

**Schering-Plough Corporation**  
**Audit Committee**

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**Charter**

(Approved by the Board of Directors on February 24, 2004)

**Purpose**

The Committee is appointed by the Board of Directors to assist the Board in its oversight function by monitoring the following:

1. integrity of the Company's financial statements,
2. independent auditors' qualifications and independence,
3. performance of the Company's corporate audit function and independent auditors,  
and
4. compliance by the Company with legal and regulatory requirements.

It is the responsibility of executive management of the Company to prepare financial statements in accordance with generally accepted accounting principles and of the independent auditors to audit those financial statements. It is not the responsibility of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate or are in compliance with generally accepted accounting principles.

The Audit Committee and the other Committees of the Board will coordinate their compliance and risk oversight efforts to the extent necessary or appropriate to ensure the complete and proper exchange of information.

**Membership**

The Committee shall be comprised of at least three Directors. Members shall be appointed, and may be removed by the Board upon the recommendation of the Nominating and Corporate Governance Committee.

The Committee shall meet the independence, financial literacy and expertise requirements of the New York Stock Exchange, the requirements of Section 10A(m)(3) of the Securities Exchange Act of 1934 and the rules and regulations of the Securities and Exchange Commission ("SEC").

Committee members shall not simultaneously serve on the audit committees of more than two other public companies.

## **Meetings and Operation**

The Committee shall meet at least quarterly, and more frequently as it may determine advisable in light of its responsibilities as set forth in this Charter. The Committee Chair sets the agenda for each meeting and determines the length and frequency of meetings.

The Committee shall meet periodically, and at a minimum four times per year, in separate executive sessions with management, the internal auditors and the independent auditor. The Committee may request any officer or employee of the Company, outside counsel or the independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The Committee shall determine how to best operate, including whether to delegate any responsibilities to subcommittees.

The Committee shall operate in full compliance with the New York Stock Exchange requirements for audit committees and other applicable laws and regulations.

## **Independent Auditor**

The independent auditor shall report directly to the Committee. The Committee has the sole authority and responsibility to select, appoint, evaluate and, where appropriate, replace the independent auditor. The Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.

## **Responsibilities**

In carrying out its purposes, the Committee's policies and procedures should remain flexible, so that it may be in a position to best react or respond to changing circumstances or conditions. While there is no "blueprint" to be followed by the Committee in carrying out its purposes, the following should be considered within the responsibilities and authority of the Committee:

1. Select Independent Auditors. Select the independent auditors annually.
2. Matters Concerning the Independence of Independent Auditors. Review and discuss with the independent auditors the written disclosures required by Independence Standards Board Standard No. 1 regarding their independence and, where appropriate, recommend that the Board take appropriate action in response to the disclosures to satisfy itself of the independence of the independent auditors.

Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.

Set policies for the Company's hiring of employees or former employees of the independent auditor.

Preapprove all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor. The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant preapprovals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant preapprovals shall be presented to the full Committee at its next scheduled meeting.

3. Review Quality Control Process of Independent Auditor. Obtain and review a report from the independent auditor at least annually regarding (a) the independent auditors' internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent auditor and the Company. Present the conclusions of its review with respect to the independent auditors to the Board.
4. Review Audit Plan. Review with the independent auditors their plans for, and the scope of, their annual audit.
5. Conduct of Audit. Discuss with the independent auditors the matters required to be discussed by Statement on Auditing Standards Nos. 61, 89 and 90 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work and management's response, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
6. Review Audit Results. Review with the independent auditors the report of their annual audit, or proposed report of their annual audit, the accompanying management letter, if any, and the reports of their reviews of the Company's interim financial statements conducted in accordance with Statement on Auditing Standards No. 100.
7. Review Annual Financial Statements. Review and discuss with management and the independent auditors the audited financial statements and the disclosures to be made in management's discussion and analysis. Recommend to the Board whether the audited financial statements should be included in the 10-K.
8. Review Quarterly Financial Results. Review and discuss with management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information. Review with management generally the types of financial

information and presentation to be provided to analysts and rating agencies, including whether earnings guidance will be provided.

9. Review Quarterly Financial Statements. Review and discuss with management and the independent auditor the quarterly financial statements and the disclosures to be made in the MD&A prior to filing the 10-Q. Discuss with the independent auditors their review of the quarterly financial statements.
10. Financial Reporting Issues and Judgments; Related Matters. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.

Review and discuss quarterly reports from the independent auditors on:

- (a) All critical accounting policies and practices to be used.
- (b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
- (c) Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
- (d) Reports and disclosures of any insider or affiliated party transactions.

Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.

Discuss with management and the independent auditor any correspondence or published report which raises material issues regarding the Company's financial statements or accounting policies that is issued by the U.S. Securities and Exchange Commission or the New York Stock Exchange or other governmental agencies.

11. Review Corporate Audit Program. Review annually with the senior corporate auditing executive the budget, staffing and proposed scope of the corporate auditing department activities. Review annually the results of the corporate audit activities.

Review the appointment and replacement of the senior corporate auditing executive.

Approve a matrix for the timing and scope of reporting by Corporate Audit to the Committee and the Business Practices Oversight Committee (in consultation with the Chair of that Committee); receive and review reports to the Committee pursuant to such matrix from the senior corporate auditing executive.

12. Complaints regarding Accounting and Auditing Matters. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
13. Review Systems of Internal Accounting Controls. Review with management, the senior corporate auditing executive and the independent auditors the adequacy of the Company's internal accounting controls that could significantly affect the Company's financial statements.

Review disclosures made to the Committee by the Company's CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.

14. Securities Exchange Act of 1934. Obtain assurance from the independent auditor that Section 10A(b) of the Securities Exchange Act of 1934 has not been implicated.
15. Legal, Compliance and Risk Management Matters.
  - At least annually, the Committee or its Chair will meet with the Business Practices Oversight Committee or its Chair to review compliance and risk matters, including material reports or inquiries received from governmental agencies and material litigation. When such meetings are held by the Committee Chair, he or she will report on such meetings to the full Committee.
  - Review with the Company's General Counsel legal matters that may have a material impact on the financial statements and legal and compliance matters that involve financial reporting or SEC compliance.
  - Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.
16. Prepare Proxy Statement Report. Prepare the report of the Committee required by the rules of the SEC to be included in the Company's annual proxy statement.
17. Review Other Matters. Review such other matters in relation to the accounting, auditing, financial reporting and related compliance practices and procedures of the Company as the Committee may, in its own discretion, deem desirable in connection with the review functions described above.

18. Board Reports. Regularly report its activities to the Board in such manner and at such times as it deems appropriate. The Committee shall review with the Board any issues that arise with respect to the quality or integrity of Schering-Plough's financial statements, compliance with legal or regulatory requirements, the performance and independence of the independent auditors or the performance of the corporate auditors.
19. Review Committee Performance. Annually review its own performance.
20. Review Charter. Review and reassess the adequacy of this Charter annually and submit it to the Nominating and Corporate Governance Committee and the Board for approval.

### **Advisors**

The Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors.

### **Funding for Independent Auditors and Advisors**

The Company shall provide for appropriate funding, as determined by the Committee, for payment of:

- compensation to the independent auditor for the purpose of rendering or issuing an audit report and for any other services approved by the Committee,
- compensation for any other advisors retained by the Committee, and
- ordinary administrative expenses that are necessary or appropriate in carrying out the Committee's duties.

Audit Committee Charter reference sheet:

1. Independence Standards Board Standard No. 1

Under ISB Standard No. 1, at least annually, an auditor must (1) disclose to the audit committee, in writing, all relationships between the auditor and its related entities that in the auditors' professional judgment may reasonably be thought to bear on independence, (2) confirm in the letter that, in its professional judgment, it is independent of the company, and (3) discuss the auditors' independence with the audit committee.

2. Statement on Accounting Standards Nos. 61, 89 and 90

SAS Nos. 61, 89 and 90 requires an independent auditor to communicate to the audit committee matters related to the conduct of the audit such as the selection of and changes in significant accounting policies, the methods used to account for significant unusual transactions, the effect of significant accounting policies in controversial or emerging areas, the process used by management in formulating particularly sensitive accounting estimates and the basis for the auditors' conclusions regarding the reasonableness of those estimates, significant adjustments arising from the audit, and disagreements with management over the application of accounting principles, the basis for management's accounting estimates and the disclosures in the financial statements.

3. Statement on Accounting Standards No. 100

SAS No. 100 requires an independent auditor to be satisfied that any significant matters identified as a result of interim review procedures have been brought to the attention of the audit committee, either by management or the auditor. If it is not possible for the auditor to make such communications prior to the filing, they should be made as soon as practicable thereafter.

4. Section 10A(b) of Securities Exchange Act of 1934

Section 10A(b) of the Securities Exchange Act of 1934, which is part of the Private Securities Litigation Reform Act of 1995, requires an independent auditor to inform management of, and assure that the audit committee is adequately informed with respect to, illegal acts that have come to the attention of the auditors in the course of their audits.