have been conducted by the Executive during the three years immediately prior to a Change of Control, the reinstatement or continued conduct of such activities (or the reinstatement or conduct of activities similar in nature and scope thereto) subsequent to any related Change of Control shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Company and its subsidiaries.

(c) Incentive Compensation, Employee Benefits and Fringe Benefits. Except as otherwise set forth in this Agreement, during a COC Employment Period, the Executive (and eligible family members or dependents, as applicable) shall be entitled to participate in all incentive, profit-sharing, stock option, stock award, savings and retirement, and health and welfare benefit plans (including, without limitation, medical, prescription, dental, disability, employee life, group life, accidental death and travel accident insurance plans and programs) practices, policies and programs and to receive paid vacation, fringe benefits, and expense reimbursement, all as applicable generally to other peer executives of the Company and its Affiliated Companies, but in no event shall such plans, practices, policies, programs and benefits provide the Executive with incentive opportunities (cash or equity), savings opportunities, retirement benefit opportunities, health and welfare benefits, vacation pay, fringe benefits, and expense reimbursement, which are, 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 Change of Control, or if more favorable to the Executive, those provided generally at any time thereafter to other senior executives of the Company and its Affiliated Companies.

(d) Annual Base Salary. During a COC Employment Period, the Executive shall receive, in accordance with the Company's normal payroll practices in effect from time to time for its senior executives, an Annual Base Salary which shall be reviewed no more than 12 months after the last salary increase awarded to the Executive prior to the beginning of the COC Employment Period 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 such an increase and the term Annual Base Salary as used in this Section 6 shall refer to Annual Base Salary as so increased.

(e) Annual Bonus. In addition to Annual Base Salary, for each fiscal year ending during a COC Employment Period, Executive shall be awarded an annual bonus in cash at least equal to the Executive's highest target incentive opportunity under the Incentive Plan for any of the past three years (the "Annual Bonus"). Each such Annual Bonus shall be paid no later than the 15th day of the third month of the fiscal year next following the fiscal year for which the Annual Bonus is awarded, unless the Executive shall have elected to defer the receipt of such Annual Bonus in accordance with an applicable deferred compensation plan of the Company.

(f) Death. The Executive's employment shall terminate automatically upon the Executive's death during a COC Employment Period without further obligation to the Executive's legal representative's under this Agreement other than for payment of any Unpaid Accrued Obligations and any Other Benefits which shall be at least equal to the most favorable benefits provided by the Company and Affiliated Companies to the estates and beneficiaries of senior executives of the Company and such affiliated companies under such plans, programs, and policies relating to death benefits and survivor benefits as in effect at any time during the 120-day period immediately prior to the COC Employment Period, or if more favorable to the Executive's estate and/or beneficiaries, as in effect on the date of the Executive's death with respect to other peer executives of the Company and their beneficiaries. Unpaid 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 Termination Date, and the Other Benefits shall be provided promptly when due.

(g) Disability. If the Company determines in good faith that the Disability of the Executive has occurred during a COC Employment Period, it may give the Executive Notice of Termination. In such event, the Executive's employment with the Company shall terminate effective on the Termination Date, provided that, within the 30 days after Executive's receipt of the Notice of Termination, the Executive shall not have returned to full-time performance of the Executive's duties. In the event of Executive's termination of employment due to Disability, Unpaid Accrued Obligations shall be paid in cash to the Executive within 30 days following the Termination Date, and the Other Benefits shall be provided promptly when due.

(h) Termination for Cause or Voluntary Termination without Good Reason. If the Executive's employment shall be terminated by the Company for Cause or voluntarily by the Executive without Good Reason during the COC Employment Period, the Employment Period shall terminate and the Company shall have no further obligations to the Executive other than the obligation to pay the Executive (i) his unpaid Annual Base Salary through the Termination Date, and (ii) any unpaid Other Benefits. In such case, all Unpaid Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days following the Termination Date, and the Other Benefits shall be provided promptly when due.

(i) Termination for Good Reason or without Cause. If, during the COC Employment Period, the Executive's employment shall be terminated by the Company other than for Cause or Disability or by the Executive for Good Reason, the Company shall:

(1) within 30 days following the Executive's Termination Date, pay the Executive a single sum cash amount equal to the sum of (i) the Unpaid Accrued Obligations; (ii) the product of three (or the number of whole and partial years from the Executive's Termination Date until his 65th birthday, if less) multiplied by the sum of the Executive's Annual Base Salary, plus the Executive's Annual Bonus, plus the greater of the Highest Profit Sharing Contribution or the highest aggregate Company contribution to the Executive's account under the Company's qualified and nonqualified defined contribution retirement plans for any of the three years immediately preceding the Executive's Termination Date; and (iii) the Executive's Enhanced SERP Benefit; and

(2) for the lesser of (x) three years after the Executive's Termination Date and (y) the period through the Executive's 65th birthday, continue health and welfare benefits to the Executive (and the Executive's family, if applicable) at least equal to those which would have been provided in accordance with Subsection 6(c) hereof had the Executive not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other senior executives of the Company and its Affiliated Companies and their families; provided that such benefits coverage shall be secondary to any health and welfare benefits coverage for which the Executive becomes eligible under any plan or arrangement sponsored by a subsequent employer of the Executive; and provided further, that if Executive's participation in any such program could result in adverse or unintended tax consequences to any participant in such program (including the Executive), the Company shall be entitled to provide Executive, with substantially equivalent benefits through a separate program (including the provision of

such benefits through the purchase of insurance) without regard to the tax treatment applicable to such separate program in lieu of permitting the Executive to participate in such program;

(3) to the extent not theretofore paid or provided, pay or provide to the Executive all Other Benefits promptly when due;

(4) waive any and all "reduction factors" imposed as a result of Executive's age with respect to the Executive's nonqualified supplemental or excess employee pension benefit plan if the Executive is at least age 50 as of the Termination Date; and

(5) if the Executive is age 50 or greater as of the Termination Date, provide the Executive with coverage under the terms of the Company's retiree medical plan (effective at the end of the post-employment period of extended health coverage) without regard to years of service for eligibility purposes but assuming the maximum Company-provided subsidy (if any) applies and applying 3 additional years of service credit for purposes of rate of contribution under such plan or any replacement or successor plan; provided, however that if the Executive is age 45 or older at the end of the post-employment period of extended health coverage, provide the Executive, upon reaching age 55 and upon reaching the end of the period of extended health coverage following Executive's Termination Date pursuant to Subsection 6(i)(2) hereof, with eligibility for the Company's retiree medical plan or any replacement or successor plan (including, without limitation, any supplemental coverage applicable to executives) as if the Executive had, as of the Termination Date, satisfied the age and service conditions for such plans and assuming the maximum Company-provided subsidy (if any) applies.

7. Definitions.

(a) **"Affiliated Company"** shall mean any corporation or other entity controlled by, controlling or under common control with the Company.

(b) **"Annual Base Salary"** shall mean an annual base salary at least equal to 24 times the highest semi-monthly base salary paid or payable, including (without limitation) any base salary which has been earned but deferred, to Executive by the Company and its Affiliated Companies in respect of any month in the 12-month period immediately preceding the month in which a Change of Control occurs.

(c) **"Annual Bonus"** shall have the meaning set forth in Subsection 6(e) of this Agreement.

(d) **"Cause"** shall mean termination initiated by the Company (with advance approval by the Compensation Committee of the Board of Directors) or by the Executive incident to or connected (i) Executive's conviction relating to charges that Executive engaged in misappropriation, theft, embezzlement, kick-backs, or bribery whether in connection with Executive's employment with the Company or otherwise, , or (ii) the Company's reasonable determination that Executive engaged in other deliberate, gross or willful misconduct or dishonest acts or omissions (including, but not limited to, commission of a felony) resulting in significant harm to the Company.

(e) **"Change of Control"** shall mean the happening of any of the following events:

(1) 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 (x) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (y) 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 (1), the following acquisitions shall not be deemed to result in a Change of Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (3) of this Section 7(e); 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 (A) or (B) 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

(2) 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

(3) 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, (A) 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, (B) 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 (C) 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

(4) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

(f) **"COC Employment Period"** shall mean the period from the date on which a Change of Control occurs until the earlier of the third anniversary of such date or the Executive's 65th birthday.

(g) **"Confidential Information"** shall mean information in any form whose unauthorized or unintended publication or disclosure will adversely affect the interests of the Company. It includes, but is not limited to, the following:

- Third party information provided under a confidentiality agreement;
- Long-range strategic plans;
- Critical formulas and trade secrets;
- Merger and acquisition plans;
- Operational plans;
- Research — Information relating to Company sponsored research and development projects, including a product's regulatory status;
- Technical — Product or process specifications, manufacturing processes, test results, performance characteristics, special formulations, unique designs, unique software and identity of vendors and suppliers of unique materials;
- Marketing — Customer lists, schedules of new product availability and delivery periods, pending price changes, strategic plans, in-house marketing forecasts and other marketing plans;
- Financial — Budgets, product costs and profit margins on specific products; and other non-public financial audit and accounting information;
- Organization — Information regarding opening, closing, expanding, or modifying of Company facilities until the time and date specifically authorized for public disclosure; transfer of responsibilities or transfer of key employees until formal announcements; policy manuals; telephone directories; organization charts;

- Human Resources — Sensitive personal data pertaining to employees, such as salaries and compensation, medical records, performance appraisals or reviews, personal history statements and personnel files, letters of a personal and/or professional nature;
- Other information not generally known and relating to any phase of Company business which provides an opportunity to obtain an advantage over competitors who do not have or know the information.

(h) **"Disability"** shall mean the absence of the Executive from the Executive's duties with the Company on a full-time basis for 180 consecutive 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.

(i) **"Enhanced SERP Benefit"** shall mean an amount equal to the excess of (i) the sum of (A) the lump-sum actuarial equivalent (as of the date that the Enhanced SERP Benefit is paid to the Executive or his beneficiaries (the "SERP Payout Date")) of the normal retirement benefit under the Company's Retirement Plan (utilizing actuarial assumptions no less favorable to the Executive than those in effect under the Retirement Plan immediately prior to the Executive's Termination Date) and (B) the lump-sum actuarial equivalent of the normal retirement benefit under the SERP (as of the SERP Payout Date and utilizing actuarial assumptions no less favorable to the Executive than those in effect under the SERP immediately prior to the Executive's Termination Date) which the Executive would have received if the Executive's employment had continued for two years (or three years if the Date of Termination occurs during a COC Employment Period) after the Executive's Termination Date or through age 65, if sooner, assuming for this purpose that all accrued benefits were fully vested, and, if the Termination Date occurs during a COC Employment Period, 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 Subsections 6(d) and 6(e) of this Agreement, over (ii) the lump-sum actuarial equivalent (as of the SERP Payout Date) of the Executive's actual normal retirement benefit (paid or payable), if any, under the Retirement Plan and the SERP based on actual age, service and compensation as of the Executive's Termination Date.

(j) **"Good Reason"** shall mean any of the events described in (1)-(5) below if the Company fails to cure such events within 20 business days after receiving notice thereof from the Executive:

(1) the assignment to the Executive of any duties that are materially inconsistent with the Executive's education, training and experience, or a significant diminution in the Executive's authorities, responsibilities, status or title (as described in Section 2 or Subsection 6(b) of this Agreement, as applicable), it being understood that (x) a change in the person to whom the Executive reports (other than as described in (2) or (3) below) or (y) modifications to organizational responsibilities resulting in changes to Executive's functional areas of responsibility that do not significantly diminish Executive's core role in the Company would not constitute "Good Reason";

(2) a change in the status of the person to whom the Executive reports from the CEO of a publicly-traded company to the CEO of a non-publicly traded company; or

(3) for so long as Executive is required on the Company's behalf to make (i) Certifications pursuant to the Corporate Integrity Agreement between the Company and the Office of Inspector General of the U.S. Department of Health and Human Services, effective July 29, 2004, or (ii) the CMS-required ASP certification under Medicare, Part B, a change in the person holding the title of CEO, and to whom the Executive reports, to a person other than Mr. Fred Hassan; or

(4) any significant reduction by the Company of the Executive's total compensation in the aggregate, unless such reduction was part of a reduction approved by the Company's Board of Directors (or a Committee thereof) for a group of senior executives in addition to the Executive; or

(5) during a COC Employment Period, any failure by the Company to comply with any of the provisions of Subsections 6(b) through 6(e) of this Agreement.

(k) **"Highest Profit Sharing Contribution"** shall mean the annual aggregate of the highest contributions made under the Company's Profit Sharing Incentive Plan and the highest hypothetical contributions made under the Company's Profit Sharing Benefits Equalization Plan or any successor or replacement plans thereto, for any of the three calendar years preceding the Executive's Termination Date.

(l) **"Invention(s)"** shall mean any design, discovery, idea, process, product, device, substance, compound, biological or chemical entity, machine or article or process of manufacture, or any improvement of the foregoing, whether patentable or not, which is:

(1) Conceived, discovered or made by a Company employee either solely or jointly with others either (A) during the term of his/her employment or (B) after the term of his/her employment, based on Confidential Information; and

(2) Related to the Company's actual or anticipated business or activities, or is related to the Company's actual or anticipated research and development efforts, or is suggested by, or results from any tasks assigned to any employee and/or temporary worker or from work performed by an employee for, or on behalf of, the Company, whether or not such conception, discovery or making occurs during regularly scheduled work hours or results from the use of the Company's facilities, materials, resources or personnel.

(m) **"Notice of Termination**" shall mean 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 Termination Date (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.

(n) **"Other Benefits"** shall mean all amounts or benefits other than Unpaid Accrued Obligations required to be paid or provided or which the Executive (or his beneficiaries) is eligible to receive under the applicable terms of any plan, program, agreement, corporate governance document, or other arrangement of the Company or any Affiliated Company.

(0) **"Retirement Plan"** shall mean the Company's defined benefit retirement plan.

(p) **"Section 409A Change in Control Event"** shall mean the happening of any of the following events:

(1) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of 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 more than 50% of either (*x*) the then outstanding Shares of the Company (the "Outstanding Shares") or (*y*) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Voting Securities"); provided, however, that for purposes of this subsection (1) the following acquisitions will not constitute a Section 409A Change in Control Event: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (3) below; and provided, further, that if any Person's beneficial ownership of the Outstanding Shares or Outstanding Voting Securities reaches or exceeds 50% as a result of a prior transaction, and such Person subsequently acquires beneficial ownership of additional Shares or additional voting securities of the Company, such subsequent acquisition will not be treated as an acquisition that causes such Person to own more than 50% of the Outstanding Shares or Outstanding Voting Securities;

(2) during any 12-month period, individuals who, as of the first day of such period, 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 beginning of such 12-month period 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 will be considered as though such individual were a member of the Incumbent Board;

(3) consummation of a reorganization, merger, statutory share exchange or consolidation or similar corporate transaction involving the Company, or the acquisition of assets or stock of another entity by the Company (each a "Business Combination"), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were beneficial owners, respectively, of the Outstanding Shares or Outstanding Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectfully, the then outstanding shares of the 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 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 Shares and Outstanding Voting Securities, as the case may be, (B) 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, more than 50% of, respectfully, 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 (C) 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 on the later of (x) the time of the execution of the initial agreement, (y) the action of the Board providing for such Business Combination or (z) the beginning of the 12-month period ending on the effective date of the Business Combination;

(4) any one Person acquires (or has acquired during any 12-month period ending on the date of the most recent acquisition by such Person) assets of the Company having a fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Company immediately prior to such sale, other than an acquisition by (A) a Person who was a shareholder of the Company immediately before the asset acquisition in exchange for or with respect to such Person's Shares, (B) an entity whose total or voting power immediately after the transfer is at least 50% owned, directly or indirectly, by the Company, (C) a person or group that, immediately after the transfer, directly or indirectly owns at least 50% of the total value or voting power of the outstanding stock of the Company or (D) an entity whose total value or voting power immediately after the transfer is at least 50% owned, directly or indirectly, by a person described in clause (C) above; or

(5) the complete liquidation of the Company.

The definition of Section 409A Change in Control Event for purposes of this Agreement is intended to conform to the description of "Change in Control Events" in Treas. Prop. Reg. 1.409A-3(g)(5), or in subsequent IRS guidance describing what constitutes a Change in Control Event for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, no Section 409A Change in Control Event will be deemed to occur with respect to a transaction or event described in paragraphs (1) through (5) above unless the transaction or event would constitute a "Change in Control Event" as described in Treas. Prop. Reg. 1.409A-3(g)(5), or in subsequent IRS guidance under Code section 409A.

(q) **"SERP"** shall mean any excess or supplemental retirement plans in which the Executive participates.

(r) **"Termination Date"** shall mean (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, the date of the other party's receipt of the Notice of Termination or any later date specified therein, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, or by the

Executive other than for Good Reason, the Termination Date shall be the date on which the Notice of Termination is delivered or any later date as may be mutually agreed upon; (iii) if the Executive's employment is terminated by reason of death, the Termination Date shall be the date of the death; and (iv) if the Executive's employment is terminated by reason of Disability of the Executive, the Termination Date shall be the 30th day after Executive's receipt of the Notice of Termination from the Company.

(s) **"Unpaid Accrued Obligations"** shall mean unpaid Annual Base Salary accrued through the termination date, any unpaid accrued vacation pay, and the Executive's Annual Bonus multiplied by a fraction, the numerator of which is the number of days in the current fiscal year through the Termination Date, and the denominator of which is 365.

8. Certain Additional Payments.

(a) 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 Internal Revenue Code of 1986, as amended (the "Code")) made or provided 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"), at or before the time the Excise Tax is due (whether by withholding or otherwise) 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 8 shall not be conditioned upon the Executive's termination of employment.

(b) Subject to the provisions of Subsection 8(c), all determinations required to be made under this Section 8, 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 such nationally recognized certified public accounting firm that the Company may designate (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 a 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 8, shall be paid by the Company to the Executive within ten 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 Subsection 8(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 a 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 Subsection 8(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 pay 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 payment or with respect to any imputed income in connection with such payment; 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 paid by the Company pursuant to Subsection 8(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 Subsection 8(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 paid by the Company pursuant to Subsection 8(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 payment shall be forgiven and shall not be required to be repaid and the amount of such payment 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.

9. **Code Section 409A Provisions**.

Notwithstanding anything in this Agreement or elsewhere to the contrary, if, based on Internal Revenue Service guidance available as of the date the payment or provision of any amount or other benefit is specified to be made under this Agreement or elsewhere, the Company reasonably determines that the payment or provision of such amount or other benefit at such specified time may potentially subject the Executive to "additional tax" under Section 409A(a)(1)(B) of the Code (together with any interest or penalties imposed with respect to, or in connection with, such tax, a "409A Tax") with respect to the payment of such amount or the provision of such benefit, and if payment or provision thereof at a later date would likely avoid any such 409A Tax, then the payment or provision thereof shall be postponed to the earliest business day on which the Company reasonably determines such amount or benefit can be paid or provided without incurring any such 409A Tax, but in no event later than the first business day after the six-month anniversary of the Termination Date (the "Delayed Payment Date"). In addition, if the Company reasonably determines that such 409A Tax with respect to the provision of a benefit can likely be avoided by replacing the benefit with the payment of an amount in cash equal to the cost of a substantially equivalent benefit then, in lieu providing such benefit, the Company may make such cash payment, subject to the preceding sentence. In the event a benefit is to be provided during the period commencing on the Executive's separation from service and

ending on the Delayed Payment Date and the provision of such benefit during that period would be treated as a payment of nonqualified deferred compensation in violation of Section 409A(a)(2)(B)(i) of the Code, then continuation of such benefit during that period shall be conditioned on payment by the Executive of the full premium or other cost of coverage and as of the Delayed Payment Date the Company shall reimburse the Executive for the premiums or other cost of coverage paid by the Executive, which but for this paragraph would have been paid by the Company. Any such reimbursement shall include interest at the rate set out in the last sentence of this paragraph. The Company and the Executive may agree to take other actions to avoid the imposition of 409A Tax at such time and in such manner as permitted under Section 409A. In the event that this Section 9 requires a delay of any payment, such payment shall be accumulated and paid in a single lump sum on the Delayed Payment Date together with interest for the period of delay, compounded monthly, equal to the prime or base lending rate then used by CitiBank, N.A., in New York City and in effect as of the date the payment would otherwise have been provided.

10. Directorships, Other Offices.

In the event of termination of employment, Executive shall immediately, unless otherwise requested by the Company's Board of Directors, resign from all directorships, trusteeships, other offices and employment held at that time with the Company or any of its Affiliated Companies.

11. Confidentiality and Inventions.

The Company's most valuable assets include its Confidential Information and Inventions (which are defined in Section 7). As a condition of employment, and in exchange for payment of the Executive's salary, wages, and other compensation, the Executive (including the Executive's heirs, executors, administrators and assigns) and the Company agree that:

(a) Obligation to Others. The Executive has no obligation to any former employer or third party which is inconsistent with this Agreement or which restricts the Executive's activities with the Company in any way. Also, the Executive shall not at any time disclose to the Company or cause the Company to use any confidential information belonging to others, including the Executive's former employers.

(b) Obligations to Company During Employment.

(1) *Company's Confidential Information***.** Unauthorized disclosure of the Company's Confidential Information, either to outsiders, including temporary workers or to co-employees who do not have a legitimate need to know of it, could irreparably harm the Company and subject it to significant competitive disadvantage. To protect the Company's Confidential Information, the Executive will not:

(A) disclose it to any co-worker, unless he/she has a business need to know of it;

(B) disclose it to any non-employee for any reason; and

(C) use it for the Executive's own benefit or profit.

This restriction shall not apply to Confidential Information that:

(A) a Company officer authorizes the Executive, in writing, to release;

(B) is or becomes public knowledge through no fault of the Executive;

(C) is made lawfully available to the Executive by an independent third party (provided there is no agreement between the Company and that third party which obligates the Company's employees to keep it in confidence);

(D) the Executive lawfully already knew of when the Executive received it from the Company and the Executive can demonstrate such prior knowledge; or

(E) the Executive is required by law, regulation, rule, act or order of any governmental authority or agency to disclose, provided however, that the Executive gives the Company sufficient advance written notice to permit it to take appropriate lawful recourse to protect its interests.

(2) *Confidential Information of Third Parties.* On occasion, a third party may share its confidential information with the Company for their mutual benefit (e.g., in connection with a licensing arrangement or potential merger or acquisition). Should such information be entrusted to the Executive, the Executive shall not disclose it, either to co-workers (unless they have a business need to know of it) or to outsiders.

(3) *Ownership of Inventions, Patents, Trademarks, Trade Secrets, and Tangible Work Product.* Since the Company is paying a salary, wages and other compensation to the Executive, the Company owns all of the rights to the inventions and work product that the Executive creates or conceives during the Employment Period. To ensure that the Company's rights to its property are protected, the Executive shall promptly disclose to the Company and keep adequate records on any invention that the Executive conceives, discovers or makes during the Employment Period. Without further payment from or charge to the Company, the Executive agrees that the following, if created or conceived during the Employment Period, shall be the Company's exclusive property and the Executive shall assign to the Company all of the following:

(A) any Invention conceived, discovered or made by the Executive;

(B) any patent, patent application or record relating to any Invention that the Executive makes;

(C) any trade secrets developed by or disclosed to the Executive during the course of the Executive's employment; and

(D) any tangible work product prepared by the Executive in the course and scope of the Executive's employment, including but not limited to, any copyrightable subject matter, research, research and/or business data.

(4) *Ownership of Copyrights***.** All works made for hire shall vest in the Company. All other works, whether copyrightable or not, that the Executive creates in the course of the Executive's employment, are deemed, upon their creation, to be assigned to the Company. This includes, but is not limited to, all rights in and to the copyright throughout the world, all of its renewals and extensions, the right to make and distribute copies of it, the right to translate it, and the right to all derivative works from it. The Executive will execute all documents which are necessary or desirable to record any assignment of copyright or other transfer of ownership in any work that the Executive creates in the course of the Executive's employment, without further charge to the Company.

(5) *Obtaining and Enforcement of Patents, Trademarks and Copyrights.* At the Company's request, and without charge, the Executive shall execute any patent applications, assignments, or other instruments which the Company considers necessary to apply for and obtain Letters Patent in the United States and any foreign country and take all necessary action to protect the Company's interest in them. The Executive shall execute any documents or instruments which the Company considers necessary to vest title in the Company to any invention, patents, patent applications or records relating to any invention and/or tangible work product.

(6) *Removal of Company Property.* The Executive shall not remove any of the Company's property from its premises, unless the Executive needs it to perform the Executive's duties for the Company or the Executive is specifically authorized to do so.

(c) Obligations to Company When Your Employment Terminates.

(1) *Continuing Obligations***.** Each party's obligations described in Section 11(b) above survive the termination of the Executive's employment.

(2) *Return of Company Property*. The Executive will turn over all of the Company's property to a designated Company representative prior to the Executive's separation. The Executive will not retain any copies or reproductions of correspondence, memoranda, reports, notebooks, drawings, data, photographs or other documents relating in any way to the Company's business.

12. Remedies; Injunction.

(a) Executive acknowledges and agrees that the restrictions contained in Sections 5 and 11 of this Agreement are reasonable and necessary to protect and preserve the legitimate interests, properties, goodwill and business of the Company and its Affiliated Companies, that the Company would not have entered into this Agreement in the absence of such restrictions and that irreparable injury will be suffered by the Company should Executive breach any of the provisions of those sections. Executive represents and acknowledges that (i) Executive has been advised by the Company to consult legal counsel with respect to this Agreement, and (ii) that Executive has had full opportunity, prior to execution of this Agreement, to review thoroughly this Agreement with counsel.

(b) Executive further acknowledges and agrees that a breach of any of the restrictions in Sections 5 or 11 cannot be adequately compensated by monetary damages. Executive agrees

that the Company will be entitled to a return of the cash consideration set forth in this Agreement as being conditioned on the covenants contained in Sections 5 and 11 and that all remaining stock options will be forfeited if Executive breaches the provisions of either of those sections and that, in any event, the Company will be entitled to preliminary and permanent injunctive relief, without the necessity of proving actual damages, as well as provable damages and an equitable accounting of all earnings, profits and other benefits arising from any violation of Sections 5 or 11, which rights will be cumulative and in addition to any other rights or remedies to which the Company and/or its Affiliated Companies may be entitled. In the event that any of the provisions of Sections 5 or 11 should ever be adjudicated to exceed the time, geographic, service, or other limitations permitted by applicable law in any jurisdiction, it is the intention of the parties that the provision will be amended to the extent of the maximum time, geographic, service, or other limitations permitted by applicable law, that such amendment will apply only within the jurisdiction of the court that made such adjudication and that the provision otherwise be enforced to the maximum extent permitted by law.

(c) Executive irrevocably and unconditionally (i) agrees that any suit, action or other legal proceeding arising out of Sections 5 or 10, including without limitation, any action commenced by the Company and/or its Affiliated Companies for preliminary and permanent injunctive relief and other equitable relief, may be brought in the United States District Court for the District of New Jersey, or if such court does not have jurisdiction or will not accept jurisdiction, in any court of competent jurisdiction, (ii) consents to the non-exclusive jurisdiction of any such court in any such suit, action or proceeding, and (iii) waives any objection which Executive may have to the laying of venue of any such suit, action or proceeding in any such court.

13. Intellectual Property.

To the fullest extent permitted by applicable law, all intellectual property (including patents, trademarks, and copyrights) which are made, developed or acquired by Executive in the course of Executive's employment with the Company will be and remain the absolute property of the Company, and Executive shall assist the Company in perfecting and defending its rights to such intellectual property.

14. Non-Exclusivity.

Except as specifically expressed herein, nothing contained herein is intended to alter the terms of any benefit plan or program. Notwithstanding anything in this Agreement, the Company or its Affiliated Companies, as applicable, reserves the right to amend or terminate any of its or their employee benefit plans at any time. In the event that an amendment to an employee benefit plan adopted after the effective date of this Agreement specifically conflicts with an express promise made in this Agreement, the Company shall have the right to honor the promise through comparable means outside the affected employee benefit plan without regard to any differences in the tax impact to the Executive. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit plan provided by the Company or any of its affiliates for which the Executive may qualify.

15. Full Settlement.

In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts and benefits (other than as required pursuant to Section 5(b)(ii)) payable to the Executive under any of the provisions of this Agreement and such amounts and benefits (other than as required pursuant to Section 5(b)(ii)) shall not be reduced whether or not the Executive obtains other employment. In the event of a Change of Control, the Company agrees to pay, to the full extent permitted by law and with respect to disputes that arise out of events occurring during the applicable COC Employment Period, all legal fees and expenses up to $25,000 which the Executive may reasonably incur as a result of any contest 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); provided, however that if the Company ultimately prevails in a court of competent jurisdiction with regard to any such contest, the Executive agrees to reimburse the Company for any and all legal fees and expenses paid by the Company in accordance with this sentence. Such reimbursement shall become payable within 30 days after the expiration of the applicable period to appeal such outcome or, if an appeal is taken, 30 days after final resolution of such appeal. Interest shall accrue on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code.

16. Governing Law.

This Agreement will be governed by and construed in accordance with the laws of the State of New Jersey.

17. Assignments; Transfers; Effect of Merger.

(a) No rights or obligations of the Company under this Agreement may be assigned or transferred by the Company except that such rights or obligations may be assigned or transferred pursuant to a merger or consolidation in which the Company is not the continuing entity, or pursuant to the sale or transfer of all or substantially all of the assets of the Company, provided that the assignee or transferee is the successor to all or substantially all of the assets of the Company.

(b) This Agreement will not be terminated by any merger, consolidation or transfer of assets of the Company referred to above. In the event of any such merger, consolidation or transfer of assets, the provisions of this Agreement will be binding upon the surviving or resulting corporation or the person or entity to which such assets are transferred.

(c) The Company agrees that concurrently with any merger, consolidation or transfer of assets referred to above, it will cause any successor or transferee unconditionally to assume, either contractually or as a matter of law, all of the obligations of the Company hereunder.

(d) This Agreement will inure to the benefit of, and be enforceable by or against, Executive or Executive's personal or legal representatives, executors, administrators, successors, heirs, distributes, designees and legatees. None of Executive's rights or obligations under this Agreement may be assigned or transferred by Executive other than Executive's rights to compensation and benefits, which may be transferred only by will or operation of law. If Executive should die while any amounts or benefits have been accrued by Executive but not yet paid as of the date of Executive's death and which would be payable to Executive hereunder had Executive continued to live, all such amounts and benefits unless otherwise provided herein will be paid or provided in accordance with the terms of this Agreement to such person or persons appointed in writing by Executive to receive such amounts or, if no such person is so appointed, to Executive's estate. In the event of Executive's death or a judicial determination of his incompetence, references in this Agreement to "Executive" shall be deemed to refer, as appropriate, to his heirs, beneficiaries, estate, executor, or other legal representative.

18. Modification.

No provisions of this Agreement may be waived, modified or discharged unless such waiver, modification or discharge is agreed to in writing signed by both Executive and the CEO. No waiver by any party hereto at any time of any breach by any other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party will be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

19. Notices.

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

If to the Executive:

Brent Saunders
[Address]

If to the Company:

Schering-Plough Corporation
2000 Galloping Hill Road
Kenilworth, New Jersey 07033
Attention: Corporate Secretary

20. Entire Agreement.

This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto in respect of the subject matter contained herein. There shall be no contractual or similar restrictions on Executive's right to terminate his employment with the Company, or on his post-employment activities, other than those expressly set forth in this Agreement or in the terms of grant of any Schering-Plough equity compensation award held by the Executive. Except as otherwise set forth in this Agreement, the respective rights and obligations of the parties under this Agreement shall survive any termination of Executive's employment. This Agreement may be executed in counterparts, each of which shall be deemed an original and all of which together shall be deemed to be one and the same document. Signatures delivered by facsimile shall be effective for all purposes.

The undersigned hereby execute this Agreement as of the date first above written.

SCHERING—PLOUGH CORPORATION

Dated: _____ By _____
C. Ron Cheeley
Senior Vice President,
Global Human Resources

Dated: _____ _____
Brent Saunders

Exhibit 10.J

Schering-Plough Corporation

Severance Benefit Plan

Amended and Restated Effective January 1, 2008

Preamble

Schering-Plough Corporation ("Schering-Plough") established the Schering-Plough Severance Benefit Plan (the "Plan") for the purpose of providing severance benefits to certain Employees whose employment terminates on or after February 4, 2004. The Plan constitutes a formal employee welfare benefit plan under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Plan is hereby amended and restated, effective for all terminations occurring on or after January 1, 2008, and supersedes any policy, plan or program theretofore maintained or in effect under which severance benefit payments were made prior to January 1, 2008, by Schering-Plough or any of its U.S. affiliated companies (or their predecessors) including any of the Organon BioSciences U.S. Affiliates, which were acquired by Schering-Plough effective November 19, 2007, as part of Schering-Plough's acquisition of Organon BioSciences N.V.

The Plan, as set forth herein, is intended to alleviate in part or in full financial hardships that may be experienced by certain of those Employees of Schering-Plough and its U.S. affiliated companies, whose employment is terminated for certain reasons. In essence, benefits under the Plan are intended to be supplemental unemployment benefits. The Plan is not intended to be included in the definitions of "employee pension benefit plan" and "pension plan" set forth under Section 3(2) of ERISA as a "severance pay arrangement" within the meaning of Section 3(2)(b)(i) of ERISA. Rather, the Plan is intended to meet the descriptive requirements of a plan constituting a "severance pay plan" within the meaning of regulations published by the Secretary of Labor at Title 29, *Code of Federal Regulations*, Section 2510.3-2(b). Accordingly, the benefits paid by the Plan are not deferred compensation and no employee shall have a vested right to such benefits.

The Plan shall continue until such time as it is amended or terminated in accordance with Article 6.

TABLE OF CONTENTS

Article 1
Definitions

When used herein, the following terms shall have the meanings set forth below.

1.01 "Administrative Committee" means Schering-Plough Corporation's Employee Benefits Committee or its designee.

1.02 "Base Pay" means the Employee's highest Weekly Base Rate of Pay during the 12-month period prior to his or her termination.

In the case of a Termination Due to Change of Control, Base Pay shall mean the sum of (a) Employee's highest Weekly Base Rate of Pay during the 12-month period prior to his or her termination or, if greater, the Employee's Weekly Base Rate of Pay in effect immediately prior to such Change of Control, and (b) an amount equal to 1/52 of the Employee's annual Target Incentive. Notwithstanding the foregoing, for purposes of calculating Base Pay in order to determine a Participant's benefit under Column A of Exhibit B, Base Pay shall not include any portion of the Employee's Target Incentive.

1.03 "Benefits" means the benefits that a Participant is eligible to receive pursuant to Article 3 of the Plan.

1.04 "Change of Control" means a Change of Control (or Change in Control) as defined in the Company's 2002 Stock Incentive Plan and any successor to such plan.

1.05 "Company" means Schering-Plough Corporation and its U.S. affiliated companies.

1.06 "Comparable Position" means employment with the Company or a successor employer in which the individual's level of responsibilities would not constitute a Demotion. For purposes of a Termination Due to Change of Control, a position shall not be a Comparable Position if such position would require the Employee's principal business location to be relocated more than 50 miles from the Employee's principal business location immediately prior to the Change of Control.

1.07 "Corporate Integrity Agreement" means the five-year settlement agreement entered into between the Company and the Office of Inspector General of the U.S. Department of Health and Human Services, effective July 29, 2004.

1.08 "Demotion" means continued employment in a position that, as determined by the Administrative Committee, constitutes a demotion under Schering-Plough's U.S. compensation guidelines or a position that is one or more levels lower on a Company-recognized career ladder, whether or not such employment is with the Company or a successor employer.

1.09 "Decline to Relocate" means a termination of a Participant's employment as a result of his or her rejection of an offer of continued employment in the same position or a

Comparable Position that would require relocation of the Participant's principal business location of more than 50 miles.

1.10 "Employee" means any regular full-time or regular part-time employee of the Company who is employed in the United States and as to whom the terms and conditions of employment are not covered by a collective bargaining agreement unless the collective bargaining agreement specifically provides for coverage under the Plan. For this purpose, a regular part-time employee shall be an employee who is regularly scheduled to work approximately 20 to 32 hours per week. The term "Employee" shall not include (a) temporary employees (including college coops, summer employees, high school coops, flexible workforce employees and any other such temporary classifications); (b) any individual characterized by the Company as an "independent contractor" or as a "contract worker;" (c) officers and other employees of the Company who are parties to employment agreements; (d) officers or other employees of the Company who participate in any severance plan of the Company that provides for the payment of severance benefits in connection with a Change of Control of the Company and such individual qualifies for the payment of such benefits; (e) any other individual who is not treated by the Company as an employee for purposes of withholding federal income taxes, regardless of any contrary Internal Revenue Service, governmental, or judicial determination relating to such employment status or tax withholding; or (f) effective April 13, 2005, any employee of the Company who (i) is not a U.S. citizen, (ii) is on temporary assignment in the United States, and (iii) normally works outside the United States. In the event that an individual engaged in an independent contractor or similar non-employee capacity is subsequently reclassified by the Company, the Internal Revenue Service, or a court as an employee, such individual, for purposes of the Plan, shall be deemed an Employee from the actual (and not effective) date of such classification, unless expressly provided otherwise by the Company.

An Employee also includes any employee of the Company otherwise satisfying the definition for Employee above who works in the United States permanently or who normally works in the United States and receives compensation from one of the Company's United States affiliates or participating companies but is on temporary assignment outside of the United States.

1.11 "Employment Service Date" means the first day on which an individual became an Employee.

1.12 "Employment Termination Date" means the date on which the employment of the Employee by the Company is terminated.

1.13 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

1.14 "Job Elimination" means a termination of a Participant's employment by the Company due to job elimination, as determined by the Administrative Committee in its sole discretion, for purposes of the Plan only.

1.15 "Job Restructuring" means a termination of a Participant's employment by the Company due to a change in required competencies or qualifications for the Participant's job, as determined by the Administrative Committee in its sole discretion, for purposes of the Plan only.

1.16 "Misconduct" means conduct which includes (a) falsification of company records/misrepresentation; (b) theft; (c) acts or threats of violence; (d) refusal to carry out assigned work; (e) unauthorized possession of alcohol or illegal drugs on company premises; (f) being under the influence of alcohol or illegal drugs during work hours; (g) willful intent to damage or destroy company property; (h) violation of the Standards of Global Business Practices; (i) acts of discrimination/harassment; (j) conduct jeopardizing the integrity of our products; (k) violation of Company rules, policies, and/or practices; or (l) other conduct considered to be detrimental to the Company.

1.17 "Organon BioSciences U.S. Affiliates" means each of the affiliates of Organon BioSciences N.V. that is both organized under the laws of the United States and employs individuals who are paid through a U.S. source payroll system.

1.18 "Participant" means any Terminated Employee eligible for Benefits in accordance with Article 2.

1.19 "Plan" means the Schering-Plough Severance Benefit Plan, as set forth herein, and as the same may from time to time be amended.

1.20 "Plan Year" means the period commencing on each January 1 during which the Plan is in effect and ending on the subsequent December 31.

1.21 "Severance Benefit Plan Committee" means the Committee that reviews initial benefit claims under the Plan, which shall be comprised of no less than three members who shall include the Company's Executive Director of Global Benefits, and Vice Presidents of Human Resources representing the Company's major operating groups as the Company shall appoint.

1.22 "Target Incentive" means an Employee's target incentive for any given year under the Company's annual incentive plan applicable to the Employee immediately preceding his or her termination. Notwithstanding the foregoing sentence, in the event of a Termination Due to Change of Control, Target Incentive shall mean the greater of the Target Incentive described in the preceding sentence or the Target Incentive in effect immediately preceding the Change of Control.

1.23 "Terminated Employee" means an Employee who has experienced an Employment Termination Date.

1.24 "Termination Due to Change of Control" means a termination of a Participant's employment by the Company within two years following a Change of Control that is involuntary or that is as a result of his or her written rejection of an offer of continued employment with the Company or an affiliate if such employment is not a Comparable Position. For purposes of the preceding sentence, an involuntary termination shall be

deemed to occur as of the sixtieth (60th) day (or such longer period of time as the Company shall establish not to exceed one year) immediately following the later of (a) the date on which the Participant rejects in writing an offer of continued employment with the Company or an affiliate for a position that is not a Comparable Position; or (b) the date of the Change of Control.

1.25 "Termination Due to Non-Performance" means a termination of an Employee's employment by the Company due to the Employee's failure to perform his or her job assignments in a satisfactory manner, as determined by the Administrative Committee in its sole discretion, for purposes of the Plan only. In addition, a Termination Due to Non-Performance means a termination of an Employee's employment by the Company due to the Employee being deemed an "ineligible person" pursuant to the Corporate Integrity Agreement.

1.26 "Termination Due to Workforce Restructuring" means termination of an Employee's employment by the Company due to a Decline to Relocate, a Job Elimination, a Job Restructuring, or such other termination determined by the Administrative Committee.

An Employee who has been absent from employment on a (a) short-term disability leave, or (b) long-term disability leave or "medical no pay" leave lasting, in the aggregate, for a period of less than two years shall be deemed to have suffered a Termination Due to Workforce Restructuring if neither the Employee's latest position nor a Comparable Position exists for the Employee once he or she is released to return to work. Nothing in this paragraph shall prevent such an Employee from experiencing a Termination Due to Workforce Restructuring as a result of a Job Elimination, Job Restructuring, or other determination by the Administrative Committee or its designee to the extent otherwise provided under this Plan.

1.27 "Voluntary Resignation" means a resignation that is a voluntary separation from employment initiated by the Employee.

1.28 "Weekly Base Rate of Pay" means

(a) for a regular full-time Employee paid on a weekly payroll period basis, the Employee's weekly rate of pay.

(b) for a regular full-time Employee paid on a bi-monthly payroll period basis, the Employee's rate of pay for one payroll period divided by 2.166.

(c) for a regular part-time Employee paid on any hourly basis, the Employee's highest base hourly rate during the last 12 months multiplied by the average number of weekly hours worked during that 12-month period.

1.29 "Years of Service" means the total number of a Participant's full years of active service with the Company subject to the following rules:

(a) For purposes of determining a Participant's number of Years of Service, a full year of active service is any consecutive twelve-month period of service occurring

after the Participant's most recent break in service lasting one year or more. For example, a Participant whose Employment Service Date is June 21, 2003 will be credited with one Year of Service at the end of the business day June 20, 2004 provided that he or she has been continuously employed by the Company through that date.

(b) For purposes of determining a Participant's number of Years of Service, such Participant shall be treated as if his or her Employment Termination Date was December 31 of the calendar year in which his or her actual Employment Termination Date occurs.

(c) Any break in a Participant's active service for a period of less than one year shall be disregarded for purposes of calculating a Participant's number of Years of Service. For example, a Participant who was hired on June 1, 2000, was terminated on February 3, 2002, rehired on December 18, 2002, and terminated again on March 3, 2003 shall have three Years of Service under the Plan.

(d) Notwithstanding the foregoing, a Participant's service earned prior to incurring a break in service of less than 12 months and for which the Participant received a severance benefit under this Plan or any other severance plan or arrangement sponsored by the Company shall not be credited as Years of Service under the Plan. For example, a Participant who was hired on January 1, 2000, terminated on June 1, 2001 and received a severance benefit in connection with those years of service and was rehired on January 1, 2007 shall, as of December 31, 2008, be credited with one Year of Service.

(e) Notwithstanding anything herein to the contrary, a Participant's active service with any of the Organon BioSciences U.S. Affiliates, which were acquired by Schering-Plough effective November 19, 2007, as part of Schering-Plough's acquisition of Organon BioSciences N.V., shall be taken into account when calculating the Participant's number of Years of Service.

Article 2
Participation and Eligibility for Benefits

2.01 Eligibility.

(a) Subject to Sections 2.01(b), 2.02, and 2.03, any Terminated Employee (other than an employee who is employed in Puerto Rico) who has provided the Company with at least 90 consecutive days of service and incurs a Termination Due to Workforce Restructuring, a Termination Due to Non-Performance, or a Termination Due to Change of Control shall become a Participant and shall be eligible for Benefits in accordance with the provisions of this Plan. A Terminated Employee who is eligible to participate in the Plan as a result of a Termination Due to Change of Control shall not otherwise be deemed to have incurred a Termination Due to Workforce Restructuring or a Termination Due to Non-Performance.

For purposes of determining whether a Participant who either (i) transferred employment from NeoGenesis Pharmaceuticals, Inc. to the Company in connection with the asset purchase agreement, dated February 14, 2005; (ii) became an Employee as a result of the Company's collaborative agreement with Bayer HealthCare AG, dated October 1, 2004; or (iii) became an employee of the Company in connection with the Company's acquisition of Organon BioSciences N.V., effective November 19, 2007, has satisfied the 90 consecutive days of service requirement set forth in this Section 2.01(a) above, his or her service shall include service with NeoGenesis Pharmaceuticals, Inc., Bayer HealthCare AG, or Organon BioSciences N.V. or its affiliate, as appropriate. In no event shall such individual be credited with such prior service for purposes of calculating his or her severance benefits under the Plan.

(b) Notwithstanding anything herein to the contrary, a Terminated Employee shall not be considered to have incurred a Termination Due to Workforce Restructuring, a Termination Due to Non-Performance, or a Termination Due to Change of Control for the purposes of the Plan, if his or her employment is discontinued due to (i) a Voluntary Resignation; (ii) voluntary resignation after reaching early or normal retirement date under the Company's qualified pension plan; (iii) the divestiture of a business unit of the Company if the Employee is offered a Comparable Position with the Company or a successor employer; (iv) a rejection of an offer of a Comparable Position that is not a Decline to Relocate; (v) a Decline to Relocate and such Terminated Employee was on international assignment immediately preceding his or her termination; (vi) discharge for Misconduct; (vii) being placed on layoff status; (viii) failure to transfer to another location after initially accepting the transfer within the acceptance period of the offer; (ix) a termination of employment during or immediately following a long-term disability leave or a "medical no pay" leave lasting, in the aggregate, at least two years; (x) death; or (xi) his or her refusal to cooperate with the screening process pursuant to the Corporate Integrity Agreement.

(c) Notwithstanding anything herein to the contrary, in no event shall any Employee or former Employee who is receiving benefits under a Company-sponsored long-term

disability plan and/or who was on "medical no pay" leave of absence lasting, in the aggregate, for a period of two consecutive years or more ending at or immediately preceding the time of his or her termination of employment be eligible for Benefits under this Plan. For clarification purposes, the determination of whether an Employee or former Employee is ineligible for benefits as a result of the two-year leave of absence restriction set forth in the preceding sentence shall be made by aggregating any time periods in which the Employee or former Employee had received benefits under a Company-sponsored long-term disability plan together with any consecutive time periods that he or she was on "medical no pay" leave.

2.02 Termination of Eligibility for Benefits. A Participant shall cease to participate in the Plan, and all Benefits shall cease upon the occurrence of the earliest of:

(a) Termination of the Plan prior to, or more than two years following, a Change of Control;

(b) Inability of the Company to pay Benefits when due;

(c) Completion of payment to the Participant of the Benefits for which the Participant is eligible; and

(d) The Administrative Committee's determination, in its sole discretion, of the occurrence of the Employee's Misconduct, regardless of whether such determination occurs before or after the Employee's Employment Termination Date, unless the Administrative Committee determines in its sole discretion that Misconduct shall not cause the cessation of Benefits in a particular case. Notwithstanding the foregoing, the Administrative Committee must act in good faith in making such a determination at any time within the two years following a Change of Control.

2.03 Waiver and Release. Notwithstanding anything in the Plan to the contrary, unless determined otherwise by the Administrative Committee in its sole discretion, no Benefits shall be due or paid under the Plan to any Employee, unless the Employee executes (and does not rescind) a written waiver and release, in a form prescribed by Schering-Plough, of any and all claims against Schering-Plough, its affiliates, and all related parties arising out of the Employee's employment or termination of employment.

Article 3
Benefits

3.01 Amount of Severance Pay. The amount of severance pay payable to a Participant shall be equal to the number of weeks of the Participant's Base Pay corresponding to his or her Years of Service at his or her Employment Termination Date as set forth on that portion of Exhibit A applicable to the reason for his or her termination from employment (determined by the Company, in its sole discretion) as listed on Exhibit A hereto.

In the event of a Termination Due to Change of Control, the amount of severance pay payable to a Participant shall be equal to the number of weeks of the Participant's Base Pay corresponding to his or her Years of Service at his or her Employment Termination Date as set forth under Column B of Exhibit B applicable to his or her band as listed on Exhibit B hereto.

Notwithstanding the foregoing, in the event of a Termination Due to Change of Control for a Participant who was an E-grade employee of Schering-Plough (or its affiliates) as of December 31, 2003, the amount of severance pay payable to the Participant shall be equal to the greater of the benefits as listed under Columns A and B under Exhibit B hereto as applicable to E-grade employees and to his or her Years of Service at his or her Employment Termination Date.

Notwithstanding the foregoing, in the event of a Termination Due to Change of Control for a Participant who was a weekly/hourly or a semi-monthly employee of Schering-Plough (or its affiliates) as of December 31, 2003, the amount of severance pay payable to the Participant shall be equal to the greater of the benefits as listed under Columns A and B under Exhibit B hereto as applicable to his or her pay status and Years of Service at his or her Employment Termination Date.

Set forth on Exhibit C is a description of the manner in which eligible employees of certain acquired companies and/or divisions will be deemed to mapped to the Schering-Plough Compensation Bands for purposes of Exhibits A and B until such employees receive an actual Compensation Band classification under the Schering system.

3.02 Medical and Dental Benefits. A Participant covered under any of the Company's group medical and dental plans prior to his or her Employment Termination Date shall be provided the opportunity to elect to continue such coverage in accordance with the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985, Section 4980B of the Internal Revenue Code of 1986, as amended, and Section 601, et seq., of ERISA ("COBRA") and in accordance with the Company's regular COBRA coverage payment practices.

Participants who experience a Termination Due to Workforce Restructuring or Termination due to Non-Performance shall be eligible to continue medical and dental benefits under COBRA coverage at active employee rates, as the same may be changed from time to time, for the greater of (a) three months or (b) the number of weeks of severance under Section 3.01 (to a maximum of 12 months) following his or her Employment Termination Date.

Participants who experience a Termination Due to Change of Control shall be eligible (a) to continue medical and dental benefits under COBRA coverage at active employee rates, as the same may be changed from time to time, for the greater of (i) three months or (ii) the number of weeks of severance pay under Section 3.01 (to a maximum of 18 months) following his or her Employment Termination Date, and (b) for retiree medical benefits under the terms of the retiree medical coverage generally applicable to the Company's retiree medical eligible retirees provided that such Participants are at least age 50 at the time of their termination of employment.

3.03 Life Insurance. Participants who experience a Termination Due to Workforce Restructuring or Termination Due to Non-Performance shall be eligible to receive continued basic life insurance coverage for the greater of (a) three months or (b) the number of weeks of severance under Section 3.01 (to a maximum of 12 months) following his or her Employment Termination Date.

Participants who experience a Termination Due to Change of Control shall be eligible to receive continued basic life insurance coverage for the greater of (a) three months or (b) the number of weeks of severance under Section 3.01 (to a maximum of 18 months) following his or her Employment Termination Date. At the end of the coverage period, the Participant may convert the life insurance coverage to a personal policy.

3.04 Incentive Plan Payments. A Participant's entitlement to an incentive payment under the annual incentive plan applicable to such Participant following a termination of employment and the amount of such incentive payment, if any, shall be determined solely by reference to the applicable terms of such annual incentive plan; provided, however, for purposes of calculating a Participant's severance pay with respect to a Termination Due to Change of Control, a Participant's Base Pay shall include a pro rata portion of his or her Target Incentive as described under the definition of Base Pay in Section 1.02 of the Plan.

3.05 Reduction for Other Payments; Offsets. The Benefits payable hereunder to any Participant shall be reduced by any and all payments required to be made by the Company or its affiliates under federal, state, and local law, under any employment agreement or special severance arrangement or under any other separation policy, plan, or program. The Benefits payable hereunder to any Participant shall also be reduced by (a) any benefits previously paid to such Participant under this or any other separation or severance plan sponsored by the Company with respect to any periods of service with respect to which Benefits are being paid under this Plan, including any severance benefits paid prior to November 19, 2007 under a U.S. severance plan, practice or arrangement of Organon Biosciences, N.V.; and (b) any and all amounts that the Participant owes to the Company or an affiliate.

3.06 Effect on Other Benefit Plans. Except as expressly provided herein, nothing under the Plan shall constitute an extension of eligibility for, or the vesting or exercise periods relating to, any employee benefit or equity compensation plan or an agreement with the Company.

3.07 Different Severance Benefits. Notwithstanding the foregoing, the Human Resources representative having jurisdiction over the Participant may recommend, and the Senior Vice President Global Human Resources, acting on behalf of the Company, will have complete discretion to approve a different amount of severance pay and/or benefits, either higher or lower (including no severance pay and/or benefits at all), than otherwise provided on Exhibit A, provided that no such discretion shall be applicable to a Termination Due to Change of Control.

3.08 Change of Control Notification. Not later than six months following a Change of Control, the Company shall notify all of its otherwise eligible Employees (who were Employees as of the day immediately before the Change of Control) who have not been given notice of termination of whether they will, until the second anniversary of such Change of Control, continue in the same job, be offered a Comparable Position, or be involuntarily terminated.

Article 4
Method of Severance Payments

4.01 Method of Payment. The severance pay to which a Participant is eligible, as calculated pursuant to Article 3, shall be paid in accordance with the provisions of this Article 4.

(a) Severance payments payable under this Plan shall be made in a single sum cash payment.

(b) Payment shall be made by mailing to the last address provided by the Participant to the Company. Separate payment(s) shall be made to pay any earned and unused vacation pay for the year during which the Employment Termination Date occurs. In no event shall interest be credited on any amounts for which a Participant may become eligible.

(c) In general, payments shall be made as promptly as practicable after the participant's Employment Termination Date, the execution of the release required under Section 2.03, and the expiration of the required release revocation period.

Article 5
The Administrative Committee

5.01 Authority and Duties. The Administrative Committee shall have the full power, authority, and discretion to construe, interpret, and administer the Plan, to correct deficiencies therein, and to supply omissions. All decisions, actions, and interpretations of the Administrative Committee shall be final, binding, and conclusive upon the parties, subject only to determinations by the applicable claims fiduciary with respect to denied claims for Benefits. Unless the Administrative Committee determines otherwise, the Human Resources Managers of the Company shall have the authority to act on behalf of the Administrative Committee in all respects set forth in this Section 5.01.

5.02 Records. The Company shall supply to the Administrative Committee all records and information necessary to the performance of the Administrative Committee's duties.

5.03 Payment. The Company shall make payments of Benefits, in such amount as determined by the Administrative Committee under Article 3, from its general assets to Participants in accordance with the terms of the Plan, as directed by the Administrative Committee.

Article 6
Amendment and Termination

6.01 Amendment and Termination. The Plan may be amended, suspended, discontinued, or terminated at any time by the Board of Directors of Schering-Plough Corporation or its designee, in whole or in part, for any reason, and without either the consent of or the prior notification to any Participant. No such amendment shall give the Company the right to recover any amount paid to a Participant prior to the date of such amendment. Any such amendment, however, may cause the cessation and discontinuance of payments of Benefits to any person or persons under the Plan. No such amendment made following a Change of Control may reduce the benefits to which any Participant may become entitled in the two years following such Change of Control. Notwithstanding the foregoing, no amendment of any kind may be made to the Plan for a period of two years following a Change of Control.

Article 7
Claims Procedures

7.01 Claim. Each eligible terminated Employee may contest the administration of Benefits by completing and filing with the Severance Benefit Plan Committee a written request for review in the manner specified by the Administrative Committee. Each such application must be filed within 60 days following the Employee's termination of employment and must be supported by such information as the Severance Benefit Plan Committee deems relevant and appropriate.

7.02 Appeals of Denied Claims for Benefits. In the event that any claim for benefits is denied in whole or in part, the claimant whose claim has been so denied shall be notified of such denial by the Severance Benefit Plan Committee within 90 days of receipt of the claim (unless the Severance Benefit Plan Committee determines that special circumstances require an extension of time of up to an additional 90 days for processing the claim). The notice advising of the denial shall specify the reason(s) for denial, make specific reference to relevant Plan provisions, describe any additional material or information necessary for the claimant to perfect the claim (explaining why such material or information is needed), and shall advise the claimant of the procedure for the appeal of such denial and a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on appeal. All appeals shall be made by the following procedure:

(a) A claimant whose claim has been denied shall file with the Administrative Committee a notice of desire to appeal the denial. Such notice shall be filed within 60 days of notification by the Severance Benefits Plan Committee of the initial claim denial, be made in writing, and set forth all of the facts upon which the appeal is based. Appeals not timely filed shall be barred.

(b) The Administrative Committee shall consider the merits of the claimant's written presentations, the merits of any facts or evidence in support of the denial of benefits, and such other facts and circumstances as the Administrative Committee shall deem relevant.

(c) The Administrative Committee shall render a determination upon the appealed claim within 60 days of its receipt of such appeal (unless the Administrative Committee determines that special circumstances require an extension of time of up to an additional 60 days for processing the appeal). The determination shall specify the reason(s) for the denial, make specific reference to relevant Plan provisions, and contain a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA.

(d) The determination so rendered shall be binding upon all parties.

No Employee may bring a civil action under Section 502(a) of ERISA until the Employee has exhausted his or her rights under this Section 7.02.

Article 8
Miscellaneous

8.01 Nonalienation of Benefits. None of the payments, benefits, or rights of any Participant shall be subject to any claim of any creditor, and, in particular, to the fullest extent permitted by law, all such payments, benefits and rights shall be free from attachment, garnishment, trustee's process, or any other legal or equitable process available to any creditor of such Participant. No Participant shall have the right to alienate, anticipate, commute, plead, encumber, or assign any of the benefits or payments which he or she may expect to receive, contingently or otherwise, under the Plan.

8.02 No Contract of Employment. Neither the establishment of the Plan, nor any modification thereof, nor the creation of any fund, trust or account, nor the payment of any benefits shall be construed as giving any Participant or Employee, or any person whosoever, the right to be retained in the service of the Company, and all Participants and other Employees shall remain subject to discharge to the same extent as if the Plan had never been adopted.

8.03 Severability of Provisions. If any provision of the Plan shall be held invalid or unenforceable, such invalidity or unenforceability shall not affect any other provisions hereof, and the Plan shall be construed and enforced as if such provisions had not been included.

8.04 Heirs, Assigns, and Personal Representatives. The Plan shall be binding upon the heirs, executors, administrators, successors, and assigns of the parties, including each Participant, present and future.

8.05 Headings and Captions. The headings and captions herein are provided for reference and convenience only, shall not be considered part of the Plan, and shall not be employed in the construction of the Plan.

8.06 Number. Except where otherwise clearly indicated by context, the singular shall include the plural, and vice-versa.

8.07 Unfunded Plan. The Plan shall not be funded. No Participant shall have any right to, or interest in, any assets of Schering-Plough that may be applied by Schering-Plough to the payment of Benefits.

8.08 Payments to Incompetent Persons, Etc. Any benefit payable to or for the benefit of a minor, an incompetent person or other person incapable of receipting therefore shall be deemed paid when paid to such person's guardian or to the party providing or reasonably appearing to provide for the care of such person, and such payment shall fully discharge Schering-Plough, the Administrative Committee and all other parties with respect thereto.

8.09 Lost Payees. Benefits shall be deemed forfeited if the Administrative Committee is unable to locate a Participant to whom Benefits are due. Such Benefits shall be reinstated

if application is made by the Participant for the forfeited Benefits within one year of the Participant's Employment Termination Date and while the Plan is in operation.

8.10 Controlling Law. The Plan shall be construed and enforced according to the laws of the State of New Jersey to the extent not superseded by federal law.

Schering-Plough Corporation
Severance Pay Plan
Exhibit A

Termination Due to Workforce Restructuring

(chart shows amount of severance pay in weeks of Base Pay)

Years of Service	Bands A-C	Bands D-O; Base <$275,000	Bands D-O; Base ≥ $275,000
1	15	26	39
2	15	26	39
3	15	26	39
4	15	26	39
5	15	26	39
6	17	26	39
7	19	26	39
8	21	26	41
9	23	28	43
10	25	30	45
11	27	32	47
12	29	34	49
13	31	36	51
14	33	38	53
15	35	40	55
16	37	42	57
17	39	44	59
18	41	46	61
19	43	48	63
20	45	50	65
21	47	52	67
22	49	54	69
23	51	56	71
24	53	58	73
25	55	60	75
26	57	62	77
27	59	64	79
28	61	66	81
29	63	68	83
30 and above	65	70	85

Schering-Plough Corporation
Severance Pay Plan
Exhibit A (Cont'd)

Termination Due to Non-Performance

(chart shows amount of severance pay in weeks of Base Pay)

Years of Service	Bands A-O
1	8
2	8
3	8
4	8
5	8
6	8
7	8
8	8
9	9
10	10
11	11
12	12
13	13
14	14
15	15
16	16
17	17
18	18
19	19
20	20
21	21
22	22
23	23
24	24
25	25
26	26
27	27
28	28
29	29
30 and above	30

Schering-Plough Corporation
Severance Pay Plan
Exhibit B

Termination Due to Change of Control

(chart shows amount of severance pay in weeks of Base Pay)

Column A (If this column is applicable, multiply applicable number of weeks by Base Pay excluding Target Incentive)				Column B (If this column is applicable, multiply applicable number of weeks by Base Pay including 1/52 of Target Incentive)		
Applicable to Employees Employed by Schering-Plough on or before 12/31/03 Only						
Weekly / Hourly	Semi-Monthly	E-Grade	Years of Service	Bands A-C	Bands D-O; Base[1] < $275,000	Bands D-O; Base[1] ≥ $275,000
8	16	32	1	23	39	59
8	16	32	2	23	39	59
12	16	32	3	23	39	59
16	16	32	4	23	39	59
20	20	40	5	23	39	59
24	24	48	6	26	39	59
28	28	56	7	29	39	59
32	32	64	8	32	39	62
36	36	72	9	35	42	65
40	40	80	10	38	45	68
44	44	88	11	41	48	71
48	48	96	12	44	51	74
52	52	104	13	47	54	77
56	56	104	14	50	57	80
60	60	104	15	53	60	83
64	64	104	16	56	63	86
68	68	104	17	59	66	89
72	72	104	18	62	69	92
76	76	104	19	65	72	95
80	80	104	20	68	75	98
84	84	104	21	71	78	101
88	88	104	22	74	81	104
92	92	104	23	77	84	107
96	96	104	24	80	87	110
100	100	104	25	83	90	113
104	104	104	26	86	93	116
104	104	104	27	89	96	119
104	104	104	28	92	99	122
104	104	104	29	95	102	125
104	104	104	30 and above	98	105	128

1 For this purpose, Base Pay excludes Target Incentive.

Schering-Plough Corporation
Severance Pay Plan
Exhibit C

1. For purposes of Exhibits A and B, Participants who were former employees of the Organon business group and became Employees of the Company in connection with the Company's November 19, 2007 acquisition of Organon BioSciences N.V., and have not yet been classified under the Schering-Plough Compensation Band system, shall be treated as having a Schering-Plough Compensation Band designation according to the following schedule:

Organon Classification	Deemed Schering-Plough Band
Non-Exempt Grades 54-60	Bands A — C
Exempt Grades 8-13	Bands A — C
Exempt Grades 14-SE	Bands D — O

2. For purposes of Exhibits A and B, Participants who were former employees of the Diosynth business group and became Employees of the Company in connection with the Company's November 19, 2007 acquisition of Organon BioSciences N.V., and have not yet been classified under the Schering-Plough Compensation Band system, shall be treated as having a Schering-Plough Compensation Band designation according to the following schedule:

Diosynth RTP Classification	Deemed Schering-Plough Band
Non-Exempt Grades 1-12	Bands A — C
Exempt Grades 4-13	Bands A — C
Exempt Grades 14-SE	Bands D — O

3. For purposes of Exhibits A and B, Participants who were former employees of the Intervet business group and became Employees of the Company in connection with the Company's November 19, 2007 acquisition of Organon BioSciences N.V., and have not yet been classified under the Schering-Plough Compensation Band system, shall be treated as having a Schering-Plough Compensation Band designation according to the following schedule:

Intervet Classification	Deemed Schering-Plough Band
Non-Exempt Grades N2 – N111-12	Bands A — C
Exempt Grades E5 –E15	Bands A — C
Exempt Grades E16 – E17	Bands D — O

Exhibit 12

SCHERING-PLOUGH CORPORATION AND SUBSIDIARIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	2007(1)	2006	2005	2004	2003
			(Dollars in millions)		
(Loss)/Income Before Income Taxes	$ (1,215)	$ 1,483	$ 497	$ (168)	$ (46)
Less: Equity Income	2,049	1,459	873	347	54
(Loss)/Income Before Income Taxes and Equity Income	(3,264)	24	(376)	(515)	(100)
Add Fixed Charges:					
Preference Dividends	118	86	86	34	—
Interest Expense	245	172	163	168	81
One-third of Rental Expense	52	39	37	30	30
Capitalized Interest	18	13	14	20	11
Total Fixed Charges	433	310	300	252	122
Less: Capitalized Interest	18	13	14	20	11
Less: Preference Dividends	118	86	86	34	—
Add: Amortization of Capitalized Interest	15	10	10	9	9
Add: Distributed Income of Equity Investees	1,787	1,332	647	228	32
(Loss)/Earnings Before Income Taxes and Fixed Charges (other than Capitalized Interest)	$ (1,165)	$ 1,577	$ 481	$ (80)	$ 52
Ratio of Earnings to Fixed Charges	(2.7)*	5.1	1.6	(0.3)**	0.4***

(1) (Loss)/income before income taxes includes the purchase accounting impacts of the OBS acquisition,

* For the year ended December 31, 2007, earnings were insufficient to cover fixed charges by $1.6 billion.

** For the year ended December 31, 2004, earnings were insufficient to cover fixed charges by $332 million.

*** For the year ended December 31, 2003, earnings were insufficient to cover fixed charges by $70 million.

"Earnings" consist of income/(loss) before income taxes and equity income, plus fixed charges (other than capitalized interest and preference dividends), amortization of capitalized interest and distributed income of equity investee. Schering-Plough includes interest expense or interest income on unrecognized tax benefits as a component of income tax expense. "Fixed charges" consist of interest expense, capitalized interest, preference dividends and one-third of rentals which Schering-Plough believes to be a reasonable estimate of an interest factor on leases. Total rent expense was $156 million, $118 million, $110 million, $100 million and $91 million for the years ended December 31, 2007, 2006, 2005, 2004 and 2003, respectively.

Exhibit 21

Schering-Plough Corporation and Subsidiaries

Subsidiaries of the Registrant As of December 31, 2007

Subsidiaries of Registrant	State or Country of Incorporation or Organization
AESCA Pharma GmbH	Austria
Avondale Chemical Co. Ltd.	Ireland
Beneficiadora e Industrializadora S.A. de C.V.	Mexico
Dashtag	United Kingdom
Diosynth RTP Inc.	U.S.A.
DNAX Research, Inc.	California
Douglas Industries, Inc.	Delaware
Essex Asia Limited	Hong Kong
Essex Chemie A.G.	Switzerland
Essex Holdings GmbH	Germany
Essex Italia S.p.A.	Italy
Essex Pharma GmbH	Germany
Fulford (India) Limited	India
Global Animal Management Inc.	Delaware
Hydrochemie GmbH	Germany
Intervet Deutschland GmbH	Germany
Intervet do Brasil Veterinaria Ltda	Brazil
Intervet Holding B.V.	Netherlands
Intervet Inc.	U.S.A
Intervet Innovation GmbH	Germany
Intervet International B.V.	Netherlands
Intervet International GmbH	Germany
Intervet International Inc.	U.S.A.
Intervet Mexico S.A. de C.V.	Mexico
Intervet Nederland B.V.	Netherlands
Intervet Pharma R&D S.A.	France
Intervet Productions SA	France
Intervet Productions Srl	Italy
Intervet UK Ltd	United Kingdom
Intervet UK Production Ltd	United Kingdom
Interveterinaria SA de CV	Mexico
Laboratorios Intervet S.A.	Spain
MSP Technology (US) Company LLC	Delaware
Multilan AG	Switzerland
N.V. Organon	Netherlands
Nanjing Organon Pharmaceutical Co., Ltd.	China
Nippon Organon K.K.	Japan
Nobilon International B.V.	Netherlands
Organon (Ireland) Ltd.	Ireland
Organon AG	Switzerland

Subsidiaries of Registrant	State or Country of Incorporation or Organization
Organon Agencies B.V.	Netherlands
Organon Belgie NV	Belgium
Organon BioSciences International B.V.	Netherlands
Organon BioSciences Nederland B.V.	Netherlands
Organon BioSciences N.V.	Netherlands
Organon BioSciences Reinsurance Limited	Ireland
Organon China B.V.	Netherlands
Organon Development GmbH	Germany
Organon Europe B.V.	Netherlands
Organon Holding B.V.	Netherlands
Organon International B.V.	Netherlands
Organon International Inc.	U.S.A.
Organon Laboratories Ltd.	United Kingdom
Organon Mexicana S.A. de C.V.	Mexico
Organon Middle East Ltd. Cyprus	Cyprus
Organon Nederland B.V.	Netherlands
Organon Participations B.V.	Netherlands
Organon Polska Sp. z.o.o.	Poland
Organon S.A.	France
Organon USA Inc.	U.S.A.
P.T. Schering-Plough Indonesia	Indonesia
Sherico, Ltd.	Switzerland
Schering Bermuda Ltd	Bermuda
Schering Corporation	New Jersey
Schering-Plough (China), Ltd.	Bermuda
Schering-Plough (Ireland) Company	Ireland
Schering-Plough (Proprietary) Limited	South Africa
Schering-Plough (Singapore) Pte. Ltd.	Singapore
Schering-Plough (Singapore) Research Pte. Ltd.	Singapore
Schering-Plough A/S	Denmark
Schering-Plough AB	Sweden
Schering-Plough Animal Health Corporation	Delaware
Schering-Plough Animal Health Kabushiki Kaisha	Japan
Schering-Plough Animal Health Limited	Thailand
Schering-Plough B.V.	Netherlands
Schering-Plough C.A.	Venezuela
Schering-Plough Canada, Inc.	Canada
Schering-Plough Central East A.G.	Switzerland
Schering-Plough Compania Limitada	Chile
Schering-Plough Corporation	Philippines
Schering-Plough del Caribe, Inc.	New Jersey
Schering-Plough del Ecuador, S.A.	Ecuador
Schering-Plough del Peru S.A.	Peru
Schering-Plough Farma Lda.	Portugal
Schering-Plough HealthCare Products, Inc.	Delaware
Schering-Plough Holdings (Ireland) Company	Ireland

Subsidiaries of Registrant	State or Country of Incorporation or Organization
Schering-Plough Holdings France, SAS	France
Schering-Plough Holdings Limited	United Kingdom
Schering-Plough Home Again LLC	Delaware
Schering-Plough II — Veterinaria, Lda.	Portugal
Schering-Plough International C.V.	Netherlands
Schering-Plough International Finance Company B.V.	Netherlands
Schering-Plough International Holdings B.V.	Netherlands
Schering-Plough International, Inc.	Delaware
Schering-Plough Investments Company GmbH	Switzerland
Schering-Plough Israel A.G.	Switzerland
Schering-Plough Kabushiki Kaisha	Japan
Schering-Plough Korea	Korea
Schering-Plough Labo N.V.	Belgium
Schering-Plough Legislative Resources, L.L.C.	Delaware
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 Pharmaceutical Industrial and Commercial S.A.	Greece
Schering-Plough Products Caribe, Inc.	Cayman Islands
Schering-Plough Products LLC	Delaware
Schering-Plough Products, Inc.	Delaware
Schering-Plough Produtos Farmacuticos Ltda.	Brazil
Schering-Plough Pty. Limited	Australia
Schering-Plough S.A.	Panama
Schering-Plough S.A.	France
Schering-Plough S.A.	Argentina
Schering-Plough S.A.	Colombia
Schering-Plough S.A.	Spain
Schering-Plough S.A. de C.V.	Mexico
Schering-Plough S.p.A.	Italy
Schering-Plough Saude Animal Industria E Comercio Ltda.	Brazil
Schering-Plough Sdn. Bhd.	Malaysia
Schering-Plough Technologies Pte. Ltd	Singapore
Schering-Plough Tibbi Urunler Ticaret, A.S.	Turkey
Schering-Plough Veterinaire	France
Sentipharm A.G.	Switzerland
Shanghai Schering-Plough Pharmaceutical Company, Ltd.	China
SOL Limited	Bermuda
SP Flight Operations, Inc.	Delaware
SP Healthcare Products Corp.	Delaware
S-P Holding GmbH	Austria
Summit Property Company LLC, The	Delaware
Theriak B.V.	Netherlands
Vetrex B.V.	Netherlands

Subsidiaries of Registrant	State or Country of Incorporation or Organization
Warrick Pharmaceuticals Corporation	Delaware
Werthenstein Chemie A.G.	Switzerland
White Laboratories, Inc.	New Jersey
Zao Organon A/O	Russian Federation

In accordance with Item 601(b)(21) of Regulation S-K, the Registrant has omitted the names of particular subsidiaries because the unnamed subsidiaries, considered in the aggregate as a single subsidiary, would not have constituted a significant subsidiary as of December 31, 2007.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 2-83963, No. 33-50606, No. 333-30331, No. 333-87077, No. 333-91440, No. 333-104714, No. 333-105567, No. 333-105568, No. 333-112421, No. 333-121089 and No. 333-134281 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, and Registration Statements No. 333-12909, No. 333-30355, No. 333-113222 and No. 333-145055 on Form S-3 of our reports dated February 29, 2008, relating to (i) the consolidated financial statements and financial statement schedule of Schering-Plough Corporation and subsidiaries (which report expressed an unqualified opinion and included an explanatory paragraph regarding the Company's adoption of Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), *Share-Based Payment*, SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, and Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) and (ii) the effectiveness of Schering-Plough Corporation and subsidiaries' internal control over financial reporting appearing in this Annual Report on Form 10-K/A of Schering-Plough Corporation and subsidiaries for the year ended December 31, 2007.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey
March 3, 2008

Exhibit 23.2

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 2-83963, No. 33-50606, No. 333-30331, No. 333-87077, No. 333-91440, No. 333-104714, No. 333-105567, No. 333-105568, No. 333-112421, No. 333-121089 and No. 333-134281 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 and Registration Statements No. 333-12909, No. 333-30355, No. 333-113222 and No. 333-145055 on Form S-3, of our report dated February 27, 2008, relating to the combined financial statements of the Merck/Schering-Plough Cholesterol Partnership, appearing in this Annual Report on Form 10-K/A of Schering-Plough Corporation for the year ended December 31, 2007.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey
March 3, 2008

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, Steven H. Koehler and Susan Ellen Wolf, 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, 2007 (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 29th day of February, 2008.

/s/ FRED HASSAN	/s/ ROBERT J. BERTOLINI
Fred Hassan, Chairman of the Board and Chief Executive Officer	Robert J. Bertolini, Executive Vice President and Chief Financial Officer
/s/ STEVEN H. KOEHLER	/s/ ANTONIO M. PEREZ
Steven H. Koehler, Vice President and Controller; Principal Accounting Officer	Antonio M. Perez, Director
/s/ HANS W. BECHERER	/s/ PATRICIA F. RUSSO
Hans W. Becherer, Director	Patricia F. Russo, Director
/s/ THOMAS J. COLLIGAN	/s/ JACK L. STAHL
Thomas J. Colligan, Director	Jack L. Stahl, Director
/s/ C. ROBERT KIDDER	/s/ CRAIG B. THOMPSON, M.D.
C. Robert Kidder, Director	Craig B. Thompson, M.D., Director
/s/ PHILIP LEDER, M.D.	/s/ KATHRYN C. TURNER
Philip Leder, M.D., Director	Kathryn C. Turner, Director
/s/ EUGENE R. MCGRATH	/s/ ROBERT F. W. VAN OORDT
Eugene R. McGrath, Director	Robert F. W. van Oordt, Director
/s/ CARL E. MUNDY, JR.	/s/ ARTHUR F. WEINBACH
Carl E. Mundy, Jr., Director	Arthur F. Weinbach, Director

Exhibit 31.1

CERTIFICATION

I, Fred Hassan, certify that:

1. I have reviewed this annual report on Form 10-K/A 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles;

(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 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.

/s/ FRED HASSAN

Fred Hassan
Chairman of the Board and Chief Executive Officer

Date: March 3, 2008

Exhibit 31.2

CERTIFICATION

I, Robert J. Bertolini, certify that:

1. I have reviewed this annual report on Form 10-K/A 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 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(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 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.

/s/ ROBERT J. BERTOLINI

Robert J. Bertolini
Executive Vice President and Chief Financial Officer

Date: March 3, 2008

Exhibit 32.1

CERTIFICATION

I, Fred Hassan, Chairman of the Board and Chief Executive 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/A for the year ended December 31, 2007 (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.

/s/ FRED HASSAN

Fred Hassan
Chairman of the Board and Chief Executive Officer

Dated: March 3, 2008

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/A for the year ended December 31, 2007 (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.

/s/ ROBERT J. BERTOLINI

Robert J. Bertolini
Executive Vice President and Chief Financial Officer

Dated: March 3, 2008