

As filed with the Securities and Exchange Commission on March 10, 2004

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D. C. 20549

FORM 10-K

(MARK ONE)

☒ **Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**
For the Fiscal Year Ended December 31, 2003

or

☐ **Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**
For the transition period from ____ to ____

Commission File No. 1-3305

Merck & Co., Inc.

One Merck Drive
Whitehouse Station, N. J. 08889-0100
(908) 423-1000

Incorporated in New Jersey

*I.R.S. Employer
Identification No. 22-1109110*

Securities Registered pursuant to Section 12(b) of the Act:

<i>Title of Each Class</i>	<i>Name of Each Exchange on which Registered</i>
Common Stock (\$0.01 par value)	New York and Philadelphia Stock Exchanges

Number of shares of Common Stock (\$0.01 par value) outstanding as of February 27, 2004: 2,224,326,514.

Aggregate market value of Common Stock (\$0.01 par value) held by non-affiliates on June 30, 2003 based on closing price on June 30, 2003:
\$135,610,000,000.

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 that 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 is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). **Yes** ☒ **No** ☐

Documents Incorporated by Reference:

Document

Part of Form 10-K

Annual Report to stockholders for the fiscal year
ended December 31, 2003
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PART I

Item 1. Business.

Merck & Co., Inc. (the “Company”) is a global research-driven pharmaceutical products company that discovers, develops, manufactures and markets a broad range of innovative products to improve human and animal health, directly and through its joint ventures. The Company sells its products primarily to drug wholesalers and retailers, hospitals, clinics, government agencies and managed health care providers such as health maintenance organizations and other institutions. The Company’s professional representatives communicate the effectiveness, safety and value of its products to health care professionals in private practice, group practices and managed care organizations.

In January 2002, the Company announced plans to establish Medco Health Solutions, Inc. (“Medco Health”) as a separate, publicly-traded company. On August 19, 2003, the spin-off of Medco Health was effected by way of a pro rata dividend to Company stockholders of all the outstanding shares of common stock of Medco Health. Based on a letter ruling the Company received from the U.S. Internal Revenue Service, receipt of Medco Health shares in the distribution was tax-free for U.S. federal income tax purposes, but any cash received in lieu of fractional shares was taxable.

Product Sales

Sales ^{1,2} by category of the Company’s products were as follows:

(\$ in millions)	2003	2002	2001
Atherosclerosis	\$ 5,077.9	\$ 5,552.1	\$ 5,433.3
Hypertension/heart failure	3,421.6	3,477.8	3,584.3
Anti-inflammatory/analgesics	2,677.3	2,587.2	2,391.1
Osteoporosis	2,676.6	2,243.1	1,629.7
Respiratory	2,009.4	1,489.8	1,260.3
Vaccines/biologicals	1,056.1	1,028.3	1,022.5
Anti-bacterial/anti-fungal	1,028.5	821.0	750.4
Ophthalmologicals	675.1	621.5	644.5
Urology	605.5	547.3	545.4
Human immunodeficiency virus (“HIV”)	290.6	294.3	380.8
Other	2,967.3	2,783.4	3,556.7
Total	\$22,485.9	\$21,445.8	\$21,199.0

¹ Following the spin-off, the Company’s prior period Consolidated Statements of Income and Cash Flows and related discussions have been restated to present the results of Medco Health separately as discontinued operations. As a result of the spin-off, product sales now reflect sales to Medco Health as third-party sales based upon the net selling price from the Company to Medco Health. Prior year amounts have been restated to conform to the current year presentation.

² Presented net of rebates and discounts.

The Company’s products include therapeutic and preventive agents, generally sold by prescription, for the treatment of human disorders. Among these are atherosclerosis products, of which *Zocor* (simvastatin) is the largest-selling; hypertension/heart failure products, the most significant of which are *Cozaar* (losartan potassium), *Hyzaar* (losartan potassium and hydrochlorothiazide), and *Vasotec* (enalapril maleate); anti-inflammatory/analgesics, which include *Vioxx* (rofecoxib) and *Arcoxia* (etoricoxib), agents that specifically inhibit the COX-2 enzyme, which is responsible for pain and inflammation (“coxibs”); an osteoporosis product, *Fosamax* (alendronate sodium), for treatment and prevention of osteoporosis; a respiratory product, *Singulair* (montelukast sodium), a leukotriene receptor antagonist for treatment of asthma and for relief of symptoms of seasonal allergic rhinitis; vaccines/biologicals, of which *M-M-R II* (measles, mumps and rubella virus vaccine live), *Varivax* (varicella virus vaccine live), a live virus vaccine for the prevention of chickenpox, and *Recombivax HB* (hepatitis B vaccine [recombinant]) are the largest-selling; anti-bacterial/anti-fungal products, which includes *Primaxin* (imipenem and cilastatin sodium), as well as newer products *Cancidas* (caspofungin acetate) and *Invanz* (ertapenem sodium); ophthalmologicals, of which *Cosopt* (dorzolamide hydrochloride and timolol maleate ophthalmic solution) and

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Trusopt (dorzolamide hydrochloride ophthalmic solution) are the largest-selling; a urology product, *Proscar* (finasteride), for treatment of symptomatic benign prostate enlargement; and HIV products, which include *Crixivan* (indinavir sulfate) and *Stocrin* (efavirenz), for the treatment of human immunodeficiency viral infection in adults.

Other primarily includes *Maxalt* (rizatriptan benzoate), for the treatment of acute migraine headaches in adults, *Propecia* (finasteride), for the treatment of male pattern hair loss, and other non-promoted products and pharmaceutical and animal health supply sales to the Company's joint ventures and revenue from the Company's relationship with AstraZeneca LP, primarily relating to sales of *Nexium* (esomeprazole magnesium) and *Prilosec* (omeprazole).

In January 2003, the U.S. Food and Drug Administration ("FDA") approved *Cancidas*, the Company's once-daily intravenous anti-fungal medicine for the treatment of candidemia (bloodstream infection) and the following candida infections: intra-abdominal abscesses, peritonitis (infections within the lining of the abdominal cavity) and pleural space infections (infections within the lining of the lung). Also in January 2003, the Company announced that the FDA approved *Singulair* for the relief of symptoms of seasonal allergic rhinitis in adults and children as young as 2 years of age.

In March 2003, the FDA approved *Emend* (aprepitant), the first member in a new class of medicines, to be used in combination with other anti-vomiting medicines to help prevent the acute and delayed nausea and vomiting associated with initial and repeat courses of highly emetogenic cancer chemotherapy, including high-dose cisplatin. Also in March 2003, the FDA approved *Cozaar* as the first and only hypertension medicine indicated to reduce the risk of stroke in patients with hypertension and left ventricular hypertrophy ("LVH"). The new indication is based on the landmark Losartan Intervention for Endpoint Reduction in Hypertension study ("LIFE"). The LIFE study, with *Cozaar*, marks the first time an antihypertensive treatment regimen has demonstrated a reduction in the risk of stroke versus another antihypertensive treatment regimen in hypertensive patients with LVH. In the LIFE study, black patients with hypertension and LVH had a lower risk of stroke on atenolol than on *Cozaar*.

In April 2003, the FDA approved changes to the prescribing information for *Zocor* to include results from the landmark Heart Protection Study with *Zocor* 40 mg, which is now recommended, along with diet, as the starting dose for *Zocor* for people with coronary heart disease or diabetes. *Zocor* 40 mg is the first and only cholesterol-lowering medication proven to reduce the risk of heart attack and stroke in people with heart disease or diabetes regardless of cholesterol level.

Acquisitions — On February 23, 2004, the Company announced that it had agreed to acquire Aton Pharma, Inc., a privately held biotechnology company focusing on the development of novel treatments for cancer and other serious diseases. (See also page 10.)

In January 2003, the Company, through its wholly owned subsidiary, MSD (Japan) Co., Ltd., launched a tender offer to acquire, for an estimated aggregate purchase price of \$1.5 billion, the remaining 49% of the common shares of Banyu Pharmaceutical Co., Ltd. ("Banyu") that it did not already own. In October 2003, the Company announced that at the close of the final count of shares in its second tender offer for all remaining shares in Banyu, the Company owned 99.4% of the outstanding shares of Banyu common stock. Japan is the world's second largest pharmaceutical market.

In July 2001, the Company acquired Rosetta Inpharmatics, Inc., a publicly-held Washington based informational genomics company that designs and develops unique technologies to efficiently analyze gene data to predict how medical compounds will interact with different kinds of cells in the body.

Joint Ventures — In 1982, the Company entered into an agreement with Astra AB ("Astra") to develop and market Astra products in the United States. In 1994, the Company and Astra formed an equally owned joint venture that developed and marketed most of Astra's new prescription medicines in the United States including *Prilosec*, the first of a class of medications known as proton pump inhibitors, which slows the production of acid from the cells of the stomach lining.

In 1998, the Company and Astra restructured the joint venture whereby the Company acquired Astra's interest in the joint venture, renamed KBI Inc. ("KBI"), and contributed KBI's operating assets to a new U.S. limited partnership named Astra Pharmaceuticals, L.P. (the "Partnership"), in which the Company maintains a limited partner interest. The Partnership, renamed AstraZeneca LP, became the exclusive distributor of the products for

which KBI retained rights. The Company earns certain Partnership returns as well as ongoing revenue based on sales of current and future KBI products. The Partnership returns include a priority return provided for in the Partnership Agreement, variable returns based, in part, upon sales of certain former Astra USA, Inc. products, and a preferential return representing the Company's share of undistributed Partnership GAAP earnings. In conjunction with the 1998 restructuring, for a payment of \$443.0 million, Astra purchased an option to buy the Company's interest in the KBI products, excluding the Company's interest in the gastrointestinal medicines *Nexium* and *Prilosec*. The Company also granted Astra an option (the "Shares Option") to buy the Company's common stock interest in KBI, at an exercise price based on the net present value of estimated future net sales of *Nexium* and *Prilosec*.

In April 1999, Astra merged with Zeneca Group Plc, forming AstraZeneca AB ("AstraZeneca"). As a result of the merger, in exchange for the Company's relinquishment of rights to future Astra products with no existing or pending U.S. patents at the time of the merger, Astra paid \$967.4 million, which is subject to a true-up calculation in 2008 that may require repayment of all or a portion of this amount. The merger also triggers a partial redemption of the Company's limited partner interest in 2008. Furthermore, as a result of the merger, AstraZeneca's option to buy the Company's interest in the KBI products is exercisable in 2010 and the Company has the right to require AstraZeneca to purchase such interest in 2008. In addition, the Shares Option is exercisable two years after Astra's purchase of the Company's interest in the KBI products.

In 1989, the Company formed a joint venture with Johnson & Johnson to develop, market and manufacture consumer health care products in the United States. This 50% owned joint venture was expanded into Europe in 1993, and into Canada in 1996. The European extension currently markets and sells over-the-counter pharmaceutical products in France, Germany, Italy, Spain and the United Kingdom. Significant joint venture products are *Pepcid AC* (famotidine), an over-the-counter form of the Company's ulcer medication *Pepcid* (famotidine), as well as *Pepcid Complete*, an over-the-counter product which combines the Company's ulcer medication with antacids (calcium carbonate and magnesium hydroxide). On February 27, 2004, the Company announced its intention to sell to Johnson & Johnson its interest in the European joint venture which is discussed on page 8 under *Divestitures*.

Effective April 1992, the Company, through the Merck Vaccine Division, and Connaught Laboratories, Inc. (now Aventis Pasteur), agreed to collaborate on the development and marketing of combination pediatric vaccines and to promote selected vaccines in the United States. The research and marketing collaboration enables the companies to pool their resources to expedite the development of vaccines combining several different antigens to protect children against a variety of diseases, including *Haemophilus influenzae* type b, hepatitis B, diphtheria, tetanus, pertussis and poliomyelitis. While combination vaccine development efforts continue under this Agreement, no vaccines are currently being promoted.

In 1994, the Company, through the Merck Vaccine Division, and Pasteur Mérieux Connaught (now Aventis Pasteur) formed a joint venture to market human vaccines in Europe and to collaborate in the development of combination vaccines for distribution in the then existing European Union ("EU") and the European Free Trade Association. The Company and Aventis Pasteur contributed, among other things, their European vaccine businesses for equal shares in the joint venture, known as Pasteur Mérieux MSD, S.N.C. (now Aventis Pasteur MSD, S.N.C.). The joint venture is subject to monitoring by the EU, to which the partners made certain undertakings in return for an exemption from European Competition Law, effective until December 2006. The joint venture maintains a presence, directly or through affiliates or branches in Belgium, Italy, Germany, Spain, France, Austria, Ireland, Sweden and the United Kingdom, and through distributors in the rest of Europe.

In 1997, the Company and Rhône-Poulenc S.A. combined their respective animal health and poultry genetics businesses to form Merial Limited ("Merial"), a fully-integrated animal health company, which is a stand-alone joint venture, equally owned by each party. Merial provides a comprehensive range of pharmaceuticals and vaccines to enhance the health, well-being and performance of a wide range of animal species. In December 1999, Rhône-Poulenc S.A.'s interest in Merial was acquired by Aventis S.A., a corporation formed by the merger of Rhône-Poulenc S.A. and Hoechst A.G.

In 2000, the Company and Schering-Plough Corporation (“Schering-Plough”) entered into agreements to create separate equally owned partnerships to develop and market in the United States new prescription medicines in the cholesterol-management and respiratory therapeutic areas. In December 2001, the Company and Schering-Plough announced the worldwide expansion (excluding Japan) of the cholesterol-management partnership. In October 2002, Merck/Schering-Plough Pharmaceuticals (“MSP”) announced the FDA approval of *Zetia* (ezetimibe). The once-daily tablet of *Zetia* 10 mg was approved for use either by itself or together with a statin to reduce LDL cholesterol and total cholesterol in patients with high cholesterol. Marketing approval was received in October 2002 in Germany under the brand name *Ezetrol* for use alone and with all marketed statins for the treatment of elevated cholesterol levels. In 2003, following the successful completion of the European Union Mutual Recognition Procedure (“MRP”), *Ezetrol* had been launched in five European countries – Germany, the United Kingdom, Switzerland, Sweden and the Netherlands. With the completion of the MRP process, the 15 EU member states, as well as Iceland and Norway, can grant national marketing authorization with unified labeling for *Ezetrol*. In the EU, *Ezetrol* will be indicated in co-administration with a statin as adjunctive therapy to diet for use in patients with primary hypercholesterolemia who are not appropriately controlled with a statin alone. *Ezetrol* as monotherapy will be indicated as adjunctive therapy to diet for use in patients with primary hypercholesterolemia in whom a statin is considered inappropriate or is not tolerated. In addition, *Ezetrol* as monotherapy will be indicated as adjunctive therapy to diet for use in patients with homozygous familial sitosterolemia and co-administered with a statin for use in patients with homozygous familial hypercholesterolemia. In September 2003, MSP submitted to the FDA for standard review a New Drug Application (“NDA”) for *Vytorin*, an investigational cholesterol lowering medicine, which contains the active ingredients of both *Zetia* and *Zocor*, as adjunctive to diet, for the reduction of hypercholesterolemia (elevated cholesterol levels). In November 2003, the filing was accepted by the FDA for standard review. Similar applications have been filed in other countries outside the United States.

Competition — The markets in which the Company’s pharmaceutical business is conducted are highly competitive and often highly regulated. Global efforts toward health care cost containment continue to exert pressure on product pricing and access.

Such competition involves an intensive search for technological innovations and the ability to market these innovations effectively. With its long-standing emphasis on research and development, the Company is well prepared to compete in the search for technological innovations. Additional resources to meet competition include quality control, flexibility to meet customer specifications, an efficient distribution system and a strong technical information service. The Company is active in acquiring and marketing products through joint ventures and licenses and has been refining its sales and marketing efforts to further address changing industry conditions. To enhance its product portfolio, the Company continues to pursue external alliances, from early-stage to late-stage product opportunities, including joint ventures and targeted acquisitions. However, the introduction of new products and processes by competitors may result in price reductions and product replacements, even for products protected by patents. For example, the number of compounds available to treat diseases typically increases over time and has resulted in slowing the growth in sales of certain of the Company’s products.

In addition, particularly in the area of human pharmaceutical products, legislation enacted in all states in the U.S. allows, encourages or, in a few instances, in the absence of specific instructions from the prescribing physician, mandates the use of “generic” products (those containing the same active chemical as an innovator’s product) rather than “brand-name” products. Governmental and other pressures toward the dispensing of generic products have significantly reduced the sales of certain of the Company’s products no longer protected by patents, such as *Vasotec* and *Vaseretic* (enalapril maleate in combination with hydrochlorothiazide), the U.S. rights to which have been sold, *Prinivil* (lisinopril) and *Prinzide* (lisinopril in combination with hydrochlorothiazide), *Pepcid* and *Mevacor* (lovastatin), and slowed the growth of certain other products.

Distribution — The Company sells its human health products primarily to drug wholesalers and retailers, hospitals, clinics, government agencies and managed health care providers such as health maintenance organizations and other institutions. Vaccines are also sold directly to physicians. The Company’s professional representatives

communicate the effectiveness, safety and value of the Company's products to health care professionals in private practice, group practices and managed care organizations.

In the fourth quarter of 2003, the Company implemented a new distribution program for U.S. wholesalers to moderate the fluctuations in sales caused by wholesaler investment buying and improve efficiencies in the distribution of Company pharmaceutical products. The new program has lowered previous limits on average monthly purchases of Company pharmaceutical products by U.S. customers. Overall, implementation of the new U.S. wholesaler distribution program had an estimated \$700.0 to \$750.0 million unfavorable impact on consolidated revenues with an estimated \$500.0 million unfavorable effect on *Zocor* sales.

Raw Materials — Raw materials and supplies are normally available in quantities adequate to meet the needs of the Company's business.

Government Regulation and Investigation — The pharmaceutical industry is subject to global regulation by regional, country, state and local agencies. Of particular importance is the FDA in the United States, which administers requirements covering the testing, approval, safety, effectiveness, manufacturing, labeling and marketing of prescription pharmaceuticals. In many cases, the FDA requirements have increased the amount of time and money necessary to develop new products and bring them to market in the United States. In 1997, the Food and Drug Administration Modernization Act was passed and was the culmination of a comprehensive legislative reform effort designed to streamline regulatory procedures within the FDA and to improve the regulation of drugs, medical devices and food. The legislation was principally designed to ensure the timely availability of safe and effective drugs and biologics by expediting the premarket review process for new products. A key provision of the legislation is the re-authorization of the Prescription Drug User Fee Act of 1992, which permits the continued collection of user fees from prescription drug manufacturers to augment FDA resources earmarked for the review of human drug applications. This helps provide the resources necessary to ensure the prompt approval of safe and effective new drugs.

In the United States, the government made significant progress in expanding health care access by enacting the Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was signed into law in December 2003. This statute adds prescription drug coverage to Medicare beginning in 2006 and a voluntary drug discount card for Medicare beneficiaries effective in June 2004. Implementation of the new benefit will support the Company's goal of improving access to medicines by expanding insurance coverage, while preserving market-based incentives for pharmaceutical innovation. At the same time, the benefit is designed to assure that prescription drug costs will be controlled by competitive pressures and by encouraging the appropriate use of medicines. The Company has taken a leadership role in contributing to the success of the new Medicare-endorsed discount cards by offering to provide its medicines free during 2004 and 2005 for low-income Medicare beneficiaries who exhaust their \$600 transitional assistance allowance in Medicare-endorsed drug discount cards. This action is consistent with the Company's longstanding Patient Assistance Program, which provides free medicines to patients in the United States who lack drug coverage and cannot afford their medicines.

In addressing cost containment outside of Medicare, the Company has made a continuing effort to demonstrate that its medicines can help save costs in overall patient health care. In addition, pricing flexibility across the Company's product portfolio has encouraged growing use of its medicines and mitigated the effects of increasing cost pressures.

For many years, the pharmaceutical industry has been under federal and state oversight with the approval process for new drugs, drug safety, advertising and promotion, drug purchasing and reimbursement programs and formularies variously under review. The Company believes that it will continue to be able to conduct its operations, including the introduction of new drugs to the market, in this regulatory environment. One type of federal initiative to contain federal health care spending is the prospective or "capitated" payment system, first implemented to reduce the rate of growth in Medicare reimbursement to hospitals. Such a system establishes in advance a flat rate for reimbursement for health care for those patients for whom the payer is fiscally responsible. This type of payment system and other cost containment systems are now widely used by public and private payers and have caused hospitals, health maintenance organizations and other customers of the Company to be more cost-conscious in their

treatment decisions, including decisions regarding the medicines to be made available to their patients. The Company continues to work with private and federal employers to slow increases in health care costs. Further, the Company's efforts to demonstrate that its medicines can help save costs in other areas, and pricing flexibility across its product portfolio, have encouraged the use of the Company's medicines and have helped offset the effects of increasing cost pressures.

Also, federal and state governments have pursued methods to directly reduce the cost of drugs and vaccines for which they pay. For example, federal laws require the Company to pay specified rebates for medicines reimbursed by Medicaid, to provide discounts for outpatient medicines purchased by certain Public Health Service entities and "disproportionate share" hospitals (hospitals meeting certain criteria), and to provide minimum discounts of 24% off of a defined "non-federal average manufacturer price" for purchases by certain components of the federal government such as the Department of Veterans Affairs and the Department of Defense.

Initiatives in some states seek rebates beyond the minimum required by Medicaid legislation, in some cases for patients beyond those who are eligible for Medicaid. Under the Federal Vaccines for Children entitlement program, the U.S. Centers for Disease Control and Prevention ("CDC") funds and purchases recommended pediatric vaccines at a public sector price for the immunization of Medicaid-eligible, uninsured, native American and certain underinsured children. The Company was awarded CDC contracts in 2003 for the supply of \$345.7 million of pediatric vaccines for this program (and a monovalent component of certain of such vaccines).

Outside the United States, the Company encounters similar regulatory and legislative issues in most of the countries where it does business. There, too, the primary thrust of governmental inquiry and action is toward determining drug safety and effectiveness, often with mechanisms for controlling the prices of prescription drugs and the profits of prescription drug companies. The EU has adopted directives concerning the classification, labeling, advertising, wholesale distribution and approval for marketing of medicinal products for human use. The Company's policies and procedures are already consistent with the substance of these directives; consequently, it is believed that they will not have any material effect on the Company's business.

The Company is subject to the jurisdiction of various regulatory agencies and is, therefore, subject to potential administrative actions. Such actions may include seizures of products and other civil and criminal sanctions. Under certain circumstances, the Company on its own may deem it advisable to initiate product recalls. The Company believes that it should be able to compete effectively within this environment.

In addition, certain countries within the EU, recognizing the economic importance of the research-based pharmaceutical industry and the value of innovative medicines to society, are working with industry representatives and the European Commission on proposals to complete the "Single Market" in pharmaceuticals and improve the competitive climate through a variety of means including market deregulation.

There has been an increasing amount of focus on privacy issues in countries around the world, including the United States and the EU. In the United States, federal and state governments have pursued legislative and regulatory initiatives regarding patient privacy, including federal and recently issued state privacy regulations concerning health information, which have affected the Company's operations.

Patents, Trademarks and Licenses — Patent protection is considered, in the aggregate, to be of material importance in the Company's marketing of human health products in the United States and in most major foreign markets. Patents may cover products *per se*, pharmaceutical formulations, processes for or intermediates useful in the manufacture of products or the uses of products. Protection for individual products extends for varying periods in accordance with the date of grant and the legal life of patents in the various countries. The protection afforded, which may also vary from country to country, depends upon the type of patent and its scope of coverage.

Patent portfolios developed for products introduced by the Company normally provide market exclusivity. Basic patents are in effect for the following major products in the United States: *Arcoxia*, *Candidas*, *Comvax* (haemophilus b conjugate and hepatitis B [recombinant] vaccine), *Cosopt*, *Cozaar*, *Crixivan*, *Emend*, *Fosamax*,

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Hyzaar, *Invanz*, *Maxalt*, *PedvaxHIB* (haemophilus b conjugate vaccine), *Primaxin*, *Propecia*, *Proscar*, *Recombivax HB*, *Singulair*, *Timoptic-XE* (timolol maleate ophthalmic gel forming solution), *Trusopt*, *Vioxx* and *Zocor*. A basic patent is also in effect in the United States for *Zetia*, which was developed by the Merck/Schering-Plough Pharmaceuticals partnership. A basic patent is also in effect for *Sustiva/Stocrin* (efavirenz). Bristol-Myers Squibb, under an exclusive license from the Company, sells *Sustiva* in the United States, Canada and certain European countries. The Company markets *Stocrin* in other countries throughout the world. The basic patent for *Aggrastat* (tirofiban hydrochloride) in the United States was divested with the product in 2003. The Company retains basic patents for *Aggrastat* outside the United States.

In 2003, *Zocor* lost its basic patent protection in Canada and certain countries in Europe, including the United Kingdom and Germany, and the Company experienced a decline in *Zocor* sales in those countries. In 2006, *Zocor* will lose its market exclusivity in the United States and the Company expects a decline in U.S. *Zocor* sales.

The FDA Modernization Act of 1997 (the “Modernization Act”), includes a Pediatric Exclusivity Provision that may provide an additional six months of market exclusivity in the United States for indications of new or currently marketed drugs, if certain agreed upon pediatric studies are completed by the applicant. These exclusivity provisions were re-authorized until October 1, 2007 by the “Best Pharmaceuticals for Children Act” passed in January 2002. In 2003, the FDA granted an additional six months of market exclusivity in the United States to *Fosamax* until February 2008, and *Fosamax* Once Weekly until January 2019. In addition, in 2004, the FDA granted an additional six months of market exclusivity in the United States to *Trusopt* until October 2008 and to *Vioxx* for six months beyond its patent termination.

While the expiration of a product patent normally results in a loss of market exclusivity for the covered pharmaceutical product, commercial benefits may continue to be derived from: (i) later-granted patents on processes and intermediates related to the most economical method of manufacture of the active ingredient of such product; (ii) patents relating to the use of such product; (iii) patents relating to novel compositions and formulations; and (iv) in the United States, market exclusivity that may be available under federal law. The effect of product patent expiration on pharmaceutical products also depends upon many other factors such as the nature of the market and the position of the product in it, the growth of the market, the complexities and economics of the process for manufacture of the active ingredient of the product and the requirements of new drug provisions of the Federal Food, Drug and Cosmetic Act or similar laws and regulations in other countries.

Additions to market exclusivity are sought in the United States and other countries through all relevant laws, including laws increasing patent life. Some of the benefits of increases in patent life have been partially offset by a general increase in the number of, incentives for and use of generic products. Additionally, improvements in intellectual property laws are sought in the United States and other countries through reform of patent and other relevant laws and implementation of international treaties.

Worldwide, all of the Company’s important products are sold under trademarks that are considered in the aggregate to be of material importance. Trademark protection continues in some countries as long as used; in other countries, as long as registered. Registration is for fixed terms and can be renewed indefinitely.

Royalties received during 2003 on patent and know-how licenses and other rights amounted to \$86.5 million. The Company also paid royalties amounting to \$757.7 million in 2003 under patent and know-how licenses it holds.

Divestitures — On February 27, 2004, the Company announced that it had signed a definitive agreement with Johnson & Johnson for Johnson & Johnson to buy the Company’s 50 percent equity stake in their European non-prescription pharmaceuticals joint venture.

In 2003, the Company sold its U.S. rights in *Aggrastat* (tirofiban hydrochloride injection) to Guilford Pharmaceuticals Inc. (“Guilford”), including the basic U.S. product patents (but not process patents) for the product.

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In 2002, the Company sold its U.S. rights in *Vasotec*, *Vaseretic*, and *Vasotec I.V. Injection* (enalaprilat) to Biovail Laboratories Incorporated (“Biovail”), a subsidiary of Biovail Corporation. At the same time, the Company’s Canadian subsidiary, Merck Frosst Canada & Co. (“Merck Frosst”) and Biovail entered into a supply agreement under which Merck Frosst agreed to supply Biovail for a minimum of five years with bulk tablets of formulated enalapril maleate and enalapril maleate in combination with hydrochlorothiazide for distribution by Biovail in the United States as *Vasotec* and *Vaseretic*. The basic product patents on *Vasotec* and *Vaseretic* had expired in the United States prior to these transactions.

Research and Development

The Company’s business is characterized by the introduction of new products or new uses for existing products through a strong research and development program. Approximately 12,800 people are employed in the Company’s research activities. Expenditures for the Company’s research and development programs were \$3.2 billion in 2003, \$2.7 billion in 2002 and \$2.5 billion in 2001 and are estimated to increase at a low-teen percentage growth rate over the full-year 2003 expense in 2004. The Company maintains its ongoing commitment to research over a broad range of therapeutic areas and clinical development in support of new products. Total expenditures for the period 1994 through 2003 exceeded \$20.2 billion with a compound annual growth rate of 10%.

The Company maintains a number of long-term exploratory and fundamental research programs in biology and chemistry as well as research programs directed toward product development. Projects related to human health are being carried on in various fields such as bacterial, fungal, and viral infections, cardiovascular disease and atherosclerosis, cancer, diabetes, obesity, neurodegenerative disease, psychiatric disease, pain and inflammation, immunology, respiratory diseases, ophthalmology, respiratory diseases, osteoporosis and men/women health programs, endoparasitic and ectoparasitic diseases, companion animal diseases, and production improvement.

In the development of human health products, industry practice and government regulations in the United States and most foreign countries provide for the determination of effectiveness and safety of new chemical compounds through preclinical tests and controlled clinical evaluation. Before a new drug may be marketed in the United States, recorded data on preclinical and clinical experience are included in the NDA or the biological Product License Application (“PLA”) to the FDA for the required approval. The development of certain other products is also subject to government regulations covering safety and efficacy in the United States and many foreign countries. There can be no assurance that a compound that is the result of any particular program will obtain the regulatory approvals necessary for it to be marketed.

The Company’s late-stage pipeline candidates include novel vaccines for human papillomavirus (“HPV”) and the pain associated with shingles, and *RotaTeq*, a vaccine for rotavirus—a highly contagious virus that is the most common cause of severe gastroenteritis in infants and young children. The Company expects to file PLAs with the FDA for these three novel vaccine candidates in the second half of 2005. There are competing claims to intellectual property in the HPV field, but the Company is confident that the claims will not delay the Company’s program. The Company expects to submit a PLA to the FDA for its *ProQuad* vaccine, a pediatric combination vaccine for measles, mumps, rubella and chickenpox, in the second half of 2004.

The Company is also studying a DP-IV inhibitor, a glucose-lowering mechanism, used alone and in combination for the treatment of Type II diabetes. The Company plans to enter Phase III clinical trials with this investigational compound in the second quarter of 2004 and expects to submit an NDA to the FDA in 2006.

The Company’s early-stage pipeline includes candidates in each of the following areas: diabetes, obesity, Alzheimer’s disease, respiratory disease, coronary heart disease, rheumatoid arthritis and vaccines.

The Company supplements its internal research with an aggressive licensing and external alliance strategy focused on the entire spectrum of collaborations from early research to late-stage compounds, as well as new technologies. In 2003, the Company completed 47 significant transactions, including research collaborations, preclinical and clinical compounds, and technology transactions. Transactions completed in 2003 include agreements

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with the following companies: GenPath, for cancer; Amrad, for respiratory disease; Neurogen, for pain; and Actelion, for cardiovascular disease.

On February 10, 2004, the Company announced that it had entered into an agreement with H. Lundbeck A/S (“Lundbeck”) to develop and commercialize in the United States gaboxadol, a compound licensed to Lundbeck by a third party that is currently in Phase III development for the treatment of sleep disorders. Under the terms of the agreement, Lundbeck will receive an initial payment of \$70.0 million and up to \$200.0 million in additional milestone payments. The Company and Lundbeck will jointly complete the ongoing Phase III clinical program, with the Company funding the majority of the remaining development activities. The Company anticipates that it will file an NDA with the FDA between late 2006 and mid-2007. Following FDA approval, the companies plan to co-promote gaboxadol in the United States. Lundbeck will receive a share of gaboxadol sales in the United States.

On February 23, 2004, the Company announced that it had agreed to acquire Aton Pharma, Inc. (“Aton”), a privately held biotechnology company focusing on the development of novel treatments for cancer and other serious diseases. Consideration for the acquisition will consist of upfront and contingent payments based upon the regulatory filing, and approval and sales of products. Aton’s clinical pipeline of histone deacetylase inhibitors represents a class of anti-tumor agents with potential for efficacy based on a novel mechanism of action. Aton’s lead product candidate, known as suberoylanilide hydroxamic acid, has been extensively studied in Phase I clinical trials and is currently in Phase II clinical trials for the treatment of cutaneous T-cell lymphoma. The Company expects to complete the acquisition of Aton in the first quarter of 2004.

The chart below reflects the Company’s research pipeline as of March 1, 2004. Candidates shown in Phase III include specific products. Candidates shown in Phase I and II include the most advanced compound with a specific mechanism in a given therapeutic area. Back-up compounds, regardless of their phase of development, additional indications in the same therapeutic areas and additional line extensions or formulations for in-line products are not shown. Preclinical areas shown are those where the Company has initiated Good Laboratory Practices (“GLP”) studies in compounds with mechanisms distinct from those in Phase I and II. The Company’s programs are generally designed to focus on the development of novel medicines to address large, unmet medical needs.

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Preclinical	Phase I	Phase II	Phase III
Diabetes	Diabetes c-3347	Obesity c-2735	Vaccines
Atherosclerosis	Obesity c-2624	Alzheimer's Disease c-9136	Pediatric Combination Vaccine <i>ProQuad</i>
Parkinson's Disease	c-5093	Urinary Incontinence c-3048	Rotavirus <i>RotaTeq</i>
Pain	Atherosclerosis c-8834	Respiratory Disease c-3885	Shingles Zoster vaccine
Anxiety	Alzheimer's Disease c-7617	Post-Operative Nausea and Vomiting c-9280	Human Papillomavirus HPV vaccine
Osteoporosis	c-9138		
Cancer	Multiple Sclerosis c-6448	Vaccines Pediatric Combination	Diabetes MK-0431 (2Q04)
Rheumatoid Arthritis	Pain c-1246		Sleep Disorders MK-0928 (Gaboxadol)
Glaucoma	Psychiatric Disease c-9054		
Antibacterial	Respiratory Disease c-3193		
Vaccines	Rheumatoid Arthritis c-4462		
	c-5997		
	AIDS c-2507		
	Vaccines HIV vaccine		

2003 Submissions

Cardiovascular Vytorin (Ezetimibe / Simvastatin) (submitted 3Q03)	Arthritis / Analgesia Arcoxia (submitted 4Q03)
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In February 2003, the Company announced that it had discontinued Phase II clinical trials for its lead GABA-A $\alpha 2/ \alpha 3$ agonist compound for the treatment of generalized anxiety. The Company is continuing its research in the field of anxiety through the ongoing study of other GABA agonist molecules. The timing for the development of these other molecules is not certain.

In April 2003, the Company announced that it was discontinuing development of its lead Phosphodiesterase-4 (PDE-4) inhibitor compound in Phase II clinical trials for the treatment of asthma and chronic obstructive pulmonary disease (COPD). The Company is continuing its research in the field of asthma and COPD through the ongoing study of other PDE-4 inhibitor molecules. The timing for the development of these other molecules is not certain.

In August 2003, the Company announced it had put the Phase I clinical trials for its lead HIV integrase inhibitor compound on hold. The Company is also continuing its research in the field of integrase inhibitors through the ongoing study of other integrase inhibitors. The timing for the development of these other molecules is not certain.

In November 2003, the Company announced that it was discontinuing its Phase III clinical development program for its substance P antagonist investigational product, MK-0869, for the treatment of depression. The Phase III clinical program was halted because the compound failed to demonstrate efficacy for the treatment of depression. The Company remains committed to its neuroscience research programs.

Also in November 2003, the Company announced that it was discontinuing its Phase III clinical development program for its investigational product, MK-0767, for the treatment of diabetes. The Company was

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developing MK-0767 in collaboration with Kyorin Pharmaceutical Co., Ltd. The clinical program was halted because recent findings in the Company's long-term safety assessment program identified a rare form of malignant tumors in mice. The clinical relevance of these findings in humans is unknown. The Company is continuing its commitment to diabetes research and is currently studying a DP-IV inhibitor for diabetes. The Company plans to enter Phase III clinical trials with this investigational compound in the second quarter of 2004.

On February 21, 2003, Banyu announced a change of timing with respect to the filing in Japan of an NDA for rofecoxib (*Vioxx*). In its press release, Banyu stated that after reviewing clinical data accumulated to date, and at the recommendation of the Organization of Pharmaceutical Safety and Research, Banyu has agreed to conduct additional studies in Japanese patients to further support the NDA filing. As a result of this decision, the NDA filing which was originally planned to take place by the end of March 2003 has been delayed. Banyu further stated that it will conduct the additional studies as appropriate in support of filing the product.

On December 30, 2003, the Company submitted an NDA to the FDA for *Arcoxia* . The Company's NDA seeks indications for *Arcoxia* for the treatment of osteoarthritis, rheumatoid arthritis, chronic low back pain, acute pain, dysmenorrhea, acute gouty arthritis and ankylosing spondylitis (a painful condition of the spine). As of January 30, 2004, *Arcoxia* has been launched in 41 countries worldwide in Europe, Latin America and the Asia-Pacific region. The FDA has informed the Company that the FDA considers January 13, 2004 the effective submission date for the NDA because fiscal year 2003 fees for a different medicine were not received by December 31, 2003. The FDA has informed the Company that unless the Company is otherwise notified, the NDA will be accepted for filing on March 12, 2004.

In November 2003, the European Union's Committee for Proprietary Medicinal Products concluded its comprehensive review of the COX-2 selective inhibitor class, which includes *Vioxx* and *Arcoxia* , and confirmed that the medicines have a positive balance of benefits and risks. The French Transparency Commission, whose responsibilities include recommending drug reimbursement levels in France, after review has retained its assessment that *Vioxx* provides a modest level of improvement relative to non-steroidal anti-inflammatory drugs in terms of safety.

All product or service marks appearing in type form different from that of the surrounding text are trademarks or service marks owned by or licensed to Merck & Co., Inc., its subsidiaries or affiliates (including *Zetia* , a trademark owned by an entity of the Merck/Schering-Plough Pharmaceuticals partnership), except as noted. *Cozaar* and *Hyzaar* are registered trademarks of E.I. du Pont de Nemours and Company, Wilmington, DE and *Prilosec* and *Nexium* are trademarks of the AstraZeneca group. The U.S. trademarks for *Vasotec* and *Vaseretic* are owned by Biovail Laboratories Incorporated. The U.S. trademark for *Aggrastat* is owned by Guilford Pharmaceuticals Inc.

Employees

At the end of 2003, the Company had 63,200 employees worldwide, with 33,200 employed in the United States, including Puerto Rico. Approximately 25% of worldwide employees of the Company are represented by various collective bargaining groups.

In 2003, the Company accelerated its efforts to fundamentally lower its cost structure through Company-wide initiatives. In October 2003, the Company announced the reduction of 4,400 positions, which is expected to be completed in 2004. When complete, the cost reductions are expected to generate annual savings of payroll and benefits costs of \$250.0 to \$300.0 million starting in 2005.

Environmental Matters

The Company believes that it is in compliance in all material respects with applicable environmental laws and regulations. In 2003, the Company incurred capital expenditures of approximately \$41.8 million for environmental protection facilities. The Company is also remediating environmental contamination resulting from past industrial activity at certain of its sites. Expenditures for remediation and environmental liabilities were \$31.3

million in 2003, and are estimated at \$87.0 million for the years 2004 through 2008. These amounts do not consider potential recoveries from insurers or other parties. The Company has taken an active role in identifying and providing for these costs, and in management's opinion, the liabilities for all environmental matters which are probable and reasonably estimable have been accrued. Although it is not possible to predict with certainty the outcome of these environmental matters, or the ultimate costs of remediation, management does not believe that any reasonably possible expenditures that may be incurred in excess of those provided should result in a material adverse effect on the Company's financial position, results of operations, liquidity or capital resources.

Cautionary Factors that May Affect Future Results

(Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)

This report and other written reports and oral statements made from time to time by the Company may contain so-called "forward-looking statements," all of which are subject to risks and uncertainties. One can identify these forward-looking statements by their use of words such as "expects," "plans," "will," "estimates," "forecasts," "projects" and other words of similar meaning. One can also identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address the Company's growth strategy, financial results, product approvals and development programs. One must carefully consider any such statement and should understand that many factors could cause actual results to differ materially from the Company's forward-looking statements. These factors include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward-looking statement can be guaranteed and actual future results may vary materially. Although it is not possible to predict or identify all such factors, they may include the following:

- Generic competition as product patents for several products have recently expired in the United States and other countries, including product patents for *Mevacor* (U.S. - 2001), *Prinivil and Prinzide* (U.S. - 2001) and *Vaseretic* (U.S. - 2001). In 2003, *Zocor* lost its basic patent protection in Canada and certain countries in Europe, including the United Kingdom and Germany, and the Company experienced a decline in *Zocor* sales in those countries. In 2006, *Zocor* will lose its market exclusivity in the United States and the Company expects a decline in U.S. *Zocor* sales. In addition, the U.S. patent covering omeprazole, the active ingredient in *Prilosec*, which the Company supplies exclusively to AstraZeneca LP, expired in 2001, and a trial court held in October 2002 that one generic company's omeprazole product does not infringe the Company's formulation patents with respect to *Prilosec*. Under an agreement with AstraZeneca, the Company receives supply payments at predetermined rates on the U.S. sales of certain products by AstraZeneca, most notably *Prilosec* and *Nexium*.
- Increased "brand" competition in therapeutic areas important to the Company's long-term business performance.
- The difficulties and uncertainties inherent in new product development. The outcome of the lengthy and complex process of new product development is inherently uncertain. A candidate can fail at any stage of the process and one or more late-stage product candidates could fail to receive regulatory approval. New product candidates may appear promising in development but fail to reach the market because of efficacy or safety concerns, the inability to obtain necessary regulatory approvals, the difficulty or excessive cost to manufacture and/or the infringement of patents or intellectual property rights of others. Furthermore, the sales of new products may prove to be disappointing and fail to reach anticipated levels.
- Pricing pressures, both in the United States and abroad, including rules and practices of managed care groups, judicial decisions and governmental laws and regulations related to Medicare, Medicaid and health care reform, pharmaceutical reimbursement and pricing in general.
- As the Company previously announced in the fourth quarter of 2003, it has taken actions to lower its cost structure including the elimination of positions. Those actions will continue in 2004.
- Changes in government laws and regulations and the enforcement thereof affecting the Company's business.
- Efficacy or safety concerns with respect to marketed products, whether or not scientifically justified, leading to product recalls, withdrawals or declining sales.

- Legal factors, including product liability claims, antitrust litigation and governmental investigations, environmental concerns and patent disputes with branded and generic competitors, any of which could preclude commercialization of products or negatively affect the profitability of existing products.
- Lost market opportunity resulting from delays and uncertainties in the approval process of the FDA and foreign regulatory authorities.
- Increased focus on privacy issues in countries around the world, including the United States and the EU. In the United States, federal and state governments have pursued legislative and regulatory initiatives regarding patient privacy, including federal and recently issued state privacy regulations concerning health information, which have affected the Company's operations.
- Changes in tax laws including changes related to the taxation of foreign earnings, as well as the impact of legislation capping and ultimately repealing Section 936 of the Internal Revenue Code (relating to earnings from the Company's Puerto Rican operations).
- Changes in accounting pronouncements promulgated by standard-setting or regulatory bodies, including the Financial Accounting Standards Board and the Securities and Exchange Commission, that are adverse to the Company.
- Economic factors over which the Company has no control, including changes in inflation, interest rates and foreign currency exchange rates.

This list should not be considered an exhaustive statement of all potential risks and uncertainties.

Geographic Area and Segment Information

The Company's operations are principally managed on a products basis with one reportable segment: The Merck Pharmaceutical segment which includes products marketed either directly or through joint ventures. Merck Pharmaceutical products consist of therapeutic and preventive agents, sold by prescription, for the treatment and prevention of human disorders.

The Company's operations outside the United States are conducted primarily through subsidiaries. Sales worldwide by subsidiaries outside the United States were 41% of sales in 2003, and 39% and 37% in 2002 and 2001, respectively.

The Company's worldwide business is subject to risks of currency fluctuations, governmental actions and other governmental proceedings abroad. The Company does not regard these risks as a deterrent to further expansion of its operations abroad. However, the Company closely reviews its methods of operations and adopts strategies responsive to changing economic and political conditions.

In recent years, the Company has been expanding its operations in countries located in Latin America, the Middle East, Africa, Eastern Europe and Asia Pacific where changes in government policies and economic conditions are making it possible for the Company to earn fair returns. Business in these developing areas, while sometimes less stable, offers important opportunities for growth over time.

Financial information about geographic areas and operating segments of the Company's business is incorporated by reference to pages 48 (beginning with the caption "Segment Reporting") and 49 of the Company's 2003 Annual Report to stockholders.

Available Information

The Company's Internet website address is www.merck.com. The Company will make available, free of charge at the "Investor Information" portion of its website, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section

13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission.

The Company's corporate governance guidelines and the charters of the Board of Directors' six standing committees are available on the Company's website at www.merck.com/about/corporategovernance and all such information is available in print to any stockholder who requests it from the Company.

Item 2. Properties.

The Company's corporate headquarters is located in Whitehouse Station, New Jersey. The Company's pharmaceutical business is conducted through divisional headquarters located in Upper Gwynedd and West Point, Pennsylvania. Principal research facilities for human health products are located in Rahway, New Jersey and West Point. The Company also has production facilities for human health products at nine locations in the United States and Puerto Rico. Branch warehouses provide services throughout the country. Outside the United States, through subsidiaries, the Company owns or has an interest in manufacturing plants or other properties in Australia, Canada, Japan, Singapore, South Africa, and other countries in Western Europe, Central and South America, and Asia.

Capital expenditures for 2003 were \$1,915.9 million compared with \$2,128.1 million for 2002. In the United States, these amounted to \$1,307.8 million for 2003 and \$1,565.2 million for 2002. Abroad, such expenditures amounted to \$608.1 million for 2003 and \$562.9 million for 2002.

The Company and its subsidiaries own their principal facilities and manufacturing plants under titles which they consider to be satisfactory. The Company considers that its properties are in good operating condition and that its machinery and equipment have been well maintained. Plants for the manufacture of products are suitable for their intended purposes and have capacities and projected capacities adequate for current and projected needs for existing Company products. Some capacity of the plants is being converted, with any needed modification, to the requirements of newly introduced and future products.

Item 3. Legal Proceedings.

The Company is involved in various claims and legal proceedings of a nature considered normal to its business, including product liability, intellectual property, and commercial litigation, as well as additional matters such as antitrust actions.

Beginning in 1993, the Company was named in a number of antitrust suits, certain of which were certified as class actions, instituted by most of the nation's retail pharmacies and consumers in several states, alleging antitrust violations. In 1994, these actions, except for those pending in state courts, were consolidated for pre-trial purposes in the federal court in Chicago, Illinois. In 1996, the Company and several other defendants settled the federal class action, which represented the single largest group of claims. Since that time, the Company has settled substantially all of the remaining cases on satisfactory terms. The Company has not engaged in any conspiracy and no admission of wrongdoing was made nor was included in any settlement agreements. While it is not feasible to predict the final outcome of the few remaining cases, in the opinion of the Company, these proceedings should not ultimately result in any liability which would have a material adverse effect on the Company's financial position, results of operations or liquidity.

As previously disclosed, the Company has been advised by the U.S. Department of Justice that it is investigating marketing and selling activities of the Company and other pharmaceutical manufacturers. In connection with the investigation, as previously disclosed, the government served a subpoena on the Company for the production of documents related to Company marketing and sales activities. The subpoena seeks substantially the same information as the government has previously sought. The Company will be working with the government to respond appropriately to this subpoena and other informational requests. The Company has also received a Civil Investigative Demand ("CID") from the Attorney General of Texas. The CID seeks the production of documents and other information regarding the Company's marketing and selling activities relating to Texas. The Company is working with the Texas Attorney General's office to respond appropriately to the CID.

As previously disclosed, the Company was joined in ongoing litigation alleging manipulation by pharmaceutical manufacturers of Average Wholesale Prices ("AWP"), which are sometimes used in calculations that determine public and private sector reimbursement levels. In 2002, the Judicial Panel on Multi-District Litigation

ordered the transfer and consolidation of all pending federal AWP cases to federal court in Boston, Massachusetts. Plaintiffs filed one consolidated class action complaint, which aggregated the claims previously filed in various federal district court actions and also expanded the number of manufacturers to include some which, like the Company, had not been defendants in any prior pending case. In May 2003, the court granted the Company's motion to dismiss the consolidated class action and dismissed the Company from the class action case. Subsequent to the Company's dismissal, the plaintiffs filed an amended consolidated class action complaint, which did not name the Company as a defendant. The Company and thirty other pharmaceutical manufacturers remain defendants in three similar complaints pending in federal court in Massachusetts filed by the New York Counties of Suffolk, Rockland and Westchester. The Company believes that these lawsuits are without merit and is vigorously defending against them.

As previously disclosed, in January 2003, the U.S. Department of Justice notified the federal court in New Orleans, Louisiana that it was not going to intervene in a pending Federal False Claims Act case that was filed under seal in December 1999 against the Company. The court issued an order unsealing the complaint, which was filed by a physician in Louisiana, and ordered that the complaint be served. The complaint alleges that the Company's discounting of *Pepcid* in certain Louisiana hospitals led to increases in costs to Medicaid. The Company believes that the complaint is without merit and will vigorously defend against it.

Federal and state lawsuits involving numerous individual claims, as well as some putative class actions, have been filed against the Company with respect to *Vioxx*. Some of the lawsuits also name as a defendant Pfizer Inc., which markets a competing product. Certain of the lawsuits include allegations regarding gastrointestinal bleeding, cardiovascular events and kidney damage. The lawsuits have been filed in federal courts as well as in a number of state courts. While cases in other jurisdictions are proceeding separately, the actions filed in the state courts of California and New Jersey have been transferred to a single judge in each state for coordinated proceedings. The Company anticipates that one or more of the lawsuits in various jurisdictions may go to trial in the first half of 2004. Litigation is inherently subject to uncertainties and no assurance can be given on the outcome of any given trial. However, the Company believes that these lawsuits are without merit and will vigorously defend against them.

A number of purported class action lawsuits have been filed by several individual shareholders in the United States District Court for the Eastern District of Louisiana naming as defendants the Company and several current or former officers of the Company, and alleging that the defendants made false and misleading statements regarding the Company's drug *Vioxx* in violation of the federal securities laws. The plaintiffs request certification of a class of purchasers of the Company's common stock between May 22, 1999 and October 22, 2003, and seek unspecified compensatory damages and the costs of suit, including attorney fees. The Company believes that these lawsuits are without merit and will vigorously defend against them.

The Company is a party in claims brought under the Consumer Protection Act of 1987 in the United Kingdom, which allege that certain children suffer from a variety of conditions as a result of being vaccinated with various bivalent vaccines for measles and rubella and/or trivalent vaccines for measles, mumps and rubella, including the Company's *M-M-R II*. Other pharmaceutical companies have also been sued. The claimants allege various adverse consequences, including autism, with or without inflammatory bowel disease, epilepsy, diabetes, encephalitis, encephalopathy and chronic fatigue syndrome. In connection with those claims, eight lead cases had been selected for a trial which was scheduled to commence in April 2004: two against the Company, and six against other pharmaceutical companies. The trial of the eight cases is initially limited to issues of causation and defect on the conditions of autistic spectrum disorders, with or without inflammatory bowel disease. In early September 2003, the Legal Services Commission announced its decision to withdraw public funding of the litigation brought by the claimants. This decision was confirmed on appeal by the Funding Review Committee on September 30, 2003. The April 2004 trial date has been vacated and the claims stayed pending the outcome of a February 2004 hearing on the judicial review of the funding withdrawal decision. The Company believes that these lawsuits are without merit and will vigorously defend against them.

The Company is also a party to individual and class action product liability lawsuits and claims in the United States involving pediatric vaccines (i.e., hepatitis B vaccine and haemophilus influenza type b vaccine) that

contained thimerosal, a preservative used in vaccines. Other defendants include vaccine manufacturers who produced pediatric vaccines containing thimerosal as well as manufacturers of thimerosal. In these actions, the plaintiffs allege, among other things, that they have suffered neurological and other injuries as a result of having thimerosal introduced into their developing bodies. The Company has been successful in having many of these cases either dismissed or stayed on the ground that the National Vaccine Injury Compensation Program (“NVICP”) prohibits any person from filing or maintaining a civil action seeking damages against a vaccine manufacturer for vaccine-related injuries unless a petition is first filed in the United States Court of Federal Claims. A number of similar cases (*M-M-R II* alone and/or thimerosal-containing vaccines) have been filed in the United States Court of Federal Claims under the NVICP for a determination first on general causation issues. The Company believes that these lawsuits and claims are without merit and will vigorously defend against them in the proceedings in which it is a party.

From time to time, generic manufacturers of pharmaceutical products file Abbreviated New Drug Applications (“ANDAs”) with the FDA seeking to market generic forms of Company products prior to the expiration of relevant patents owned by the Company. Generic pharmaceutical manufacturers have submitted ANDAs to the FDA seeking to market in the United States a generic form of *Fosamax*, *Prilosec* and *Vioxx* prior to the expiration of the Company’s (and AstraZeneca’s in the case of *Prilosec*) patents concerning these products. The generic companies’ ANDAs generally include allegations of non-infringement, invalidity and unenforceability of the patents. Generic manufacturers have received FDA approval to market a generic form of *Prilosec*. The Company has filed patent infringement suits in federal court against companies filing ANDAs for generic alendronate and rofecoxib, and AstraZeneca and the Company have filed patent infringement suits in federal court against companies filing ANDAs for generic omeprazole. Similar patent challenges exist in certain foreign jurisdictions. The Company intends to vigorously defend its patents, which it believes 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 assurance of the outcomes, which, if adverse, could result in significantly shortened periods of exclusivity for these products.

A trial in the United States with respect to the alendronate daily product concluded in November 2001. In November 2002, a decision was issued by the U.S. District Court in Delaware finding the Company’s patent valid and infringed. On October 30, 2003, the U.S. Court of Appeals for the Federal Circuit affirmed the validity and infringement of the Company’s basic U.S. patent covering the use of alendronate in any form. A request for rehearing was denied. A trial in the United States involving the alendronate weekly product was held in March 2003. On August 28, 2003, the U.S. District Court in Delaware, upheld the validity of the Company’s U.S. patent covering the weekly administration of alendronate. As a result of the court’s decision, the patent is valid and infringed by Teva Pharmaceuticals USA, Inc.’s (“Teva”) Abbreviated New Drug Application filing. The court’s decision has been appealed by Teva.

In January 2003, the High Court of Justice for England and Wales held that patents of the Company protecting the alendronate daily and weekly products were invalid in the United Kingdom. On November 6, 2003, the Court of Appeals of England and Wales affirmed the ruling by the High Court of Justice for England and Wales. Protection against generic companies referencing the Company’s data for weekly alendronate in the United Kingdom may be available under the provisions of the law which grant a period of exclusivity to the original submitter of such data. A generic company has sought judicial review of a decision by the Licensing Authority in the United Kingdom that it cannot rely upon the Company’s weekly alendronate data to seek approval of a generic alendronate 70 mg product until ten years after approval of the Company’s weekly alendronate product (which was granted in 2000). The Company has been served as an interested party and intends to take appropriate action to protect its rights.

In the case of omeprazole, the trial court in the United States rendered an opinion in October 2002 upholding the validity of the Company’s and AstraZeneca’s patents covering the stabilized formulation of omeprazole and ruling that one defendant’s omeprazole product did not infringe those patents. The other three defendants’ products were found to infringe the formulation patents. In December 2003, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the trial court. With respect to certain other generic manufacturers’ omeprazole products, no trial date has yet been set.

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In the case of rofecoxib, an ANDA has been filed including allegations of non-infringement, invalidity and unenforceability of the Company's rofecoxib patents. As previously disclosed, the Company filed a patent infringement lawsuit in the District Court of Delaware in August 2003. Trial has been set for October 2005.

As previously disclosed, the Company has been named as a defendant in a number of purported class action lawsuits, which have been consolidated before a single judge and in a shareholder derivative action, both of which involve claims related to the Company's revenue recognition practice for retail copayments paid by individuals to whom Medco Health provides pharmaceutical benefits. The class action lawsuit was amended to add claims against the Company and Medco Health and certain of their officers and directors relating to rebates received by Medco Health and Medco Health's independent status. The shareholder derivative action was amended to add Arthur Andersen LLP as a defendant and to add certain new allegations, which relate to claims that certain individual defendants breached their fiduciary duty by failing to prevent the conduct at issue in the previously disclosed Gruer Cases, discussed below, the antitrust claims pending in the Northern District of Illinois, and the *qui tam* actions in which the U.S. Attorney's office for the Eastern District of Pennsylvania has intervened against Medco Health. The complaint seeks monetary damages from those Company directors who are defendants in the lawsuit in an unspecified amount as well as injunctive and other relief. As part of the spin-off of Medco Health, Medco Health assumed responsibility for a portion of potential damages or settlement payments paid, if any, in connection with this litigation. The Company believes that these lawsuits are without merit and will vigorously defend against them.

Prior to the spin-off of Medco Health, the Company and Medco Health agreed to settle, on a class action basis, a series of lawsuits asserting violations of the Employee Retirement Income Security Act ("ERISA"). The Company, Medco Health and certain plaintiffs' counsel filed the settlement agreement with the federal district court in New York, where cases commenced by a number of plaintiffs, including participants in a number of pharmaceutical benefit plans for which Medco Health is the pharmacy benefit manager, as well as trustees of such plans, have been consolidated. The proposed class settlement has been agreed to by plaintiffs in five of the cases (the "Gruer Cases") filed against Medco Health and the Company. Under the proposed settlement, the Company and Medco Health have agreed to pay a total of \$42.5 million, and Medco Health has agreed to modify certain business practices or to continue certain specified business practices for a period of five years. The financial compensation is intended to benefit members of the settlement class, which includes ERISA plans for which Medco Health administered a pharmacy benefit at any time since December 17, 1994. In 2003, the court preliminarily approved the settlement and has held a hearing to hear objections to the fairness of the proposed settlement from class member representatives. Currently, certain class member plans have indicated that they will not participate in the settlement. The court has not yet approved the settlement or determined the number of class member plans that have properly elected not to participate in the settlement, if approved. The settlement becomes final only if and when the district court grants final approval and all appeals have been resolved. Medco Health and the Company agreed to the proposed settlement in order to avoid the significant cost and distraction of protracted litigation.

The Gruer Cases, which are similar to claims pending against other pharmaceutical benefit managers, alleged that Medco Health was an ERISA "fiduciary" and that the Company was a "party-in-interest" within the meaning of ERISA. The plaintiffs asserted that the Company and Medco Health had breached duties and engaged in "prohibited transactions" as a result of filling prescriptions with the Company's drugs to increase the Company's market share, among other things. The plaintiffs demanded that Medco Health and the Company disgorge any unlawfully obtained profits and other relief.

In addition, among the cases consolidated in New York, one plaintiff has also alleged, based on essentially the same factual allegations as the Gruer Cases, that Medco Health and the Company have violated federal and state racketeering laws. A different plaintiff, seeking to represent California citizens, has alleged that Medco Health and the Company have violated California unfair competition law. An attorney for one of the plaintiffs has indicated that it may assert claims against Medco Health, the Company and others to allege violations of the Sherman Act, the Clayton Act and various state antitrust laws based on alleged conspiracies to suppress price competition and unlawful combinations allegedly resulting in higher pharmaceutical prices.

After the spin-off of Medco Health, Medco Health assumed substantially all of the liability exposure for the matters discussed in the foregoing three paragraphs. The Company believes that these cases, which are being defended by Medco Health, are without merit.

In December 2003, the Virginia Department of Environmental Quality (“VADEQ”) issued a Notice of Violation to the Company’s Elkton, Virginia facility for air permit limit exceedances reported by the facility as a result of performance testing of a process train. The Company is currently in discussions with VADEQ and believes that its discussions will result in capital improvements together with monetary sanctions which will be immaterial but will exceed \$100,000.

The Company is a party to a number of proceedings brought under the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund and other federal and state equivalents. These proceedings seek to require the operators of hazardous waste disposal facilities, transporters of waste to the sites and generators of hazardous waste disposed of at the sites to clean up the sites or, to reimburse the government for cleanup costs. The Company has been made a party to these proceedings as an alleged generator of waste disposed of at the sites. In each case, the government alleges that the defendants are jointly and severally liable for the cleanup costs. Although joint and several liability is alleged, these proceedings are frequently resolved so that the allocation of cleanup costs among the parties more nearly reflects the relative contributions of the parties to the site situation. The Company’s potential liability varies greatly from site to site. For some sites the potential liability is *de minimis* and for others the costs of cleanup have not yet been determined. While it is not feasible to predict the outcome of many of these proceedings brought by federal or state agencies or private litigants, in the opinion of the Company, such proceedings should not ultimately result in any liability which would have a material adverse effect on the financial position, results of operations, liquidity or capital resources of the Company. The Company has taken an active role in identifying and providing for these costs and such amounts do not include any reduction for anticipated recoveries of cleanup costs from insurers, former site owners or operators or other recalcitrant potentially responsible parties.

There are various other legal proceedings, principally product liability and intellectual property suits involving the Company, which are pending. While it is not feasible to predict the outcome of these proceedings or the proceedings discussed above, in the opinion of the Company, all such proceedings are either adequately covered by insurance or, if not so covered, should not ultimately result in any liability that would have a material adverse effect on the financial position, liquidity or results of operations of the Company. In addition, from time to time, federal or state regulators seek information about practices in the pharmaceutical industry. While it is not feasible to predict the outcome of any requests for information, the Company does not expect such inquiries to have a material adverse effect on the financial position, liquidity or results of operations of the Company.

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

Not applicable.

Executive Officers of the Registrant (as of March 9, 2004)

RAYMOND V. GILMARTIN — Age 63

June, 1994 — Chairman of the Board (since November, 1994), President and Chief Executive Officer

DAVID W. ANSTICE — Age 55

January, 2003 — President, Human Health — responsible for the Company's prescription drug business in Japan, Latin America, Canada, Australia, New Zealand and the Company's joint venture relationship with Schering-Plough

March, 2001 — President, The Americas and U.S. Human Health — responsible for one of the two prescription drug divisions comprising U.S. Human Health, as well as the Company's prescription drug business in Canada and Latin America, and the Company's joint venture relationship with Schering-Plough

January, 1997 — President, Human Health-The Americas — responsible for the Company's human health business in the United States, Canada and Latin America

MARCIA J. AVEDON — Age 42

January, 2003 — Senior Vice President, Human Resources

September, 2002 — Vice President, Talent Management and Organization Effectiveness

Prior to September, 2002, Dr. Avedon held several senior human resources positions (1995 to 2002) at Honeywell International (diversified manufacturing and technology company)

RICHARD T. CLARK — Age 58

June, 2003 — President, Merck Manufacturing Division — responsible for the Company's manufacturing, information services and operational excellence organizations worldwide

January, 2003 — Chairman, President and Chief Executive Officer, Medco Health Solutions, Inc. (Medco Health), formerly a wholly-owned subsidiary of the Company

January, 2000 — President, Medco Health

June, 1997 — Executive Vice President/Chief Operating Officer, Medco Health

CELIA A. COLBERT — Age 47

January, 1997 — Vice President, Secretary (since September, 1993) and Assistant General Counsel (since November, 1993)

CAROLINE DORSA — Age 44

August, 2002 — Vice President and Treasurer — responsible for the Company's treasury and tax functions, and for providing financial support for the Merck Manufacturing and Merck Research Laboratories Divisions as well as Human Resources

September, 1999 — Vice President and Treasurer — responsible for the Company's treasury and tax functions and for providing financial support for the Asia Pacific Division

February, 1999 — Vice President and Treasurer (since January, 1994) — responsible for the Company's treasury and tax functions

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KENNETH C. FRAZIER — Age 49

December, 1999 — Senior Vice President and General Counsel — responsible for legal and public affairs functions and The Merck Company Foundation (a not-for-profit charitable organization affiliated with the Company)

January, 1999 — Vice President and Deputy General Counsel

RICHARD C. HENRIQUES JR. — Age 48

August, 2002 — Vice President, Controller — responsible for the Corporate Controller's Group and providing financial support for the Human Health operations in the United States, Canada, Latin America, Europe, the Middle East, Africa, Japan, and Australia/New Zealand and the Merck Vaccine Division (MVD)

November, 2000 — Vice President, Controller — responsible for the Corporate Controller's Group and providing financial support for U.S. Human Health, Canada and Latin America (The Americas) and MVD

February, 1999 — Vice President, Controller (since January, 1997) — responsible for the Corporate Controller's Group and providing financial support for The Americas

PETER S. KIM — Age 45

January, 2003 — President, Merck Research Laboratories (MRL)

February, 2001 — Executive Vice President, Research and Development, MRL

Prior to February, 2001, Dr. Kim served as Member of the Whitehead Institute (1985 – 2001), Professor of Biology at the Massachusetts Institute of Technology (1988 – 2001), and Investigator of the Howard Hughes Medical Institute (1990 – 2001)

JUDY C. LEWENT — Age 55

January, 2003 — Executive Vice President, Chief Financial Officer and President, Human Health Asia — responsible for financial and corporate development functions, internal auditing, corporate licensing, the Company's prescription drug business in Asia North and Asia South, the Company's joint venture relationships, and Merck Capital Ventures, LLC, a subsidiary of the Company

February, 2001 — Executive Vice President and Chief Financial Officer — responsible for financial and corporate development functions, internal auditing, corporate licensing, the Company's joint venture relationships, and Merck Capital Ventures, LLC

November, 2000 — Senior Vice President and Chief Financial Officer — responsible for financial and corporate development functions, internal auditing, corporate licensing, the Company's joint venture relationships, and Merck Capital Ventures, LLC

January, 1997 — Senior Vice President (since January, 1993) and Chief Financial Officer (since April, 1990) — responsible for financial and corporate development functions, internal auditing and the Company's joint venture relationships

ADEL MAHMOUD — Age 62

May, 1999 — President, Merck Vaccines

November, 1998 — Executive Vice President, Merck Vaccines

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MARGARET G. MCGLYNN — Age 44

January, 2003 — President, U.S. Human Health — responsible for one of the two prescription drug divisions (hospital and specialty product franchises) comprising U.S. Human Health (USHH), and the Managed Care Group of USHH

August, 2001 — Executive Vice President, Customer Marketing and Sales, USHH

November, 1998 — Senior Vice President, Worldwide Human Health Marketing

BRADLEY T. SHEARES — Age 47

January, 2003 — President, U.S. Human Health — responsible for one of the two prescription drug divisions (primary care product franchises) comprising U.S. Human Health (USHH)

March, 2001 — President, U.S. Human Health — responsible for one of the two prescription drug divisions (hospital and specialty product franchises) comprising USHH

July, 1998 — Vice President, Hospital Marketing and Sales, USHH

JOAN E. WAINWRIGHT — Age 43

January, 2001 — Vice President, Public Affairs

June, 2000 — Vice President, Corporate Communications, Public Affairs

Prior to June, 2000, Ms. Wainwright was Deputy Commissioner for Communications at the U.S. Social Security Administration (1994 – 2000)

PER WOLD-OLSEN — Age 56

January, 1997 — President, Human Health-Europe, Middle East & Africa — responsible for the Company's prescription drug business in Europe, the Middle East and Africa and worldwide human health marketing

All officers listed above serve at the pleasure of the Board of Directors. None of these officers was elected pursuant to any arrangement or understanding between the officer and the Board. There are no family relationships among the officers listed above.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The required information on market information and dividends is incorporated by reference to page 29 of the Company's 2003 Annual Report to stockholders and the required information on the number of holders of the Company's common stock is incorporated by reference to page 52 of the Company's 2003 Annual Report to Stockholders.

Item 6. Selected Financial Data.

The information required for this item is incorporated by reference to the data for the last five fiscal years of the Company included under Results for Year and Year-End Position in the Selected Financial Data table on page 52 of the Company's 2003 Annual Report to stockholders.

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

The information required for this item is incorporated by reference to pages 16 through 29 of the Company's 2003 Annual Report to stockholders.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information required for this item is incorporated by reference to pages 24 (beginning with the caption "Analysis of Liquidity and Capital Resources") to 26 of the Company's 2003 Annual Report to stockholders.

Item 8. Financial Statements and Supplementary Data.

(a) Financial Statements

The consolidated balance sheet of Merck & Co., Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income, of retained earnings, of comprehensive income and of cash flows for each of the three years in the period ended December 31, 2003, and the report dated February 20, 2004 of PricewaterhouseCoopers LLP, independent auditors, are incorporated by reference to pages 30 through 49 and page 50, respectively, of the Company's 2003 Annual Report to stockholders.

(b) Supplementary Data

Selected quarterly financial data for 2003 and 2002 are incorporated by reference to the data contained in the Condensed Interim Financial Data table on page 29 of the Company's 2003 Annual Report to stockholders.

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

Not applicable.

Item 9A. Controls and Procedures.

Management of the Company, with the participation of its Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures. Based on their evaluation, as of the end of the period covered by this Form 10-K, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) are effective.

There have been no significant changes in internal control over financial reporting, for the period covered by this report, that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The required information on directors and nominees is incorporated by reference to pages 8 through 11 of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 27, 2004. Information on executive officers is set forth in Part I of this document on pages 20 through 22.

The required information on the audit committee financial expert is incorporated by reference to page 13 (under the heading "Financial Expert on Audit Committee") of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 27, 2004.

The required information on the identification of the audit committee is incorporated by reference to pages 12 (under the caption "Board Committees") to 13 of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 27, 2004.

The required information on compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to page 41 (under the caption "Section 16(a) Beneficial Ownership Reporting Compliance") of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 27, 2004.

The Company has adopted a Code of Conduct – *Our Values and Standards* applicable to all employees, including the principal executive officer, principal financial officer, and principal accounting officer. The Code of Conduct is available on the Company's website at www.merck.com/about/corporategovernance and in print to any stockholder who requests it. The Company intends to post on this website any amendments to, or waivers from, its Code of Conduct.

Item 11. Executive Compensation.

The information required for this item is incorporated by reference to pages 16 (under the caption "Compensation of Directors") to 17, 22 (under the caption "Compensation of the Chief Executive Officer"), pages 23 to 25, 26 (beginning with the caption "Annual Benefits Payable Under Merck & Co., Inc. Retirement Plans") to 29, and page 15 (under the caption "Compensation Committee Interlocks and Insider Participation") of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 27, 2004.

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

Information with respect to securities authorized for issuance under equity compensation plans is incorporated by reference to pages 25 (beginning with the caption "Equity Compensation Plan Information") to 26 of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 27, 2004. Information with respect to security ownership of certain beneficial owners and management is incorporated by reference to pages 18 (under the caption "Security Ownership of Certain Beneficial Owners and Management") to 19 of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 27, 2004.

Item 13. Certain Relationships and Related Transactions.

The information required for this item is incorporated by reference to page 12 (under the caption "Relationships with Outside Firms") and page 29 (under the caption "Indebtedness of Management") of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 27, 2004.

Item 14. Principal Accountant Fees and Services.

The information required for this item is incorporated by reference to pages 31 (beginning with the caption "Pre-Approval Policy for Services of Independent Auditors") to 32 of the Company's Proxy Statement for the Annual Meeting of Stockholders to be held April 27, 2004.

PART IV

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

(a) Documents filed as part of this Form 10-K

1. Financial Statements

The following consolidated financial statements and report of independent auditors are incorporated herein by reference to the Company's 2003 Annual Report to stockholders, as noted on page 23 of this document:

Consolidated statement of income for the years ended December 31, 2003, 2002 and 2001

Consolidated statement of retained earnings for the years ended December 31, 2003, 2002 and 2001

Consolidated statement of comprehensive income for the years ended December 31, 2003, 2002 and 2001

Consolidated balance sheet as of December 31, 2003 and 2002

Consolidated statement of cash flows for the years ended December 31, 2003, 2002 and 2001

Notes to consolidated financial statements

Report of PricewaterhouseCoopers LLP, independent auditors

2. Financial Statement Schedules

Schedules are omitted because they are either not required or not applicable.

Financial statements of affiliates carried on the equity basis have been omitted because, considered individually or in the aggregate, such affiliates do not constitute a significant subsidiary.

3. Exhibits

Exhibit Number		Description
2.1	—	Master Restructuring Agreement dated as of June 19, 1998 between Astra AB, Merck & Co., Inc., Astra Merck Inc., Astra USA, Inc., KB USA, L.P., Astra Merck Enterprises, Inc., KBI Sub Inc., Merck Holdings, Inc. and Astra Pharmaceuticals, L.P. (Portions of this Exhibit are subject to a request for confidential treatment filed with the Commission) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
3.1	—	Restated Certificate of Incorporation of Merck & Co., Inc. (September 1, 2000) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended September 30, 2000
3.2	—	By-Laws of Merck & Co., Inc. (as amended effective February 25, 1997) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended March 31, 1997
*10.1	—	Executive Incentive Plan (as amended effective February 27, 1996) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 1995

* Management contract or compensatory plan or arrangement.

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Exhibit Number		Description
*10.2	—	Base Salary Deferral Plan (as adopted on October 22, 1996, effective January 1, 1997) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 1996
*10.3	—	Merck & Co., Inc. Deferral Program (amended and restated November 19, 2003)
*10.4	—	1991 Incentive Stock Plan (as amended effective February 23, 1994) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 1994
*10.5	—	1996 Incentive Stock Plan (as amended November 24, 1998) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1999
*10.6	—	2001 Incentive Stock Plan (amended and restated July 22, 2003) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended September 30, 2003
*10.7	—	2004 Incentive Stock Plan (amended July 22, 2003) — Incorporated by reference to Registration Statement on Form S-8 (No. 333-109296)
*10.8	—	Non-Employee Directors Stock Option Plan (as amended and restated February 24, 1998) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 1997
*10.9	—	1996 Non-Employee Directors Stock Option Plan (as amended April 27, 1999) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1999
*10.10	—	2001 Non-Employee Directors Stock Option Plan (as amended April 19, 2002) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 2002
*10.11	—	Supplemental Retirement Plan (as amended effective January 1, 1995) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 1994
*10.12	—	Retirement Plan for the Directors of Merck & Co., Inc. (amended and restated June 21, 1996) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1996
*10.13	—	Plan for Deferred Payment of Directors' Compensation (amended and restated November 19, 2003)
10.14	—	Limited Liability Company Agreement of Merck Capital Ventures, LLC (Dated as of November 27, 2000) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 2000
*10.15	—	Offer Letter between Merck & Co., Inc. and Peter S. Kim, dated December 15, 2000
10.16	—	Amended and Restated License and Option Agreement dated as of July 1, 1998 between Astra AB and Astra Merck Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998

* Management contract or compensatory plan or arrangement.

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Exhibit Number	Description
10.17	— KBI Shares Option Agreement dated as of July 1, 1998 by and among Astra AB, Merck & Co., Inc. and Merck Holdings, Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.18	— KBI-E Asset Option Agreement dated as of July 1, 1998 by and among Astra AB, Merck & Co., Inc., Astra Merck Inc. and Astra Merck Enterprises Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.19	— KBI Supply Agreement dated as of July 1, 1998 between Astra Merck Inc. and Astra Pharmaceuticals, L.P. (Portions of this Exhibit are subject to a request for confidential treatment filed with the Commission) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.20	— Second Amended and Restated Manufacturing Agreement dated as of July 1, 1998 among Merck & Co., Inc., Astra AB, Astra Merck Inc. and Astra USA, Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.21	— Limited Partnership Agreement dated as of July 1, 1998 between KB USA, L.P. and KBI Sub Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.22	— Distribution Agreement dated as of July 1, 1998 between Astra Merck Enterprises Inc. and Astra Pharmaceuticals, L.P. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.23	— Agreement to Incorporate Defined Terms dated as of June 19, 1998 between Astra AB, Merck & Co., Inc., Astra Merck Inc., Astra USA, Inc., KB USA, L.P., Astra Merck Enterprises Inc., KBI Sub Inc., Merck Holdings, Inc. and Astra Pharmaceuticals, L.P. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
12	— Computation of Ratios of Earnings to Fixed Charges
13	— 2003 Annual Report to stockholders (only those portions incorporated by reference in this document are deemed “filed”)
14	— Code of Conduct – <i>Our Values and Standards</i>
21	— List of subsidiaries
23	— Consent of Independent Accountants — Contained on page 30 of this Report
24.1	— Power of Attorney
24.2	— Certified Resolution of Board of Directors
31.1	— Rule 13a – 14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	— Rule 13a – 14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	— Section 1350 Certification of Chief Executive Officer
32.2	— Section 1350 Certification of Chief Financial Officer

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None of the instruments defining the rights of holders of long-term debt of the Company and its subsidiaries (Exhibit Number 4) are being filed since the total amount of securities authorized under any of such instruments taken individually does not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of such instruments to the Commission upon request.

Copies of the exhibits may be obtained by stockholders upon written request directed to the Stockholder Services Department, Merck & Co., Inc., P.O. Box 100—WS 3AB-40, Whitehouse Station, New Jersey 08889-0100 accompanied by check in the amount of \$5.00 payable to Merck & Co., Inc. to cover processing and mailing costs.

(b) Reports on Form 8-K

During the three-month period ended December 31, 2003, the Company furnished:

- (1) one Current Report on Form 8-K under Item 9 — Regulation FD Disclosure and Item 12 — Results of Operations and Financial Condition: Report dated and furnished October 22, 2003, regarding earnings for third quarter 2003 and certain supplemental information; and
- (2) three Current Reports on Form 8-K under Item 9 — Regulation FD Disclosure:
 - (i) Report dated and furnished December 3, 2003, regarding financial guidance for 2004.
 - (ii) Report dated and furnished December 9, 2003, regarding annual business briefing presentations.
 - (iii) Report dated and furnished December 9, 2003, regarding the Company's annual business briefing to analysts.

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.

MERCK & CO., INC.

Dated: March 10, 2004

By RAYMOND V. GILMARTIN
(Chairman of the Board,
President and Chief Executive Officer)

By CELIA A. COLBERT
Celia A. Colbert
(Attorney-in-Fact)

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 dates indicated.

Signatures	Title	Date
RAYMOND V. GILMARTIN	Chairman of the Board, President and Chief Executive Officer; Principal Executive Officer; Director	March 10, 2004
JUDY C. LEWENT	Executive Vice President, Chief Financial Officer and President, Human Health Asia; Principal Financial Officer	March 10, 2004
RICHARD C. HENRIQUES JR	Vice President, Controller; Principal Accounting Officer	March 10, 2004
LAWRENCE A. BOSSIDY	Director	March 10, 2004
WILLIAM G. BOWEN	Director	March 10, 2004
JOHNNETTA B. COLE	Director	March 10, 2004
WILLIAM M. DALEY	Director	March 10, 2004
WILLIAM B. HARRISON JR	Director	March 10, 2004
WILLIAM N. KELLEY	Director	March 10, 2004
HEIDI G. MILLER	Director	March 10, 2004
THOMAS E. SHENK	Director	March 10, 2004
SAMUEL O. THIER	Director	March 10, 2004
WENDELL P. WEEKS	Director	March 10, 2004
PETER C. WENDELL	Director	March 10, 2004

Celia A. Colbert, by signing her name hereto, does hereby sign this document pursuant to powers of attorney duly executed by the persons named, filed with the Securities and Exchange Commission as an exhibit to this document, on behalf of such persons, all in the capacities and on the date stated, such persons including a majority of the directors of the Company.

By CELIA A. COLBERT
Celia A. Colbert
(Attorney-in-Fact)

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 33-39349, 33-60322, 33-51785, 33-57421, 333-17045, 333-36383, 333-77569, 333-72546 and 333-87034) and on Form S-8 (Nos. 33-21087, 33-21088, 33-40177, 33-51235, 33-53463, 33-64273, 33-64665, 333-91769, 333-30526, 333-31762, 333-40282, 333-53246, 333-56696, 333-72206, 333-65796, 333-101519 and 333-109296) of Merck & Co., Inc. of our report dated February 20, 2004, relating to the consolidated financial statements, which appears in the Annual Report to stockholders, which is incorporated in this Annual Report on Form 10-K.

PricewaterhouseCoopers LLP

Florham Park, New Jersey
March 10, 2004

EXHIBIT INDEX

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3.1	—	Restated Certificate of Incorporation of Merck & Co., Inc. (September 1, 2000) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended September 30, 2000
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*10.7	—	2004 Incentive Stock Plan (amended July 22, 2003) — Incorporated by reference to Registration Statement on Form S-8 (No. 333-109296)
*10.8	—	Non-Employee Directors Stock Option Plan (as amended and restated February 24, 1998) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 1997
*10.9	—	1996 Non-Employee Directors Stock Option Plan (as amended April 27, 1999) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1999
*10.10	—	2001 Non-Employee Directors Stock Option Plan (as amended April 19, 2002) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 2002
*10.11	—	Supplemental Retirement Plan (as amended effective January 1, 1995) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 1994

* Management contract or compensatory plan or arrangement.

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Exhibit Number		Description
*10.12	—	Retirement Plan for the Directors of Merck & Co., Inc. (amended and restated June 21, 1996) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1996
*10.13	—	Plan for Deferred Payment of Directors' Compensation (amended and restated November 19, 2003)
10.14	—	Limited Liability Company Agreement of Merck Capital Ventures, LLC (Dated as of November 27, 2000) — Incorporated by reference to Form 10-K Annual Report for the fiscal year ended December 31, 2000
*10.15	—	Offer Letter between Merck & Co., Inc. and Peter S. Kim, dated December 15, 2000
10.16	—	Amended and Restated License and Option Agreement dated as of July 1, 1998 between Astra AB and Astra Merck Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.17	—	KBI Shares Option Agreement dated as of July 1, 1998 by and among Astra AB, Merck & Co., Inc. and Merck Holdings, Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.18	—	KBI-E Asset Option Agreement dated as of July 1, 1998 by and among Astra AB, Merck & Co., Inc., Astra Merck Inc. and Astra Merck Enterprises Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.19	—	KBI Supply Agreement dated as of July 1, 1998 between Astra Merck Inc. and Astra Pharmaceuticals, L.P. (Portions of this Exhibit are subject to a request for confidential treatment filed with the Commission) — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.20	—	Second Amended and Restated Manufacturing Agreement dated as of July 1, 1998 among Merck & Co., Inc., Astra AB, Astra Merck Inc. and Astra USA, Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.21	—	Limited Partnership Agreement dated as of July 1, 1998 between KB USA, L.P. and KBI Sub Inc. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.22	—	Distribution Agreement dated as of July 1, 1998 between Astra Merck Enterprises Inc. and Astra Pharmaceuticals, L.P. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
10.23	—	Agreement to Incorporate Defined Terms dated as of June 19, 1998 between Astra AB, Merck & Co., Inc., Astra Merck Inc., Astra USA, Inc., KB USA, L.P., Astra Merck Enterprises Inc., KBI Sub Inc., Merck Holdings, Inc. and Astra Pharmaceuticals, L.P. — Incorporated by reference to Form 10-Q Quarterly Report for the period ended June 30, 1998
12	—	Computation of Ratios of Earnings to Fixed Charges
13	—	2003 Annual Report to stockholders (only those portions incorporated by reference in this document are deemed "filed")
14	—	Code of Conduct - <i>Our Values and Standards</i>

* Management contract or compensatory plan or arrangement.

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Exhibit Number		Description
21	—	List of subsidiaries
23	—	Consent of Independent Accountants — Contained on page 30 of this Report
24.1	—	Power of Attorney
24.2	—	Certified Resolution of Board of Directors
31.1	—	Rule 13a – 14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	—	Rule 13a – 14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	—	Section 1350 Certification of Chief Executive Officer
32.2	—	Section 1350 Certification of Chief Financial Officer

None of the instruments defining the rights of holders of long-term debt of the Company and its subsidiaries (Exhibit Number 4) are being filed since the total amount of securities authorized under any of such instruments taken individually does not exceed 10% of the total assets of the Company and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of such instruments to the Commission upon request.

MERCK & CO., INC.

DEFERRAL PROGRAM

(Amended and Restated November 19, 2003)

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MERCK & CO., INC.
DEFERRAL PROGRAM

The Deferral Program (“the Program”) is intended to permit a select group of management to defer income which would otherwise be immediately payable to them as annual base salary or under various incentive plans of Merck & Co., Inc. (“the Company”).

I. ADMINISTRATION

This Program is administered by the Compensation and Benefits Committee of the Company’s Board of Directors. This Committee is composed of non-employee directors only. The Committee shall have responsibility for determining which investments will be available under the Program, and those investments shall be listed on Schedule I hereto. The Committee shall review the investment selections at least once every five years. The Committee shall make all decisions affecting the timing, price or amount of any and all of the Deferred Compensation of participants subject to Section 16 of the Securities Exchange Act of 1934, as amended (“Section 16 Officers”), but may otherwise delegate any of its authority under this Program.

II. ELIGIBILITY

Eligibility to defer under this Program will be determined in accordance with the terms of the Company’s Base Salary Deferral Plan and various incentive plans. However, the Committee has the authority to refuse to permit an employee to participate in this Program, if the Committee determines that such participation would jeopardize the Program’s compliance with applicable law or the Program’s status as a top hat plan under the Employee Retirement Income Security Act.

III. DEFERRAL INTO A DEFERRED COMPENSATION ACCOUNT

A. Election to Defer

A participant’s decision to defer under the Program must be made, (i) for the Base Salary Deferral Plan, prior to the commencement of the pay period during which the base salary to be deferred will be earned, (ii) for annual incentive plans, prior to the commencement of the performance year during which the bonus monies to be deferred will be earned, and (iii) for long-term incentive plans, prior to the commencement of the last year of the award period during which the bonus monies to be deferred will be earned. For purposes of annual incentive plans only, a participant who is hired by the Company during a performance year may make an election, no later than the thirtieth (30th) day from the participant’s date of hire, to defer bonus monies to be earned during such performance year. For the Base Salary Deferral Plan, only amounts equal to or in excess of five percent (5%) of Annual Base Salary (as defined in the Base Salary Deferral Plan) and less than or equal to the lesser of (1) fifty percent (50%) of Annual Base Salary or (2) the Participant’s Annual Base Salary in excess of the amount determined under Section 401(a)(17) of the Internal Revenue Code may be deferred. For the annual and long-term incentive plans, only amounts in excess of \$3,000 may be deferred. Amounts so deferred are known as “Deferred Compensation” and will be credited to the participant’s “Deferred Compensation Account.” Deferred Compensation shall be held in one account regardless of the plan (Base Salary Deferral or incentive plan) under which it was deferred.

B. Election of Distribution Schedule

1. Timing of Election

The participant shall also elect a distribution schedule for his/her Deferred Compensation. A participant's election of a distribution schedule in connection with a deferral election under annual and/or long-term incentive plans shall be made at the same time that the participant makes the election to defer. A participant's initial election of a distribution schedule in connection with deferrals under the Base Salary Deferral Plan shall be made at the same time as the initial deferral election, shall be irrevocable during the calendar year for which it was made and shall apply to all deferrals of Annual Base Salary until a new distribution election becomes effective. Thereafter, an election of a different distribution schedule in connection with deferrals under the Base Salary Deferral Plan may be made at any time, provided, however, that such new distribution schedule shall only apply prospectively to deferrals of Annual Base Salary in the following calendar year.

2. Distribution Schedule

A participant may elect to have payments begin at the participant's actual retirement date, subsequent to that date or prior thereto. A participant may elect a lump sum or a schedule of annual installments, up to a maximum of 15 annual installments. No installment, however, may be payable more than fifteen years after the participant's termination of employment.

C. Election of Investment Alternatives

The participant shall designate, in accordance with procedures established by the Company for such designation, the portion (in multiples of 1%) of the Deferred Compensation to be allocated to any investment alternative available under this Program.

IV. VALUATION OF DEFERRED COMPENSATION ACCOUNTS

A. Common Stock

1. Initial Crediting

The amount allocated to Merck Common Stock shall be used to determine the number of full and partial shares of Merck Common Stock which such amount would purchase at the closing price of Merck Common Stock on the New York Stock Exchange on the date cash payments of base salary, for amounts deferred under the Base Salary Deferral Plan, or incentive awards, for amounts deferred under the various incentive plans, would otherwise be paid to the participant ("the Deferral Date"). Should the Committee determine that valuation on any Deferral Date would not constitute fair market value, then the Committee shall decide on which date fair market value shall be determined using the valuation method set forth in this paragraph. The Company shall credit the participant's Deferred Compensation Account with the number of full and partial shares of Merck Common Stock so determined. However, at no time prior to the delivery of such shares shall any shares be purchased or earmarked for such Account and the participant shall not have any of the rights of a shareholder with respect to shares credited to his/her Deferred Compensation Account.

2. *Dividends*

The Company shall credit the Participant's Deferred Compensation Account with the number of full and partial shares of Merck Common Stock purchasable at the closing price of Merck Common Stock on the New York Stock Exchange as of the date each dividend is paid on the Common Stock, with the dividends which would have been paid on the number of shares credited to such Account (including pro rata dividends on any partial share) had the shares so credited then been issued and outstanding.

3. *Redesignations*

The value of Merck Common Stock for purposes of redesignation shall be the closing price of Merck Common Stock on the New York Stock Exchange on (i) the day when the redesignation request is received pursuant to administrative guidelines established by the Human Resources Financial Services area of the Treasury department, provided the request is received prior to the close of the New York Stock Exchange on such day or (ii) the next following business day if the request is received when the New York Stock Exchange is closed.

4. *Distributions*

Distributions of Merck Common Stock will be valued at the closing price of Merck Common Stock on the New York Stock Exchange on the distribution date.

5. *Limitations*

Shares of Merck Common Stock to be delivered under the provisions of this Program may be delivered by the Company from its authorized but unissued shares of Common Stock or from Common Stock held in the treasury. The amount of shares available each year under this Program shall be one-tenth of one-percent of outstanding shares of Merck Common Stock on the last business day of the preceding calendar year plus any shares authorized under this Program in previous years but not used, minus any shares distributed under the Executive Incentive Plan after April 26, 1994.

6. *Adjustments*

In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering or any other change in the corporate structure or shares of the Company, the number and kind of shares of Merck Common Stock available under this Program or credited to participants' Deferred Compensation Accounts shall be adjusted accordingly.

B. Mutual Funds

1. *Initial Crediting*

The amount allocated to each Mutual Fund shall be used to determine the number of full and partial Mutual Fund shares that such amount would purchase at the closing net asset value of the Mutual Fund shares on the Deferral Date. The Company shall credit the participant's Deferred Compensation Account with the number of full and partial Mutual Fund shares so determined. However, no Mutual Fund shares shall be purchased or earmarked for such Account, nor shall the participant have the rights of a shareholder with respect to such Mutual Fund shares.

2. *Dividends*

The Company shall credit the participant's Deferred Compensation Account with the number of full and partial Mutual Fund shares purchasable, at the closing net asset value of the Mutual Fund shares as of the date each dividend is paid on the Mutual Fund shares, with the dividends which would have been paid on the number of shares credited to such Account (including pro rata dividends on any partial share) had the shares then been owned by the participant for purposes of the above computation.

3. *Redesignations*

The value of Mutual Fund shares for purposes of redesignation shall be the net asset value of such Mutual Fund at the close of business on (i) the day when the redesignation request is received pursuant to administrative guidelines established by the Human Resources Financial Services area of the Treasury department, provided the request is received prior to the close of the New York Stock Exchange on such day or (ii) the next following business day if the request is received when the New York Stock Exchange is closed.

4. *Distributions*

Mutual Fund distributions will be valued based on the closing net asset value of the Mutual Fund shares on the distribution date.

5. *Adjustments*

In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering or any other change in the corporate structure or shares of a Mutual Fund, the number and kind of shares of that Mutual Fund credited to participants' Deferred Compensation Accounts shall be adjusted accordingly.

V. **REDESIGNATION WITHIN A DEFERRED COMPENSATION ACCOUNT**

A. **Basic Redesignation Rules**

A participant, or the beneficiary or legal representative of a deceased participant, may redesignate amounts credited to a Deferred Compensation Account among the investments available under this Program in accordance with the following rules:

- (1) *Eligible Participants* - Active employees, separated employees and retired participants are eligible to redesignate; provided, however, that no such redesignation shall be made into Merck Common Stock.
- (2) *Frequency and Timing* - Effective June 1, 1999, there is no limit on the number of times a participant may redesignate amounts measured by Mutual Funds, or, subject to Section B, below, Merck Common Stock. Redesignation shall take place on (i) the day when the redesignation request is received pursuant to administrative guidelines established by the Human Resources Financial Services area of the Treasury department, provided the request is received prior to the close of the New York Stock Exchange on such day or (ii) the next following business day if the request is received when the New York Stock Exchange is closed.

- (3) *Amount and Extent of Redesignation* - Redesignation must be in 1% multiples of the investment from which redesignation is being made.
- (4) *Beneficiaries or Legal Representatives* - The beneficiary or legal representative of a deceased participant may redesignate subject to the same rules as participants. However, the beneficiary or legal representative shall have one opportunity to redesignate any amount out of Merck Common Stock without regard to the rule set forth in Section B, below; thereafter, the beneficiary or legal representative shall be subject to the same redesignation rules as participants (including the limitation on redesignation out of Merck Common Stock).

B. Special Rules for Redesignation Out of Common Stock

1. Eligible Participants

No redesignation may be made out of Merck Common Stock unless the participant's balance in Merck Common Stock exceeds three times such participant's Annual Base Salary. For the purposes of this Section B, Annual Base Salary for an active participant shall be such participant's monthly base salary at the date the redesignation is requested, and, for a retired participant, monthly base salary at the date of retirement, annualized.

2. Frequency and Timing

For Section 16 Officers, redesignations may only be made out of Merck Common Stock during any window period established by the Company from time-to-time.

3. Amount.

Redesignation of amounts in Merck Common Stock is restricted to amounts in excess of three times Annual Base Salary. For Section 16 Officers, redesignation of amounts in Merck Common Stock is also restricted to amounts held in Merck Common Stock for longer than six (6) months.

4. Material, Nonpublic Information

The Committee, in its sole discretion and with advice of counsel, at any time may rescind a redesignation out of Merck Common Stock if such redesignation was made by a participant who, a) at the time of the redesignation was in the possession of material, nonpublic information with respect to the Company; and b) in the Committee's estimation benefited from such information in the timing of his/her redesignation. The Committee's determination shall be final and binding. In the event of such rescission, the participant's Deferred Compensation Account shall be returned to a status as though such redesignation had not occurred. Notwithstanding the above, the Committee shall not rescind a redesignation if the facts were reviewed by the participant with the General Counsel of the Company or a designee prior to the redesignation and if the General Counsel or designee had concluded that such participant was not in possession of adverse material, nonpublic information.

C. Conversion of Common Stock Accounts

The Committee may, in its sole discretion, convert all of the shares of Merck Common Stock allocated to a participant's Deferred Compensation Account in the manner provided below where a position which a terminated or retired participant has taken or wishes to take is, in the opinion of the Committee, such as would make uncertain the propriety of the participant's having a continued interest

in Merck Common Stock. The date of conversion shall be the date of commencement of such other employment or the date of the Committee's action, whichever is later.

Conversion shall be from an expression of value in shares of Merck Common Stock in the participant's Deferred Compensation Account to an expression of value in United States dollars in another available investment. The value of the Merck Common Stock shall be based upon its closing price on the New York Stock Exchange on the date of conversion or if no trading took place on such day, the next business day on which trading took place. Any conversion under this paragraph shall be irrevocable and absolute.

VI. DISTRIBUTION OF DEFERRED COMPENSATION ACCOUNTS

Distribution of Deferred Compensation Accounts shall be made in accordance with the participant's distribution schedule pro rata by investment. Distributions from Merck Common Stock will be made in shares, with cash payable for any partial share, subject to the limitations set forth in Article IV, Section A.5. For Section 16 Officers, distribution of amounts in Merck Common Stock is also restricted to amounts held in Merck Common Stock for longer than six months. Distributions from Mutual Funds will be in cash. Distributions will be valued on the fifteenth day of the distribution month (or, if such day is not a business day, the next business day) and paid as soon thereafter as practicable.

A. Retirement

A participant's retirement from active service will cause distributions of his/her Deferred Compensation Account to commence as soon as administratively feasible in accordance with the participant's previously elected schedule.

If a participant retires from active service prior to age 65, the Committee may establish a different distribution schedule. The schedule chosen by the Committee, however, shall not be shorter than the participant's previously elected schedule unless there has been or would be a significant change in the participant's economic circumstances attributable to the participant's early retirement. If the Committee decides to change the participant's distribution schedule, the participant's Deferred Compensation Account must be distributed ratably over no less than five years. However, if a participant has retired at the Company's request, the limitation in the preceding sentence does not apply.

B. Death

In the event of a participant's death, distributions under this Program will commence as soon as administratively feasible in accordance with his/her previously elected schedule. The participant's beneficiary or legal representative, however, may request that the Committee change such distribution schedule.

C. Automatic Distribution

If a participant terminates employment for reasons other than death, divestiture or a separation due to reorganization, reduction in force, elimination of the participant's job, or to take a position with a joint venture of other business entity defined in Section E, below, and is not eligible to retire from active service under one of the Company's pension plans, then his/her Deferred Compensation Account will be automatically paid in a lump sum as soon as administratively feasible following his/her termination of employment. Furthermore, except as provided in Schedule II, any participant

who dies, retires from active service, or whose employment terminates as a result of a divestiture, or a separation due to reorganization, reduction in force, or elimination of the participant's job, but whose Deferred Compensation Account is valued at less than \$125,000 on the date of his/her death, retirement, termination due to divestiture or separation will have his/her Deferred Compensation Account distributed in a lump sum as soon as administratively feasible following his/her death, retirement, or termination due to divestiture or separation.

D. Termination Due to Divestiture or Separation

If a participant is employed by a subsidiary of the Company that is sold, so that the subsidiary is no longer considered within the controlled group of the Company, that participant shall be considered to have terminated employment with the Company for purposes of this Program. If a participant's employment terminates as a result of a divestiture of a division or subsidiary of the Company, or as a result of a separation due to a reorganization, reduction in force, or elimination of the participant's job, distributions under this Program will commence as soon as administratively feasible after such termination of employment in accordance with his/her previously elected schedule or such schedule as the Committee, in its discretion, may approve in accordance with Section G, below.

E. Joint Venture Service

A participant's termination of employment in order to take a position with a joint venture or other business entity in which the Company shall directly or indirectly own fifty percent or more of the outstanding voting or other ownership interest shall not be considered a termination of employment with the Company for purposes of distribution under this Program.

F. Hardship Distributions

The Committee, in its sole discretion, may accelerate the time of distribution of a participant's Deferred Compensation Account, if the participant experiences severe financial hardship due to illness, accident or death in the immediate family, loss of or damage to property due to casualty, or other extraordinary and unforeseeable circumstances. Such participant should provide the Committee with a statement in reasonable detail as to the nature of such financial hardship together with a statement that such acceleration is necessary to alleviate such hardship.

G. Post-Retirement, Post-Divestiture and Post-Separation Modifications

A participant who has retired from active service or whose employment has terminated as a result of a divestiture or separation as described in Section D, above, may submit one petition to the Committee requesting an extension of the period of distribution of his/her Deferred Compensation Account. Such petition must be received by the Committee prior to the first distribution to the participant of his/her previously elected distribution schedule. Any revised distribution schedule may not exceed fifteen years from the date of actual retirement, or the divestiture or separation date and will be effective the beginning of the next calendar year. The Committee shall in no event grant a new schedule under which the participant would cumulatively receive a greater portion of his/her Deferred Compensation Account as measured at the end of each calendar year. Except as provided in Schedule II, a participant who is an active employee may not make a request under this paragraph.

VII. DEDUCTIONS FROM DISTRIBUTIONS

The Company will deduct from each distribution amounts required to be withheld for income, Social Security and other tax purposes. Such withholding will be done on a pro rata basis per

investment. The Company may also deduct any amounts the participant owes the Company for any reason.

VIII. BENEFICIARY DESIGNATIONS

A participant under this program may designate a beneficiary to receive his/her Deferred Compensation Account upon the participant's death. Should the beneficiary predecease the participant or should the participant not name a beneficiary, the participant's Deferred Compensation Account will be distributed to the participant's estate.

IX. AMENDMENTS

The Committee may amend this Program at any time. However, such amendment shall not materially adversely affect any right or obligation with respect to any Deferred Compensation made theretofore.

SCHEDULE I

DEFERRAL PROGRAM INVESTMENT ALTERNATIVES (January 1, 2002 – January 10, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Fund
American Funds EuroPacific Growth Fund
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income Fund
Fidelity Low-Priced Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan ® Government Income
Fidelity Spartan ® U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
Liberty Acorn Fund-Class Z
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
Putnam Global Equity Fund A*
Putnam International Voyager A
Putnam Vista A
T. Rowe Price Blue Chip Growth Fund
Vanguard Asset Allocation

*From September 20, 2002 – September 30, 2002, this investment was briefly named the Putnam Global Growth Fund A as a result of the merger, in September 2002, of Putnam Global Equity Fund A with Putnam Global Growth Fund A. The merged fund briefly retained the name “Putnam Global Growth Fund A.” Effective October 1, 2002, the merged fund changed its name to “Putnam Global Equity Fund A.”

SCHEDULE I

DEFERRAL PROGRAM INVESTMENT ALTERNATIVES (Effective January 11, 2003 to July 31, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth Fund
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
Liberty Acorn Class Z
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
Putnam Global Equity A
Putnam International Capital Opportunities Fund A*
Putnam Vista A
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

*Prior to April 30, 2003, known as Putnam International Voyager Fund A.

Redesignation of Deferred Amounts measured by Putnam Vista A on July 31, 2003

Prior to 4 p.m. ET on July 31, 2003, each participant who has any part of his/her Deferred Compensation Account measured by the Putnam Vista A investment alternative may redesignate the amount in such investment alternative in accordance with Article V, Section A. If a participant does not redesignate the amount measured by the Putnam Vista A investment alternative to any other remaining investment alternatives before 4 p.m. ET on July 31, 2003, then the amount in the Putnam Vista A account shall be redesignated as of 4 p.m. ET on July 31, 2003, to the Fidelity Mid-Cap Stock Fund.

SCHEDULE I

DEFERRAL PROGRAM INVESTMENT ALTERNATIVES (Effective July 31, 2003-November 19, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth Fund
Columbia Acorn Fund Z*
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Mid-Cap Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
Putnam Global Equity A
Putnam International Capital Opportunities Fund A**
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

*Prior to October 2003, known as Liberty Acorn Class Z

**Prior to April 30, 2003, known as Putnam International Voyager Fund A.

Redesignation of Deferred Amounts measured by Putnam Global Equity A and Putnam International Capital Opportunities Fund A (collectively, the “Putnam Funds”) on November 19, 2003

Prior to 4 p.m. ET on November 19, 2003, each participant who has any part of his/her Deferred Compensation Account measured by a Putnam Funds investment alternative may redesignate the amount in such investment alternative in accordance with Article V, Section A. If a participant does not redesignate the amount measured by a Putnam Funds investment alternative to any other remaining investment alternative(s) before 4 p.m. ET on November 19, 2003, then the amount in the Putnam Funds investment alternative shall be redesignated as of 4 p.m. ET on November 19, 2003, to the Fidelity Retirement Money Market portfolio.

SCHEDULE I

DEFERRAL PROGRAM INVESTMENT ALTERNATIVES (Effective November 19, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth Fund
Columbia Acorn Fund Z*
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Mid-Cap Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
Liberty Acorn Class Z
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

*Prior to October 2003, known as Liberty Acorn Class Z

SCHEDULE II

SPECIAL PROVISIONS APPLICABLE TO MEDCO HEALTH EMPLOYEES (Approved July 23, 2002)

DEFINITIONS

Medco Health – Medco Health Solutions, Inc.

Medco Health Employee – A participant who is (i) employed by Medco Health prior to the Spin-Off or (ii) employed by Merck prior to the Spin-Off and expected to be employed by Medco Health prior to or as of the Spin-Off.

Separated Medco Health Employee – A participant in the Deferral Program who is employed by Medco Health as of the date of the Spin-Off and is considered to have terminated employment with the Company as a result of the Spin-Off.

Spin-Off — The distribution by Merck to its shareholders of the equity securities of Medco Health. The Spin-Off will be a divestiture for purposes of the Deferral Program.

SPECIAL PROVISIONS

Notwithstanding anything to the contrary in Article VI, Section C of the Deferral Program, the Deferred Compensation Account of each Separated Medco Health Employee shall be paid out in accordance with Article VI, Section D, without regard to the \$125,000 threshold set forth in Section C.

Notwithstanding anything to the contrary in Article VI, Section G of the Deferral Program, each Medco Health Employee may submit the petition for an extension of the distribution schedule permitted under Section G either prior to the Spin-Off or once the Medco Health Employee has become a Separated Medco Health Employee; provided, however, that if a Medco Health Employee makes a request for a new distribution schedule prior to the Spin-Off and thereafter does not become a Separated Medco Health Employee, then such request shall not be effective.

MERCK & CO., INC.
PLAN FOR DEFERRED PAYMENT OF
DIRECTORS' COMPENSATION

(Amended and Restated November 19, 2003)

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MERCK & CO., INC.
PLAN FOR DEFERRED PAYMENT OF
DIRECTORS' COMPENSATION

I. PURPOSE

To provide an arrangement under which directors of Merck & Co., Inc. other than current employees may (i) elect to voluntarily defer payment of the annual retainer and meeting and committee fees until after termination of their service as a director, and (ii) value compensation mandatorily deferred on their behalf.

II. ELECTION OF DEFERRAL, MEASUREMENT METHODS AND DISTRIBUTION SCHEDULE

A. Election of Voluntary Deferral Amount

1. Prior to December 28 of each year, each director is entitled to make an irrevocable election to defer until termination of service as a director receipt of payment of (a) 50% or 100% of the retainer for the 12 months beginning April 1 of the next calendar year, (b) 50% or 100% of the Committee Chairperson retainer beginning April 1 of the next calendar year, and (c) 50% or 100% of the meeting and committee fees for the 12 months beginning April 1 of the next calendar year.
2. Prior to commencement of duties as a director, a director newly elected or appointed to the Board during a calendar year must make the election under this paragraph for the portion of the Voluntary Deferral Amount applicable to such director's first year of service (or part thereof).
3. The Voluntary Deferral Amount shall be credited as follows: (1) Meeting and committee fees that are deferred are credited as of the day the director's services are rendered; (2) if the Board retainer and/or Committee Chairperson retainer is deferred, a pro-rata share of the deferred retainer is credited on the last business day of each calendar quarter. The dates the Voluntary Deferral Amount, or parts thereof, are credited to the director's deferred account are hereinafter referred to as the Voluntary Deferral Dates.

B. Mandatory Deferral Amount

1. On the Friday following the Company's Annual Meeting of Stockholders (such Friday hereinafter referred to as the "Mandatory Deferral Date"), each director will be credited with an amount equivalent to one-third of the annual cash retainer for the 12 month period beginning on the April 1 preceding the Annual Meeting (the "Mandatory Deferral Amount"). The Mandatory Deferral Amount will be measured by the Merck Common Stock account.
2. A director newly elected or appointed to the Board after the Mandatory Deferral Date will be credited with a pro rata portion of the Mandatory Deferral Amount applicable to such director's first year of service (or part thereof). Such pro rata portion shall be credited to the director's account on the first day of such director's service.

C. Election of Measurement Method

Each such annual election referred to in Section A shall include an election as to the measurement method or methods by which the value of amounts deferred will be measured in accordance with Article III, below. The available measurement methods are set forth on Schedule A hereto.

D. Election of Distribution Schedule

Each annual election referred to in Section A above shall also include an election to receive payment following termination of service as a director of all Voluntary Deferral Amounts and Mandatory Deferral Amounts in a lump sum either immediately or one year after such termination, or in quarterly or annual installments over five, ten or fifteen years.

III. VALUATION OF DEFERRED AMOUNTS

A. Common Stock

1. *Initial Crediting*. The annual Mandatory Deferral Amount shall be used to determine the number of full and partial shares of Merck Common Stock which such amount would purchase at the closing price of the Common Stock on the New York Stock Exchange on the Mandatory Deferral Date.

That portion of the Voluntary Deferral Amount allocated to Merck Common Stock shall be used to determine the number of full and partial shares of Merck Common Stock which such amount would purchase at the closing price of the Common Stock on the New York Stock Exchange on the applicable Voluntary Deferral Date.

However, should it be determined by the Committee on Corporate Governance of the Board of Directors that a measurement of Merck Common Stock on any Mandatory or Voluntary Deferral Date would not constitute fair market value, then the Committee shall decide on which date fair market value shall be determined using the valuation method set forth in this Article III, Section A.1.

At no time during the deferral period will any shares of Merck Common Stock be purchased or earmarked for such deferred amounts nor will any rights of a shareholder exist with respect to such amounts.

2. *Dividends*. Each director's account will be credited with the additional number of full and partial shares of Merck Common Stock which would have been purchasable with the dividends on shares previously credited to the account at the closing price of the Common Stock on the New York Stock Exchange on the date each dividend was paid.
3. *Distributions*. Distribution from the Merck Common Stock account will be valued at the closing price of Merck Common Stock on the New York Stock Exchange on the distribution date.

B. Mutual Funds

1. *Initial Crediting*. The amount allocated to each Mutual Fund shall be used to determine the full and partial Mutual Fund shares which such amount would purchase at the closing net asset value of the Mutual Fund shares on the Mandatory or

Voluntary Deferral Date, whichever is applicable. The director's account will be credited with the number of full and partial Mutual Fund shares so determined.

At no time during the deferral period will any Mutual Fund shares be purchased or earmarked for such deferred amounts nor will any rights of a shareholder exist with respect to such amounts.

2. *Dividends.* Each director's account will be credited with the additional number of full and partial Mutual Fund shares which would have been purchasable, at the closing net asset value of the Mutual Fund shares as of the date each dividend is paid on the Mutual Fund shares, with the dividends which would have been paid on the number of shares previously credited to such account (including pro rata dividends on any partial shares).
 3. *Distributions.* Mutual Fund distributions will be valued based on the closing net asset value of the Mutual Fund shares on the distribution date.
- C. Adjustments

In the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering or any other change in the corporate structure or shares of the Company or a Mutual Fund, the number and kind of shares or units of such investment measurement method available under this Plan and credited to each director's account shall be adjusted accordingly.

IV. REDESIGNATION WITHIN A DEFERRAL ACCOUNT

A. General

A director may request a change in the measurement methods used to value all or a portion of his/her account other than Merck Common Stock. **Amounts deferred using the Merck Common Stock method and any earnings attributable to such deferrals may not be redesignated.** The change will be effective on (i) the day when the redesignation request is received pursuant to administrative guidelines established by the Human Resources Financial Services area of the Treasury department, provided the request is received prior to the close of the New York Stock Exchange on such day or (ii) the next following business day if the request is received when the New York Stock Exchange is closed.

B. When Redesignation May Occur

1. *During Active Service* . There is no limit on the number of times a director may redesignate the portion of his/her deferred account permitted to be redesignated. Each such request shall be irrevocable and can be designated in whole percentages or as a dollar amount.
2. *After Death* . Following the death of a director, the legal representative or beneficiary of such director may redesignate subject to the same rules as for active directors set forth in Article IV, Section B.1.

C. Valuation of Amounts to be Redesignated

The portion of the director's account to be redesignated will be valued at its cash equivalent and such cash equivalent will be converted into shares or units of the other measurement method(s). For purposes of such redesignations, the cash equivalent of the value of the Mutual Fund shares shall be the closing net asset value of such Mutual Fund on (i) the day when the redesignation request is received pursuant to administrative guidelines established by the Human Resources Financial Services area of the Treasury department, provided the request is received prior to the close of the New York Stock Exchange on such day or (ii) the next following business day if the request is received when the New York Stock Exchange is closed.

V. PAYMENT OF DEFERRED AMOUNTS

A. Payment

All payments to directors of amounts deferred will be in cash in accordance with the distribution schedule elected by the director pursuant to Article II, Section D. Distributions shall be pro rata by measurement method. Distributions shall be valued on the fifteenth day of the distribution month (or, if such day is not a business day, the next business day) and paid as soon thereafter as possible.

B. Changes to Distribution Schedule Prior to Termination

Upon the request of a director made at any time during the calendar year immediately preceding the calendar year in which service as a director is expected to terminate, the Committee on Corporate Governance of the Board of Directors (the "Committee"), in its sole discretion, may authorize: (a) an extension of a payment period beyond that originally elected by the director not to exceed that otherwise allowable under Article II, Section D, and/or (b) a payment frequency different from that originally elected by the director. Such request may not be made with regard to amounts deferred after December 31, 1990 using the Merck Common Stock method and to any earnings attributable to such deferrals. Deferrals into Merck Common Stock made after December 31, 1990 and any earnings thereon may only be distributed in accordance with the schedule elected by the director under Article II, Section D or determined by the Committee on Corporate Governance under Article VI.

C. Post-Termination Changes to Distribution Schedule

Following termination of service as a director, each director may make one request for a further extension of the period for distribution of his/her deferred compensation. Such request must be received by the Committee on Corporate Governance prior to the first distribution to the participant under his/her previously elected distribution schedule. Any revised distribution schedule may not exceed the deferral period otherwise allowable under Article II, Section C. This request may be granted and a new payment schedule determined in the sole discretion of the Committee on Corporate Governance.

Such request may not be made with regard to amounts deferred after December 31, 1990 using the Merck Common Stock Method and to any earnings attributable to such deferrals. Any retired director who is not subject to U.S. income tax may petition the Committee on Corporate Governance to change payment frequency, including a lump sum distribution, and the Committee on Corporate Governance may grant such petition if, in its discretion, it considers

there to be reasonable justification therefor. Deferrals into Merck Common Stock made after December 30, 1990 and any earnings thereon may only be distributed in accordance with the schedule elected by the director under Article II, Section D or determined by the Committee on Corporate Governance under Article VI.

D. Forfeitures

A director's deferred amount attributable to the Mandatory Deferral Amount and earnings thereon shall be forfeited upon his or her removal as a director or upon a determination by the Committee on Corporate Governance in its sole discretion, that a director has:

- (i) joined the Board of, managed, operated, participated in a material way in, entered employment with, performed consulting (or any other) services for, or otherwise been connected in any material manner with a company, corporation, enterprise, firm, limited partnership, partnership, person, sole proprietorship or any other business entity determined by the Committee on Corporate Governance in its sole discretion to be competitive with the business of the Company, its subsidiaries or its affiliates (a "Competitor");
- (ii) directly or indirectly acquired an equity interest of five (5) percent or greater in a Competitor; or
- (iii) disclosed any material trade secrets or other material confidential information, including customer lists, relating to the Company or to the business of the Company to others, including a Competitor.

VI. DESIGNATION OF BENEFICIARY

In the event of the death of a director, the deferred amount at the date of death shall be paid to the last named beneficiary or beneficiaries designated by the director, or, if no beneficiary has been designated, to the director's legal representative, in one or more installments as the Committee on Corporate Governance in its sole discretion may determine.

VII. PLAN AMENDMENT OR TERMINATION

The Committee on Corporate Governance shall have the right to amend or terminate this Plan at any time for any reason.

SCHEDULE A

MEASUREMENT METHODS

(January 1, 2002 – January 10, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Fund
American Century Europacific Growth Fund
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity Income Fund
Fidelity Low-Priced Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
Liberty Acorn Z
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
Putnam Global Equity Fund A*
Putnam International Voyager A
Putnam Vista A
T. Rowe Price Blue Chip Growth Fund
Vanguard Asset Allocation

*From September 20, 2002 — September 30, 2002, this investment was briefly named the Putnam Global Growth Fund A as a result of the merger, in September 2002, of Putnam Global Equity Fund A with Putnam Global Growth Fund A. The merged fund briefly retained the name “Putnam Global Growth Fund A.” Effective October 1, 2002, the merged fund changed its name to “Putnam Global Equity Fund A.”

SCHEDULE A

MEASUREMENT METHODS

(Effective January 11, 2003 to July 31, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth Fund
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
Liberty Acorn Class Z
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
Putnam Global Equity A
Putnam International Capital Opportunities Fund A*
Putnam Vista A
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

* Prior to April 30, 2003, known as Putnam International Voyager Fund A.

Redesignation of Deferred Amounts measured by Putnam Vista A on July 31, 2003

Prior to 4 p.m. ET on July 31, 2003, each participant who has any part of his/her account measured by the Putnam Vista A measurement method may redesignate the amount in such measurement method in accordance with Article IV. If a participant does not redesignate the amount measured by the Putnam Vista A measurement method to any other remaining measurement method before 4 p.m. ET on July 31, 2003, then the amount in the Putnam Vista A account shall be redesignated as of 4 p.m. ET on July 31, 2003, to the Fidelity Mid-Cap Stock Fund.

SCHEDULE A

MEASUREMENT METHODS

(Effective July 31, 2003 – November 19, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth Fund
Columbia Acorn Class Z*
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Mid-Cap Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
Putnam Global Equity A
Putnam International Capital Opportunities Fund A**
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

* Prior to October 2003, known as Liberty Acorn Class Z

** Prior to April 30, 2003, known as Putnam International Voyager Fund A

Redesignation of Deferred Amounts measured by Putnam Global Equity A and Putnam International Capital Opportunities Fund A (collectively, the “Putnam Funds”) on November 19, 2003

Prior to 4 p.m. ET on November 19, 2003, each participant who has any part of his/her Deferred Compensation Account measured by a Putnam Funds investment alternative may redesignate the amount in such investment alternative in accordance with Article IV. If a participant does not redesignate the amount measured by a Putnam Funds investment alternative to any other remaining investment alternative(s) before 4 p.m. ET on November 19, 2003, then the amount in the Putnam Funds investment alternative shall be redesignated as of 4 p.m. ET on November 19, 2003, to the Fidelity Retirement Money Market Portfolio.

SCHEDULE A

MEASUREMENT METHODS

(Effective November 19, 2003)

Merck Common Stock

Mutual Funds

American Century Emerging Markets Institutional
American Funds EuroPacific Growth
Columbia Acorn Class Z*
Fidelity Destiny I
Fidelity Dividend Growth
Fidelity Equity-Income
Fidelity Low-Priced Stock
Fidelity Mid-Cap Stock Fund
Fidelity Retirement Money Market
Fidelity Spartan Government Income
Fidelity Spartan U.S. Equity Index
Franklin Small-Mid Cap Growth A
Janus Enterprise
Janus Growth & Income
PIMCO Foreign Bond Institutional
PIMCO Long Term US Government Institutional
PIMCO Total Return Institutional
T. Rowe Price Blue Chip Growth
Vanguard Asset Allocation

* Prior to October 2003, known as Liberty Acorn Class Z

December 15, 2000

Dr. Peter S. Kim
48 Baskin Road
Lexington, MA 02421

Dear Peter:

It is my pleasure to offer you the position of Executive Vice President, Research and Development in the Merck Research Laboratories (Grade M01) of Merck & Co., Inc. ("Merck" or "the Company"), at a gross base salary of \$33,333 per month (subject to appropriate tax and payroll withholding and deductions), effective February 1, 2001. In this position, your primary work location will be West Point, PA. At Merck Research Laboratories, all salaried employees are currently paid on a monthly basis.

The specific details of this offer include the following:

As soon as practicable after commencing employment with Merck on February 1, 2001, you will receive a one-time sign-on bonus of \$100,000 (net of all income taxes required to be paid). If you voluntarily terminate your employment with Merck (i.e., if you resign) within 12 months of your start date, you will be required to reimburse the Company a pro-rated portion of this bonus.

You will be eligible for consideration under the Merck & Co., Inc. Incentive Stock Plan for a stock option to purchase Merck stock at the approximate market price on the date the option is granted. Subject to the terms of the specific option grant, option holders may purchase the stock after a vesting period (currently five years) at the original option price. The number of shares granted is determined each year by the Company. Assuming you begin your employment on or before February 26, 2001, you will be granted a nonqualified stock option grant for 100,000 shares of Merck stock when the Company makes its annual stock option grants for 2001. If you begin your employment after February 26, 2001, your grant will be issued on the next Quarterly Stock Option Grant date that falls in the Calendar Quarter following your date of hire.

Except as described in this paragraph, any option granted to you will have the same terms and conditions, including vesting terms, that apply generally to annual grants made in the applicable year to other Grade M01 employees. However, any option granted to you prior to May 1, 2003, will vest immediately upon (i) the termination by the Company of your employment with the Company prior to May 1, 2003, for a reason other than gross misconduct; or (ii) the termination of your employment with the Company by you prior to the usual vesting date of the grant and after the Company either (a) fails to appoint you by May 1, 2003 to succeed Dr. Edward M. Scolnick as President, MRL, or (b) appoints on or before May 1, 2003 someone other than you as President, MRL. If any option with these special vesting terms vests as a result of either (i) or (ii), then you will have five years from the accelerated vesting date of such option to exercise the option. In addition, if the Company terminates your employment, for a reason other than gross

misconduct, during the period from the effective date of Raymond V. Gilmartin's retirement through the second anniversary of such retirement, any options granted to you prior to your termination date that are not vested as of such termination date shall vest immediately on such termination date and be exercisable for five years thereafter. For purposes of this letter, "gross misconduct" means: unauthorized disclosure of information known to you to be proprietary or confidential; embezzlement, theft or other misappropriation of Merck assets; falsification of records or reports; deliberate or reckless action that causes actual or potential injury or loss to the Company or employees of the Company; failure to carry out assigned duties after notice in writing that such failure if not corrected will result in termination of employment; or an illegal act on Company property or in representing the Company.

You will be eligible for annual consideration to receive a cash bonus under the Company's Executive Incentive Plan (EIP). As a Grade M01 hire, you will have the opportunity within the first 30 calendar days of employment to elect to defer all or part of any cash bonus you may receive for Performance Year 2001. This 30-day period represents your only opportunity to elect a deferral option for Performance Year 2001. This opportunity is limited to New Hires in Grades M01 - M03 who are subject to U.S. taxes. (The Performance Year is January to December, and bonuses are paid in the following March.) Your bonus for the performance year 2001 will not be less than \$300,000 gross (subject to appropriate tax and payroll withholding and deductions), assuming you begin your employment on or before February 26, 2001. Future increases to your salary and continued participation in the Executive Incentive Plan will be based on your annual performance as administered under the Performance Management Plan and in accordance with the Company's compensation policies.

You will be eligible to participate in our exceptional *Flexible Benefits Program*, which includes the following plans: medical, dental, life insurance, accidental death and dismemberment insurance, survivor's income benefits, dependent life insurance, long-term disability insurance, long-term care insurance, financial planning program and two "tax free" accounts - health care reimbursement and dependent care reimbursement. Please feel free to contact Steve G. Sheehan, Vice President, MRL/IS/WW Licensing Human Resources directly at 215-652-5800 should you need further details on these benefit programs.

Additionally, you will be eligible to participate in the *Employee Savings and Security Plan* (a tax-deferred 401(k) plan) and *Company-paid Pension Plan*. If you are presently in a tax-qualified plan, you may "roll over" an eligible distribution from this plan into our 401(k) Plan. Our tax-deferred 401(k) Plan is managed by Fidelity Investments and includes a wide variety of investment options.

You will be eligible for 20 days of vacation annually in accordance with Company policy, accrued on a monthly basis.

Upon your written acceptance of our offer, we will defray your reasonable relocation expenses in an amount no less than \$50,000 if incurred. This consists of, but is not limited to, all costs and fees (including professional fees) incurred in negotiating this agreement, terminating your employment with Howard Hughes Medical Institute, disposing of your residence in Massachusetts and moving your personal and household effects to your permanent residence in the new location. If you currently own a home or intend to purchase in the new location, please do not contact any Realtor until you receive the list of authorized brokers from our Relocation

Department. A relocation consultant will contact you directly to review your relocation benefits and make the proper arrangements. If you have any questions specifically regarding your relocation benefits prior to your consultant contacting you, please call Barbara Turansky (215) 652-2068 at Merck & Co., Inc., West Point, Pennsylvania. Please note that the arrangements with the carrier must be handled directly by Merck. Relocation allowances are subject to U.S. Federal Income Tax in accordance with federal statutes.

A Home Assistance Program in the amount of up to \$500,000, based on need, has been approved and will be provided directly to one of three Merck authorized mortgage companies on your behalf. In addition to your own funds as the down payment, the Home Assistance Program will be applied to offset your mortgage balance. This Program is considered a second mortgage resulting in a lien placed on the property and will close simultaneously with the first mortgage. The lien and subsequent taxes due on these funds will cover a period of five (5) years. The appropriate taxes will be deducted monthly through payroll. If you leave Merck before the lien and taxes are satisfied, you would be obligated to repay a prorated portion of the original Home Assistance Program. Complete details of this program, including the list of mortgage companies, will be provided by your relocation counselor.

Please be advised that this offer is contingent upon the following:

- **your successfully completing a drug screen evaluation;**
- **proof of your eligibility to work in the United States.**

Once the above contingencies have been met, we will confirm the offer and your February 1, 2001 starting date. Your employment at Merck will be subject to Merck's terms and conditions of employment, which will be provided to you when this offer is confirmed. We do not advise altering your current employment status until these contingencies have been met .

In order to schedule your pre-placement health evaluation and drug screen, please contact Dr. Robert S. Falcone, Corporate Medical Director, Employee Health Services, Merck & Co., Inc., Whitehouse, New Jersey at 908-423-4115.

It is with a great deal of confidence that we extend this offer to you. We are impressed with your achievements and your strong motivation for a successful scientific career. We believe that you possess the qualities that would complement and contribute to the attainment of our research goals, and we are certain that Merck can provide you with an environment that is stimulating and rewarding.

It is the expectation of Merck that you will succeed Dr. Edward M. Scolnick as President, MRL. Should you not succeed Dr. Edward M. Scolnick as President, MRL, you may choose to return to academia. As an employee of Merck, you will be an employee at will. This means that either you or Merck may terminate the employment relationship at any time for any lawful reason. In order to accommodate your concern about returning to academia, Merck agrees that if, (1) by May 1, 2003, you have not been appointed by Merck to succeed Dr. Edward M. Scolnick as President, MRL, or if (2) on or before May 1, 2003 someone other than you is appointed by Merck to succeed Dr. Scolnick as President, MRL, or if (3) prior to the second anniversary of the effective date of Raymond V. Gilmartin's retirement, your employment is terminated by Merck for a reason other than gross misconduct, then Merck shall give a one-time grant of \$2,000,000

to an academic institution, designated by you, for the sole purpose of enabling you to set up and maintain a research laboratory as an employee of that institution, provided that the designated institution hires you as an employee no later than one year after the first of the above contingencies occurs. Since the purpose of the grant is to provide a significant benefit for you, as a condition precedent to Merck's implementation of the special arrangement, upon the termination of your Merck employment you must sign and comply with noncompete and nondisclosure provisions and a waiver and release of claims, in a format prescribed by Merck; provided that the terms of such provisions applicable to you shall be no less favorable to you than any other such terms prescribed by Merck for a departing MRL employee at Grade M01 during the preceding five years are favorable to such departing employee.

We look forward to receiving your favorable response, in writing, and sincerely hope you find at Merck & Co., Inc. the career opportunities you are seeking. We would appreciate receiving your written reply as soon as possible, but no later than **December 22nd**. If I can answer any questions or provide assistance in any way, please do not hesitate to contact me at 215-652-7553.

Sincerely,

/s/ Edward M. Scolnick

*Note: All benefits, bonuses and stock options are provided or granted subject to the terms of the applicable plan documents, as such plans may be amended from time to time by the Company.

Copy: Susan D. Paulosky
Steve G. Sheehan
Ginny S. Stephens
Kenneth J. Weiss
Wendy L. Yarno
New Employee Administration

MERCK & CO., INC. AND SUBSIDIARIES

Computation Of Ratios Of Earnings To Fixed Charges

(In millions except ratio data)

	Years Ended December 31					
	2003	2002	2001	2000	1999	1998
Income from Continuing Operations Before Taxes	\$9,051.6	\$ 9,651.7	\$ 9,948.1	\$9,362.3	\$8,370.1	\$7,976.9
Add (Subtract):						
One-third of rents	75.6	67.2	64.2	55.9	55.0	52.3
Interest expense, gross	350.9	390.6	463.7	484.0	315.5	205.1
Interest capitalized, net of amortization	(30.1)	(36.9)	(66.1)	(99.0)	(61.4)	(36.9)
Equity (income) loss from affiliates, net of distributions	79.2	(156.1)	(113.7)	(288.3)	(352.7)	36.2
Preferred stock dividends, net of tax	150.9	164.3	199.6	205.0	120.2	61.4
Earnings from Continuing Operations	<u>\$9,678.1</u>	<u>\$10,080.8</u>	<u>\$10,495.8</u>	<u>\$9,719.9</u>	<u>\$8,446.7</u>	<u>\$8,295.0</u>
One-third of rents	\$ 75.6	\$ 67.2	\$ 64.2	\$ 55.9	\$ 55.0	\$ 52.3
Interest expense, gross	350.9	390.6	463.7	484.0	315.5	205.1
Preferred stock dividends	<u>215.6</u>	<u>234.7</u>	<u>285.1</u>	<u>292.9</u>	<u>171.7</u>	<u>87.7</u>
Fixed Charges from Continuing Operations	<u>\$ 642.1</u>	<u>\$ 692.5</u>	<u>\$ 813.0</u>	<u>\$ 832.8</u>	<u>\$ 542.2</u>	<u>\$ 345.1</u>
Ratio of Earnings to Fixed Charges from Continuing Operations	<u>15</u>	<u>15</u>	<u>13</u>	<u>12</u>	<u>16</u>	<u>24</u>

For purposes of computing these ratios, "earnings" consist of income before taxes, one-third of rents (deemed by the Company to be representative of the interest factor inherent in rents), interest expense, net of amounts capitalized, equity income (loss) from affiliates, net of distributions, and dividends on preferred stock of subsidiary companies. "Fixed charges" consist of one-third of rents, interest expense as reported in the Company's consolidated financial statements and dividends on preferred stock of subsidiary companies.

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Financial Review

Description of Merck's Business

Merck is a global research-driven pharmaceutical products company that discovers, develops, manufactures and markets a broad range of innovative products to improve human and animal health, directly and through its joint ventures. Merck sells its products primarily to drug wholesalers and retailers, hospitals, clinics, government agencies and managed health care providers such as health maintenance organizations and other institutions. The Company's professional representatives communicate the effectiveness, safety and value of our products to health care professionals in private practice, group practices and managed care organizations.

On August 19, 2003, Merck completed the spin-off of Medco Health Solutions, Inc. (Medco Health). Following the spin-off, the Company's prior period Consolidated Statements of Income and Cash Flows and related discussions have been restated to present the results of Medco Health separately as discontinued operations. As a result of the spin-off, product sales now reflect sales to Medco Health as third-party sales based upon the net selling price from Merck to Medco Health. Prior year amounts have been restated to conform to the current year presentation.

Overview

Merck remains committed to its strategy of discovering and developing novel medicines and vaccines and is confident in its ability to drive long-term shareholder value. In 2003, the Company withdrew two products from late-phase clinical trials. Despite these setbacks, Merck's research and development efforts are, and will continue to be, the foundation of the Company. Continuing to focus on developing and launching novel medicines and vaccines backed by proven outcomes at competitive prices, aggressively pursuing external alliances, lowering the Company's cost structure and maximizing in-line franchises will allow Merck to grow and succeed over the long term.

In 2003, the Company completed the successful spin-off of Medco Health and increased its ownership in Banyu Pharmaceutical Co., Ltd. (Banyu), one of Japan's top 10 pharmaceutical companies. These two actions make Merck a more focused pharmaceutical research company with a stronger position in Japan, the world's second-largest market.

In November 2003, the U.S. Food and Drug Administration (FDA) accepted the filing of a New Drug Application (NDA) by Merck/Schering-Plough Pharmaceuticals, a partnership between Merck and Schering-Plough Corporation (Schering-Plough), for *Vytorin*, which contains the active ingredients of both *Zetia* (ezetimibe) and *Zocor* (simvastatin). The investigational cholesterol-lowering medicine is being developed for the reduction of elevated cholesterol levels (hypercholesterolemia). In December 2003, Merck resubmitted an expanded NDA to the FDA for *Arcoxia*, its newest coxib for the treatment of osteoarthritis, rheumatoid arthritis, chronic low back pain, acute pain, dysmenorrhea, acute gouty arthritis and ankylosing spondylitis.

In addition to the 2003 submissions, Merck has novel vaccine candidates, a diabetes drug and a drug for sleep disorders in the late-stage pipeline. The Company's preclinical and Phase I and II programs span a significant number of therapeutic categories and include work in the areas of diabetes, obesity, Alzheimer's disease, respiratory disease, coronary heart disease, rheumatoid arthritis and vaccines. New technologies give Merck the potential to move compound candidates into later stages for development faster than before. Merck supplements its internal research with an aggressive licensing and external alliance strategy focused on the entire spectrum of collaborations from early research to late-stage compounds.

In 2003, the Company accelerated its efforts to fundamentally lower its cost structure through Company-wide initiatives. In October 2003, Merck announced the reduction of 4,400 positions, which is expected to be completed in 2004. In addition, in the fourth quarter of 2003, the Company implemented a new distribution program for U.S. wholesalers to moderate the fluctuations in sales caused by wholesaler investment buying and improve efficiencies in the distribution of Merck pharmaceutical products.

Each of Merck's major in-line franchises ranks either No. 1 or 2 in its class in worldwide sales. This success has been driven largely by Merck's focus on developing novel medicines and demonstrating their value through proven health outcomes. Merck's strong financial profile enables the Company to fully fund research and development, aggressively focus on external alliances, support inline products and maximize upcoming launches while providing significant cash returns to shareholders.

Earnings per common share assuming dilution from continuing operations for 2003 were \$2.92, including the impact of the implementation of the new distribution program for U.S. wholesalers and restructuring costs related to position eliminations. Continuing operations excluded only the results from Medco Health. The Company anticipates full-year 2004 earnings per common share assuming dilution, including the effect of restructuring costs, of \$3.11 to \$3.17.

Competition and the Health Care Environment

The markets in which the Company conducts its business are highly competitive and often highly regulated. Global efforts toward health care cost containment continue to exert pressure on product pricing and access.

In the United States, the government made significant progress in expanding health care access by adding prescription drug coverage to Medicare beginning in 2006 and implementing a voluntary drug discount card for Medicare beneficiaries effective in June 2004. Implementation of the new benefit will support the Company's goal of improving access to medicines by expanding insurance coverage, while preserving market-based incentives for pharmaceutical innovation. At the same time, the benefit is designed to assure that prescription drug costs will be controlled by competitive pressures and by encouraging the appropriate use of medicines. The Company has taken a leadership role in contributing to the success of the new Medicare-endorsed discount cards by providing its medicines free for low-income Medicare beneficiaries who exhaust their \$600 transitional assistance allowance in Medicare-endorsed drug discount cards. This action is consistent with the Company's long-standing Patient Assistance Program, which provides free medicines to patients in the United States who lack drug coverage and cannot afford their medicines.

In addressing cost containment outside of Medicare, the Company has made a continuing effort to demonstrate that its medicines can help save costs in overall patient health care. In addition, pricing flexibility across the Company's product portfolio has encouraged growing use of its medicines and mitigated the effects of increasing cost pressures.

Outside the United States, in difficult environments encumbered by government cost containment actions, the Company has worked in partnership with payers on allocating scarce resources to optimize health care outcomes, limiting the potentially detrimental effects of government policies on sales growth and supporting the discovery and development of innovative products to benefit patients. The Company also is working with governments in many emerging markets in Latin America and Asia to encourage them to increase their investments in health and thereby improve their citizens' access to medicines. Countries within the European Union (EU), recognizing the economic importance of the research-based pharmaceutical industry and the value of innovative medicines to society, are working with industry representatives and the European Commission on proposals to complete the "Single Market" in pharmaceuticals and improve the competitive climate through a variety of means including market deregulation.

The Company is committed to improving access to medicines and enhancing the quality of life for people around the world. Merck's African Comprehensive HIV/AIDS Partnerships (ACHAP) in Botswana, in collaboration with the government of Botswana and the Bill & Melinda Gates Foundation, is striving to develop a comprehensive and sustainable approach to HIV prevention, care and treatment. To further catalyze access to HIV medicines in developing countries, in October 2002 the Company began to introduce a new 600 mg tablet formulation of its anti-retroviral medicine *Stocrin* at a price of less than one dollar per day in the least developed countries and those hardest hit by the HIV/AIDS epidemic. By the end of 2003, more than 120,000 patients in 62 developing countries were being treated with anti-retroviral regimens containing either *Crixivan* or *Stocrin*. Through these and other actions, Merck is working with partners in the public and private sectors alike to focus on the real barriers to access to medicines in the developing world: the need for sustainable financing, increased international assistance and additional investments in education, training and health infrastructure and capacity in developing countries.

There has been an increasing amount of focus on privacy issues in countries around the world, including the United States and the EU. In the United States, federal and state governments have pursued legislative and regulatory initiatives regarding patient privacy, including recently issued federal privacy regulations concerning health information, which have affected the Company's operations.

Although no one can predict the outcome of these and other legislative, regulatory and advocacy initiatives, the Company is well-positioned to respond to the evolving health care environment and market forces.

The Company anticipates that the worldwide trend toward cost containment will continue, resulting in ongoing pressures on health care budgets. As the Company continues to successfully launch new products, contribute to health care debates and monitor reforms, its new products, policies and strategies will enable it to maintain a strong position in the changing economic environment.

Operating Results

Sales

Worldwide sales for 2003 increased 5% in total over 2002, reflecting a 4% favorable effect from foreign exchange and a 1% favorable effect from price changes. The overall increase reflects strong growth of *Singulair* for asthma and seasonal allergic rhinitis, *Fosamax* for osteoporosis, and *Cozaar* / *Hyzaar* for high blood pressure. Also contributing to the increase were sales of *Vioxx* and *Arcoxia* for arthritis and pain, *Cancidas* for infections, *Cosopt* for glaucoma, *Proscar* for benign prostate enlargement, and *Maxalt* for migraines. Revenues from the Company's relationship with AstraZeneca LP (AZLP) also added to the overall growth.

Domestic sales increased by 1%, while foreign sales grew 11%. Sales in the United States were unfavorably impacted by the implementation of a new distribution program for U.S. wholesalers as described below, and foreign sales were negatively affected by the loss of basic patent protection for *Zocor*, for modifying cholesterol, in Canada and certain countries in Europe, including the United Kingdom and Germany. Foreign sales represented 41% of total sales in 2003.

Historically, in anticipation of possible price increases, certain U.S. wholesalers placed some noncancellable orders at prices that remained in effect until Merck shipped the product. In the fourth quarter of 2003, the Company implemented a new distribution program for U.S. wholesalers to moderate the fluctuations in sales caused by wholesaler investment buying and improve efficiencies in the distribution of Merck pharmaceutical products. The new program has lowered previous limits on average monthly purchases of Merck pharmaceutical products by U.S. customers. Overall, implementation of the new U.S. wholesaler distribution program had an estimated \$700 to \$750 million unfavorable impact on consolidated revenues with an estimated \$500 million unfavorable effect on *Zocor* sales.

Worldwide sales for 2002 increased 1% in total and 2% on a volume basis from 2001. Foreign exchange had less than a one-half point unfavorable effect on sales growth and price changes had essentially no effect on growth. Foreign sales represented 39% of total sales in 2002.

Sales ⁽¹⁾ by category of the Company's products were as follows:

(\$ in millions)	2003	2002	2001
Atherosclerosis	\$ 5,077.9	\$ 5,552.1	\$ 5,433.3
Hypertension/heart failure	3,421.6	3,477.8	3,584.3
Anti-inflammatory/analgesics	2,677.3	2,587.2	2,391.1
Osteoporosis	2,676.6	2,243.1	1,629.7
Respiratory	2,009.4	1,489.8	1,260.3
Vaccines/biologicals	1,056.1	1,028.3	1,022.5
Anti-bacterial/anti-fungal	1,028.5	821.0	750.4
Ophthalmologicals	675.1	621.5	644.5
Urology	605.5	547.3	545.4
Human immunodeficiency virus (HIV)	290.6	294.3	380.8
Other	2,967.3	2,783.4	3,556.7
	<u>\$22,485.9</u>	<u>\$21,445.8</u>	<u>\$21,199.0</u>

⁽¹⁾ Presented net of rebates and discounts.

The Company's products include therapeutic and preventive agents, generally sold by prescription, for the treatment of human disorders. Among these are atherosclerosis products, of which *Zocor* is the largest-selling; hypertension/heart failure products, the most significant of which are *Cozaar*, *Hyzaar*, and *Vasotec*; anti-inflammatory/analgesics, which include *Vioxx* and *Arcoxia*, agents that specifically inhibit the COX-2 enzyme, which is responsible for pain and inflammation (coxibs); an osteoporosis product, *Fosamax*, for treatment and prevention of osteoporosis; a respiratory product, *Singulair*, a leukotriene receptor antagonist for treatment of asthma and for relief of symptoms of seasonal allergic rhinitis; vaccines/biologicals, of which *M-M-R II*, a pediatric vaccine for measles, mumps and rubella, *Varivax*, a live virus vaccine for the prevention of chickenpox, and *Recombivax HB* (hepatitis B vaccine recombinant) are the largest-selling; anti-bacterial/anti-fungal products, which includes *Primaxin* as well as newer products *Cancidas* and *Invanz*; ophthalmologicals, of which *Cosopt* and *Trusopt* are the largest-selling; a urology product, *Proscar*, for treatment of symptomatic benign prostate enlargement; and HIV products, which include *Crixivan* and *Stocrin* for the treatment of human immunodeficiency viral infection in adults.

Other primarily includes sales of other human pharmaceuticals, pharmaceutical and animal health supply sales to the Company's joint ventures and revenue from the Company's relationship with AZLP, primarily relating to sales of *Nexium* and *Prilosec*. Revenue from AZLP was \$1.9 billion, \$1.5 billion and \$1.9 billion in 2003, 2002 and 2001, respectively.

Zocor, Merck's statin for modifying cholesterol, achieved worldwide sales of \$5.0 billion in 2003, a decline of 8% from 2002. The implementation of the new U.S. wholesaler distribution program in 2003 unfavorably impacted *Zocor* sales by approximately \$500 million for the year. In 2003, sales of *Zocor* were also affected by increased competition in the statin market and the loss of basic patent protection in Canada and certain countries in Europe, including the United Kingdom and Germany. The patent expirations had an unfavorable impact on the sales comparison to 2002 of 8%. U.S. mail-order-adjusted prescription levels for *Zocor* increased by approximately 2% in 2003.

In April, the FDA approved a new indication for *Zocor* based on the results of the landmark Heart Protection Study (HPS), which demonstrated that,

along with diet, *Zocor* 40 mg is the first and only cholesterol-lowering medication proven to save lives by reducing the risk of heart attack and stroke in people with heart disease or diabetes, regardless of cholesterol level. Results of a subgroup analysis of the HPS published in the June issue of *The Lancet* showed that treatment with *Zocor* 40 mg lowered the incidence of heart attacks and stroke for people with diabetes, regardless of cholesterol or glucose levels. Merck continues to communicate the results of the landmark HPS to physicians and consumers.

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In May, a new contract took effect whereby *Zocor* was selected as the sole high-potency HMG agent (statin) for the U.S. Department of Veteran Affairs and the Department of Defense. High potency is defined in the contract as lowering LDL-C by at least 38%.

In 2006, *Zocor* will lose its market exclusivity in the United States and the Company expects a decline in U.S. sales.

Fosamax, the most prescribed medicine worldwide for the treatment of postmenopausal, male and glucocorticoid-induced osteoporosis, continued its strong growth in 2003 with sales of \$2.7 billion, an increase of 19% over 2002. U.S. mail-order-adjusted prescription levels for *Fosamax* increased by approximately 9% in 2003.

Fosamax Once Weekly has been launched in more than 80 markets worldwide and potential for continued growth in the osteoporosis market remains strong: fewer than 25% of women with osteoporosis in seven major markets have been diagnosed and treated.

In April, an international study was published in *The Archives of Internal Medicine* showing that women who stopped hormone replacement therapy (HRT) experienced significant bone loss during the year following discontinuation. The study also showed that *Fosamax* prevented this bone loss in many women and helped increase bone density of the spine and maintained bone density at the hip in postmenopausal women who stopped HRT.

In June, in a published study versus Actonel (administered in an approved once-daily dosing regimen in Europe, where the study was conducted), *Fosamax* 70 mg Once Weekly provided significantly greater increases in bone mineral density at the spine and hip and similar tolerability.

In September, results from two head-to-head studies were presented at the annual meeting of the American Society for Bone and Mineral Research. These studies, the Efficacy of *Fosamax* vs. Evista Comparison Trial (EFFECT), demonstrated the superiority of *Fosamax* versus Evista (raloxifene) for the treatment of postmenopausal osteoporosis, with *Fosamax* 70 mg Once Weekly providing significantly greater increases in bone mineral density at the spine and hip than raloxifene 60 mg once daily.

Global sales for *Cozaar*, and its companion agent, *Hyzaar* (a combination of *Cozaar* and the diuretic hydrochlorothiazide), for the treatment of hypertension were strong in 2003, reaching \$2.5 billion, a 14% increase over 2002. U.S. mail-order-adjusted prescription levels for *Cozaar* and *Hyzaar* increased by approximately 8% in 2003.

Cozaar and *Hyzaar* compete in the fastest-growing class in the antihypertensive market. *Cozaar* is the second-most-frequently prescribed angiotensin II antagonist (AIIA) in the United States and the largest-selling AIIA in Europe.

In March 2003, the FDA approved *Cozaar* as the first and only AIIA indicated to reduce the risk of stroke in patients with hypertension and left ventricular hypertrophy (LVH). The new indication is based on the landmark Losartan Intervention for Endpoint Reduction in Hypertension (LIFE) study. The LIFE study demonstrated that treatment with a regimen based on *Cozaar* reduced the risk of stroke by 25% in patients with hypertension and LVH versus treatment with a regimen based on the beta blocker atenolol. In the study, black patients with hypertension and LVH had a lower risk of stroke on atenolol than on *Cozaar*.

In 2003, two separate sets of hypertension guidelines were issued: the Seventh Report of the Joint National Committee on Prevention, Detection and Treatment of High Blood Pressure in the United States in May and the European Society of Hypertension–European Society of Cardiology Guidelines in Europe in June. Both support the use of AIIAs for the treatment of certain groups of patients, based in part on the landmark LIFE and Reduction of Endpoints in Non- Insulin Dependent Diabetes Mellitus with the Angiotensin II Antagonist Losartan (RENAAL) studies with *Cozaar*.

In the RENAAL study of patients with hypertension, Type II diabetes and nephropathy, *Cozaar* significantly delayed the doubling of serum creatinine (a marker of kidney disease) and significantly delayed progression to end-stage renal disease (ESRD), a condition requiring dialysis or renal transplantation for survival, but had no effect on overall mortality. *Cozaar* is the only medicine that has demonstrated a significant reduction in the risk of ESRD in patients with Type II diabetes, nephropathy and hypertension.

Thirty-two countries have granted new regulatory licenses to *Cozaar* based on the LIFE study, and 45 countries have done so based on RENAAL.

In 2001, Merck and E.I. du Pont de Nemours and Company (DuPont) began sharing equally the operating profits from *Cozaar* and *Hyzaar* in North America, under terms of the license agreement established between the parties in 1989. Financial terms outside of North America were not changed.

Worldwide sales of *Vioxx*, Merck's first once-a-day coxib, grew 2% over 2002, achieving \$2.5 billion in sales in 2003. Although U.S. mail-order-adjusted prescription levels for *Vioxx* decreased by approximately 8% in 2003, *Vioxx* remains the most widely available coxib on managed care formularies in the United States. *Vioxx* is the only coxib in the United States that offers 24-hour pain relief in a once-daily tablet for all indications, with more than 91 million prescriptions written in the United States since its introduction in 1999. Outside the United States, *Vioxx* is the best-selling arthritis and pain medicine.

Data presented at the 55th Annual Scientific Meeting of the American Academy of Neurology in April profiled research results for *Vioxx* in the treatment of acute migraine headaches. *Vioxx* 25 mg once daily and 50 mg once daily relieved acute migraine pain within two hours and reduced certain symptoms associated with migraine headaches of moderate to severe intensity. *Vioxx* was well-tolerated compared to placebo in the 557-patient study.

Supplemental NDAs are under review with the FDA for additional indications for acute migraine and juvenile rheumatoid arthritis. If approved, these uses are expected to enhance the efficacy profile of *Vioxx*.

Arcoxia, Merck's newest coxib, continues to be launched in countries outside the United States. As of December 31, *Arcoxia* had been launched in 38

countries in Europe, Latin America and Asia, with worldwide sales reaching \$70 million for the year.

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In December, the Company submitted an NDA for *Arcoxia* to the FDA seeking indications for the treatment of osteoarthritis, rheumatoid arthritis, chronic low back pain, acute pain, dysmenorrhea, acute gouty arthritis and ankylosing spondylitis, a painful condition of the spine. The FDA will determine whether to accept Merck's application as submitted.

In June, new studies presented at the annual congress of the European League Against Rheumatism showed that *Arcoxia* provided sustained pain relief in patients with osteoarthritis and rheumatoid arthritis. Treatment effects were maintained for the duration of each study—more than three years in the osteoarthritis study and one year in the rheumatoid arthritis studies.

Results from an investigational study of *Arcoxia* in patients with chronic low back pain were published in the August issue of *The Journal of Pain*. The study showed that *Arcoxia* 60 mg and 90 mg once daily provided significant improvement in the relief of symptoms and disability associated with chronic low back pain compared to placebo. Improvement was observed one week after initiating therapy. Maximum relief was observed at four weeks, and relief was maintained throughout the three-month study.

In November, the European Union's Committee for Proprietary Medicinal Products concluded its comprehensive review of the COX-2 selective inhibitor class, which includes *Vioxx* and *Arcoxia*, and confirmed that the medicines have a positive balance of benefits and risks.

Singulair, Merck's once-a-day oral medication indicated for the treatment of chronic asthma and the relief of symptoms of seasonal allergic rhinitis (hay fever), continued its strong performance in 2003. *Singulair* is the second-most-prescribed product in the overall respiratory market in the United States. Total 2003 sales of *Singulair* were \$2.0 billion, an increase of 35% over 2002. U.S. mail-order-adjusted prescription levels for *Singulair* increased by approximately 32% in 2003.

During the first quarter, Merck launched a new indication for *Singulair* for the relief of symptoms of seasonal allergic rhinitis in adults and children as young as 2 years of age. *Singulair* represents a novel way to treat seasonal allergies because it blocks leukotrienes instead of histamine and may offer relief to many of the more than 50 million people in the United States who suffer from some form of allergic rhinitis. Twenty-eight countries outside the United States have also approved the new indication.

In September, Merck announced that it had made *Singulair* available in the United States for the prevention and treatment of chronic asthma in children ages 12 months to 5 years with a new, convenient once-a-day oral granules formulation. The new formulation represents the first non-steroidal once-daily oral asthma controller medication approved for children as young as 12 months. The oral granules formulation of *Singulair* can also be used for relief of symptoms of seasonal allergies in children ages 2 to 5 years. Asthma is the most common chronic childhood illness, affecting more than 6 million children in the United States alone, with an increasing prevalence in children under 5 years.

Also in September, Merck presented the results of a new study, PREvention of Virally Induced Asthma (PREVIA), at the 13th Annual Congress of the European Respiratory Society. PREVIA showed that young children whose asthma was triggered by colds experienced significantly fewer asthma attacks when treated with *Singulair*, compared to placebo. Viruses that cause the common cold and respiratory infections account for up to 85% of childhood asthma attacks.

In March 2003, the FDA approved *Emend*, the first member in a new class of medicines to help prevent the acute and delayed nausea and vomiting associated with highly emetogenic cancer chemotherapy. Presentations at the 39th Annual Meeting of the American Society of Clinical Oncology demonstrated that treatment with a regimen containing *Emend* reduced the impact of chemotherapy-induced nausea and vomiting on patients' daily functioning.

Sales growth in 2003 also benefited from *Cancidas*, which is the first in a new class of anti-fungals, called echinocandins or glucan synthesis inhibitors, introduced in more than a decade. *Cancidas* is used to treat certain life-threatening fungal infections that are becoming more prevalent as the number of people with compromised immune systems increases. This medicine is indicated for the treatment of candidemia (bloodstream infection) and the following Candida infections: intra-abdominal abscesses, peritonitis (infections within the lining of the abdominal cavity) and pleural space infections (infections within the lining of the lung). It is also indicated for esophageal candidiasis, and in invasive aspergillosis in patients who do not respond to or cannot tolerate other anti-fungal therapies, such as amphotericin B, lipid formulations of amphotericin B and/or itraconazole.

Other products experiencing growth in 2003 included the antibiotic *Primaxin*, *Proscar* for the treatment of symptomatic benign prostate enlargement, *Maxalt* for the treatment of acute migraine headaches in adults, *Cosopt* to treat glaucoma, *Propecia* for male pattern hair loss, and *Invanz* for the treatment of selected moderate to severe infection in adults. *Crixivan*, though still contributing to 2003 sales, declined in unit volume as a result of therapeutic competition. Also contributing to Merck's total sales in 2003 was revenue resulting from the Company's relationship with AZLP, primarily relating to sales of *Nexium*.

Global sales of *Zetia*, the cholesterol absorption inhibitor developed and marketed by Merck/Schering-Plough Pharmaceuticals, reached \$469 million for 2003. More than 5.7 million prescriptions have been written in the United States since the U.S. launch of *Zetia* in mid-November 2002, according to IMS Health. *Zetia* currently accounts for more than 5% of new prescriptions in the U.S. cholesterol-modifying market. *Zetia* is reimbursed for nearly 90% of all patients in managed care plans in the United States. The Company records its interest in the Merck/Schering-Plough partnerships in Equity income from affiliates.

Zetia is the first in a new class to come to market in the cholesterol management category since statins were introduced 15 years ago. It works to lower cholesterol in a unique way by inhibiting cholesterol absorption in the intestine. *Zetia* is often combined with statins, which work by inhibiting cholesterol synthesis in the liver.

In 2003, following the successful completion of the European Union Mutual Recognition Procedure, *Ezetrol* (the brand name for *Zetia* outside of the United States) had been launched in five European countries—Germany, the United Kingdom, Switzerland, Sweden and the Netherlands.

In September, Merck/Schering-Plough Pharmaceuticals submitted an NDA to the FDA for *Vytorin*, which contains the active ingredients of both *Zetia* (ezetimibe) and *Zocor* (simvastatin). If approved, the product would be the first single medication to target the body's two sources of cholesterol through dual inhibition—inhibiting both cholesterol production in the liver and absorption in the intestine. In November, the filing was accepted by the FDA for standard review. Similar applications have been filed in other countries outside the United States.

Costs, Expenses and Other

(\$ in millions)	2003	Change	2002	Change	2001
Materials and production	\$ 4,315.3	+10%	\$ 3,907.1	+ 8%	\$ 3,624.8
Marketing and administrative	6,394.9	+13%	5,652.2	- 1%	5,700.6
Research and development	3,178.1	+19%	2,677.2	+ 9%	2,456.4
Acquired research	101.8	*	—	—	—
Equity income from affiliates	(474.2)	-26%	(644.7)	- 6%	(685.9)
Other (income) expense, net	(81.6)	*	202.3	+31%	155.0
	<u>\$13,434.3</u>	<u>+14%</u>	<u>\$11,794.1</u>	<u>+ 5%</u>	<u>\$11,250.9</u>

* 100% or greater.

Materials and Production

In 2003, materials and production costs increased 10% compared to a 5% sales growth rate. Excluding the effects of exchange and inflation, these costs increased 7%, compared to sales volume at the same level as 2002. The increase in these costs relative to sales volume reflects the effect of changes in product mix as well as a change in the mix of domestic and foreign sales, attributable in part to the implementation of the new distribution program for U.S. wholesalers. In 2002, materials and production costs increased 8%, compared to a 1% sales growth rate primarily attributable to the effect of changes in product mix. Excluding the effects of exchange and inflation, these costs increased 10%, eight points higher than the unit sales volume growth in 2002. Gross margin was 80.8% in 2003 compared to 81.8% in 2002 and 82.9% in 2001.

Marketing and Administrative

In 2003, marketing and administrative expenses increased 13%. Excluding the effects of exchange and inflation, these costs increased 5% primarily attributable to the impact of \$195 million for restructuring costs related to position eliminations. In 2003, the Company accelerated its efforts to fundamentally lower its cost structure through Company-wide initiatives. In October 2003, the Company announced the reduction of 4,400 positions, which is expected to be completed in 2004. Approximately 3,200 positions had been eliminated as of December 31, 2003. Additional restructuring costs are expected to be incurred in 2004. When complete, the cost reductions are expected to generate annual savings of payroll and benefits costs of \$250 to \$300 million starting in 2005. The Company continues to seek opportunities to improve its business processes and reduce its cost structure. In 2002, marketing and administrative expenses decreased 1% in total and 4% on a volume basis. Marketing and administrative expenses as a percentage of sales were 28% in 2003, 26% in 2002 and 27% in 2001.

Research and Development

Research and development expenses increased 19% in 2003. Excluding the effects of exchange and inflation, these expenses increased 13%. Research and development expense growth reflects the Company's ongoing commitment to both basic and clinical research, as well as new research collaborations.

Merck's late-stage pipeline candidates include novel vaccines for human papillomavirus (HPV), the pain associated with shingles, and *RotaTeq*, a vaccine for rotavirus – a highly contagious virus that is the most common cause of severe gastroenteritis in infants and young children. Merck expects to file Product License Applications (PLAs) with the FDA for these three novel vaccine candidates in the second half of 2005. There are competing claims to intellectual property in the HPV field, but the Company is confident that the claims will not delay the Company's program. The Company expects to submit a PLA to the FDA for its *ProQuad* vaccine, a pediatric combination vaccine for measles, mumps, rubella and chickenpox, in the second half of 2004.

The Company is also studying a DP-IV inhibitor, a glucose-lowering mechanism, used alone and in combination for the treatment of Type II diabetes. Merck plans to enter Phase III clinical trials with this investigational compound in the second quarter of 2004 and expects to submit an NDA to the FDA in 2006.

Merck's early-stage pipeline includes candidates in each of the following areas: diabetes, obesity, Alzheimer's disease, respiratory disease, coronary heart disease, rheumatoid arthritis and vaccines.

The Company supplements its internal research with an aggressive licensing and external alliance strategy focused on the entire spectrum of collaborations from early research to late-stage compounds, as well as new technologies. In 2003, Merck completed 47 significant transactions, including research collaborations, preclinical and clinical compounds, and technology transactions, compared to 10 in 1999. Transactions completed in 2003 include agreements with the following companies: GenPath, for cancer; Amrad, for respiratory disease; Neurogen, for pain; and Actelion, for cardiovascular disease.

On February 10, 2004, the Company announced that it had entered into an agreement with H. Lundbeck A/S (Lundbeck) to develop and commercialize

in the United States gaboxadol, a compound licensed to Lundbeck by a third party that is currently in Phase III development for the treatment of sleep disorders. Under the terms of the agreement, Lundbeck will receive an initial payment of \$70.0 million and up to \$200.0 million in additional milestone payments. The Company and Lundbeck will jointly complete the ongoing Phase III clinical program, with the Company funding the majority of the remaining development activities. The Company anticipates that it will file an NDA with the FDA between late 2006 and mid-2007. Following FDA approval, the companies plan to co-promote gaboxadol in the United States. Lundbeck will receive a share of gaboxadol sales in the United States.

On February 23, 2004, the Company announced that it had agreed to acquire Aton Pharma, Inc. (Aton), a privately held biotechnology company focusing on the development of novel treatments for cancer and other serious diseases. Consideration for the acquisition will consist of upfront and contingent payments based upon the regulatory filing, and approval and sales of products. Aton's clinical pipeline of histone deacetylase inhibitors represents a class of anti-tumor agents with potential for efficacy based on a novel mechanism of action. Aton's lead product candidate, known as suberoylanilide hydroxamic acid, has been extensively studied in Phase I clinical trials and is currently in Phase II clinical trials for the treatment of cutaneous T-cell lymphoma. The Company expects to complete the acquisition of Aton in the first quarter of 2004.

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The chart below reflects the Company's research pipeline as of March 1, 2004. Candidates shown in Phase III include specific products. Candidates shown in Phase I and II include the most advanced compound with a specific mechanism in a given therapeutic area. Back-up compounds, regardless of their phase of development, additional indications in the same therapeutic areas and additional line extensions or formulations for in-line products are not shown. Preclinical areas shown are those where the Company has initiated Good Laboratory Practices (GLP) studies in compounds with mechanisms distinct from those in Phase I and II. The Company's programs are generally designed to focus on the development of novel medicines to address large, unmet medical needs.

Research Pipeline

Preclinical	
Diabetes	
Atherosclerosis	
Parkinson's disease	
Pain	
Anxiety	
Osteoporosis	
Cancer	
Rheumatoid arthritis	
Glaucoma	
Antibacterial	
Vaccines	
Phase I	
Diabetes	c-3347
Obesity	c-2624, c-5093
Atherosclerosis	c-8834
Alzheimer's disease	c-7617, c-9138
Multiple Sclerosis	c-6448
Pain	c-1246
Psychiatric disease	c-9054
Respiratory disease	c-3193
Rheumatoid arthritis	c-4462, c-5997
AIDS	c-2507
Vaccines	HIV vaccine
Phase II	
Obesity	c-2735
Alzheimer's disease	c-9136
Urinary incontinence	c-3048
Respiratory disease	c-3885
Post-operative nausea and vomiting	c-9280
Vaccines	Pediatric combination
Phase III	
Pediatric combination vaccine	<i>ProQuad</i>
Rotavirus vaccine	<i>RotaTeq</i>
Shingles	Zoster vaccine
Human papillomavirus	HPV vaccine
Diabetes	MK-0431 (2Q04)
Sleep disorders	MK-0928 (Gaboxadol)
2003 Submissions	
Cardiovascular	<i>Vytorin</i> (Ezetimibe/Simvastatin) (submitted 3Q03)
Arthritis/Analgesia	<i>Arcoxia</i> (submitted 4Q03)

In February 2003, Merck announced that it had discontinued Phase II clinical trials for its lead GABA-A $\alpha 2/\alpha 3$ agonist compound for the treatment of generalized anxiety. The Company is continuing its research in the field of anxiety through the ongoing study of GABA agonist molecules. The timing for the development of these other molecules is not certain.

In April, Merck announced that it was discontinuing development of its lead Phosphodiesterase-4 (PDE-4) inhibitor compound from Phase II clinical trials for the treatment of asthma and chronic obstructive pulmonary disease (COPD). The Company is continuing its research in the field of asthma and COPD through the ongoing study of other PDE-4 inhibitor molecules. The timing for the development of these other molecules is not certain.

In August, Merck announced it had put the Phase I clinical trials for its lead HIV integrase inhibitor compound on hold. The Company is also continuing its research in the field of integrase inhibitors through the ongoing study of other integrase inhibitors. The timing for the development of these other molecules is not certain.

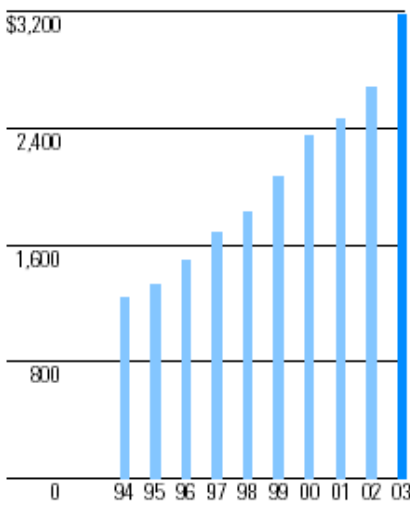
In November, the Company announced that it was discontinuing its Phase III clinical development program for its substance P antagonist investigational product, MK-0869, for the treatment of depression. The Phase III clinical program was halted because the compound failed to demonstrate efficacy for the treatment of depression. Merck remains committed to its neuroscience programs.

Also in November, the Company announced that it was discontinuing its Phase III clinical development program for its investigational product, MK-0767, for the treatment of diabetes. Merck was developing MK-0767 in collaboration with Kyorin Pharmaceutical Co., Ltd. The clinical program was halted because recent findings in Merck's long-term safety assessment program identified a rare form of malignant tumors in mice. The clinical relevance of these findings in humans is unknown. Merck is continuing its commitment to diabetes research and is currently studying a DP-IV inhibitor for diabetes. The Company plans to enter Phase III with this investigational compound in the second quarter of 2004.

Research and development expenses increased 9% in 2002. Excluding the effects of exchange and inflation, these expenses increased 6%.

Research and development in the pharmaceutical industry is inherently a long-term process. The following data show an unbroken trend of year-to-year increases in the Company's research and development spending. For the period 1994 to 2003, the compounded annual growth rate in research and development was 10%.

Research and Development Expenditures
\$ in millions



Acquired Research

In 2003, the Company increased its ownership in Banyu from 51% to 99.4%, strengthening Merck's position in Japan, the world's second-largest pharmaceutical market. In connection with the Banyu shares acquisitions, the Company recorded charges of \$101.8 million for acquired research associated with products in development for which, at the acquisition date, technological feasibility had not been established and no alternative future use existed.

Equity Income from Affiliates

Equity income from affiliates reflects the performance of the Company's joint ventures and partnership returns from AZLP. In 2003, the decrease in equity income from affiliates reflects lower partnership returns from AZLP, primarily resulting from the impact of generic competition for *Prilosec*. In 2002, the decrease in equity income from affiliates was primarily attributable to the impact of the Company's share of marketing and launch expenses for *Zetia* and ongoing research and development expenses associated with the Merck/Schering-Plough partnerships.

Other Income (Expense), Net

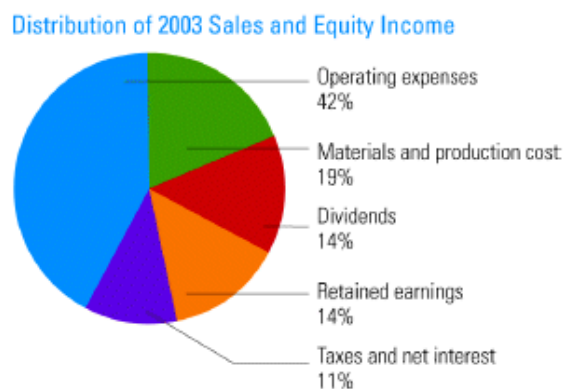
The increase in other income, net, in 2003 primarily reflects an \$84.0 million gain on the sale of *Aggrastat* product rights in the United States, lower minority interest expense resulting from the Banyu shares acquisitions, and realized gains on the Company's investment portfolios relating to the favorable interest rate environment. In 2002, the increase in other expense, net, was primarily attributable to losses on investments partially offset by lower minority interest expense.

Earnings

(\$ in millions except per share amounts)	2003	Change	2002	Change	2001
Income from continuing operations	\$6,589.6	-3%	\$6,794.8	-4%	\$7,053.2
As a % of sales	29.3%		31.7%		33.3%
Net income	6,830.9		7,149.5		7,281.8
As a % of average total assets	14.9%		15.5%		17.3%
Earnings per common share assuming dilution from continuing operations	\$ 2.92	-2%	\$ 2.98	-2%	\$ 3.04

The Company's effective income tax rate was 27.2% in 2003, 29.6% in 2002, and 29.1% in 2001. The lower tax rate in 2003 resulted from a change in mix of domestic and foreign income, which includes the impact in the fourth quarter of 2003 of both the restructuring costs and the new wholesaler distribution program.

Income from continuing operations declined 3% in 2003 compared to a 4% decline in 2002. Income from continuing operations as a percentage of sales was 29.3% in 2003 compared to 31.7% in 2002 and 33.3% in 2001. The decline in the ratios from 2001 is driven by the effect of changes in product mix and increased spending in research and development. The reduction in 2003 also reflects the impact of the new wholesaler distribution program, restructuring costs and the charge for acquired research. Net income as a percentage of average total assets was 14.9% in 2003, 15.5% in 2002 and 17.3% in 2001. Earnings per common share assuming dilution from continuing operations declined 2% in 2003 and 2002. The lower relative declines of earnings per common share assuming dilution from continuing operations compared to income from continuing operations are a result of treasury stock purchases.



Selected Joint Venture and Affiliate Information

To expand its research base and realize synergies from combining capabilities, opportunities and assets, the Company has formed a number of joint ventures. (See Note 4 to the financial statements for further information.)

In 1982, the Company entered into an agreement with Astra AB (Astra) to develop and market Astra products in the United States. In 1994, the

Company and Astra formed an equally owned joint venture that developed and marketed most of Astra's new prescription medicines in the United States including *Prilosec*, the first of a class of medications known as proton pump inhibitors, which slows the production of acid from the cells of the stomach lining.

In 1998, the Company and Astra restructured the joint venture whereby the Company acquired Astra's interest in the joint venture, renamed KBI Inc. (KBI), and contributed KBI's operating assets to a new U.S. limited partnership named Astra Pharmaceuticals, L.P. (the Partnership), in which the Company maintains a limited partner interest. The Partnership, renamed AstraZeneca LP (AZLP), became the exclusive distributor of the products for which KBI retained rights.

Merck earns ongoing revenue based on sales of current and future KBI products and such revenue was \$1.9 billion, \$1.5 billion and \$1.9 billion in 2003, 2002 and 2001, respectively, primarily relating to sales of *Nexium* and *Prilosec*. In addition, Merck earns certain Partnership returns, which are recorded in Equity income from affiliates. Such returns include a priority return provided for in the Partnership Agreement, variable returns based, in part, upon sales of certain former Astra USA, Inc. products, and a preferential return representing Merck's share of undistributed AZLP GAAP earnings. These returns aggregated \$391.5 million, \$640.2 million and \$642.8 million in 2003, 2002 and 2001, respectively. The decrease in 2003 is attributable to a reduction in the preferential return, primarily resulting from the impact of generic competition for *Prilosec*.

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In 1989, Merck formed a joint venture with Johnson & Johnson to develop and market a broad range of nonprescription medicines for U.S. consumers. This 50% owned joint venture was expanded into Europe in 1993, and into Canada in 1996. Sales of joint venture products were as follows:

(\$ in millions)	2003	2002	2001
Gastrointestinal products	\$299.6	\$299.0	\$293.5
Other products	146.2	114.0	101.5
	<u>\$445.8</u>	<u>\$413.0</u>	<u>\$395.0</u>

In 1994, Merck and Pasteur Mérieux Connaught (now Aventis Pasteur) established a 50% owned joint venture to market vaccines in Europe and to collaborate in the development of combination vaccines for distribution in Europe. Sales of joint venture products were as follows:

(\$ in millions)	2003	2002	2001
Hepatitis vaccines	\$ 73.6	\$ 69.4	\$ 88.0
Viral vaccines	51.5	34.6	40.5
Other vaccines	543.9	442.4	371.1
	<u>\$669.0</u>	<u>\$546.4</u>	<u>\$499.6</u>

In 1997, Merck and Rhône-Poulenc (now Aventis) combined their animal health and poultry genetics businesses to form Merial Limited (Merial), a fully integrated animal health company, which is a stand-alone joint venture, equally owned by each party. Merial provides a comprehensive range of pharmaceuticals and vaccines to enhance the health, well-being and performance of a wide range of animal species. Sales of joint venture products were as follows:

(\$ in millions)	2003	2002	2001
Fipronil products	\$ 577.2	\$ 486.2	\$ 409.7
Avermectin products	476.7	462.1	495.0
Other products	789.0	714.5	690.4
	<u>\$1,842.9</u>	<u>\$1,662.8</u>	<u>\$1,595.1</u>

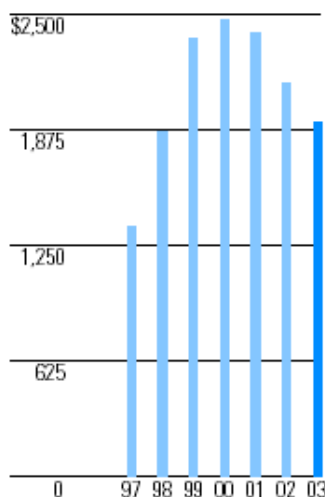
In 2000, the Company and Schering-Plough Corporation (Schering-Plough) entered into agreements to create separate equally-owned partnerships to develop and market in the United States new prescription medicines in the cholesterol-management and respiratory therapeutic areas. In 2001, the cholesterol-management partnership agreements were expanded to include all the countries of the world, excluding Japan. In October 2002, ezetimibe, the first in a new class of cholesterol-lowering agents, was approved in the United States as *Zetia* and in Germany as *Ezetrol*. *Zetia* was launched in the United States in November 2002. In 2003, following the successful completion of the European Union Mutual Recognition Procedure, *Ezetrol* had been launched in five European countries—Germany, the United Kingdom, Switzerland, Sweden and the Netherlands. Sales totaled \$469.4 million in 2003 and \$25.3 million in 2002. In September 2003, Merck/Schering-Plough Pharmaceuticals submitted an NDA to the FDA for *Vytorin*, which contains the active ingredients of both *Zetia* and *Zocor*. In November 2003, the filing was accepted by the FDA for standard review. Similar applications have been filed in other countries outside the United States.

Capital Expenditures

Capital expenditures were \$1.9 billion in 2003 and \$2.1 billion in 2002. Expenditures in the United States were \$1.3 billion in 2003 and \$1.6 billion in 2002. Expenditures during 2003 included \$788.3 million for production facilities, \$763.8 million for research and development facilities, \$41.8 million for environmental projects, and \$322.0 million for administrative, safety and general site projects. Capital expenditures approved but not yet spent at December 31, 2003 were \$1.3 billion. Capital expenditures for 2004 are estimated to be \$1.9 billion.

Depreciation was \$1.1 billion in 2003 and 2002, of which \$790.0 million and \$726.6 million, respectively, applied to locations in the United States.

Capital Expenditures
\$ in millions



Analysis of Liquidity and Capital Resources

Merck's strong financial profile enables the Company to fully fund research and development, aggressively focus on external alliances, support in-line products and maximize upcoming launches while providing significant cash returns to shareholders. In 2003, cash provided by operating activities of \$8.4 billion was the Company's primary source of funds to finance capital expenditures, the acquisitions of Banyu shares, treasury stock purchases and dividends paid to stockholders. At December 31, 2003, the total of worldwide cash and investments was \$12.1 billion, including \$4.2 billion of cash, cash equivalents and short-term investments, and \$7.9 billion of long-term investments.

Selected Data

(\$ in millions)	2003	2002	2001
Working capital	\$1,957.6	\$2,011.2	\$1,417.4
Total debt to total liabilities and equity	16.7%	18.0%	20.1%
Cash provided by operations to total debt	1.2:1	1.0:1	0.9:1

Working capital levels are more than adequate to meet the operating requirements of the Company. The ratios of total debt to total liabilities and equity and cash provided by operations to total debt reflect the strength of the Company's operating cash flows and the ability of the Company to cover its contractual obligations.

The Company's contractual obligations as of December 31, 2003 are as follows:

Payments Due by Period

(\$ in millions)	Total	2004	2005- 2006	2007- 2008	There- after
Loans payable and current portion of long-term debt	\$1,700.0	\$1,700.0	\$ —	\$ —	\$ —
Long-term debt	5,096.0	—	1,594.3	1,398.3	2,103.4
Operating leases	435.6	132.9	176.7	72.4	53.6
	<u>\$7,231.6</u>	<u>\$1,832.9</u>	<u>\$1,771.0</u>	<u>\$1,470.7</u>	<u>\$2,157.0</u>

Loans payable and current portion of long-term debt includes \$500.0 million of notes with a final maturity in 2011, which, on an annual basis, will either be repurchased from the holders at the option of the remarketing agent and remarketed, or redeemed by the Company. Loans payable and current portion of long-term debt also reflects \$296.0 million of long-dated notes that are subject to repayment at the option of the holders on an annual basis. Required funding obligations for 2004 relating to the Company's pension and other postretirement benefit plans are not expected to be material.

In 2001, the Company's \$1.5 billion shelf registration statement filed with the Securities and Exchange Commission for the issuance of debt securities became effective. In February 2004, the Company issued \$350.0 million of 2.5% three-year notes and \$25.0 million of variable rate notes under the shelf. In February 2004, the Company also entered into an interest rate swap contract that effectively converts the 2.5% fixed rate notes to floating rate instruments. The remaining capacity under the Company's shelf registration statement is approximately \$850.0 million.

The Company's strong financial position, as evidenced by its triple-A credit ratings from Moody's and Standard & Poor's on outstanding debt issues, provides a high degree of flexibility in obtaining funds on competitive terms. The ability to finance ongoing operations primarily from internally generated funds is desirable because of the high risks inherent in research and development required to develop and market innovative new products and the highly competitive nature of the pharmaceutical industry. The Company does not participate in any off-balance sheet arrangements involving unconsolidated subsidiaries that provide financing or potentially expose the Company to unrecorded financial obligations.

In July 2002, the Board of Directors approved purchases over time of up to \$10.0 billion of Merck shares. From 2001 to 2003, the Company purchased \$7.5 billion of treasury shares under previously authorized completed programs, and \$482.0 million under the 2002 program. Total treasury stock purchased in 2003 was \$2.0 billion. For the period 1994 to 2003, the Company has purchased 528.4 million shares at a total cost of \$26.1 billion.

While the U.S. dollar is the functional currency of the Company's foreign subsidiaries, a significant portion of the Company's revenues are denominated in foreign currencies. Merck relies on sustained cash flows generated from foreign sources to support its long-term commitment to U.S. dollar-based research and development. To the extent the dollar value of cash flows is diminished as a result of a strengthening dollar, the Company's ability to fund research and other dollar-based strategic initiatives at a consistent level may be impaired. The Company has established revenue hedging and balance sheet risk management programs to protect against volatility of future foreign currency cash flows and changes in fair value caused by volatility in foreign exchange rates.

The objective of the revenue hedging program is to reduce the potential for longer-term unfavorable changes in foreign exchange to decrease the U.S. dollar value of future cash flows derived from foreign currency denominated sales, primarily the euro and Japanese yen. To achieve this objective, the Company will partially hedge anticipated third-party sales that are expected to occur over its planning cycle, typically no more than three years into the future. The Company will layer in hedges over time, increasing the portion of sales hedged as it gets closer to the expected date of the transaction, such that it is probable the hedged transaction will occur. The portion of sales hedged is based on assessments of cost-benefit profiles that consider natural offsetting exposures, revenue and exchange rate volatilities and correlations, and the cost of hedging instruments. The hedged anticipated sales are a specified component of a portfolio of similarly denominated foreign currency-based sales transactions, each of which responds to the hedged risk in the same manner. Merck manages its anticipated transaction exposure principally with purchased local currency put options, which provide the Company with a right, but not an obligation, to sell foreign currencies in the future at a predetermined price. If the U.S. dollar strengthens relative to the currency of the hedged anticipated sales, total changes in the options' cash flows fully offset the decline in the expected future U.S. dollar cash flows of the hedged foreign currency sales. Conversely, if the U.S. dollar weakens, the options' value reduces to zero, but the Company benefits from the increase in the value of the anticipated foreign currency cash flows. While a weaker U.S. dollar would result in a net benefit, the market value of the Company's hedges would have declined by \$16.3 million and \$18.4 million, respectively, from a uniform 10% weakening of the U.S. dollar at December 31, 2003 and 2002. The market value was determined using a foreign exchange option pricing model and holding all factors except exchange rates constant. Because Merck uses purchased local currency put options, a uniform weakening of the U.S. dollar will yield the largest overall potential loss in the market value of these options. The sensitivity measurement assumes that a change in one foreign currency relative to the U.S. dollar would not affect other foreign currencies relative to the U.S. dollar. Although not predictive in nature, the Company believes that a 10% threshold reflects reasonably possible near-term changes in Merck's major foreign currency exposures relative to the U.S. dollar. The cash flows from these contracts are reported as operating activities in the Consolidated Statement of Cash Flows.

The primary objective of the balance sheet risk management program is to protect the U.S. dollar value of foreign currency denominated net monetary assets from the effects of volatility in foreign exchange that might occur prior to their conversion to U.S. dollars. Merck principally utilizes forward exchange contracts, which enable the Company to buy and sell foreign currencies in the future at fixed exchange rates and economically offset the consequences of changes in foreign exchange on the amount of U.S. dollar cash flows derived from the net assets. Merck routinely enters into contracts to fully offset the effects of exchange on exposures denominated in developed country currencies, primarily the euro and Japanese yen. For exposures in developing country currencies, the

Company will enter into forward contracts on a more limited basis and only when it is deemed economical to do so based on a cost-benefit analysis that considers the magnitude of the exposure and the volatility of the exchange rate. The Company will also minimize the effect of exchange on monetary assets and liabilities by managing operating activities and net asset positions at the local level. The Company also uses forward contracts to hedge the changes in fair value of certain foreign currency denominated available-for-sale securities attributable to fluctuations in foreign currency exchange rates. A sensitivity analysis to changes in the value of the U.S. dollar on foreign currency denominated derivatives, investments and monetary assets and liabilities indicated that if the U.S. dollar uniformly strengthened by 10% against all currency exposures of the Company at December 31, 2003 and 2002, Income from continuing operations before taxes would have declined by \$5.6 million and \$10.9 million, respectively. Because Merck is in a net long position relative to its major foreign currencies after consideration of forward contracts, a uniform strengthening of the U.S. dollar will yield the largest overall potential net loss in earnings due to exchange. This measurement assumes that a change in one foreign currency relative to the U.S. dollar would not affect other foreign currencies relative to the U.S. dollar. Although not predictive in nature, the Company believes that a 10% threshold reflects reasonably possible near-term changes in Merck's major foreign currency exposures relative to the U.S. dollar. The cash flows from these contracts are reported as operating activities in the Consolidated Statement of Cash Flows.

In addition to the revenue hedging and balance sheet risk management programs, the Company may use interest rate swap contracts on certain investing and borrowing transactions to manage its net exposure to interest rate changes and to reduce its overall cost of borrowing. The Company does not use leveraged swaps and, in general, does not leverage any of its investment activities that would put principal capital at risk. At December 31, 2003, the Company was a party to three \$500.0 million notional amount pay-floating, receive-fixed interest rate swap contracts designated as hedges of the fair value changes in \$500.0 million each of ten-year, five-year and three-year fixed rate notes attributable to changes in the benchmark LIBOR swap rate. The swaps effectively convert the fixed-rate obligations to floating-rate instruments. The Company is also a party to a seven-year combined interest rate and currency swap contract entered into in 1997, which converts a variable rate foreign currency denominated investment to a variable rate U.S. dollar investment. The swap contract hedges the changes in the fair value of the investment attributable to fluctuations in exchange rates while allowing the Company to receive variable rate returns. The cash flows from these contracts are reported as operating activities in the Consolidated Statement of Cash Flows.

The Company's investment portfolio includes cash equivalents and short-term investments, the market values of which are not significantly impacted by changes in interest rates. The market value of the Company's medium- to long-term fixed-rate investments is modestly impacted by changes in U.S. interest rates. Changes in medium- to long-term U.S. interest rates would have a more significant impact on the market value of the Company's fixed-rate borrowings, which generally have longer maturities. A sensitivity analysis to measure potential changes in the market value of the Company's investments, debt and related swap contracts from a change in interest rates indicated that a one percentage point increase in interest rates at December 31, 2003 and 2002 would have positively impacted the net aggregate market value of these instruments by \$92.9 million and \$109.9 million, respectively. A one percentage point decrease at December 31, 2003 and 2002 would have negatively impacted the net aggregate market value by \$138.3 million and \$162.7 million, respectively. The fair value the Company's debt was determined using pricing models reflecting one percentage point shifts in the appropriate yield curves. The fair value of the Company's investments was determined using a combination of pricing and duration models. Whereas duration is a linear approximation that works well for modest changes in yields and generates a symmetrical result, pricing models reflecting the convexity of the price/yield relationship provide greater precision and reflect the asymmetry of price movements for interest rate changes in opposite directions. The impact of convexity is more pronounced in longer-term maturities and low interest-rate environments.

Critical Accounting Policies and Other Matters

The consolidated financial statements include certain amounts that are based on management's best estimates and judgments. Estimates are used in determining such items as provisions for rebates, discounts and returns, and income taxes, depreciable and amortizable lives, pension and other postretirement benefit plan assumptions, and amounts recorded for contingencies, environmental liabilities and other reserves. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates. Application of the following accounting policies result in accounting estimates having the potential for the most significant impact on the financial statements.

Revenue Recognition

Revenues from sales of products are recognized when title and risk of loss passes to the customer. Revenues are recorded net of provisions for rebates, discounts and returns, which are established at the time of sale. Accruals for rebates and discounts cover discounts that result from sales to a customer through an intermediary wholesale purchaser as well as rebates owed based upon contractual agreements or legal requirements with benefit providers, including Medicaid, after the final dispensing of the product by a pharmacy to a benefit plan participant. The accruals are estimated at the time of sale based on available information regarding the portion of sales on which rebates and discounts can be earned, adjusted as appropriate for specific known events, and reflecting the prevailing contractual discount rate. Amounts accrued for rebates and discounts may be adjusted when trends or significant events indicate that adjustment is appropriate. Accruals are also adjusted to reflect actual amounts paid or credited upon the validation of claims data. Such adjustments have not been material to results of operations.

Pensions and Other Postretirement Benefit Plans

Net pension and other postretirement benefit cost totaled \$499.2 million in 2003 and \$157.0 million in 2002. Pension and other postretirement benefit plan information for financial reporting purposes is calculated using actuarial assumptions including a discount rate for plan benefit obligations and an expected rate of return on plan assets.

The Company reassesses its benefit plan assumptions on a regular basis. For both the pension and other postretirement benefit plans, the discount rate is evaluated annually and modified to reflect the prevailing market rate at December 31 of a portfolio of high-quality (AA and above) fixed-income debt instruments that would provide the future cash flows needed to pay the benefits included in the benefit obligation as they come due. At December 31, 2003, the Company changed its discount rate to 6.25% from 6.5% for its U.S. pension and other postretirement benefit plans.

The expected rate of return for both the pension and other postretirement benefit plans represents the average rate of return to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Company considers long-term compound annualized returns of historical market data as well as actual returns on the Company's plan assets and applies adjustments that reflect more recent capital market experience. Using this reference information, the Company develops forward-looking return expectations for each asset category and a weighted average expected long-term rate of return for a targeted portfolio allocated across these investment categories. The expected portfolio performance reflects the contribution of active management as appropriate. As a result of this analysis, for 2004, the Company's expected rate of return of 8.75% remained unchanged from 2003 for its U.S. pension and other postretirement benefit plans.

The targeted investment portfolio of the Company's U.S. pension and other postretirement benefit plans is allocated 45% to 60% in U.S. equities, 20% to 30% in international equities, 13% to 18% in fixed-income investments, 2% to 6% in real estate, and up to 8% in cash and other investments. The portfolio's equity weighting is consistent with the long-term nature of the plans' benefit obligation. The expected annual standard deviation of returns of the targeted portfolio, which approximates 13%, reflects both the equity allocation and the diversification benefits among the asset classes in which the portfolio invests.

Actuarial assumptions are based upon management's best estimates and judgment. A reasonably possible change of plus (minus) 25 basis points in the discount rate assumption, with other assumptions held constant, would have an estimated \$33.1 million favorable (unfavorable) impact on net pension and postretirement benefit cost. A reasonably possible change of plus (minus) 25 basis points in the expected rate of return assumption, with other assumptions held constant, would have an estimated \$9.7 million favorable (unfavorable) impact on net pension and postretirement benefit cost. The Company does not expect to have a minimum pension funding requirement under the Internal Revenue Code during 2004. The preceding hypothetical changes in the discount rate and expected rate of return assumptions would not impact the Company's funding requirements.

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 on a calculated market-related value of assets. Under this methodology, asset gains/losses resulting from actual returns that differ from the Company's expected returns are recognized 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 postretirement benefit cost over the average remaining service life of employees. Amortization of total unrecognized net losses for the Company's U.S. plans at December 31, 2003 is expected to increase net pension and other postretirement benefit cost by approximately \$125.0 million annually from 2004 through 2008.

Contingencies and Environmental Liabilities

The Company is involved in various claims and legal proceedings of a nature considered normal to its business, including product liability, intellectual property and commercial litigation, as well as additional matters such as antitrust actions. (See Note 9 to the financial statements for further information.) The Company continually evaluates its risks and assesses its insurance needs relative to market costs to obtain insurance, purchasing coverage as appropriate to provide protection against losses. The Company records accruals for contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available. For product liability claims, a portion of the overall accrual is actuarially determined and considers such factors as past experience, number of claims reported and estimates of claims incurred but not yet reported. Individually significant contingent losses are accrued when probable and reasonably estimable.

While it is not feasible to predict the outcome of these legal proceedings, in the opinion of the Company, all such proceedings are either adequately covered by insurance or, if not so covered, should not ultimately result in any liability that would have a material adverse effect on the financial position, liquidity or results of operations of the Company. In addition, from time to time, federal or state regulators seek information about practices in the pharmaceutical industry. While it is not feasible to predict the outcome of any requests for information, the Company does not expect such inquiries to have a material adverse effect on the financial position, liquidity or results of operations of the Company.

The Company is a party to a number of proceedings brought under the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund. When a legitimate claim for contribution is asserted, a liability is initially accrued based upon the estimated transaction costs to manage the site. Accruals are adjusted as feasibility studies and related cost assessments of remedial techniques are completed, and as the extent to which other potentially responsible parties (PRPs) who may be jointly and severally liable can be expected to contribute is determined.

The Company is also remediating environmental contamination resulting from past industrial activity at certain of its sites and takes an active role in identifying and providing for these costs. A worldwide survey was initially performed to assess all sites for potential contamination resulting from past industrial activities. Where assessment indicated that physical investigation was warranted, such investigation was performed, providing a better evaluation of the need for remedial action. Where such need was identified, remedial action was then initiated. Estimates of the extent of contamination at each site were initially made at the pre-investigation stage and liabilities for the potential cost of remediation were accrued at that time. As more definitive information became available during the course of investigations and/or remedial efforts at each site, estimates were refined and accruals were adjusted accordingly. These estimates and related accruals continue to be refined annually.

The Company believes that it is in compliance in all material respects with applicable environmental laws and regulations. Expenditures for remediation and environmental liabilities were \$31.3 million in 2003, and are estimated at \$87.0 million for the years 2004 through 2008. In management's opinion, the liabilities for all environmental matters that are probable and reasonably estimable have been accrued and totaled \$158.1 million and \$189.7 million at December 31, 2003 and December 31, 2002, respectively. These liabilities are undiscounted, do not consider potential recoveries from insurers or other parties and will be paid out over the periods of remediation for the applicable sites, which are expected to occur primarily over the next 15 years. Although it is not possible to predict with certainty the outcome of these matters, or the ultimate costs of remediation, management does not believe that any reasonably possible expenditures that may be incurred in excess of the liabilities accrued should exceed \$100.0 million in the aggregate. Management also does not believe that these expenditures should result in a material adverse effect on the Company's financial position, results of operations, liquidity or capital resources for any year.

Taxes on Income

The Company's effective tax rate is based on expected income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates. In the event that there is a significant unusual or one-time item recognized, or expected to be recognized, in the Company's operating results, the tax attributable to that item would be separately calculated and recorded at the same time as the unusual or one-time item. Significant judgment is required in determining the Company's effective tax rate and in evaluating its tax positions. The Company establishes reserves when, despite its belief that the tax return positions are fully supportable, certain positions are likely to be challenged and that it may not succeed. The Company adjusts these reserves in light of changing facts and circumstances, such as the closing of a tax audit. The effective tax rate includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as related interest. This rate is then applied to the Company's quarterly operating results.

Tax regulations require items to be included in the tax return at different times than the items are reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements is different than that reported in the tax return. Some of these differences are permanent, such as expenses that are not deductible on the tax return, and some are timing differences, such as depreciation expense. Timing differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in the tax return in future years for which the Company has already recorded the tax benefit in the financial statements. The Company establishes valuation allowances for its deferred tax assets when the amount of expected future taxable income is not likely to support the use of the deduction or credit. Deferred tax liabilities generally represent tax expense recognized in the financial statements for which payment has been deferred or expense for which the Company has already taken a deduction on the tax return, but has not yet recognized as expense in the financial statements. At December 31, 2003, foreign earnings of \$18.0 billion and domestic earnings of \$880.9 million have been retained indefinitely by subsidiary companies for reinvestment. No provision is made for income taxes that would be payable upon the distribution of such earnings, and it is not practicable to determine the amount of the related unrecognized deferred income tax liability.

Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 requires a variable interest entity (VIE) to be consolidated when a company is subject to the majority of the risk of loss from the VIE's activities or is entitled to receive the majority of the entity's residual returns, or both. In December 2003, the FASB issued a revision to FIN 46 (FIN 46R) which partially delayed the effective date of the interpretation to March 31, 2004 and added additional scope exceptions. Adoption of FIN 46R is not expected to have a material impact on the Company's financial position or results of operations.

Cautionary Factors That May Affect Future Results

This annual report and other written reports and oral statements made from time to time by the Company may contain so-called "forward-looking statements," all of which are subject to risks and uncertainties. One can identify these forward-looking statements by their use of words such as "expects," "plans," "will," "estimates," "forecasts," "projects" and other words of similar meaning. One can also identify them by the fact that they do not relate strictly to historical or current facts. These statements are likely to address the Company's growth strategy, financial results, product approvals and development programs. One must carefully consider any such statement and should understand that many factors could cause actual results to differ from the Company's forward-looking statements. These factors include inaccurate assumptions and a broad variety of other risks and uncertainties, including some that are known and some that are not. No forward-looking statement can be guaranteed and actual future results may vary materially.

The Company does not assume the obligation to update any forward-looking statement. One should carefully evaluate such statements in light of factors described in the Company's filings with the Securities and Exchange Commission, especially on Forms 10-K, 10-Q and 8-K (if any). In Item 1 of the Company's annual report on Form 10-K for the year ended December 31, 2003, which will be filed in March 2004, the Company discusses in more detail various important factors that could cause actual results to differ from expected or historic results. The Company notes these factors for investors as permitted by the Private Securities Litigation Reform Act of 1995. Prior to the filing of the Form 10-K for the year ended December 31, 2003, reference should be made to Item 1 of the Company's annual report on Form 10-K for the year ended December 31, 2002. One should understand that it is not possible to predict or identify all such factors. Consequently, the reader should not consider any such list to be a complete statement of all potential risks or uncertainties.

Cash Dividends Paid per Common Share

	Year	4th Q	3rd Q	2nd Q	1st Q
2003	\$1.45	\$.37	\$.36	\$.36	\$.36
2002	\$1.41	\$.36	\$.35	\$.35	\$.35

Common Stock Market Prices

	4th Q	3rd Q	2nd Q	1st Q
2003				
High	\$51.95	\$62.69	\$63.50	\$60.24
Low	40.57	49.48	54.10	49.90
2002				
High	\$60.48	\$54.00	\$58.85	\$64.50
Low	43.35	38.50	47.60	56.71

The principal market for trading of the common stock is the New York Stock Exchange (NYSE) under the symbol MRK. The common stock market price information above is based on historical NYSE market prices and has not been adjusted to reflect the spin-off of Medco Health, in which holders of Merck common stock at the close of business on August 12, 2003 received .1206 shares of Medco Health common stock for every one share of Merck common stock held on that date. On August 20, 2003, Merck common stock began to trade on a post-distribution basis.

Condensed Interim Financial Data

(\$ in millions except per share amounts)	4th Q ⁽¹⁾	3rd Q	2nd Q	1st Q
2003				
Sales	\$5,627.1	\$5,762.0	\$5,525.4	\$5,571.4
Materials and production costs	1,228.3	1,051.7	988.5	1,046.8
Marketing and administrative expenses	1,794.1	1,463.6	1,589.9	1,547.2
Research and development expenses	894.9	776.5	786.4	720.3
Acquired research	11.4	—	—	90.4
Equity income from affiliates	(6.0)	(183.4)	(187.4)	(97.3)
Other (income) expense, net	(56.5)	48.8	(121.8)	47.8
Income from continuing operations before taxes	1,760.9	2,604.8	2,469.8	2,216.2
Income from continuing operations	1,395.2	1,865.0	1,784.5	1,545.0
Income from discontinued operations, net of taxes	—	(6.7)	82.5	165.4
Net income	1,395.2	1,858.3	1,867.0	1,710.4
Basic earnings per common share				
Continuing operations	\$.63	\$.83	\$.80	\$.69
Discontinued operations	—	—	.04	.07
Net income	.63	.83	.83 ⁽²⁾	.76
Earnings per common share assuming dilution				
Continuing operations	\$.62	\$.83	\$.79	\$.68
Discontinued operations	—	—	.04	.07
Net income	.62	.82 ⁽²⁾	.83	.76 ⁽²⁾
2002				
Sales	\$6,057.7	\$5,426.1	\$5,159.6	\$4,802.4
Materials and production costs	1,127.7	973.2	942.1	864.1
Marketing and administrative expenses	1,538.4	1,407.6	1,362.9	1,343.3
Research and development expenses	838.8	676.9	631.2	530.3
Equity income from affiliates	(94.0)	(188.7)	(190.2)	(171.8)
Other (income) expense, net	70.3	46.8	61.8	23.4
Income from continuing operations before taxes	2,576.5	2,510.3	2,351.8	2,213.1
Income from continuing operations	1,813.8	1,767.3	1,655.7	1,558.0

Income from discontinued operations, net of taxes	76.0	116.7	95.0	67.0
Net income	1,889.8	1,884.0	1,750.7	1,625.0
Basic earnings per common share				
Continuing operations	\$.81	\$.79	\$.73	\$.69
Discontinued operations	.03	.05	.04	.03
Net income	.84	.84	.77	.72
Earnings per common share assuming dilution				
Continuing operations	\$.80	\$.78	\$.73	\$.68
Discontinued operations	.03	.05	.04	.03
Net income	.83	.83	.77	.71
	<hr/>	<hr/>	<hr/>	<hr/>

(1) Amounts for 2003 include the impact of the implementation of a new distribution program for U.S. wholesalers and restructuring costs related to position eliminations.

(2) Amount does not add as a result of rounding.

Merck & Co., Inc. Annual Report 2003

Consolidated Statement of Income

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions except per share amounts)

	2003	2002	2001
Sales	\$22,485.9	\$21,445.8	\$21,199.0
Costs, Expenses and Other			
Materials and production	4,315.3	3,907.1	3,624.8
Marketing and administrative	6,394.9	5,652.2	5,700.6
Research and development	3,178.1	2,677.2	2,456.4
Acquired research	101.8	—	—
Equity income from affiliates	(474.2)	(644.7)	(685.9)
Other (income) expense, net	(81.6)	202.3	155.0
	13,434.3	11,794.1	11,250.9
Income from Continuing Operations Before Taxes	9,051.6	9,651.7	9,948.1
Taxes on Income	2,462.0	2,856.9	2,894.9
Income from Continuing Operations	6,589.6	6,794.8	7,053.2
Income from Discontinued Operations, Net of Taxes	241.3	354.7	228.6
Net Income	\$ 6,830.9	\$ 7,149.5	\$ 7,281.8
Basic Earnings per Common Share			
Continuing Operations	\$ 2.95	\$ 3.01	\$ 3.08
Discontinued Operations	.11	.16	.10
Net Income	\$ 3.05*	\$ 3.17	\$ 3.18
Earnings per Common Share Assuming Dilution			
Continuing Operations	\$ 2.92	\$ 2.98	\$ 3.04
Discontinued Operations	.11	.16	.10
Net Income	\$ 3.03	\$ 3.14	\$ 3.14

*Amount does not add as a result of rounding.

Consolidated Statement of Retained Earnings

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions)

	2003	2002	2001
Balance, January 1	\$35,434.9	\$31,489.6	\$27,363.9
Net Income	6,830.9	7,149.5	7,281.8
Common Stock Dividends Declared	(3,264.7)	(3,204.2)	(3,156.1)
Spin-off of Medco Health	(4,859.1)	—	—
Balance, December 31	\$34,142.0	\$35,434.9	\$31,489.6

Consolidated Statement of Comprehensive Income

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions)

	2003	2002	2001
Net Income	\$6,830.9	\$7,149.5	\$7,281.8
Other Comprehensive Income (Loss)			

Net unrealized (loss) gain on derivatives, net of tax and net income realization	(21.3)	(20.0)	7.3
Net unrealized (loss) gain on investments, net of tax and net income realization	(46.3)	73.1	11.1
Minimum pension liability, net of tax	231.9	(162.5)	(38.6)
	<u>164.3</u>	<u>(109.4)</u>	<u>(20.2)</u>
Comprehensive Income	<u>\$6,995.2</u>	<u>\$7,040.1</u>	<u>\$7,261.6</u>

The accompanying notes are an integral part of these consolidated financial statements.

Merck & Co., Inc. Annual Report 2003

Consolidated Balance Sheet
Merck & Co., Inc. and Subsidiaries
December 31
(\$ in millions)

	2003	2002
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,201.0	\$ 2,243.0
Short-term investments	2,972.0	2,728.2
Accounts receivable	4,023.6	5,423.4
Inventories	2,554.7	2,964.3
Prepaid expenses and taxes	775.9	1,027.5
Total current assets	11,527.2	14,386.4
Investments	7,941.2	7,255.1
Property, Plant and Equipment (at cost)		
Land	356.7	336.9
Buildings	8,016.9	7,336.5
Machinery, equipment and office furnishings	11,018.2	10,883.6
Construction in progress	1,901.9	2,426.6
	21,293.7	20,983.6
Less allowance for depreciation	7,124.7	6,788.0
	14,169.0	14,195.6
Goodwill	1,085.4	4,127.0
Other Intangibles, Net	864.0	3,114.0
Other Assets	5,000.7	4,483.1
	\$40,587.5	\$47,561.2
Liabilities and Stockholders' Equity		
Current Liabilities		
Loans payable and current portion of long-term debt	\$ 1,700.0	\$ 3,669.8
Trade accounts payable	735.2	2,413.3
Accrued and other current liabilities	3,772.8	3,365.6
Income taxes payable	2,538.9	2,118.1
Dividends payable	822.7	808.4
Total current liabilities	9,569.6	12,375.2
Long-Term Debt	5,096.0	4,879.0
Deferred Income Taxes and Noncurrent Liabilities	6,430.3	7,178.2
Minority Interests	3,915.2	4,928.3
Stockholders' Equity		
Common stock, one cent par value		
Authorized - 5,400,000,000 shares		
Issued - 2,976,230,393 shares - 2003		
- 2,976,198,757 shares - 2002	29.8	29.8
Other paid-in capital	6,956.6	6,943.7
Retained earnings	34,142.0	35,434.9
Accumulated other comprehensive income (loss)	65.5	(98.8)
	41,193.9	42,309.6
Less treasury stock, at cost		
754,466,884 shares - 2003		
731,215,507 shares - 2002	25,617.5	24,109.1
Total stockholders' equity	15,576.4	18,200.5

\$40,587.5

\$47,561.2

The accompanying notes are an integral part of this consolidated financial statement.

Merck & Co., Inc. Annual Report 2003

Consolidated Statement of Cash Flows

Merck & Co., Inc. and Subsidiaries

Years Ended December 31

(\$ in millions)

	2003	2002	2001
Cash Flows from Operating Activities of Continuing Operations			
Net income	\$ 6,830.9	\$ 7,149.5	\$ 7,281.8
Less: Income from discontinued operations, net of taxes	(241.3)	(354.7)	(228.6)
Income from continuing operations	6,589.6	6,794.8	7,053.2
Adjustments to reconcile income from continuing operations to net cash provided by operating activities of continuing operations:			
Acquired research	101.8	—	—
Depreciation and amortization	1,314.2	1,231.2	1,132.5
Deferred income taxes	131.7	387.5	455.8
Other	(199.9)	(116.9)	(352.0)
Net changes in assets and liabilities:			
Accounts receivable	320.9	130.2	45.1
Inventories	(435.3)	(41.5)	(384.9)
Trade accounts payable	(21.6)	325.4	(15.6)
Accrued and other current liabilities	505.4	97.0	84.9
Income taxes payable	494.1	459.9	540.7
Noncurrent liabilities	(255.3)	(359.9)	(475.9)
Other	(119.1)	(197.1)	259.5
Net Cash Provided by Operating Activities of Continuing Operations	8,426.5	8,710.6	8,343.3
Cash Flows from Investing Activities of Continuing Operations			
Capital expenditures	(1,915.9)	(2,128.1)	(2,401.8)
Purchase of securities, subsidiaries and other investments	(61,586.9)	(37,443.6)	(34,572.1)
Proceeds from sale of securities, subsidiaries and other investments	60,823.4	35,807.4	33,192.7
Acquisitions of Banyu shares	(1,527.8)	—	—
Other	(25.0)	(3.7)	(115.4)
Net Cash Used by Investing Activities of Continuing Operations	(4,232.2)	(3,768.0)	(3,896.6)
Cash Flows from Financing Activities of Continuing Operations			
Net change in short-term borrowings	(2,347.2)	(508.4)	259.8
Proceeds from issuance of debt	1,300.3	2,618.5	1,694.4
Payments on debt	(736.2)	(2,504.9)	(10.7)
Purchase of treasury stock	(2,034.1)	(2,091.3)	(3,890.8)
Dividends paid to stockholders	(3,250.4)	(3,191.6)	(3,145.0)
Proceeds from exercise of stock options	388.2	318.3	300.6
Other	(148.5)	(172.5)	(279.2)
Net Cash Used by Financing Activities of Continuing Operations	(6,827.9)	(5,531.9)	(5,070.9)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	155.7	113.2	(89.2)
Discontinued Operations			
Net cash provided by Medco Health	248.0	575.1	320.6
Dividend received from Medco Health, net of intercompany settlements and cash transferred	1,187.9	—	—
Net Cash Provided by Discontinued Operations	1,435.9	575.1	320.6
Net (Decrease) Increase in Cash and Cash Equivalents	(1,042.0)	99.0	(392.8)
Cash and Cash Equivalents at Beginning of Year	2,243.0	2,144.0	2,536.8
Cash and Cash Equivalents at End of Year	\$ 1,201.0	\$ 2,243.0	\$ 2,144.0

The accompanying notes are an integral part of this consolidated financial statement.

Notes to Consolidated Financial Statements

Merck & Co., Inc. and Subsidiaries
(\$ in millions except per share amounts)

1. Nature of Operations

Merck is a global research-driven pharmaceutical products company that discovers, develops, manufactures and markets a broad range of innovative products to improve human and animal health, directly and through its joint ventures. The Company's products include therapeutic and preventive agents, generally sold by prescription, for the treatment of human disorders.

On August 19, 2003, Merck completed the spin-off of Medco Health Solutions, Inc. (Medco Health). Following the spin-off, the Company's prior period Consolidated Statements of Income and Cash Flows and related disclosures have been restated to present the results of Medco Health separately as discontinued operations. The December 31, 2002 Consolidated Balance Sheet and prior period Consolidated Statements of Retained Earnings and Comprehensive Income and related disclosures have not been restated. As a result of the spin-off, product sales now reflect sales to Medco Health as third-party sales based upon the net selling price from Merck to Medco Health.

2. Summary of Accounting Policies

Principles of Consolidation — The consolidated financial statements include the accounts of the Company and all of its subsidiaries in which a controlling interest is maintained. Controlling interest is determined by majority ownership interest and the absence of substantive third-party participating rights. For those consolidated subsidiaries where Merck ownership is less than 100%, the outside stockholders' interests are shown as Minority interests. Investments in affiliates over which the Company has significant influence but not a controlling interest, such as interests in entities owned equally by the Company and a third party that are under shared control, are carried on the equity basis.

Foreign Currency Translation — The U.S. dollar is the functional currency for the Company's foreign subsidiaries.

Cash and Cash Equivalents — Cash equivalents are comprised of certain highly liquid investments with original maturities of less than three months.

Inventories — Substantially all domestic pharmaceutical inventories are valued at the lower of last-in, first-out (LIFO) cost or market for both book and tax purposes. Foreign pharmaceutical inventories are valued at the lower of first-in, first-out (FIFO) cost or market. Inventories consist of currently marketed products and certain products awaiting regulatory approval. In evaluating the realizable value of inventory of products awaiting regulatory approval, the Company considers the probability that revenue will be obtained from the future sale of the related inventory together with the status of the product within the regulatory approval process.

Investments — Investments classified as available-for-sale are reported at fair value, with unrealized gains or losses, to the extent not hedged, reported net of tax and minority interests, in Accumulated other comprehensive income. Investments in debt securities classified as held-to-maturity, consistent with management's intent, are reported at cost. Impairment losses are charged to Other (income) expense, net, for other-than-temporary declines in fair value. The Company considers available evidence in evaluating potential impairment of its investments, including the duration and extent to which fair value is less than cost and the Company's ability and intent to hold the investment.

Revenue Recognition — Revenues from sales of products are recognized when title and risk of loss passes to the customer. Revenues are recorded net of provisions for rebates, discounts and returns, which are established at the time of sale.

Depreciation — Depreciation is provided over the estimated useful lives of the assets, principally using the straight-line method. For tax purposes, accelerated methods are used. The estimated useful lives primarily range from 10 to 50 years for Buildings, and from 3 to 15 years for Machinery, equipment and office furnishings.

Goodwill and Other Intangibles — Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses purchased. Effective January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (FAS 142), which addresses the recognition and measurement of goodwill and other intangibles subsequent to a business combination. In accordance with FAS 142, goodwill associated with acquisitions subsequent to June 30, 2001 was not amortized. (See Note 3.) Effective January 1, 2002, goodwill existing at June 30, 2001 is not amortized, but rather, assigned to reporting units within the Company's segments and evaluated for impairment on at least an annual basis, using a fair value based test. Had amortization expense for goodwill not been recorded in 2001, reported income from continuing operations would have increased by \$24.4 million (\$.01 for both basic earnings per common share from continuing operations and earnings per common share assuming dilution from continuing operations), and reported net income would have increased by \$132.5 million (\$.06 for both basic earnings per common share and earnings per common share assuming dilution).

Other acquired intangibles are recorded at cost and are amortized on a straight-line basis over their estimated useful lives. (See Note 7.) When events or circumstances warrant a review, the Company will assess recoverability from future operations of other intangibles using undiscounted cash flows derived from the lowest appropriate asset groupings, generally the subsidiary level. Impairments are recognized in operating results to the extent that carrying value exceeds fair value, which is determined based on the net present value of estimated future cash flows.

Stock-Based Compensation — Employee stock-based compensation is recognized using the intrinsic value method. Generally, employee stock options are granted to purchase shares of Company stock at the fair market value at the time of grant. Accordingly, no compensation expense is recognized for the Company's stock-based compensation plans other than for its employee performance-based awards and options granted to employees of certain equity method investees, the total of which is not significant.

The effect on net income and earnings per common share if the Company had applied the fair value method for recognizing employee stock-based compensation is as follows:

Years Ended December 31	2003	2002	2001
Net income, as reported	\$6,830.9	\$7,149.5	\$7,281.8
Compensation expense, net of tax:			
Reported	4.9	1.2	(0.1)
Fair value method	(559.4)	(487.9)	(400.9)
Pro forma net income	\$6,276.4	\$6,662.8	\$6,880.8
Earnings per common share from continuing operations:			
Assuming dilution - as reported	\$ 2.92	\$ 2.98	\$ 3.04
Assuming dilution - pro forma	\$ 2.73	\$ 2.81	\$ 2.90
Earnings per common share:			
Basic - as reported	\$ 3.05	\$ 3.17	\$ 3.18
Basic - pro forma	\$ 2.81	\$ 2.95	\$ 3.01
Assuming dilution - as reported	\$ 3.03	\$ 3.14	\$ 3.14
Assuming dilution - pro forma	\$ 2.79	\$ 2.93	\$ 2.96

In connection with the Medco Health spin-off, options granted to Medco Health employees prior to February 2002 and some options granted after February 2002 became fully vested in accordance with the original terms of the grants. As a result, pro forma compensation expense in 2003 reflects the accelerated vesting of these options. In addition, certain stock options granted to Medco Health employees in 2002 and 2003 were converted to Medco Health options with terms and amounts that maintained the option holders' positions. Therefore, pro forma compensation expense for these options is reflected only through the date of the spin-off.

The average fair value of employee and non-employee director options granted during 2003, 2002 and 2001 was \$12.54, \$17.53 and \$25.42, respectively. This fair value was estimated using the Black-Scholes option-pricing model based on the weighted average market price at grant date of \$50.07 in 2003, \$61.16 in 2002 and \$79.10 in 2001 and the following weighted average assumptions:

Years Ended December 31	2003	2002	2001
Dividend yield	2.7%	2.3%	1.7%
Risk-free interest rate	2.9%	4.3%	4.8%
Volatility	31%	31%	29%
Expected life (years)	5.8	5.7	6.7

Use of Estimates — The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (GAAP) and, accordingly, include certain amounts that are based on management's best estimates and judgments. Estimates are used in determining such items as provisions for rebates, discounts and returns, and income taxes, depreciable and amortizable lives, pension and other postretirement benefit plan assumptions, and amounts recorded for contingencies, environmental liabilities and other reserves. Because of the uncertainty inherent in such estimates, actual results may differ from these estimates.

Reclassifications — Certain reclassifications have been made to prior year amounts to conform with current year presentation.

3. Acquisitions, Discontinued Operations and Restructuring

In January 2003, the Company, through its wholly owned subsidiary, MSD (Japan) Co., Ltd., launched a tender offer to acquire the remaining 49% of the common shares of Banyu Pharmaceutical Co., Ltd. (Banyu) that it did not already own. In March 2003, the Company received tenders for 116.5 million shares, bringing its ownership to 95.2% of outstanding Banyu common shares, for a purchase price approximating \$1.4 billion. In October 2003, the Company completed a second tender offer for all remaining shares in Banyu, bringing Merck's ownership to 99.4% of outstanding Banyu common shares. This offer was made for a purchase price approximating \$142.7 million. The acquisitions allow the Company to further enhance its position in the Japanese market, which is the world's second-largest pharmaceutical market.

The Company's acquisitions of the Banyu shares were accounted for under the purchase method and, accordingly, 95.2% and 99.4% of Banyu's results of operations have been included in the Company's consolidated results of operations since March 12, 2003 and October 27, 2003, respectively. Pro forma information is not provided as the impact of the transactions does not have a material effect on the Company's consolidated results of operations. The aggregate purchase price was allocated based upon the fair values of the portion of assets and liabilities acquired. The allocation of the aggregate purchase price resulted in the reversal of \$1.0 billion of minority interest liability and recognition of \$332.0 million in other intangibles, \$240.5 million in goodwill, \$153.0 million in deferred income tax liabilities and \$34.5 million in other net assets, principally property, plant and equipment. Other intangibles included \$301.1 million of in-line product rights having a 10-year weighted average useful life and \$30.9 million representing a 20-year life trademark. In connection with the transactions, the Company also recorded charges of \$101.8 million for acquired

research associated with products in development for which, at the acquisition date, technological feasibility had not been established and no alternative future use existed. Approximately \$64.0 million of the total acquired research charge related to Merck products that Banyu is developing for sale in the Japanese market, the most significant of which is *Vioxx*. For any of these products, Merck can choose not to exclusively license the rights to Banyu and, in that event, generally would reimburse Banyu for its associated research and development expenditures. Accordingly, these products were valued using a cost approach, adjusted to reflect the probability of regulatory approval. The remaining portion of the acquired research charge represents Banyu-developed product candidates. The fair value of each product was determined based upon the present value of projected future cash flows utilizing an income approach reflecting the appropriate risk-adjusted discount rate based on the applicable product's stage of completion and its probability of technical and marketing success.

In July 2001, the Company completed its acquisition of Rosetta Inpharmatics, Inc. (Rosetta), a leading informational genomics company, in a tax-free reorganization. Rosetta has designed and developed several unique technologies to efficiently analyze gene data to predict how medical compounds will interact with different kinds of cells in the body, therefore allowing Merck scientists to more precisely select drug targets and potentially accelerate the development process. The acquisition was accounted for under the purchase method and, accordingly, Rosetta's results of operations have been included with the Company's since the acquisition date. Pro forma information is not provided as the transaction does not have a material impact on the Company's results of operations or financial position. In accordance with the May 2001 Agreement and Plan of Merger (the Agreement), each share of outstanding Rosetta stock was converted into .2352 shares of Merck stock, resulting in the issuance by the Company of approximately 7.7 million shares of common stock. The aggregate purchase price of the transaction approximated \$633.7 million, including a \$587.1 million common share value, \$33.5 million representing employee stock options valued as of the Agreement date, and \$13.1 million of estimated transaction fees. The allocation of the purchase price resulted in tangible assets of \$188.5 million, consisting primarily of cash and short-term investments; other intangible assets of \$44.1 million; liabilities assumed of \$31.1 million, including deferred tax liabilities of \$16.0 million associated with the other intangible assets; and goodwill totaling \$432.2 million. Other intangibles, which have a weighted average useful life approximating five years in aggregate and by major class, include \$27.3 million of patent rights and \$16.7 million of contractual agreements. In accordance with FAS 142, the goodwill associated with the Rosetta acquisition is not amortized.

On August 19, 2003, Merck completed the spin-off of Medco Health. The spin-off was effected by way of a pro rata dividend to Merck stockholders. Holders of Merck common stock at the close of business on August 12, 2003, received a dividend of .1206 shares of Medco Health common stock for every one share of Merck common stock held on that date. No fractional shares of Medco Health common stock were issued. Shareholders entitled to a fractional share of Medco Health common stock in the distribution received the cash value instead. Based on a letter ruling Merck received from the U.S. Internal Revenue Service, receipt of Medco Health shares in the distribution was tax-free for U.S. federal income tax purposes, but any cash received in lieu of fractional shares was taxable.

Prior to the spin-off, Merck received a \$2.0 billion dividend from Medco Health and Merck paid \$564.7 million in settlement of the net intercompany payable to Medco Health. In addition, at the date of the spin-off, \$247.4 million of cash and cash equivalents were included in the net assets of Medco Health that were spun off.

Summarized financial information for discontinued operations is as follows:

Years Ended December 31	2003*	2002	2001
Total net revenues	\$20,328.7	\$30,344.5	\$26,516.7
Income before taxes	369.6	561.9	454.5
Taxes on income	128.3	207.2	225.9

*Includes operations up through August 19, 2003.

The following is a summary of the assets and liabilities of discontinued operations that were spun off:

	August 19, 2003
Assets	
Cash and cash equivalents	\$ 247.4
Other current assets	2,728.4
Property, plant and equipment, net	816.3
Goodwill	3,310.2
Other intangibles, net	2,351.9
Other assets	138.4
	\$9,592.6
Liabilities	
Current liabilities	\$2,176.2
Long-term debt	1,362.3
Deferred income taxes	1,195.0
	\$4,733.5
Net Assets Transferred	\$4,859.1

In 2003, the Company accelerated its efforts to fundamentally lower its cost structure through Company-wide initiatives. In October 2003, the Company announced the reduction of 4,400 positions, which is expected to be completed in 2004. Approximately 3,200 positions had been eliminated as of December 31, 2003. The Company recorded restructuring costs of \$194.6 million in Marketing and administrative expense in 2003, of which \$101.8 million related to employee severance benefits, \$86.0 million related to curtailment, settlement and termination charges on the Company's pension and other postretirement benefit plans (see Note 13) and \$6.8 million related to a modification in the terms of certain employees' stock option grants. Payments for employee severance benefits were \$23.5 million in 2003, leaving a remaining accrued balance of \$78.3 million as of December 31, 2003. Additional restructuring costs are expected to be incurred in 2004.

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4. Joint Ventures and Other Equity Method Affiliates

In 1982, Merck entered into an agreement with Astra AB (Astra) to develop and market Astra's products under a royalty-bearing license. In 1993, the Company's total sales of Astra products reached a level that triggered the first step in the establishment of a joint venture business carried on by Astra Merck Inc. (AMI), in which Merck and Astra each owned a 50% share. This joint venture, formed in 1994, developed and marketed most of Astra's new prescription medicines in the United States including *Prilosec*, the first of a class of medications known as proton pump inhibitors, which slows the production of acid from the cells of the stomach lining.

In 1998, Merck and Astra completed the restructuring of the ownership and operations of the joint venture whereby the Company acquired Astra's interest in AMI, renamed KBI Inc. (KBI), and contributed KBI's operating assets to a new U.S. limited partnership, Astra Pharmaceuticals L.P. (the Partnership), in exchange for a 1% limited partner interest. Astra contributed the net assets of its wholly owned subsidiary, Astra USA, Inc., to the Partnership in exchange for a 99% general partner interest. The Partnership, renamed AstraZeneca LP (AZLP) upon Astra's 1999 merger with Zeneca Group Plc (the AstraZeneca merger), became the exclusive distributor of the products for which KBI retained rights.

While maintaining a 1% limited partner interest in AZLP, Merck has consent and protective rights intended to preserve its business and economic interests, including restrictions on the power of the general partner to make certain distributions or dispositions. Furthermore, in limited events of default, additional rights will be granted to the Company, including powers to direct the actions of, or remove and replace, the Partnership's chief executive officer and chief financial officer. Merck earns ongoing revenue based on sales of current and future KBI products and such revenue was \$1.9 billion, \$1.5 billion and \$1.9 billion in 2003, 2002 and 2001, respectively, primarily relating to sales of *Nexium* and *Prilosec*. In addition, Merck earns certain Partnership returns, which are recorded in Equity income from affiliates. Such returns include a priority return provided for in the Partnership Agreement, variable returns based, in part, upon sales of certain former Astra USA, Inc. products, and a preferential return representing Merck's share of undistributed AZLP GAAP earnings. These returns aggregated \$391.5 million, \$640.2 million and \$642.8 million in 2003, 2002 and 2001, respectively. The decrease in 2003 is attributable to a reduction in the preferential return, primarily resulting from the impact of generic competition for *Prilosec*. The AstraZeneca merger triggers a partial redemption of Merck's limited partnership interest in 2008. Upon this redemption, AZLP will distribute to KBI an amount based primarily on a multiple of Merck's average annual variable returns derived from sales of the former Astra USA, Inc. products for the three years prior to the redemption (the Limited Partner Share of Agreed Value).

In conjunction with the 1998 restructuring, for a payment of \$443.0 million, which was deferred, Astra purchased an option (the Asset Option) to buy Merck's interest in the KBI products, excluding the gastrointestinal medicines *Nexium* and *Prilosec*. The Asset Option is exercisable in 2010 at an exercise price equal to the net present value as of March 31, 2008 of projected future pretax revenue to be received by the Company from the KBI products (the Appraised Value). Merck also has the right to require Astra to purchase such interest in 2008 at the Appraised Value. In addition, the Company granted Astra an option to buy Merck's common stock interest in KBI at an exercise price based on the net present value of estimated future net sales of *Nexium* and *Prilosec*. This option is exercisable two years after Astra's purchase of Merck's interest in the KBI products.

The 1999 AstraZeneca merger constituted a Trigger Event under the KBI restructuring agreements. As a result of the merger, in exchange for Merck's relinquishment of rights to future Astra products with no existing or pending U.S. patents at the time of the merger, Astra paid \$967.4 million (the Advance Payment), which is subject to a true-up calculation in 2008 that may require repayment of all or a portion of this amount. The True-Up Amount is directly dependent on the fair market value in 2008 of the Astra product rights retained by the Company. Accordingly, recognition of this contingent income has been deferred until the realizable amount, if any, is determinable, which is not anticipated prior to 2008.

Under the provisions of the KBI restructuring agreements, because a Trigger Event has occurred, the sum of the Limited Partner Share of Agreed Value, the Appraised Value and the True-Up Amount is guaranteed to be a minimum of \$4.7 billion. Distribution of the Limited Partner Share of Agreed Value and payment of the True-Up Amount will occur in 2008. AstraZeneca's purchase of Merck's interest in the KBI products is contingent upon the exercise of either Merck's option in 2008 or AstraZeneca's option in 2010 and, therefore, payment of the Appraised Value may or may not occur.

In 1989, Merck formed a joint venture with Johnson & Johnson to develop and market a broad range of nonprescription medicines for U.S. consumers. This 50% owned venture was expanded into Europe in 1993, and into Canada in 1996. Sales of product marketed by the joint venture were \$445.8 million for 2003, \$413.0 million for 2002 and \$395.0 million for 2001.

In 1994, Merck and Pasteur Mérieux Connaught (now Aventis Pasteur) established an equally-owned joint venture to market vaccines in Europe and to collaborate in the development of combination vaccines for distribution in Europe. Joint venture vaccine sales were \$669.0 million for 2003, \$546.4 million for 2002 and \$499.6 million for 2001.

In 1997, Merck and Rhône-Poulenc (now Aventis) combined their animal health and poultry genetics businesses to form Merial Limited (Merial), a fully integrated animal health company, which is a stand-alone joint venture, equally owned by each party. Merial provides a comprehensive range of pharmaceuticals and vaccines to enhance the health, well-being and performance of a wide range of animal species. Merial sales were \$1.8 billion for 2003, \$1.7 billion for 2002 and \$1.6 billion for 2001.

In 2000, the Company and Schering-Plough Corporation (Schering-Plough) entered into agreements to create separate equally-owned partnerships to develop and market in the United States new prescription medicines in the cholesterol-management and respiratory therapeutic areas. In 2001, the cholesterol-management partnership agreements were expanded to include all the countries of the world, excluding Japan. In October 2002, ezetimibe, the first in a new class of cholesterol-lowering agents, was approved in the United States as *Zetia* and in Germany as *Ezetrol*. *Zetia* was launched in the United States in November 2002. In 2003, following the successful completion of the European Union Mutual Recognition Procedure, *Ezetrol* has been launched in five European countries - Germany, the United Kingdom, Switzerland, Sweden and the Netherlands. Sales totaled \$469.4 million in 2003 and \$25.3 million in 2002. In September 2003, Merck/Schering-Plough Pharmaceuticals submitted a New Drug Application to the U.S. Food and Drug Administration (FDA) for *Vytorin*, which contains the active ingredients of both *Zetia* and *Zocor*. In November 2003, the filing was accepted by the FDA for standard review. Similar applications have been filed in other countries outside the United States.

In January 2002, the Merck/Schering-Plough respiratory partnership reported on results of Phase III clinical trials of a fixed combination tablet containing *Singulair* and *Claritin*, Schering-Plough's nonsedating antihistamine, which did not demonstrate sufficient added benefits in the treatment of seasonal allergic rhinitis.

Investments in affiliates accounted for using the equity method, including the above joint ventures, totaled \$2.2 billion at December 31, 2003 and 2002, respectively. These amounts are reported in Other assets. Dividends and distributions received from these affiliates were \$553.4 million in 2003, \$488.6 million in 2002 and \$572.2 million in 2001.

5. Financial Instruments

Upon the adoption of Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), on January 1, 2001, the Company recorded a favorable cumulative effect of accounting change of \$45.5 million after tax in Other comprehensive income (loss), representing the mark to fair value of purchased local currency put options. (See Note 17.) The cumulative effect of accounting change recorded in Net income was not significant.

Foreign Currency Risk Management

While the U.S. dollar is the functional currency of the Company's foreign subsidiaries, a significant portion of the Company's revenues are denominated in foreign currencies. Merck relies on sustained cash flows generated from foreign sources to support its long-term commitment to U.S. dollar-based research and development. To the extent the dollar value of cash flows is diminished as a result of a strengthening dollar, the Company's ability to fund research and other dollar-based strategic initiatives at a consistent level may be impaired. The Company has established revenue hedging and balance sheet risk management programs to protect against volatility of future foreign currency cash flows and changes in fair value caused by volatility in foreign exchange rates.

The objective of the revenue hedging program is to reduce the potential for longer-term unfavorable changes in foreign exchange to decrease the U.S. dollar value of future cash flows derived from foreign currency denominated sales, primarily the euro and Japanese yen. To achieve this objective, the Company will partially hedge anticipated third-party sales that are expected to occur over its planning cycle, typically no more than three years into the future. The Company will layer in hedges over time, increasing the portion of sales hedged as it gets closer to the expected date of the transaction, such that it is probable that the hedged transaction will occur. The portion of sales hedged is based on assessments of cost-benefit profiles that consider natural offsetting exposures, revenue and exchange rate volatilities and correlations, and the cost of hedging instruments. The hedged anticipated sales are a specified component of a portfolio of similarly denominated foreign currency-based sales transactions, each of which responds to the hedged risk in the same manner. Merck manages its anticipated transaction exposure principally with purchased local currency put options, which provide the Company with a right, but not an obligation, to sell foreign currencies in the future at a predetermined price. If the U.S. dollar strengthens relative to the currency of the hedged anticipated sales, total changes in the options' cash flows fully offset the decline in the expected future U.S. dollar cash flows of the hedged foreign currency sales. Conversely, if the U.S. dollar weakens, the options' value reduces to zero, but the Company benefits from the increase in the value of the anticipated foreign currency cash flows.

During the first four months of 2001, changes in the options' intrinsic value were deferred in Accumulated other comprehensive income (AOCI) until recognition of the hedged anticipated revenue. Amounts associated with option time value, which was excluded from the designated hedge relationship and marked to fair value through earnings, were not significant. Effective May 2001, as permitted by FAS 133 implementation guidance finalized in June 2001, the designated hedge relationship is based on total changes in the options' cash flows. Accordingly, the entire fair value change in the options is deferred in AOCI and reclassified into Sales when the hedged anticipated revenue is recognized. The hedge relationship is perfectly effective and therefore no hedge ineffectiveness is recorded. The fair values of purchased currency options are reported in Accounts receivable or Other assets.

The primary objective of the balance sheet risk management program is to protect the U.S. dollar value of foreign currency denominated net monetary assets from the effects of volatility in foreign exchange that might occur prior to their conversion to U.S. dollars. Merck principally utilizes forward exchange contracts, which enable the Company to buy and sell foreign currencies in the future at fixed exchange rates and economically offset the consequences of changes in foreign exchange on the amount of U.S. dollar cash flows derived from the net assets. Merck routinely enters into contracts to fully offset the effects of exchange on exposures

denominated in developed country currencies, primarily the euro and Japanese yen. For exposures in developing country currencies, the Company will enter into forward contracts on a more limited basis, and only when it is deemed economical to do so based on a cost-benefit analysis that considers the magnitude of the exposure and the volatility of the exchange rate. The Company will also minimize the effect of exchange on monetary assets and liabilities by managing operating activities and net asset positions at the local level.

Foreign currency denominated monetary assets and liabilities are remeasured at spot rates in effect on the balance sheet date with the effects of changes in spot rates reported in Other (income) expense, net. The forward contracts are not designated as hedges and are marked to market through Other (income) expense, net. Accordingly, fair value changes in the forward contracts help mitigate the changes in the value of the remeasured assets and liabilities attributable to changes in foreign currency exchange rates, except to the extent of the spot-forward differences. These differences are not significant due to the short-term nature of the contracts, which typically have average maturities at inception of less than one year.

The Company also uses forward contracts to hedge the changes in fair value of certain foreign currency denominated available-for-sale securities attributable to fluctuations in foreign currency exchange rates. Changes in the fair value of the hedged securities due to fluctuations in spot rates are offset in Other (income) expense, net, by the fair value changes in the forward contracts attributable to spot rate fluctuations. Hedge ineffectiveness was not material during 2003 and 2002. Changes in the contracts' fair value due to spot-forward differences are excluded from the designated hedge relationship and recognized in Other (income) expense, net. These amounts were not significant for the years ended December 31, 2003 and 2002.

The fair values of forward exchange contracts are reported in the following four balance sheet line items: Accounts receivable (current portion of gain position), Other assets (non-current portion of gain position), Accrued and other current liabilities (current portion of loss position), or Deferred income taxes and noncurrent liabilities (non-current portion of loss position).

Interest Rate Risk Management

The Company may use interest rate swap contracts on certain investing and borrowing transactions to manage its net exposure to interest rate changes and to reduce its overall cost of borrowing. The Company does not use leveraged swaps and, in general, does not leverage any of its investment activities that would put principal capital at risk.

In 2003, the Company entered into a ten-year \$500.0 million notional amount pay-floating, receive-fixed interest rate swap contract designated as a hedge of the fair value changes in \$500.0 million of ten-year fixed rate notes attributable to changes in the benchmark London Interbank Offered Rate (LIBOR) swap rate. In 2001, the Company entered into similar five-year and three-year \$500.0 million notional amount pay-floating, receive-fixed interest rate swap contracts designated as fair value hedges of \$500.0 million each of five-year and three-year fixed rate notes. The swaps effectively convert the fixed-rate obligations to floating-rate instruments. The fair value changes in the notes are fully offset in interest expense by the fair value changes in the swap contracts.

The Company is also a party to a seven-year combined interest rate and currency swap contract entered into in 1997, which converts a variable rate foreign currency denominated investment to a variable rate U.S. dollar investment. The interest rate component of the swap is not designated as a hedge. The currency swap component is designated as a hedge of the changes in fair value of the investment attributable to exchange. Accordingly, changes in the fair value of the investment due to fluctuations in spot rates are offset in Other (income) expense, net, by fair value changes in the currency swap. Hedge ineffectiveness was not significant during 2003 and 2002.

The fair values of these contracts are reported in Accounts receivable, Other assets, Accrued and other current liabilities, or Deferred income taxes and noncurrent liabilities.

Fair Value of Financial Instruments

Summarized below are the carrying values and fair values of the Company's financial instruments at December 31, 2003 and 2002. Fair values were estimated based on market prices, where available, or dealer quotes.

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Cash and cash equivalents	\$1,201.0	\$1,201.0	\$2,243.0	\$2,243.0
Short-term investments	2,972.0	2,972.0	2,728.2	2,728.2
Long-term investments	7,941.2	7,941.2	7,255.1	7,255.1
Purchased currency options	19.4	19.4	20.6	20.6
Forward exchange contracts and currency swap	7.5	7.5	48.2	48.2
Interest rate swaps	100.3	100.3	88.3	88.3
Liabilities				
Loans payable and current portion of long-term debt	\$1,700.0	\$1,714.1	\$3,669.8	\$3,675.6
Long-term debt	5,096.0	5,375.7	4,879.0	5,194.8
Forward exchange contracts and currency swap	153.6	153.6	67.1	67.1

A summary of the carrying values and fair values of the Company's investments at December 31 is as follows:

	2003		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Available-for-sale				
Debt securities	\$10,042.6	\$10,042.6	\$9,270.6	\$9,270.6
Equity securities	837.5	837.5	601.0	601.0
Held-to-maturity securities	33.1	33.1	111.7	111.7

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A summary at December 31 of those gross unrealized gains and losses on the Company's available-for-sale investments recorded, net of tax and minority interests, in AOCI is as follows:

	2003		2002	
	Gross Unrealized		Gross Unrealized	
	Gains	Losses	Gains	Losses
Debt securities	\$ 71.9	\$(19.3)	\$196.7	\$ (1.7)
Equity securities	108.9	(16.9)	8.9	(89.8)

Available-for-sale debt securities and held-to-maturity securities maturing within one year totaled \$2.9 billion and \$23.1 million, respectively, at December 31, 2003. Of the remaining debt securities, \$6.7 billion mature within five years.

At December 31, 2002, \$433.5 million of held-to-maturity securities that matured in 2003 set off \$433.5 million of 5.0% non-transferable note obligations issued by the Company that also matured in 2003.

Concentrations of Credit Risk

As part of its ongoing control procedures, the Company monitors concentrations of credit risk associated with corporate issuers of securities and financial institutions with which it conducts business. Credit risk is minimal as credit exposure limits are established to avoid a concentration with any single issuer or institution. Three drug wholesalers represented, in aggregate, approximately one-fifth of the Company's accounts receivable at December 31, 2003. The Company monitors the creditworthiness of its customers to which it grants credit terms in the normal course of business. Bad debts have been minimal. The Company does not normally require collateral or other security to support credit sales.

6. Inventories

Inventories at December 31 consisted of:

	2003	2002
Finished goods	\$ 552.5	\$1,262.3
Raw materials and work in process	2,309.8	2,073.8
Supplies	90.5	75.7
Total (approximates current cost)	2,952.8	3,411.8
Reduction to LIFO cost	—	—
	2,952.8	3,411.8
Recognized as:		
Inventories	\$2,554.7	\$2,964.3
Other assets	398.1	447.5

Inventories valued under the LIFO method comprised approximately 51% and 39% of inventories at December 31, 2003 and 2002, respectively. Amounts recognized as Other assets consist of inventories held in preparation for product launches not expected to be sold within one year.

The reduction in finished goods is primarily attributable to the spin-off of Medco Health in 2003.

7. Other Intangibles

Other intangibles at December 31 consisted of:

	2003	2002
Customer relationships – Medco Health	\$ —	\$3,172.2
Patents and product rights	1,656.3	1,355.2
Other	169.8	121.5
Total acquired cost	1,826.1	4,648.9
Customer relationships – Medco Health	\$ —	\$ 757.3
Patents and product rights	865.4	694.4
Other	96.7	83.2
Total accumulated amortization	\$ 962.1	\$1,534.9

Aggregate amortization expense, which is recorded in Materials and production expense and Other (income) expense, net, totaled \$184.6 million in 2003, \$163.7 million in 2002, and \$158.4 million in 2001. The estimated aggregate amortization expense for each of the next five years is as follows: 2004, \$191.4 million; 2005, \$162.1 million; 2006, \$141.2 million; 2007, \$135.7 million; and 2008, \$84.6 million.

8. Loans Payable, Long-Term Debt and Other Commitments

Loans payable at December 31, 2003 and 2002 consisted primarily of \$549.7 million and \$2.9 billion, respectively, of commercial paper borrowings and \$500.0 million of notes with annual interest rate resets and a final maturity in 2011. On an annual basis, the notes will either be repurchased from the holders at the option of the remarketing agent and remarketed, or redeemed by the Company. At December 31, 2003 and 2002, loans payable also reflected \$296.0 million and \$220.4 million, respectively, of long-dated notes that are subject to repayment at the option of the holders on an annual basis. At December 31, 2003, loans payable also included a \$300.0 million variable rate borrowing due in 2004. The weighted average interest rate for all of these borrowings was 2.5% and 2.0% at December 31, 2003 and 2002, respectively.

Long-term debt at December 31 consisted of:

	2003	2002
6.0% Astra note due 2008	\$1,380.0	\$1,380.0
5.3% notes due 2006	548.5	554.1
4.4% notes due 2013	526.9	—
4.1% notes due 2005	523.9	532.8
6.8% euronotes due 2005	499.8	499.7
6.4% debentures due 2028	499.1	499.1
6.0% debentures due 2028	496.6	496.4
6.3% debentures due 2026	247.4	247.3
Variable rate borrowing due 2004	—	300.0
Other	373.8	369.6
	\$5,096.0	\$4,879.0

At December 31, 2003 and 2002, the Company was a party to interest rate swap contracts which effectively convert the 5.3% and 4.1% and, at December 31, 2003, the 4.4% fixed rate notes to floating rate instruments. (See Note 5.)

Other at December 31, 2003 and 2002 consisted primarily of \$332.6 million of borrowings at variable rates averaging 0.8% and 1.1%, respectively. At December 31, 2003 and 2002, \$158.7 million and \$106.0 million of these borrowings are subject to repayment at the option of the holders beginning in 2011 and 2010, respectively. In both years, Other also consisted of foreign borrowings at varying rates up to 7.5%.

The aggregate maturities of long-term debt for each of the next five years are as follows: 2004, \$310.9 million; 2005, \$1.0 billion; 2006, \$561.6 million; 2007, \$9.5 million; 2008, \$1.4 billion.

Rental expense under the Company's operating leases, net of sublease income, was \$226.1 million in 2003. The minimum aggregate rental commitments under noncancellable leases are as follows: 2004, \$132.9 million; 2005, \$108.0 million; 2006, \$68.7 million; 2007, \$44.1 million; 2008, \$28.3 million and thereafter, \$53.5 million. The Company has no significant capital leases.

9. Contingencies and Environmental Liabilities

The Company is involved in various claims and legal proceedings of a nature considered normal to its business, including product liability, intellectual property and commercial litigation, as well as additional matters such as antitrust actions. The Company continually evaluates its risks and assesses its insurance needs relative to market costs to obtain insurance, purchasing coverage as appropriate to provide protection against losses. The Company records accruals for contingencies when it is probable that a liability has been incurred and the amount can be reasonably estimated. These accruals are adjusted periodically as assessments change or additional information becomes available. For product liability claims, a portion of the overall accrual is actuarially determined and considers such factors as past experience, number of claims reported and estimates of claims incurred but not yet reported. Individually significant contingent losses are accrued when probable and reasonably estimable.

Beginning in 1993, the Company was named in a number of antitrust suits, certain of which were certified as class actions, instituted by most of the nation's retail pharmacies and consumers in several states, alleging antitrust violations. In 1994, these actions, except for those pending in state courts, were consolidated for pre-trial purposes in the federal court in Chicago, Illinois. In 1996, the Company and several other defendants settled the federal class action, which represented the single largest group of claims. Since that time, the Company has settled substantially all of the remaining cases on satisfactory terms. The Company has not engaged in any conspiracy and no admission of wrongdoing was made nor was included in any settlement agreements. While it is not feasible to predict the final outcome of the few remaining cases, in the opinion of the Company, these proceedings should not ultimately result in any liability which would have a material adverse effect on the Company's financial position, results of operations or liquidity.

As previously disclosed, the Company has been advised by the U.S. Department of Justice that it is investigating marketing and selling activities of the Company and other pharmaceutical manufacturers. In connection with the investigation, as previously disclosed, the government served a subpoena on the Company for the production of documents related to Company marketing and sales activities. The subpoena seeks substantially the same information as the government has previously sought. The Company will be working with the government to respond appropriately to this subpoena and other informational requests. The Company has also received a Civil Investigative Demand (CID) from the Attorney General of Texas. The CID seeks the production of documents and other information regarding the Company's marketing and selling activities relating to Texas. The Company is working with the Texas Attorney General's office to respond appropriately to the CID.

As previously disclosed, the Company was joined in ongoing litigation alleging manipulation by pharmaceutical manufacturers of Average Wholesale Prices (AWP), which are sometimes used in calculations that determine public and private sector reimbursement levels. In 2002, the Judicial Panel on Multi-District Litigation ordered the transfer and consolidation of all pending federal AWP cases to federal court in Boston, Massachusetts. Plaintiffs filed one consolidated class action complaint, which aggregated the claims previously filed in various federal district court actions and also expanded the number of manufacturers to include some which, like the Company, had not been defendants in any prior pending case. In May 2003, the court granted the Company's motion to dismiss the consolidated class action and dismissed the Company from the class action case. Subsequent to the Company's dismissal, the plaintiffs filed an amended consolidated class action complaint, which did not name the Company as a defendant. The Company and thirty other pharmaceutical manufacturers remain defendants in three similar complaints pending in federal court in Massachusetts filed by the New York Counties of Suffolk, Rockland and Westchester. The Company believes that these lawsuits are without merit and is vigorously defending against them.

As previously disclosed, in January 2003, the U.S. Department of Justice notified the federal court in New Orleans, Louisiana that it was not going to intervene in a pending Federal False Claims Act case that was filed under seal in December 1999 against the Company. The court issued an order unsealing the complaint, which was filed by a physician in Louisiana, and ordered that the complaint be served. The complaint alleges that the Company's discounting of *Pepcid* in certain Louisiana hospitals led to increases in costs to Medicaid. The Company believes that the complaint is without merit and will vigorously defend against it.

Federal and state lawsuits involving numerous individual claims, as well as some putative class actions, have been filed against the Company with respect to *Vioxx*. Some of the lawsuits also name as a defendant Pfizer Inc., which markets a competing product. Certain of the lawsuits include allegations regarding gastrointestinal bleeding, cardiovascular events and kidney damage. The lawsuits have been filed in federal courts as well as in a number of state courts. While cases in other jurisdictions are proceeding separately, the actions filed in the state courts of California and New Jersey have been transferred to a single judge in each state for coordinated proceedings. The Company anticipates that one or more of the lawsuits in various jurisdictions

may go to trial in the first half of 2004. Litigation is inherently subject to uncertainties and no assurance can be given on the outcome of any given trial. However, the Company believes that these lawsuits are without merit and will vigorously defend against them.

A number of purported class action lawsuits have been filed by several individual shareholders in the United States District Court for the Eastern District of Louisiana naming as defendants the Company and several current or former officers of the Company, and alleging that the defendants made false and misleading statements regarding the Company's drug *Vioxx* in violation of the federal securities laws. The plaintiffs request certification of a class of purchasers of the Company's common stock between May 22, 1999 and October 22, 2003, and seek unspecified compensatory damages and the costs of suit, including attorney fees. The Company believes that these lawsuits are without merit and will vigorously defend against them.

The Company is a party in claims brought under the Consumer Protection Act of 1987 in the United Kingdom, which allege that certain children suffer from a variety of conditions as a result of being vaccinated with various bivalent vaccines for measles and rubella and/or trivalent vaccines for measles, mumps and rubella, including the Company's *M-M-R II*. Other pharmaceutical companies have also been sued. The claimants allege various adverse consequences, including autism, with or without inflammatory bowel disease, epilepsy, diabetes, encephalitis, encephalopathy and chronic fatigue syndrome. In connection with those claims, eight lead cases had been selected for a trial which was scheduled to commence in April 2004: two against the Company, and six against other pharmaceutical companies. The trial of the eight cases is initially limited to issues of causation and defect on the conditions of autistic spectrum disorders, with or without inflammatory bowel disease. In early September 2003, the Legal Services Commission announced its decision to withdraw public funding of the litigation brought by the claimants. This decision was confirmed on appeal by the Funding Review Committee on September 30, 2003. The April 2004 trial date has been vacated and the claims stayed pending the outcome of a February 2004 hearing on the judicial review of the funding withdrawal decision. The Company believes that these lawsuits are without merit and will vigorously defend against them.

The Company is also a party to individual and class action product liability lawsuits and claims in the United States involving pediatric vaccines (i.e., hepatitis B vaccine and *haemophilus influenza* type b vaccine) that contained thimerosal, a preservative used in vaccines. Other defendants include vaccine manufacturers who produced pediatric vaccines containing thimerosal as well as manufacturers of thimerosal. In these actions, the plaintiffs allege, among other things, that they have suffered neurological and other injuries as a result of having thimerosal introduced into their developing bodies. The Company has been successful in having many of these cases either dismissed or stayed on the ground that the National Vaccine Injury Compensation Program (NVICP) prohibits any person from filing or maintaining a civil action seeking damages against a vaccine manufacturer for vaccine-related injuries unless a petition is first filed in the United States Court of Federal Claims. A number of similar cases (*M-M-R II* alone and/or thimerosal-containing vaccines) have been filed in the United States Court of Federal Claims under the NVICP for a determination first on general causation issues. The Company believes that these lawsuits and claims are without merit and will vigorously defend against them in the proceedings in which it is a party.

From time to time, generic manufacturers of pharmaceutical products file Abbreviated New Drug Applications (ANDAs) with the FDA seeking to market generic forms of Company products prior to the expiration of relevant patents owned by the Company. Generic pharmaceutical manufacturers have submitted ANDAs to the FDA seeking to market in the United States a generic form of *Fosamax*, *Prilosec* and *Vioxx* prior to the expiration of the Company's (and AstraZeneca's in the case of *Prilosec*) patents concerning these products. The generic companies' ANDAs generally include allegations of non-infringement, invalidity and unenforceability of the patents. Generic manufacturers have received FDA approval to market a generic form of *Prilosec*. The Company has filed patent infringement suits in federal court against companies filing ANDAs for generic alendronate and rofecoxib, and AstraZeneca and the Company have filed patent infringement suits in federal court against companies filing ANDAs for generic omeprazole. Similar patent challenges exist in certain foreign jurisdictions. The Company intends to vigorously defend its patents, which it believes 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 assurance of the outcomes, which, if adverse, could result in significantly shortened periods of exclusivity for these products.

A trial in the United States with respect to the alendronate daily product concluded in November 2001. In November 2002, a decision was issued by the U.S. District Court in Delaware finding the Company's patent valid and infringed. On October 30, 2003, the U.S. Court of Appeals for the Federal Circuit affirmed the validity and infringement of the Company's basic U.S. patent covering the use of alendronate in any form. A request for rehearing was denied. A trial in the United States involving the alendronate weekly product was held in March 2003. On August 28, 2003, the U.S. District Court in Delaware, upheld the validity of the Company's U.S. patent covering the weekly administration of alendronate. As a result of the court's decision, the patent is valid and infringed by Teva Pharmaceuticals USA, Inc.'s (Teva) Abbreviated New Drug Application filing. The court's decision has been appealed by Teva.

In January 2003, the High Court of Justice for England and Wales held that patents of the Company protecting the alendronate daily and weekly products were invalid in the United Kingdom. On November 6, 2003, the Court of Appeals of England and Wales affirmed the ruling by the High Court of Justice for England and Wales. Protection against generic companies referencing the Company's data for weekly alendronate in the United Kingdom may be available under the provisions of the law which grant a period of exclusivity to the original submitter of such data. A generic company has sought judicial review of a decision by the Licensing Authority in the United Kingdom that it cannot rely upon the Company's weekly alendronate data to seek approval of a generic alendronate 70 mg product until 10 years after approval of the Company's weekly alendronate product (which was granted in 2000). The Company has been served as an interested party and intends to take appropriate action to protect its rights.

In the case of omeprazole, the trial court in the United States rendered an opinion in October 2002 upholding the validity of the Company's and AstraZeneca's patents covering the stabilized formulation of omeprazole and ruling that one defendant's omeprazole product did not infringe those patents. The other three defendants' products were found to infringe the formulation patents. In December 2003, the U.S. Court of Appeals for the Federal Circuit affirmed the decision of the trial court. With respect to certain other generic manufacturers' omeprazole products, no trial date has yet been set.

In the case of rofecoxib, an ANDA has been filed including allegations of non-infringement, invalidity and unenforceability of the Company's rofecoxib patents. As previously disclosed, the Company filed a patent infringement lawsuit in the District Court of Delaware in August 2003. Trial has been set for October 2005.

As previously disclosed, the Company has been named as a defendant in a number of purported class action lawsuits, which have been consolidated before a single judge and in a shareholder derivative action, both of which involve claims related to the Company's revenue recognition practice for retail copayments paid by individuals to whom Medco Health provides pharmaceutical benefits. The class action lawsuit was amended to add claims against the Company and Medco Health and certain of their officers and directors relating to rebates received by Medco Health and Medco Health's independent status. The shareholder derivative action was amended to add Arthur Andersen LLP as a defendant and to add certain new allegations, which relate to claims that certain individual defendants breached their fiduciary duty by failing to prevent the conduct at issue in the previously disclosed Gruer Cases, discussed below, the antitrust claims pending in the Northern District of Illinois, and the qui tam actions in which the U.S. Attorney's office for the Eastern District of Pennsylvania has intervened against Medco Health. The complaint seeks monetary damages from those Company directors who are defendants in the lawsuit in an unspecified amount as well as injunctive and other relief. As part of the spin-off of Medco Health, Medco Health assumed responsibility for a portion of potential damages or settlement payments paid, if any, in connection with this litigation. The Company believes that these lawsuits are without merit and will vigorously defend against them.

Prior to the spin-off of Medco Health, the Company and Medco Health agreed to settle, on a class action basis, a series of lawsuits asserting violations of the Employee Retirement Income Security Act (ERISA). The Company, Medco Health and certain plaintiffs' counsel filed the settlement agreement with the federal district court in New York, where cases commenced by a number of plaintiffs, including participants in a number of pharmaceutical benefit plans for which Medco Health is the pharmacy benefit manager, as well as trustees of such plans, have been consolidated. The proposed class settlement has been agreed to by plaintiffs in five of the cases (the Gruer Cases) filed against Medco Health and the Company. Under the proposed settlement, the Company and Medco Health have agreed to pay a total of \$42.5 million, and Medco Health has agreed to modify certain business practices or to continue certain specified business practices for a period of five years. The financial compensation is intended to benefit members of the settlement class, which includes ERISA plans for which Medco Health administered a pharmacy benefit at any time since December 17, 1994. In 2003, the court preliminarily approved the settlement and has held a hearing to hear objections to the fairness of the proposed settlement from class member representatives. Currently, certain class member plans have indicated that they will not participate in the settlement. The court has not yet approved the settlement or determined the number of class member plans that have properly elected not to participate in the settlement, if approved. The settlement becomes final only if and when the district court grants final approval and all appeals have been resolved. Medco Health and the Company agreed to the proposed settlement in order to avoid the significant cost and distraction of protracted litigation.

The Gruer Cases, which are similar to claims pending against other pharmaceutical benefit managers, alleged that Medco Health was an ERISA "fiduciary" and that the Company was a "party-in-interest" within the meaning of ERISA. The plaintiffs asserted that the Company and Medco Health had breached duties and engaged in "prohibited transactions" as a result of filling prescriptions with the Company's drugs to increase the Company's market share, among other things. The plaintiffs demanded that Medco Health and the Company disgorge any unlawfully obtained profits and other relief.

In addition, among the cases consolidated in New York, one plaintiff has also alleged, based on essentially the same factual allegations as the Gruer Cases, that Medco Health and the Company have violated federal and state racketeering laws. A different plaintiff, seeking to represent California citizens, has alleged that Medco Health and the Company have violated California unfair competition law. An attorney for one of the plaintiffs has indicated that it may assert claims against Medco Health, the Company and others to allege violations of the Sherman Act, the Clayton Act and various state antitrust laws based on alleged conspiracies to suppress price competition and unlawful combinations allegedly resulting in higher pharmaceutical prices.

After the spin-off of Medco Health, Medco Health assumed substantially all of the liability exposure for the matters discussed in the foregoing three paragraphs. The Company believes that these cases, which are being defended by Medco Health, are without merit.

There are various other legal proceedings, principally product liability and intellectual property suits involving the Company, which are pending. While it is not feasible to predict the outcome of these proceedings or the proceedings discussed above, in the opinion of the Company, all such proceedings are either adequately covered by insurance or, if not so covered, should not ultimately result in any liability that would have a material adverse effect on the financial position, liquidity or results of operations of the Company. In addition, from time to time, federal or state regulators seek information about practices in the pharmaceutical industry. While it is not feasible to predict the outcome of any requests for information, the Company does not expect such inquiries to have a material adverse effect on the financial position, liquidity or results of operations of the Company.

The Company is a party to a number of proceedings brought under the Comprehensive Environmental Response, Compensation and Liability Act, commonly known as Superfund. When a legitimate claim for contribution is asserted, a liability is initially accrued based upon the estimated transaction costs to manage the site. Accruals are adjusted as feasibility studies and related cost assessments of remedial techniques are completed, and as the extent to which other potentially responsible parties (PRPs) who may be jointly and severally liable can be expected to contribute is determined.

The Company is also remediating environmental contamination resulting from past industrial activity at certain of its sites and takes an active role in identifying and providing for these costs. A worldwide survey was initially performed to assess all sites for potential contamination resulting from past industrial activities. Where assessment indicated that physical investigation was warranted, such investigation was performed, providing a better evaluation of the need for remedial action. Where such need was identified, remedial action was then initiated. Estimates of the extent of contamination at each site were initially made at the pre-investigation stage and liabilities for the potential cost of remediation were accrued at that time. As more definitive information became available during the course of investigations and/or remedial efforts at each site, estimates were refined and accruals were adjusted accordingly. These estimates and related accruals continue to be refined annually.

In management's opinion, the liabilities for all environmental matters that are probable and reasonably estimable have been accrued and totaled \$158.1 million and \$189.7 million at December 31, 2003 and 2002, respectively. These liabilities are undiscounted, do not consider potential recoveries from insurers or other parties and will be paid out over the periods of remediation for the applicable sites, which are expected to occur primarily over the next 15 years. Although it is not possible to predict with certainty the outcome of these matters, or the ultimate costs of remediation, management does not believe that any reasonably possible expenditures that may be incurred in excess of the liabilities accrued should exceed \$100.0 million in the aggregate. Management also does not believe that these expenditures should result in a material adverse effect on the Company's financial position, results of operations, liquidity or capital resources for any year.

10. Preferred Stock of Subsidiary Companies

In 2000, a wholly owned subsidiary of the Company issued \$1.5 billion par value of variable rate preferred units. The units are redeemable at par value plus accrued dividends at the option of the issuer at any time. In addition, if the credit ratings on the Company's unsecured senior debt obligations fall below specified levels, the likelihood of which the Company believes is remote, the holders of the preferred units would have the ability to require the redemption of the preferred units. Because the preferred securities are held at the subsidiary level, they are included in Minority interests in the consolidated financial statements.

In connection with the 1998 restructuring of AMI (see Note 4), the Company assumed a \$2.4 billion par value preferred stock obligation with a dividend rate of 5% per annum, which is carried by KBI and included in Minority interests. While a small portion of the preferred stock carried by KBI is convertible into KBI common shares, none of the preferred securities are convertible into the Company's common shares and, therefore, they are not included as common shares issuable for purposes of computing Earnings per common share assuming dilution. (See Note 16.)

11. Stockholders' Equity

Other paid-in capital increased by \$12.9 million, \$36.5 million and \$641.4 million in 2003, 2002 and 2001, respectively. The increase in 2001 includes \$615.3 million resulting from shares issued and equivalent employee stock options assumed in connection with the Rosetta acquisition. (See Note 3.) The remaining increases primarily reflect the impact of shares issued upon exercise of stock options and related income tax benefits.

A summary of treasury stock transactions (shares in millions) is as follows:

	2003		2002		2001	
	Shares	Cost	Shares	Cost	Shares	Cost
Balance, Jan. 1	731.2	\$24,109.1	703.4	\$22,387.1	660.8	\$18,857.8
Purchases	39.0	2,034.1	39.2	2,091.3	54.5	3,890.8
Issuances ⁽¹⁾	(15.7)	(525.7)	(11.4)	(369.3)	(11.9)	(361.5)
Balance, Dec. 31	754.5	\$25,617.5	731.2	\$24,109.1	703.4	\$22,387.1

⁽¹⁾ Issued primarily under stock option plans.

At December 31, 2003 and 2002, 10 million shares of preferred stock, without par value, were authorized; none were issued.

12. Stock Option Plans

The Company has stock option plans under which employees, non-employee directors and employees of certain of the Company's equity method investees may be granted options to purchase shares of Company common stock at the fair market value at the time of the grant. These plans were approved by the Company's shareholders. Option grants beginning in 2002 generally vest ratably over three years, while grants prior to 2002 generally vest after five years. The options expire ten years from the date of grant. The Company's stock option plan for employees also provides for the granting of performance-based stock awards.

In connection with the Medco Health spin-off in 2003, the number and exercise prices of outstanding options were proportionately adjusted to maintain the option holders' positions before and after the spin-off. As a result of the adjustment, the number of outstanding options increased by 12.6 million

shares and the average exercise price decreased by approximately \$3.22. In addition, certain stock options granted to Medco Health employees in 2002 and 2003 were converted to Medco Health options with terms and amounts that maintained the option holders' positions. In

connection with Merck's acquisition of Rosetta in 2001, stock options outstanding on the acquisition date were converted into options to purchase shares of Company common stock with equivalent value.

Summarized information relative to the Company's stock option plans (shares in thousands) is as follows:

	Number of Shares	Average Price ⁽¹⁾
Outstanding at December 31, 2000	176,376.7	\$50.75
Granted	36,767.6	79.12
Exercised	(11,604.4)	25.90
Forfeited	(5,021.0)	68.78
Equivalent options assumed	681.8	30.78
Outstanding at December 31, 2001	197,200.7	56.98
Granted	37,809.4	61.18
Exercised	(11,048.3)	28.82
Forfeited	(5,852.5)	69.20
Outstanding at December 31, 2002	218,109.3	58.80
Granted	32,595.7	52.74
Exercised	(15,482.2)	25.07
Forfeited or converted ⁽²⁾	(11,970.7)	63.18
Medco Health spin-off adjustment	12,626.2	(3.22)
Outstanding at December 31, 2003	235,878.3	\$56.80

⁽¹⁾ Weighted average exercise price.

⁽²⁾ Includes 4.8 million options that were converted to Medco Health options.

The number of shares and average price of options exercisable at December 31, 2003, 2002 and 2001 were 101.4 million shares at \$47.47, 70.7 million shares at \$35.97 and 55.1 million shares at \$27.09, respectively. At December 31, 2003 and 2002, 120.4 million shares and 46.0 million shares, respectively, were available for future grants under the terms of these plans.

Summarized information about stock options outstanding and exercisable at December 31, 2003 (shares in thousands) is as follows:

Exercise Price Range	Outstanding			Exercisable	
	Number of Shares	Average Life ⁽¹⁾	Average Price ⁽²⁾	Number of Shares	Average Price ⁽²⁾
Under \$15	4,447.4	3.14	\$12.84	4,447.4	\$12.84
\$15 to 25	12,137.9	1.05	18.69	12,089.0	18.68
\$25 to 40	14,206.4	2.20	31.10	14,155.2	31.10
\$40 to 50	53,607.9	6.77	48.39	21,643.8	46.40
\$50 to 65	89,593.2	6.26	60.09	39,055.5	59.80
\$65 to 80	60,637.7	5.97	75.65	9,487.6	74.24
Over \$80	1,247.8	4.81	86.04	554.2	86.97
	235,878.3			101,432.7	

⁽¹⁾ Weighted average contractual life remaining in years.

⁽²⁾ Weighted average exercise price.

13. Pension and Other Postretirement Benefit Plans

The Company has defined benefit pension plans covering eligible employees in the United States and in certain of its international subsidiaries. Pension benefits in the United States are based on a formula that considers final average pay and years of credited service. In addition, the Company provides medical, dental and life insurance benefits, principally to its eligible U.S. retirees and similar benefits to their dependents, through its other postretirement benefit plans. The Company uses a December 31 measurement date for all of its U.S. pension and other postretirement benefit plans.

The effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) are not recognized in net cost, benefit obligation and related disclosures for the U.S. other postretirement benefit plans. Specific authoritative guidance on the accounting for the federal subsidy under the Act is pending and that guidance, when issued, could require the Company to change previously reported information.

In 2003 and 2002, the Company changed participant contributions and the service recognized for eligibility for its other postretirement benefit plans. These amendments reduced the benefit obligation by \$134.8 million in 2002 and generated curtailment gains of \$10.2 million and \$54.2 million in 2003 and 2002, respectively.

In addition, the Company recorded a settlement loss of \$28.3 million on its pension plans and a curtailment loss of \$11.7 million on its other postretirement benefit plans in 2003 resulting from reductions in employment levels primarily in connection with restructuring activities. The Company also recorded termination charges of \$37.9 million on its pension plans and \$8.1 million on its other postretirement benefit plans related to expanded eligibility for certain employees exiting under the restructuring action. (See Note 3.)

The net cost for the Company's pension plans consisted of the following components:

Years Ended December 31	2003	2002	2001
Service cost	\$ 263.4	\$ 218.8	\$ 178.4
Interest cost	260.6	229.9	214.0
Expected return on plan assets	(341.2)	(314.3)	(282.2)
Net amortization	115.9	49.1	27.9
Settlements	28.3	—	—
Termination benefits	37.9	—	—
Net pension cost	\$ 364.9	\$ 183.5	\$ 138.1

The net pension cost attributable to U.S. plans included in the above table was \$264.8 million in 2003, \$108.0 million in 2002 and \$70.8 million in 2001.

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The net cost of postretirement benefits other than pensions consisted of the following components:

Years Ended December 31	2003	2002	2001
Service cost	\$ 68.3	\$ 46.6	\$ 43.5
Interest cost	90.4	71.4	74.0
Expected return on plan assets	(62.0)	(78.6)	(84.6)
Net amortization	28.0	(11.7)	(14.0)
Curtailments	1.5	(54.2)	—
Termination benefits	8.1	—	—
Net postretirement benefit cost	\$134.3	\$(26.5)	\$ 18.9

The cost of health care and life insurance benefits for active employees was \$273.0 million in 2003, \$241.7 million in 2002 and \$220.6 million in 2001.

Summarized information about the changes in plan assets and benefit obligation is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Fair value of plan assets at January 1	\$3,105.4	\$2,864.5	\$ 678.8	\$ 796.9
Actual return on plan assets	1,033.3	(236.6)	223.7	(113.3)
Company contributions	641.3	720.7	63.5	7.3
Benefits paid from plan assets	(425.3)	(268.7)	(16.5)	(12.1)
Discontinued operations	(80.5)	28.0	—	—
Other	8.5	(2.5)	—	—
Fair value of plan assets at December 31	\$4,282.7	\$3,105.4	\$ 949.5	\$ 678.8
Benefit obligation at January 1	\$4,410.1	\$3,611.8	\$1,329.6	\$1,154.6
Service cost	263.4	218.8	68.3	46.6
Interest cost	260.6	229.9	90.4	71.4
Actuarial losses	624.0	619.1	486.9	204.1
Benefits paid	(466.0)	(287.2)	(58.2)	(55.6)
Plan amendments	27.3	9.3	—	(134.8)
Curtailments	—	—	19.4	—
Termination benefits	37.9	—	8.1	—
Discontinued operations	(85.2)	23.4	(104.1)	43.3
Other	(0.2)	(15.0)	—	—
Benefit obligation at December 31	\$5,071.9	\$4,410.1	\$1,840.4	\$1,329.6

The fair value of U.S. pension plan assets included in the preceding table was \$2.7 billion in 2003 and \$2.0 billion in 2002. The pension benefit obligation of U.S. plans included in this table was \$3.2 billion in 2003 and \$3.0 billion in 2002.

A reconciliation of the plans' funded status to the net asset (liability) recognized at December 31 is as follows:

	Pension Benefits		Other Postretirement Benefits	
	2003	2002	2003	2002
Plan assets less than benefit obligation	\$ (789.2)	\$(1,304.7)	\$(890.9)	\$(650.8)
Unrecognized net loss	2,155.0	2,498.0	879.5	630.9
Unrecognized plan changes	105.2	84.4	(171.0)	(165.2)
Net asset (liability)	\$1,471.0	\$ 1,277.7	\$(182.4)	\$(185.1)
Recognized as:				
Other assets	\$1,789.9	\$ 1,154.6	\$ —	\$ —
Accrued and other current liabilities	(24.4)	(20.0)	(24.9)	(24.9)
Deferred income taxes and noncurrent liabilities	(310.2)	(373.7)	(157.5)	(160.2)

Accumulated other comprehensive loss	15.7	516.8	—	—
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The weighted average asset allocations of the investment portfolio for the U.S. pension and other postretirement benefit plans at December 31 are as follows:

	2003	2002
U. S. equities	55%	51%
International equities	27	21
Fixed income investments	14	18
Real estate	3	3
Cash and other investments	1	7
	100%	100%

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The targeted investment portfolio is allocated 45% to 60% in U.S. equities, 20% to 30% in international equities, 13% to 18% in fixed-income investments, 2% to 6% in real estate, and up to 8% in cash and other investments. The portfolio's equity weighting is consistent with the long-term nature of the plans' benefit obligation. The expected annual standard deviation of returns of the targeted portfolio, which approximates 13%, reflects both the equity allocation and the diversification benefits among the asset classes in which the portfolio invests.

Contributions to the pension plans and other postretirement benefit plans during 2004 are expected to be \$650.0 million and \$129.0 million, respectively. Contributions to the U.S. pension plans are expected to be \$550.0 million.

Expected benefit payments in the U.S. are as follows:

	Pension Benefits	Other Postretirement Benefits
2004	\$ 111.4	\$ 68.0
2005	122.9	75.1
2006	135.9	81.9
2007	151.1	89.0
2008	167.8	96.0
2009-2013	1,177.9	605.4

Expected benefit payments are based on the same assumptions used to measure the benefit obligations and include estimated future employee service.

At December 31, 2003 and 2002, the accumulated benefit obligation was \$3.8 billion and \$3.2 billion, respectively, for all pension plans and \$2.3 billion and \$2.1 billion, respectively, for U.S. pension plans. The Company had a minimum pension liability of \$19.8 million and \$566.3 million at December 31, 2003 and 2002, respectively, representing the extent to which the accumulated benefit obligation exceeded plan assets for certain of the Company's pension plans. The decrease in the minimum pension liability in 2003, recorded through Other comprehensive income (loss) and Other assets, primarily reflects the increase in the fair value of plan assets, for certain plans, resulting from favorable asset returns.

For pension plans with benefit obligations in excess of plan assets at December 31, 2003 and 2002, the fair value of plan assets was \$3.4 billion and \$3.0 billion, respectively, and the benefit obligation was \$4.2 billion and \$4.3 billion, respectively. For those plans with accumulated benefit obligations in excess of plan assets at December 31, 2003 and 2002, the fair value of plan assets was \$92.2 million and \$849.9 million, respectively, and the accumulated benefit obligation was \$327.2 million and \$1.1 billion, respectively.

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. Unrecognized net loss amounts in excess of certain thresholds are amortized into net pension and other postretirement benefit cost over the average remaining service life of employees. Amortization of unrecognized net losses for the Company's U.S. plans at December 31, 2003 is expected to increase net pension and other postretirement benefit cost by approximately \$125.0 million annually from 2004 through 2008.

The Company reassesses its benefit plan assumptions on a regular basis. Assumptions used in determining U.S. plan information are as follows:

	Pension and Other Postretirement Benefits		
December 31	2003	2002	2001
Net cost			
Discount rate	6.50%	7.25%	7.50%
Expected rate of return on plan assets	8.75	10.0	10.0
Salary growth rate	4.5	4.5	4.5
Benefit obligation			
Discount rate	6.25%	6.50%	7.25%
Salary growth rate	4.5	4.5	4.5

The expected rate of return for both the U.S. pension and other postretirement benefit plans represents the average rate of return to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Company considers long-term compound annualized returns of historical market data as well as actual returns on the Company's plan assets, and applies adjustments that reflect more recent capital market experience. Using this reference information, the Company develops forward looking return expectations for each asset category and a weighted average expected long-term rate of return for a targeted portfolio allocated across these investment categories. The expected portfolio performance reflects the contribution of active management as appropriate. As a result of this analysis, for 2004, the Company's expected rate of return of 8.75% will remain unchanged from 2003 for its U.S. pension and other postretirement benefit plans.

The weighted average assumptions used in determining U.S. and international pension plan information are as follows:

December 31	2003	2002	2001
Net cost			

Discount rate	5.90%	6.40%	6.75%
Expected rate of return on plan assets	7.70	8.90	9.10
Salary growth rate	4.1	4.2	4.1
	<hr/>	<hr/>	<hr/>
Benefit obligation			
Discount rate	5.65%	5.90%	6.40%
Salary growth rate	4.1	4.2	4.1

The health care cost trend rate assumptions for other postretirement benefit plans are as follows:

December 31	2003	2002
Health care cost trend rate assumed for next year	11.0%	11.0%
Rate to which the cost trend rate is assumed to decline	5.0%	5.0%
Year that the rate reached the ultimate trend rate	2013	2010

A one percentage point change in the health care cost trend rate would have had the following effects:

	One Percentage Point	
	Increase	Decrease
Effect on total service and interest cost components	\$ 30.4	\$ (24.0)
Effect on benefit obligation	289.7	(234.2)

14. Other (Income) Expense, Net

Years Ended December 31	2003	2002	2001
Interest income	\$(308.7)	\$(415.1)	\$(484.5)
Interest expense	350.9	390.6	463.7
Exchange gains	(28.4)	(7.8)	(3.5)
Minority interests	168.7	214.2	290.6
Amortization of goodwill and other intangibles	140.8	120.0	139.1
Other, net	(404.9)	(99.6)	(250.4)
	\$ (81.6)	\$ 202.3	\$ 155.0

Minority interests include third parties' share of exchange gains and losses arising from translation of the financial statements into U.S. dollars. Reduced minority interests in 2003 is attributable to the effect of the Banyu shares acquisitions (see Note 3), and in 2002 is the result of lower dividends on variable rate preferred units (see Note 10) as well as decreased minority interest expense associated with Banyu.

The increase in other, net in 2003 primarily reflects an \$84.0 million gain on the sale of *Aggrastat* product rights in the United States and realized gains on the Company's investment portfolios relating to the favorable interest rate environment.

Interest paid was \$359.4 million in 2003, \$401.4 million in 2002 and \$467.2 million in 2001.

15. Taxes on Income

A reconciliation between the Company's effective tax rate and the U.S. statutory rate is as follows:

	2003 Amount	Tax Rate		
		2003	2002	2001
U.S. statutory rate applied to income from continuing operations before taxes	\$3,168.0	35.0%	35.0%	35.0%
Differential arising from:				
Foreign earnings	(924.1)	(10.2)	(6.5)	(5.6)
Tax exemption for Puerto Rico operations	(78.5)	(0.9)	(0.9)	(0.9)
State taxes	150.5	1.7	1.9	1.9
Other	146.1	1.6	0.1	(1.3)
	\$2,462.0	27.2%	29.6%	29.1%

Domestic companies contributed approximately 34% in 2003, 47% in 2002 and 49% in 2001 to consolidated income from continuing operations before taxes.

Taxes on income from continuing operations consisted of:

Years Ended December 31	2003	2002	2001
Current provision			
Federal	\$1,464.2	\$1,563.8	\$1,513.7
Foreign	611.3	609.3	635.7
State	254.8	296.3	289.7
	2,330.3	2,469.4	2,439.1
Deferred provision			
Federal	21.3	361.8	323.7
Foreign	96.5	(8.0)	57.9
State	13.9	33.7	74.2
	131.7	387.5	455.8
	\$2,462.0	\$2,856.9	\$2,894.9

Deferred income taxes at December 31 consisted of:

	2003		2002	
	Assets	Liabilities	Assets	Liabilities
Other intangibles	\$ 84.7	\$ 306.0	\$ 108.7	\$1,189.0
Inventory related	639.0	355.2	700.5	354.1
Accelerated depreciation	—	1,353.9	—	1,459.3
Advance payment	338.6	—	338.6	—
Equity investments	260.0	565.6	113.7	480.1
Pensions and OPEB	122.3	602.0	109.5	291.6
Compensation related	156.9	—	131.2	—
Other	1,233.4	287.5	1,372.9	271.2
Subtotal	2,834.9	3,470.2	2,875.1	4,045.3
Valuation allowance	(2.2)	—	(2.4)	—
Total deferred taxes	\$2,832.7	\$3,470.2	\$2,872.7	\$4,045.3
Net deferred tax liabilities		\$ 637.5		\$1,172.6
Recognized as:				
Prepaid expenses and taxes		\$ (590.8)		\$ (764.1)
Other assets		(7.5)		(33.3)
Income taxes payable		110.2		98.7
Deferred income taxes and noncurrent liabilities		1,125.6		1,871.3

The reduction in net deferred tax liabilities is primarily attributable to the spin-off of Medco Health in 2003.

Income taxes paid in 2003, 2002 and 2001 were \$2.0 billion, \$1.8 billion and \$2.1 billion, respectively. Stock option exercises reduced income taxes paid in 2003, 2002 and 2001 by \$167.8 million, \$82.5 million and \$153.0 million, respectively.

At December 31, 2003, foreign earnings of \$18.0 billion and domestic earnings of \$880.9 million have been retained indefinitely by subsidiary companies for reinvestment. No provision is made for income taxes that would be payable upon the distribution of such earnings, and it is not practicable to determine the amount of the related unrecognized deferred income tax liability. These earnings include income from manufacturing operations in Ireland, which were tax-exempt through 1990 and are taxed at 10% thereafter. In addition, the Company has subsidiaries operating in Puerto Rico and Singapore under tax incentive grants that expire in 2015 and 2026, respectively.

The Company's federal income tax returns have been audited through 1992.

Merck & Co., Inc. Annual Report 2003

16. Earnings per Share

The weighted average common shares used in the computations of basic earnings per common share and earnings per common share assuming dilution (shares in millions) are as follows:

Years Ended December 31	2003	2002	2001
Average common shares outstanding	2,236.7	2,257.5	2,288.3
Common shares issuable ⁽¹⁾	16.4	19.5	34.0
Average common shares outstanding assuming dilution	2,253.1	2,277.0	2,322.3

⁽¹⁾ Issuable primarily under stock option plans.

17. Comprehensive Income

Upon the adoption of FAS 133 on January 1, 2001, the Company recorded a favorable cumulative effect of accounting change of \$45.5 million in Other comprehensive income (loss). This amount represented the mark to fair value of purchased local currency put options maturing throughout 2001, which hedged anticipated foreign currency denominated sales over that same period. At December 31, 2003, \$30.4 million of deferred loss is associated with options maturing in the next 12 months, which hedge anticipated foreign currency denominated sales over that same period.

The components of Other comprehensive income (loss) are as follows:

	Pretax ⁽¹⁾	Tax	After Tax
<i>Year Ended December 31, 2003</i>			
Net unrealized loss on derivatives	\$ (87.6)	\$ 35.9	\$ (51.7)
Net loss realization	51.5	(21.1)	30.4
Derivatives	(36.1)	14.8	(21.3)
Net unrealized gain on investments	105.0	(33.8)	71.2
Net income realization	(114.3)	(3.2)	(117.5)
Investments	(9.3)	(37.0)	(46.3)
Minimum pension liability	424.5	(192.6)	231.9
	\$ 379.1	\$(214.8)	\$ 164.3
<i>Year Ended December 31, 2002</i>			
Net unrealized loss on derivatives	\$ (31.8)	\$ 13.0	\$ (18.8)
Net income realization	(2.0)	0.8	(1.2)
Derivatives	(33.8)	13.8	(20.0)
Net unrealized gain on investments	128.6	24.5	153.1
Net income realization	(86.6)	6.6	(80.0)
Investments	42.0	31.1	73.1
Minimum pension liability	(263.2)	100.7	(162.5)
	\$(255.0)	\$ 145.6	\$(109.4)
<i>Year Ended December 31, 2001</i>			
Cumulative effect of accounting change	\$ 76.9	\$ (31.4)	\$ 45.5
Net unrealized gain on derivatives	49.7	(20.3)	29.4
Net income realization	(114.3)	46.7	(67.6)
Derivatives	12.3	(5.0)	7.3
Net unrealized gain on investments	44.7	35.3	80.0
Net income realization	(73.7)	4.8	(68.9)
Investments	(29.0)	40.1	11.1

Minimum pension liability	(87.1)	48.5	(38.6)
	<u>\$(103.8)</u>	<u>\$ 83.6</u>	<u>\$ (20.2)</u>

⁽¹⁾ Net of applicable minority interest.

The components of Accumulated other comprehensive income (loss) are as follows:

December 31	2003	2002
Net unrealized loss on derivatives	\$ (34.0)	\$ (12.7)
Net unrealized gain on investments	110.1	156.4
Minimum pension liability	(10.6)	(242.5)
	<u>\$ 65.5</u>	<u>\$ (98.8)</u>

18. Segment Reporting

The Company's operations are principally managed on a products basis. The Merck Pharmaceutical segment includes products marketed either directly or through joint ventures. These products consist of therapeutic and preventive agents, sold by prescription, for the treatment of human disorders. Merck sells these human health products primarily to drug wholesalers and retailers, hospitals, government agencies and managed health care providers such as health maintenance organizations and other institutions.

All Other includes non-reportable human and animal health segments. Revenues and profits for these segments are as follows:

	Merck Pharm- aceutical	All Other	Total
<i>Year Ended December 31, 2003</i>			
Segment revenues	\$21,038.1	\$1,218.8	\$22,256.9
Segment profits	13,250.2	1,131.4	14,381.6
Included in segment profits:			
Equity income from affiliates	304.0	245.8	549.8
Depreciation and amortization	(185.1)	(4.0)	(189.1)
<i>Year Ended December 31, 2002</i>			
Segment revenues	\$19,946.2	\$1,244.5	\$21,190.7
Segment profits	12,680.1	1,111.5	13,791.6
Included in segment profits:			
Equity income from affiliates	203.0	217.6	420.6
Depreciation and amortization	(171.1)	(3.9)	(175.0)
<i>Year Ended December 31, 2001</i>			
Segment revenues	\$19,580.3	\$1,265.9	\$20,846.2
Segment profits	12,174.7	981.2	13,155.9
Included in segment profits:			
Equity income from affiliates	215.9	190.7	406.6
Depreciation and amortization	(160.9)	(3.7)	(164.6)

Segment profits are comprised of segment revenues less certain elements of materials and production costs and operating expenses, including components of equity income (loss) from affiliates and depreciation and amortization expenses. For internal management reporting presented to the chief operating decision maker, the Company does not allocate the vast majority of indirect production costs, research and development expenses and general and administrative expenses, as well as the cost of financing these activities. Separate divisions maintain responsibility for monitoring and managing these costs, including depreciation related to fixed assets utilized by these divisions and, therefore, they are not included in segment profits.

A reconciliation of total segment revenues to consolidated Sales is as follows:

Years Ended December 31	2003	2002	2001
Segment revenues	\$22,256.9	\$21,190.7	\$20,846.2
Other revenues	229.0	255.1	352.8
	\$22,485.9	\$21,445.8	\$21,199.0

Other revenues are primarily comprised of miscellaneous corporate revenues, sales related to divested products or businesses and other supply sales.

Consolidated revenues by geographic area where derived are as follows:

Years Ended December 31	2003	2002	2001
United States	\$13,321.1	\$13,156.6	\$13,438.9
Europe, Middle East and Africa	5,341.3	4,707.7	4,007.4
Japan	1,600.9	1,438.7	1,570.2
Other	2,222.6	2,142.8	2,182.5
	\$22,485.9	\$21,445.8	\$21,199.0

A reconciliation of total segment profits to consolidated Income from continuing operations before taxes is as follows:

Years Ended December 31	2003	2002	2001
Segment profits	\$14,381.6	\$13,791.6	\$13,155.9
Other profits	172.1	197.9	272.4
Adjustments	642.7	605.6	576.8
Unallocated:			
Interest income	308.7	415.1	484.5
Interest expense	(350.9)	(390.6)	(463.7)
Equity income (loss) from affiliates	(75.6)	224.1	279.3
Depreciation and amortization	(1,125.1)	(1,056.2)	(967.9)
Acquired research	(101.8)	—	—
Research and development	(3,178.1)	(2,677.2)	(2,456.4)
Other expenses, net	(1,622.0)	(1,458.6)	(932.8)
	\$ 9,051.6	\$ 9,651.7	\$ 9,948.1

Other profits are primarily comprised of miscellaneous corporate profits as well as operating profits related to divested products or businesses and other supply sales. Adjustments represent the elimination of the effect of double counting certain items of income and expense. Equity income (loss) from affiliates includes taxes paid at the joint venture level and a portion of equity income that is not reported in segment profits. Other expenses, net, include expenses from corporate and manufacturing cost centers and other miscellaneous income (expense), net.

Property, plant and equipment, net by geographic area where located is as follows:

December 31	2003	2002	2001
United States	\$10,383.3	\$10,757.7	\$ 9,876.9
Europe, Middle East and Africa	1,846.3	1,659.7	1,544.3
Japan	599.1	499.8	473.7
Other	1,340.3	1,278.4	1,208.5
	\$14,169.0	\$14,195.6	\$13,103.4

The Company does not disaggregate assets on a products and services basis for internal management reporting and, therefore, such information is not

presented.

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Management's Report

Primary responsibility for the integrity and objectivity of the Company's financial statements rests with management. The financial statements report on management's stewardship of Company assets. These statements are prepared in conformity with generally accepted accounting principles and, accordingly, include amounts that are based on management's best estimates and judgments. Nonfinancial information included in the Annual Report has also been prepared by management and is consistent with the financial statements.

To assure that financial information is reliable and assets are safeguarded, management maintains an effective system of internal controls and procedures, important elements of which include: careful selection, training and development of operating and financial managers; an organization that provides appropriate division of responsibility; and communications aimed at assuring that Company policies and procedures are understood throughout the organization. In establishing internal controls, management weighs the costs of such systems against the benefits it believes such systems will provide. A staff of internal auditors regularly monitors the adequacy and application of internal controls on a worldwide basis.

To ensure that personnel continue to understand the system of internal controls and procedures, and policies concerning good and prudent business practices, the Company periodically conducts the Management's Stewardship Program for key management and financial personnel. This program reinforces the importance and understanding of internal controls by reviewing key corporate policies, procedures and systems. In addition, an ethical business practices program has been implemented to reinforce the Company's long-standing commitment to high ethical standards in the conduct of its business.

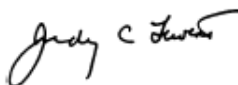
The independent auditors have audited the Company's consolidated financial statements as described in their report. Although their audits were not designed for the purpose of forming an opinion on internal controls, their accompanying report is based on an audit conducted in accordance with auditing standards generally accepted in the United States of America, which includes the consideration of the Company's internal controls to establish the basis for determining the nature, timing and extent of audit tests to be performed.

The recommendations of the internal auditors and independent auditors are reviewed by management. Control procedures have been implemented or revised as appropriate to respond to these recommendations. No material control weaknesses have been brought to the attention of management. In management's opinion, for the year ended December 31, 2003, the internal control system was strong and accomplished the objectives discussed herein.

The financial statements and other financial information included in the Annual Report fairly present, in all material respects, the Company's financial condition, results of operations and cash flows. Our formal certification to the Securities and Exchange Commission is included in the Company's Form 10-K filing.



Raymond V. Gilmartin
*Chairman, President and
Chief Executive Officer*



Judy C. Lewent
*Executive Vice President &
Chief Financial Officer
President, Human Health Asia*

Report of Independent Auditors

To the Stockholders and the
Board of Directors of Merck & Co., Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of retained earnings, of comprehensive income, and of cash flows present fairly, in all material respects, the financial position of Merck & Co., Inc. and its subsidiaries at December 31, 2003 and December 31, 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002.

Florham Park, New Jersey
February 20, 2004



PricewaterhouseCoopers LLP

Audit Committee's Report

The Audit Committee, comprised of independent directors, met with the independent auditors, management and internal auditors to assure that all were carrying out their respective responsibilities. The Audit Committee discussed with and received a letter from the independent auditors confirming their independence. Both the independent auditors and the internal auditors had full access to the Committee, including regular meetings without management present.

The Audit Committee met with the independent auditors to discuss their fees and the scope and results of their audit work, including the adequacy of internal controls and the quality of financial reporting. The Committee also discussed with the independent auditors their judgments regarding the quality and acceptability of the Company's accounting principles, the clarity of its disclosures and the degree of aggressiveness or conservatism of its accounting principles and underlying estimates. The Audit Committee reviewed and discussed the audited financial statements with management and recommended to the Board of Directors that these financial statements be included in the Company's Form 10-K filing with the Securities and Exchange Commission.

Heidi G. Miller
Chairperson

Thomas E. Shenk
Samuel O. Thier
Wendell P. Weeks
Peter C. Wendell

Compensation and Benefits Committee's Report

The Compensation and Benefits Committee, comprised of independent directors, approves compensation objectives and policies for all employees and sets compensation for the Company's executive officers. The Committee seeks to ensure that rewards are closely linked to Company, division, team and individual performances. The Committee also seeks to ensure that compensation and benefits are set at levels that enable Merck to attract and retain highly qualified employees. The Committee views stock ownership as a vehicle to align the interests of employees with those of the Company's stockholders. Consistent with the long-term focus inherent in the Company's R&D-based pharmaceutical business, it is the policy of the Committee to make a high proportion of executive officer compensation dependent on long-term performance and on enhancing stockholder value.

Lawrence A. Bossidy
Chairperson

William G. Bowen
Johnnetta B. Cole
William M. Daley
William N. Kelley

Selected Financial Data ⁽¹⁾
Merck & Co., Inc. and Subsidiaries
(\$ in millions except per share amounts)

	2003 ⁽²⁾	2002	2001	2000	1999	1998	1997
Results for Year:							
Sales	\$22,485.9	\$21,445.8	\$21,199.0	\$20,009.5	\$17,294.4	\$15,094.9	\$13,971.6
Materials and production costs	4,315.3	3,907.1	3,624.8	3,175.2	2,934.2	2,851.3	2,774.9
Marketing and administrative expenses	6,394.9	5,652.2	5,700.6	5,725.5	4,808.1	4,115.9	3,971.4
Research and development expenses	3,178.1	2,677.2	2,456.4	2,343.8	2,068.3	1,821.1	1,683.7
Acquired research	101.8	—	—	—	—	1,039.5	—
Equity income from affiliates	(474.2)	(644.7)	(685.9)	(764.9)	(762.0)	(884.3)	(727.9)
Gains on sales of businesses	—	—	—	—	—	(2,147.7)	(213.4)
Other (income) expense, net	(81.6)	202.3	155.0	167.6	(124.3)	322.2	164.4
Income from continuing operations before taxes	9,051.6	9,651.7	9,948.1	9,362.3	8,370.1	7,976.9	6,318.5
Taxes on income	2,462.0	2,856.9	2,894.9	2,766.7	2,578.1	2,774.5	1,749.9
Income from continuing operations	6,589.6	6,794.8	7,053.2	6,595.6	5,792.0	5,202.4	4,568.6
Income from discontinued operations, net of taxes	241.3	354.7	228.6	226.1	98.5	45.8	45.5
Net income	6,830.9	7,149.5	7,281.8	6,821.7	5,890.5	5,248.2	4,614.1
Basic earnings per common share							
Continuing operations	\$ 2.95	\$ 3.01	\$ 3.08	\$ 2.86	\$ 2.47	\$ 2.19	\$ 1.90
Discontinued operations	.11	.16	.10	.10	.04	.02	.02
Net income	\$ 3.05 ⁽³⁾	\$ 3.17	\$ 3.18	\$ 2.96	\$ 2.51	\$ 2.21	\$ 1.92
Earnings per common share assuming dilution							
Continuing operations	\$ 2.92	\$ 2.98	\$ 3.04	\$ 2.80	\$ 2.41	\$ 2.13	\$ 1.85
Discontinued operations	.11	.16	.10	.10	.04	.02	.02
Net income	\$ 3.03	\$ 3.14	\$ 3.14	\$ 2.90	\$ 2.45	\$ 2.15	\$ 1.87
Cash dividends declared	3,264.7	3,204.2	3,156.1	2,905.7	2,629.3	2,353.0	2,094.8
Cash dividends paid per common share	\$ 1.45	\$ 1.41	\$ 1.37	\$ 1.21	\$ 1.10	\$.95	\$.85
Capital expenditures	1,915.9	2,128.1	2,401.8	2,471.0	2,369.1	1,860.2	1,348.5
Depreciation	1,129.6	1,067.5	949.7	803.0	682.8	610.0	532.0
Year-End Position:							
Working capital	\$ 1,957.6	\$ 2,011.2	\$ 1,417.4	\$ 3,643.8	\$ 2,500.4	\$ 4,159.7	\$ 2,644.4
Property, plant and equipment (net)	14,169.0	14,195.6	13,103.4	11,482.1	9,676.7	7,843.8	6,609.4
Total assets	40,587.5 ⁽⁴⁾	47,561.2	44,021.2	40,154.9	35,933.7	31,853.4	25,735.9
Long-term debt	5,096.0	4,879.0	4,798.6	3,600.7	3,143.9	3,220.8	1,346.5
Stockholders' equity	15,576.4 ⁽⁴⁾	18,200.5	16,050.1	14,832.4	13,241.6	12,801.8	12,594.6
Financial Ratios:							
Income from continuing operations as a % of sales	29.3%	31.7%	33.3%	33.0%	33.5%	34.5%	32.7%
Net income as a % of average total assets	14.9%	15.5%	17.3%	17.9%	17.4%	18.2%	18.5%
Year-End Statistics:							
Average common shares outstanding (millions)	2,236.7	2,257.5	2,288.3	2,306.9	2,349.0	2,378.8	2,409.0
Average common shares outstanding assuming dilution (millions)	2,253.1	2,277.0	2,322.3	2,353.2	2,404.6	2,441.1	2,469.5
Number of stockholders of record	233,000	246,300	256,200	265,700	280,500	269,600	263,900
Number of employees	63,200 ⁽⁴⁾	77,300	78,100	69,300	62,300	57,300	53,800

⁽¹⁾ Certain prior year amounts have been restated to reflect the results of Medco Health as discontinued operations.

⁽²⁾ Amounts for 2003 include the impact of the implementation of a new distribution program for U.S. wholesalers and restructuring costs related to position eliminations.

⁽³⁾ Amount does not add as a result of rounding.

⁽⁴⁾ Decrease in 2003 primarily reflects the impact of the spin-off of Medco Health.

Dear Merck Colleagues,

Think, just for a moment, about the contributions that this Company has made to society over the past century. Think of the lives that have been saved, lengthened or significantly improved as a result of our efforts. Think of the families who have enjoyed additional years with brothers, sisters, parents and children because of our products and services.

When we reflect on the life-saving and life-enhancing role our Company plays all over the world, we feel an enormous sense of pride — and a great sense of responsibility to ensure that this organization is preserved for future generations.



“We try never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear.”

— George W. Merck

These words were written many years ago in a vastly different world, yet the values they embody continue to guide our Company every day, around the world. Technical advancements are superseded and marketing strategies change and manufacturing processes pass into obsolescence. But our values and standards endure.

Although we speak different languages and represent many cultures, we are united in our drive to be the best and to deliver breakthrough medicines with integrity and with honesty. These shared values are what make us Merck. They are the basis of our success.

Perhaps more than anything else we do, furthering our Company’s values and standards will have the greatest effect on the future success of our Company. The values that George Merck imparted live on and continue to guide our actions and decisions. Will future generations say the same of us?

This booklet has been designed to assist us in making George Merck’s vision a continuing reality. It discusses the standards that reflect our values and guide us in our day-to-day decision-making. A great deal of effort on the part of Merck employees from around the world has gone into its creation. I ask that everyone read through the entire booklet and adhere to these standards, and model these values whenever and wherever we conduct Merck business. I think you will find *Our Values and Standards* to be an invaluable resource.

Sincerely,

Ray Gilmartin
Chairman, President and CEO

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CP Corporate Policies –This symbol is used throughout this code of conduct to indicate relevant corporate policy numbers. These policy references are provided for your convenience and are not part of this code. All corporate policies can be viewed on the intranet at <http://humres.merck.com/polproc/main.htm>.



INTRODUCTION

Purpose

At Merck, our values and standards have always formed the basis of our success. They inspire trust and confidence on the part of the medical community, government officials, regulatory agencies, financial markets, our customers and patients— all of whom are essential to our success. Even more important, these values inspire the trust and confidence of Merck employees—creating a sense of pride and a desire in each of us to achieve great things at Merck. Yes, we care a lot about the results we achieve. But we care just as much about how we achieve them.

The comment by George W. Merck in 1950 that “medicine is for the people” embodies our values and our aspirations. But sometimes it’s not always clear what this means in our day-to-day activities and decision-making as members of the Merck community. This booklet aims to illustrate how our values are applied through standards of conduct with each of our key stakeholders— customers, employees, shareholders, suppliers and communities.

Applicability

This Code of Conduct and all relevant corporate policies apply to everyone who conducts business on behalf of Merck — including employees, executive officers (e.g., chief executive officer, chief financial officer, controller, etc.), members of the Board of Directors, agents, consultants, contract labor, or others, when handling Merck matters. Should exceptional situations warrant a waiver of the Company’s standards, any such waiver for executive officers or members of the Board of Directors may be granted only by the Board of Directors or a Board Committee. Any such waiver must be promptly disclosed to our shareholders.

Accountability

Each of us is responsible for adhering to the values and standards set forth in this Code and for raising questions if we are uncertain as to whether or not the standards are being met. Violations of the Code may result in a variety of corrective actions, and in some cases, may result in disciplinary action up to and including termination of employment.

Availability

We believe that all of our stakeholders are entitled to know about our business practices. The *Our Values and Standards* booklet is available to the public and can be accessed via our website at: www.Merck.com.

If you have questions or concerns, please refer to the resources listed on this website.



INTRODUCTION

Our Customers

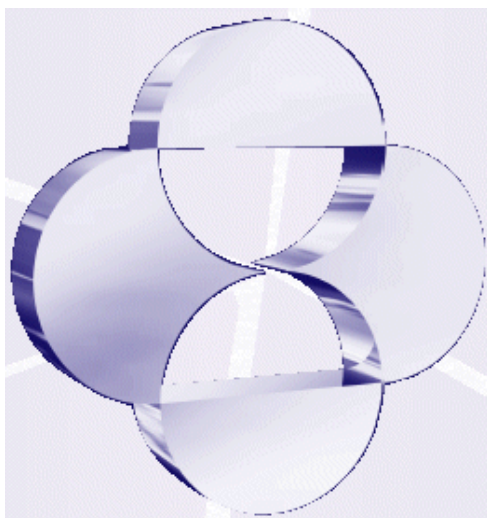
Our business is preserving and improving human life and animal health. All of our actions must be measured by our success in achieving this goal. Above all, we value our ability to serve patients who can benefit from the appropriate use of our products and services. We are dedicated to providing the highest level of professional excellence and health delivery systems. We strive to identify the most critical needs of health care professionals and consumers, and we devote our resources to meeting those needs.

Our Suppliers

We believe in developing mutually beneficial relationships with our suppliers. We recognize that they are important partners in our success, and we treat them with honesty, fairness and respect.

Our Communities and Society

Being a good corporate citizen means that we comply with all applicable laws, rules and regulations. Also, we serve our society, from the local communities in which we operate plants to the national and international levels, by supporting programs that advance knowledge and education and improve health care. In addition to these priorities, we support programs to protect the environment; promote art and cultural activities; and foster civic institutions.



Our Fellow Employees

Our ability to succeed depends on the integrity, knowledge, imagination, skill, diversity, flexibility and teamwork of Merck employees. To this end, we strive to create an environment of mutual respect, encouragement and teamwork—a working environment that rewards commitment and performance and seeks to be responsive to the needs of employees.

We seek to provide a workplace atmosphere that attracts highly talented people and helps them achieve their full potential. Each of us is responsible for creating a climate of trust and respect, and for promoting a productive work environment. These responsibilities are embodied in our leadership principles:

- Know and develop yourself
- Know and develop our business
- Know, support and develop our people
- Communicate

Our Shareholders

We recognize that our ability to meet our goals depends on maintaining financial performance that encourages investment in leading-edge research and development. This in turn enables us to deliver effective products and innovative services. We strive to provide honest, accurate and timely information to

our shareholders about our performance, and to make clear disclosures in all public reports and communications.

CP **Corporate Policies**—This symbol is used throughout the booklet to indicate relevant corporate policy numbers. All corporate policies can be viewed on the intranet at <http://humres.merck.com/polproc/main.htm>.



RESOURCES

No guidelines, no matter how detailed, can possibly anticipate all of the challenges we may face on the job. That is why there are additional resources we can use when we have questions about business conduct.

This booklet serves as a guide to our standards, including frequently asked questions, and is not intended to be an exhaustive description of the Company's policies and standards. Throughout this booklet you will find shaded boxes that contain responses to real questions that Merck employees have raised. Supplementary information on a number of issues may be found by referring to the relevant corporate policies, which you will find referenced throughout these guidelines. These policies may be accessed via the Intranet or you may contact the Human Resources Department.

If your questions are not fully addressed by these resources, your next step should be to discuss your questions with your manager. Other resources are also available—including specialists in the Legal, Finance, Corporate Audit, Human Resources Departments, the Office of Ethics and the AdviceLine. (For more information on contacting and using these resources, please see the resources listed on this website.) You can use any of these resources when you need clarification of policies, assistance in dealing with “gray areas,” or when you are concerned about possible violations of our standards, laws or regulations.



Many of the topics don't seem to apply to me. Why should I be concerned with this booklet?



As a company-wide, global document, some sections and topics may be more relevant to certain functions or departments than to others. However, it may be helpful to be aware of how business is conducted in different areas of the Company.

Decision Test



When seeking answers to questions about business conduct, take advantage of Company resources cited in this book.

The Decision Test is a set of criteria you can use to help determine the appropriate course of action. Simply ask yourself:

- Is the action legal?
- Does it comply with the letter of our standards and policies?
- Does it comply with the spirit of our standards and policies?
- How would it look in the newspaper? Would it appear to be improper or make you feel embarrassed?

If you are unsure about what to do, contact your manager and the resources listed on this website for guidance.



Why do we need a values and standards booklet? We have always had a good reputation for integrity and honest business practices.



Merck has always enjoyed a good reputation, and our values and standards have long been a source of pride for employees. Recognizing that we operate in a dynamic and rapidly changing business environment, we could easily lose our good name if we do not continually reinforce our values and standards with our employees. To ensure that integrity remains a continuing priority for Merck and that employees understand the Company's expectations, at the suggestion of employees we decided to compile the Company's basic guidelines on business practices into one booklet to use as a reference tool. New corporate governance initiatives, some of which mandate that companies have a code of ethics, further emphasize the need for this booklet.

If you have questions or concerns, please refer to the resources listed on this website.

RELATIONSHIPS
WITH OUR CUSTOMERS

Product and Service Quality

CP32

Quality means consistently satisfying our customers’ requirements and expectations by delivering products and services of the highest value in a timely manner. Our customers include patients, health care professionals, health care organizations, government agencies, wholesalers and distributors.

Quality improvement in all areas of our business, from product research in our laboratories to patient use of our products and services, is imperative in providing innovative products and services that improve the quality of life. The achievement of our quality goals and objectives depends on our ability to listen to and respect customer needs in every business activity.



We are behind schedule and under a great deal of pressure. May we modify a few manufacturing steps to speed up production?

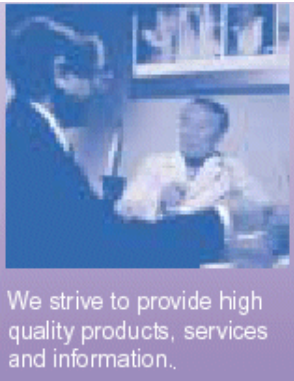


While we strive to streamline manufacturing processes to make them as efficient as possible, we must always go through proper channels to receive approval for new techniques. Some steps may be required by government regulatory agencies. Others may be required to meet our own quality standards. It is possible that while the steps seem unnecessary, they could serve a critical quality function. If you have further questions—or to make suggestions as to how a process might be improved—consult with your manager or the head of Quality Operations at your site before taking any action.

Honest Communication

CP7

Lives depend not only on the quality of our products and services, but also on the quality of the information we provide to the medical community and general public. Information furnished to our customers about our products and services, including availability and delivery, must be useful, accurate, supported by scientific evidence where relevant, and presented honestly, fairly and by proper means. This means that promotional communications that include a description of uses or dosage recommendations must also include (unless otherwise required by law or regulation) a summary of all side effects, precautions, warnings and contraindications, as well as effectiveness for the described indicated uses.



We do not communicate publicly with the intent of promoting products for use before the product is approved for such use. This does not, however, restrict a full and proper exchange of scientific information concerning a product, including dissemination of research findings in scientific and other communications media.



I am a sales representative and I know that I’m not supposed to encourage or promote any use of our products that is inconsistent with product labeling. But, if a physician starts asking questions about such use, may I refer him to studies and to other doctors who are also prescribing such use?



Generally speaking, Merck sales representatives must not provide directly to physicians information that is inconsistent with that contained in the product label. You should advise the physician that Merck does not recommend use of the product for purposes other than those specified in the product label. However, if the physician desires additional information on this topic, you can refer his request to our Medical Services Department. This Department is authorized, under certain limited circumstances, to provide such information directly to physicians.

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Clinical Trials

Clinical trials determine the safety and efficacy of our products in people who volunteer to participate in our studies. It is, therefore, crucial that we conduct these trials with the utmost regard for the health and safety of participants while furthering the interests of science and society. Detailed standards and guidelines are available concerning clinical trials and product protocols.

Post-Marketing Clinical Trials — Post-marketing clinical trials help us learn more about the safety and efficacy of our products. They provide important information to practicing physicians, third-party payers, and key decision-makers to foster appropriate use of Merck products. They also assist in gaining wider awareness and acceptance of our products in special populations and unique geographic locations.



A physician has advised me that a competitor is providing him with a payment for each prescription he writes for their products. Is it acceptable for me to do so?



No. This is not an acceptable practice. However, what may be happening is that the doctor is participating in a bona fide post-marketing clinical study. In that case, it may be appropriate to compensate the physician for his additional workload while participating in the study, but this is unrelated to the prescriptions that the physician writes.

Gifts and Entertainment

CP2

CP23

Giving Gifts

To Physician Customers: Because we wish to safeguard the public's confidence in physicians to make decisions solely on the basis of patient health, we do not provide gifts or incentives of substantial value to our physician customers. As part of building relationships with them, we may provide occasional gifts as long as such gifts primarily entail a benefit to patients and are not of substantial value. These gifts may include medical textbooks and other items that serve a genuine educational function. Additionally, promotional items of nominal value are also permissible (e.g., pens, notepads, calendars, etc.), provided that they are related to a physician's practice. Your local/regional lawyer can provide you with a more detailed definition of "nominal" value relevant to your specific location.



Merck takes great care to protect the health and safety of clinical trial participants. These two girls were in studies for SINGULAIR®, Merck's treatment for asthma in patients as young as 12 months and seasonal allergic rhinitis in patients as young as 2 years.



I have been invited to the wedding of an important customer. In my culture, it is expected that guests will bring cash gifts to the wedding. What should I do?



In most cases, cash gifts are prohibited. You should consult with your manager if you believe an exception to our Company policy is warranted. Prior written approval of your area or divisional vice president must be obtained.



The chief cardiologist at a major hospital has requested a donation of equipment for the hospital's new cardiac-care unit. Would such a donation be a violation of our business standards?



It may be appropriate and desirable for the Company to make a contribution to improve the quality of local health care facilities. However, this question must be considered with regard to the following:

- Would the donation conflict with local laws?
- Who will be the ultimate beneficiary of the donation? the physician? the hospital?
- Is the hospital considering adding a Merck product to its formulary? Would the donation affect or be perceived to affect the decision-making process?

Consult your manager to explore whether and how such a donation may be made in your region.

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To Other Customers: In addition to physicians, we also build relationships with other important customers, including health care professionals, wholesalers and distributors. With respect to these customers, only promotional items of nominal value are permissible (e.g., pens, notepads, calendars, etc.).

We recognize that in certain cultures, there may be an occasion when gift-giving of a more substantial nature is customary and expected. Decisions about these situations must be carefully weighed, and prior written approval must be obtained from your area or divisional vice president.

Receiving Gifts

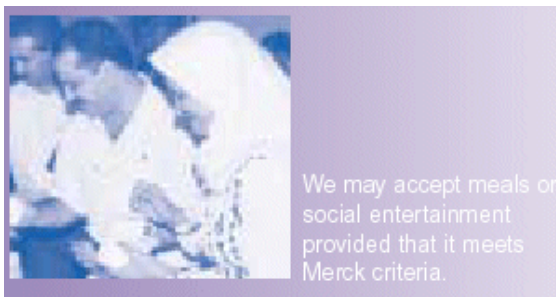
(While the receipt of gifts may be more common in the context of supplier relationships, these guidelines are included here for ease of reference and convenience.) As part of building relationships, we may receive occasional gifts, provided that:

- The gift is of nominal value (e.g., pens, notepads, calendars, etc.);
- Doing so is legal; and
- The gift is neither intended nor likely to be perceived by others to improperly influence our business decisions.

Occasionally, there may be times when refusing a gift would be impractical or embarrassing. In those rare instances where the gift is of substantial value, accept the gift on behalf of the Company, report it to your manager, and turn the gift over to your local/regional finance director, who will handle its disposition.

Government Officials or Employees: Gifts, Meals, Entertainment or Other Benefits

Generally, providing gifts, meals, entertainment, or other benefits to government officials or employees is not acceptable, as the Company wishes to avoid even the appearance of impropriety. Additionally, laws concerning appropriate gifts and entertainment with respect to these groups are complex and can vary from country to country—and even within a country (e.g., local versus national officials). Therefore, consult the Legal Department before providing a gift or invitation of any kind to a government employee.



A long-time supplier has sent me flowers to commemorate my ten-year anniversary with the Company. Should I return the flowers to the supplier?



Returning the flowers may not only be impractical, but may also be embarrassing to the supplier. You may accept the flowers or, return them to the supplier if you feel uncomfortable about keeping them. If the supplier were to offer such gifts on a regular basis, politely advise them of Merck's gifts policy.

Providing and Accepting Meals and Entertainment

As a means of building relationships, we may provide or accept occasional meals or social entertainment, provided that it is:

- In the course of a bona fide business relationship;
- An accompaniment to an educational or business discussion/function;
- Legal;
- Consistent with industry practices;

- Not likely to be perceived as an attempt to improperly influence business decisions; and
- Not embarrassing to the Company if it were to receive public scrutiny.



It is customary in my country to take customers to a restaurant and to discuss business over drinks. Is this acceptable under the policy?



This is acceptable practice if you ensure that the entertainment is reasonable and in good taste and is otherwise appropriate in your country.



A potential supplier has invited me to attend a professional sporting event with him. May I attend?



If the sporting event is appropriate and not excessive, and the supplier will be attending with you and thus, available to discuss business, then it may be acceptable to attend. It is important, however, that accepting an invitation is neither intended nor likely to be perceived as an attempt to improperly influence a business decision.

As an example,

- occasional unsolicited tickets to regular-season sporting events would be acceptable;
- playoffs, quarterfinals and semifinals require more scrutiny; and
- tickets to finals or championship events (e.g. the World Cup, Olympics and Wimbledon) would be considered excessive.

Your local/regional lawyer can provide you with a more detailed explanation of “inappropriate” or “excessive” that is relevant to your specific location.

Invitations to Conferences/Symposia

CP31

CP20

We are committed to conducting and participating in educational programs that share medical and scientific information. We recognize the importance of ensuring that these activities are undertaken in an appropriate and professional manner, with the ultimate goal of improving patient care. However, our standards do not necessarily take into account all local legal requirements. Where more restrictive local laws exist, those take precedence.

The primary focus for scientific/educational meetings must be an agenda appropriate for participants. The scientific agenda should dominate over social activities. The location should be selected on the basis of participant travel convenience, cost and appropriateness for the type of meeting and audience.

We do not fund travel for spouses or companions of attendees. Exceptions to this policy require the prior written approval of the area or divisional vice president.



We are funding the travel expenses of an important opinion leader who is speaking at a Merck-sponsored conference. She would like to bring her spouse, at her own expense. Is this permitted?



A spouse or companion may travel to a conference provided that it is not at the Company’s expense. This means that any travel, lodging, meals and costs associated with the spouse’s presence are not borne by the Company. However, spouses or companions are not permitted to attend sessions or meetings where official business is discussed, unless invited to do so by the sponsors of the conference.



Can we honor a physician’s request to issue two economy-class tickets in place of one business-class ticket to attend a conference?



No, this may not be done. An invitation is extended to the physician, and the Company will only cover expenses directly associated with the invitee’s attendance.

Can we pay for a physician involved in the approval process for new drugs to attend a meeting? We would ultimately be paying the regulatory agency that approves our drugs.



The laws and regulations governing such activities are complex and will vary depending on a variety of factors, including:



- Is the physician a government employee?
- Is the physician a decision-maker in the regulatory approval process?
- Is a Merck product registration pending?

Due to such complexity, the Legal Department must be consulted in advance. Generally, the answer would be no, but if the individual's attendance is for the greater public good, there may be situations that can be permitted if the expenses can be handled in an appropriate and legal manner.

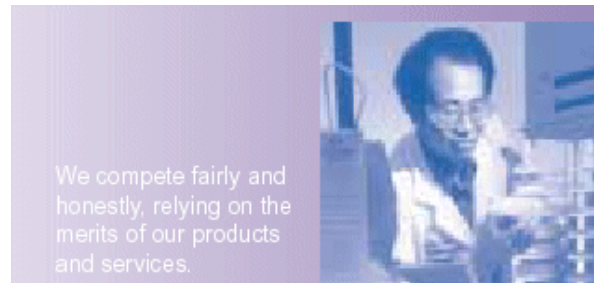
Fair Competition

CP3

We believe that customers and society as a whole benefit from fair, free and open markets. Therefore, we compete on the merits of our products and services and do not make agreements with competitors to “fix” prices or to restrain trade. Our principles of fair competition require that:

- We do not share or exchange price or bid information with competitors. This includes pricing policies, discounts, promotions, royalties, warranties and terms and conditions of sale. If a competitor volunteers such information, whether in a trade association meeting or in a physician’s waiting room, we should terminate the conversation immediately and bring the situation to the attention of the Legal Department. While the exchange may be intended innocently, it also could create the appearance of price-fixing or bid-rigging.
- We compete aggressively in every market for every customer. We make no agreements—or general understandings—with competitors concerning customers, distributors or territories.
- We do not demand that suppliers do business with us in order to retain their Merck business.
- We do not mischaracterize or distort the products or services of a competitor.

Our standards of fair competition are also a matter of law in virtually every country in which we operate, and there are additional legal requirements with which we must comply. Every manager must ensure that employees involved in marketing, sales and purchasing are aware of the letter and spirit of our standards and the applicable competition laws.



I am attending a trade association meeting and several members are discussing pricing strategy. What should I do?



If issues such as pricing strategy are discussed among competitors, there is the possibility that price-fixing or collusion could occur or be perceived to have occurred. Many countries prohibit the discussion of pricing among competitors for this reason. If you find yourself in this situation, you must excuse yourself from the meeting immediately. Promptly advise the Legal Department of what you have observed.

Gathering Competitive Information

We compete fairly and honestly. We do not gather market information through misrepresentation, theft, invasion of privacy or coercion. Additional rules regarding information-gathering may apply to government bids. Please contact your manager or the Legal Department for more information.



We have just hired an employee from a competitor. How much information is he allowed to volunteer about his former employer?



We must not allow the employee to volunteer, nor should we ask for, any nonpublic information about his former employer. Ask yourself if you would be comfortable if a former Merck employee shared such information with a competitor. Additionally, there are legal implications relating to the disclosure of confidential information of other companies. For further clarification, consult your manager or the Legal Department.



RELATIONSHIPS WITH FELLOW EMPLOYEES

Our Work Environment

CP8

We seek to provide a work environment that will attract and retain highly talented people and help them achieve their full potential. Each of us is responsible for creating a climate of trust and respect, and for promoting a productive work environment. These responsibilities are described in our leadership principles (see page 23), which serve as the foundation for all our human resources policies, practices and processes. The leadership principles spell out specific behaviors that are expected of us.

Additionally, we respect the privacy and dignity of our fellow employees and safeguard the confidentiality of employee records.

We encourage open communication by being receptive to the ideas and concerns of others, and we offer and receive feedback constructively.

Fair Treatment

CP16

To meet our long-term growth and efficiency requirements, we must build an organization that responds quickly to change and one in which all people can achieve their full potential. Differences in backgrounds, experiences, perspectives and talents are a fundamental strength of our global Company.

We treat each individual fairly, and recruit, select, train and pay based on merit, experience and other work-related criteria. For further information, contact your Human Resources representative or the Corporate Human Resources Diversity Department.



Is it acceptable to stipulate gender and age for an open position?



What is the business justification for advertising positions based on gender or age? Treating people fairly by hiring based solely on job-related criteria is not only the right thing to do, it's smart business.

Health and Safety

CP13

We conduct our operations with the highest regard for the safety and health of employees and the protection of the general public. Each of us is responsible for complying with safety rules and regulations and for taking the necessary precautions to protect ourselves and our colleagues. We must report all accidents and take action to correct unsafe practices or conditions, with a goal of continuously improving our performance. Central Safety and Industrial Hygiene can answer specific questions about Merck safety standards.



Is it really necessary to report a minor accident? I don't want to jeopardize our plant's safety record.



To maintain safety performance excellence and to strive for an accident-free environment, you must report all accidents, no matter how minor, and work to eliminate unsafe practices and conditions. Reporting even minor accidents is important as it helps us to identify hazards and take corrective action before serious injuries can occur.

If I uncover a serious, unsafe condition, can I shut-down operations?



In circumstances where you believe that an imminent danger condition exists and a delay would jeopardize safety, you are authorized to shut-down operations. A shut-down of operations can be an extremely disruptive response to a safety problem; however, sometimes it may be required in order to protect people or the facility from a serious hazard. Merck expects employees who discover unsafe conditions to report them to their supervisor so that the conditions can be remedied in the most effective manner.



Drug and Alcohol Abuse — Use of illegal drugs and alcohol abuse create serious health and safety risks in the workplace. The possession, sale or use of illegal drugs on Company time or property, or at Company-sponsored events, is prohibited. Similarly, impairment from alcohol when conducting Merck business or at Company-sponsored events is also prohibited.

It is important that cases of drug and alcohol abuse be brought to management’s attention immediately. For information on resources at your location to deal with substance abuse, please see the resources listed on this website.

Workplace Harassment

CP16

We strive to maintain an environment free of harassment, where all employees are respected. Workplace harassment is defined as any action that creates an intimidating, hostile or offensive work environment. Examples include, but are not limited to, disparaging comments based on race, gender, religion or nationality.

Sexual Harassment — Sexual harassment is a form of workplace harassment of a sexual nature that affects the dignity of men and women at work. Sexual harassment includes, but is not limited to, demanding sexual considerations in exchange for job benefits, threatening or taking adverse employment actions if sexual favors are not granted, or unwelcome physical contact.

If you feel you have been harassed, inform the offender that the action is unwelcome. If you are not comfortable with a direct approach or if it fails to correct the problem, discuss the matter with your supervisor or with Human Resources, or refer to the resources listed on this website.



Is it permissible to date a subordinate if it is a consensual relationship?



No. It is unacceptable to have a romantic relationship with someone with whom you have a direct or indirect reporting relationship. Such relationships inevitably damage morale and disrupt productivity in the workplace. There is an inherent conflict of interest in managing someone with whom you have a romantic relationship. Even if you are acting impartially, your relationship more than likely will be perceived negatively. Therefore, you must immediately disclose the relationship to your manager and Human Resources.



Is dating a colleague acceptable?



Yes, provided that there is no direct or indirect reporting relationship.



It is common in my country to make jokes about certain nationalities. Is it acceptable to have some jesting in the office?



Humor is an important element of life, both inside and outside of the office. However, it is not acceptable to make fun at the expense of others based on national, ethnic or other differences, because it can be offensive. Such behavior, even if not so intended, contributes to an environment of intolerance. If you are not sure if a joke or comment is appropriate, refrain from communicating it.

If you have questions or concerns, please refer to the resources listed on this website.

RELATIONSHIPS WITH SHAREHOLDERS

Conflicts of Interest

CP2

We have a responsibility to our shareholders to make decisions strictly on the basis of Merck's best interests, without regard to personal concerns. A potential conflict of interest arises when we become involved, directly or indirectly, in outside activities that could impair, or be perceived to impair, our business judgment.

Examples of actual or potential conflicts of interest include:

- Having a personal financial interest in a customer, distributor, competitor or supplier;
- Having a close family member (e.g., spouse, child, sibling, parent or in-law) work for a customer, distributor, competitor or supplier;
- Receiving any form of compensation from a customer, distributor, competitor or supplier.
- Having a personal interest or potential for gain in any Company transactions.

The key to addressing conflicts of interest is full disclosure. Often, just disclosing the potential conflict to the Company is the only action required. If you believe you may have a potential conflict of interest, you must discuss the situation with your manager. Certain employees, including directors, officers, executives and other designated employees, must file annual conflict of interest certifications describing any actual or potential conflicts of interest. Company loans to employees particularly sensitive and are subject to specific scrutiny. Company loans to executive officers or members of the Board of Directors are prohibited unless they were already in existence on July 30, 2002.



My husband works for a competitor. Do I need to inform the Company?



This is a potential conflict of interest and must be disclosed to your manager. Once the potential conflict is disclosed, the Company can take steps to properly address the situation, if necessary. For example, if he is working on a product that competes with the product that you work on at Merck, the Company may elect to assign you to another product.



My fiancé works for one of our distributors. Since he is not a family member and is not associated with Merck business, must I disclose this to my manager?



Close relationships such as a fiancé could also be considered a potential conflict of interest. To determine if this may be true in your case, discuss the matter with your manager.



I own a few shares of stock in British Telecom. Since BT provides phone services to Merck, must I report this as a conflict of interest?



An investment representing less than 1 percent of outstanding shares of a publicly owned Company, such as British Telecom, and where such investment constitutes less than 10 percent of the value of your investments, would not be considered a potential conflict of interest under our policy.

Use of Corporate Assets

CP2

Our shareholders have a right to expect that the Company's assets are properly maintained and used in an economical and efficient manner. As a general rule, we should not use Company equipment or resources (excluding communications tools – see below), for personal use. However, there may be times when personal use of corporate resources is acceptable. If you have questions about such situations, discuss them with your manager.



With the support of the Company, I am working on an advanced chemistry degree. May I use Company laboratory equipment over the weekend to further my studies?



Due to health, safety and other risks, personal use of Company laboratory equipment is not permitted. If you believe extraordinary circumstances warrant an exception, discuss the situation with your manager.

Personal Use of Communication Tools

The Company encourages us to make efficient and effective use of communications tools such as e-mail, the intranet and internet, voicemail, telephones, photocopiers and fax machines to accomplish business objectives. These tools also allow us to efficiently accomplish personal activities and such use is generally permitted provided there is no adverse effect on productivity or the work environment. Usage also must conform to all other existing standards and policies regarding communication tools. General guidelines for the various communication tools include:



- Telephones: Use common sense and good judgment when using Company telephones for personal business. A quick call home is acceptable — lengthy overseas calls are not acceptable.
- Faxes and Photocopiers: Personal use is acceptable provided it is infrequent and insubstantial. Photocopying your tax return is acceptable – copying 200 announcements for your sports club is not acceptable.
- Internet and E-mail: Our personal use should not interfere with work productivity and not exceed a nominal cost to the Company. Again, use common sense and good judgment. Internet shopping during your lunch hour is acceptable – spending the afternoon “surfing the web” is not acceptable.

Your particular division or location may have adopted more restrictive guidelines concerning personal use of communication tools. In such cases, the more restrictive standard applies. In all cases, personal use of communication tools is subject to the discretion of your manager.



I am in the process of buying a house and must immediately fax a three-page document to my agent. May I use the Company fax or must I leave the office and find a public fax?



Use good judgment and, in this case, use the Company fax. Personal use of a Company fax machine is acceptable provided such usage is insubstantial and infrequent. If you have questions about such situations, discuss them with your manager.



I am going on holiday to Thailand with my family. Is it acceptable to use the Internet to check the local weather?



Yes. Employees may use the Internet and E-mail Systems for personal activities that do not interfere with productivity or the work environment. Please note that the following are some examples of inappropriate use of the Internet and E-mail Systems and are strictly forbidden at all times:

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- Downloading and transmitting pornographic, sexist, racially or ethnically insensitive material.
- Posting your opinions or views with regard to the Company or the Company's business in Internet newsgroups, chat rooms, bulletin boards, etc., unless you are specifically authorized by the Company to do so.
- Conducting private business activity on the Internet or E-mail Systems.

For more information, contact the Corporate Computer Resources Department.

Protection of Company Information

CP26
CP34

Information is an important Company asset that must be protected. The loss of confidential information can be extremely damaging to our competitive position. Examples of confidential information include, but are not limited to, pricing, formulations, research results, manufacturing methods, financial data and marketing and sales strategies and plans.

We do not disclose any confidential Company information without a valid business purpose and proper authorization by management. Each of us is responsible for protecting the confidentiality of Company information.

General guidelines for protecting confidential Company information include:

- Not discussing sensitive Company business in public;
- Using password protection on computer files;
- Securing sensitive information in locked files and cabinets;
- Securing sensitive information on laptop computers while traveling;
- Exercising caution when using speakerphones and cellular phones.

Even after we leave the employment of Merck, we are obligated to maintain the confidentiality of Merck information and return all documents and files (including electronically-stored information).



I overheard Merck employees discussing Company business on an airplane. What, if anything, should I do?



If you believe the information that is being discussed is sensitive or confidential, advise the parties that they can be overheard. Every Merck employee has a responsibility to ensure that confidential and proprietary information is not disclosed in public.



I was using my home computer and came across a chat room where sensitive Merck information was being divulged. What should I do?



Such disclosure of confidential Company information is strictly forbidden, as it seriously harms the Company in trying to achieve its business objectives. Discuss your observation with your Manager. You may also call the AdviceLine or contact the Office of Ethics, advising them of your observations.

If you have questions or concerns, please refer to the resources listed on this website.

Accuracy of Books/Records

CP20

We make decisions based on information recorded at every level of the Company. Incomplete or inaccurate information may lead to poor decisions and negative consequences, for example:

- Improper recording of revenues and expenses leads to misrepresentation of the Company’s financial position, and is illegal;
- Incomplete or inaccurate manufacturing documents could jeopardize the supply of a product and violate regulations.

Accuracy of Public Disclosures

We must make certain that all disclosures made by the Company in all periodic reports and documents filed with governmental agencies, and other public communications made by the Company, are full, fair, accurate, timely, and understandable. This obligation applies to all employees, including all financial executives, with any responsibility for the preparation of such reports, including drafting, reviewing, and signing or certifying the information contained therein. This requires operating in an environment of open communication, while not compromising proprietary and confidentiality concerns.

If you have concerns about any aspect of our financial disclosures, you should discuss these concerns with your manager, the Finance organization, the Legal Department, the Office of Ethics or the AdviceLine. Any employee who is contacted by another employee who is raising questions or concerns about questionable accounting or auditing matters must immediately report those concerns to the Office of Ethics.

We must record all information honestly and accurately. This includes, but is not limited to, expenses, revenues, research test results, production and quality data and any other corporate information. All financial transactions and payments must be authorized and recorded. Strict compliance with corporate accounting methods is required, as is cooperation with internal and external auditors. Contact your divisional controller or corporate audit group client director with any questions concerning the proper recording of financial transactions.



It is December and there is money left in our annual budget. Is it acceptable to pre-pay for next year’s activities using this year’s budget?



No. Activities and payments must be matched to the same period. If an event occurs this year then payment should be recorded as taking place this year. If an activity is set for next year then the payment must be charged to the next year’s budget and accounts.





A sales order came in and will be confirmed two days after the books are closed. Is it acceptable to include unconfirmed sales in an earlier period?



No. The sale has not officially taken place until it is confirmed and the goods have been shipped. It is a misrepresentation to include unconfirmed sales in an earlier period.



Can I delay processing sales orders until the next period to help us attain our income targets in that period?



No. Sales orders received must be processed in accordance with standard operating procedures for the transaction. It is inappropriate to manipulate sales orders for processing during the next financial period.

Insider Trading

CP30

Merck strives to preserve fair and open markets for the buying and selling of the Company's securities. We may not buy or sell Merck securities, on the basis of nonpublic, material information. Material ("inside") information is any information that a reasonable investor would consider important in making investment decisions. Examples may include knowledge about acquisitions, divestitures, new products or processes, and financial information such as corporate earnings. These same restrictions apply to non-public material information about other companies that we learn through our capacity as Merck employees.

We are also prohibited from disclosing non-public material information to others — both inside and outside Merck — without a legitimate business reason and proper management authorization.

If we have inside information, we must refrain from trading in the affected securities until the beginning of the second full trading day after public disclosure of the information. If you are in doubt as to whether the purchase or sale of securities would violate our insider trading standards, please consult with the Legal Department.



To preserve fair and open investment markets, we may not buy or sell Merck securities on the basis of non-public, material (inside) information.

If you have questions or concerns, please refer to the resources listed on this website.



RELATIONSHIPS WITH SUPPLIERS

Selection of Suppliers

CP23

We select goods and services that best contribute to the long-term well being of Merck. We choose our suppliers based on price, quality, delivery, service, diversity and reputation. Other factors, including environmental and business practices, also may be taken into consideration. Merck condemns the use of forced labor and exploitative child labor and expects its suppliers to respect this principle as well.



I suspect that one of our suppliers is using child labor. What should I do?



Discuss your observation with your manager. You may also contact the AdviceLine or, if you prefer, you may send a note to the Office of Ethics, advising them of your observations.

Treatment of Suppliers

We treat our suppliers and subcontractors with fairness and integrity. We respect the terms and conditions of agreements with suppliers and we honor our commitments. We strive to pay on time and are careful to protect the confidential and proprietary information of our suppliers.

To ensure that all suppliers are given an opportunity to compete for our business, we obtain competitive bids where it is feasible to do so.



We choose our suppliers based on price, quality, delivery, service and reputation, taking Merck's best interests into consideration..



Is it acceptable to copy Company software to my home computer if it would only be used for Company business?



Generally, this is not acceptable. We must respect the terms of software-licensing agreements, which may limit the number of machines on which the software may be installed. To determine whether it would be acceptable for your particular software, consult the Corporate Computer Resources Department.

We treat our suppliers and subcontractors fairly and honor our commitments..



RELATIONSHIPS WITH OUR COMMUNITIES AND SOCIETY

Corporate Responsibility

CP6

Merck believes that an essential component of its corporate responsibility is to provide support to charitable or philanthropic organizations that benefit society, from the local plant community to the international level. Merck makes cash contributions both directly and through The Merck Company Foundation, and donates products and other in-kind services to qualified organizations and programs that address the needs of society and support Merck's overall business mission to enhance health.

The philanthropic outreach of Merck is guided by two strategic priorities worldwide: to advance scientific knowledge and education, and to improve health care. Merck supports initiatives to address selected health care issues with funding, and donates MECTIZAN® to treat river blindness and other Merck medicines to address health care needs in developing countries. In addition to these priorities, funding is also provided to support programs to protect our environment, promote art and cultural activities, and foster civic institutions. When appropriate, Merck provides assistance in response to major disasters and medical emergencies.

For more information, contact the Corporate Office of Contributions at Whitehouse Station.

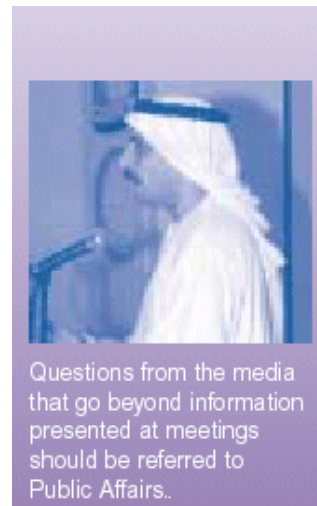
The Merck Company Foundation

The Merck Company Foundation is a U.S.-based, private, charitable foundation. Established in 1957 by Merck, the Foundation is funded entirely by the Company and is Merck's chief source of funding support to qualified non-profit, charitable organizations. The mission of the Foundation is to advance biomedical science training and education and to improve health care worldwide as well as support programs in the arts, civics and the environment. Since its inception, more than U.S. \$340 million have been contributed by the Foundation to educational, health and social services, civic, cultural, environmental and other charitable organizations.

Public Communications

CP4

All communications with the news media are potentially important and reflect upon the Company's image and business. It is vital that communications from the Company are consistent and that all regulatory and legal obligations be fulfilled.



All communications must be accurate, responsible and in keeping with Merck's medical and legal policies. Media or public requests for information should be referred to and coordinated with Public Affairs.



I will make a presentation at a conference where press coverage is likely. How should I respond if I'm approached by the media following my presentation?



Journalists often approach scientists and executives who make presentations at professional forums. When press coverage is likely to result, Public Affairs should be advised in advance and questions and answers should be prepared. But you should feel free to clarify for the reporter anything that was formally presented at the meeting. Questions that go beyond what was formally presented should be referred to Public Affairs. Copies of slides should not be given out without prior clearance from the Merck Research Laboratories and Public Affairs because this could jeopardize the scientific publication process.



One example of Merck's commitment to improving health care worldwide is the Company's decision to donate MECTIZAN® for as long as necessary to all who need it to combat river blindness (onchocerciasis).

If you have questions or concerns, please refer to the resources listed on this website.

Our responsibility to protect the environment is among our highest priorities. We comply with the letter and spirit of all environmental laws and regulations and respect the environment in every country where we operate. We provide consumers with information to help them handle our products in an environmentally responsible way. Central Safety and the Environment can answer specific questions about Merck’s environmental standards. Check the Safety and Environment web site at mmd.merck.com/S&E/ for the availability of our new manual of environmental standards.



The laws in my country do not prohibit dumping waste on-site. Can I dispose of Merck waste in this way?



No. The disposal method must be in accordance with Merck’s own environmental standards, and specific practices vary, depending on the type of waste. Merck has developed “best practice” global environmental standards for all of its facilities. In some cases, these standards require actions that exceed what laws in individual countries would allow.



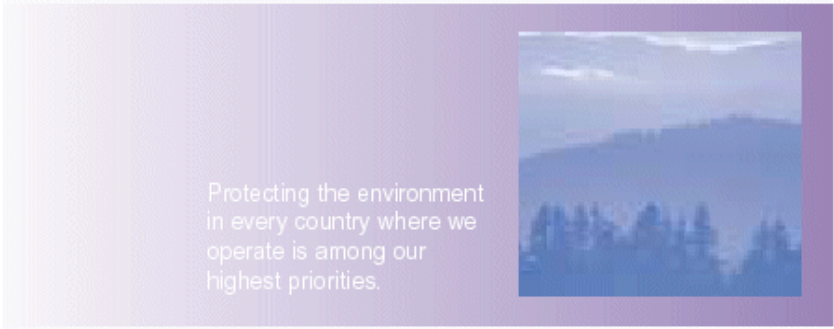
I am a site services manager and have responsibility for buying replacements for everything from light bulbs to equipment. Does Merck’s goal of continuous improvement mean that I should always select the most environmentally-beneficial option?



Not necessarily. Sometimes the cost of the most environmentally-beneficial option is disproportionate to the benefit to be obtained. Generally, however, where the cost differential between options is not significant and a real environmental benefit will result, the more environmentally beneficial option should be selected.

Our Environmental Commitments

- 1. Provide inherent protection in the way we design and operate our facilities and processes, so as to ensure the trust of our communities;
- 2. Promote resource conservation, waste minimization and the minimization of the release of chemicals into the environment;
- 3. Provide employees, customers, suppliers, public authorities and communities with appropriate information for informed decision-making; and
- 4. Continuously improve.



Improper Payments

CP20

To promote good government and fair, impartial administration of laws, we may not promise, offer or make payment in money or anything of value to any government official or political party with the intent to induce favorable business treatment or to improperly affect government decisions.

Our standards do not necessarily take into account all local legal requirements. Where more restrictive local laws exist, those take precedence. In general, we do not consider ordinary and reasonable business entertainment or gifts of insubstantial value that are customary and legal in the local market to be improper. Seek the advice of the Legal Department if there is any uncertainty about the propriety or legality of an action. For additional information, refer to the Gifts and Entertainment policy on page 7.



I was told I have to pay a “gratuity” to a minor official to clear our products through customs. What should I do?



The Company does not provide gratuities to officials to ensure execution of official duties. Seek the advice of your manager or the Legal Department.

Use and Selection of Agents – We will engage only reputable, qualified individuals or firms as consultants, agents, representatives or distributors under compensation arrangements that are reasonable in relation to the services performed.

Integrity of performance is a Merck standard for employees and agents alike wherever we do business, and ignorance of that standard is never an acceptable excuse for improper behavior, nor is it acceptable for improper behavior to be rationalized as being in the Company’s best interest. No act of impropriety advances the interests of the Company.



How does the Company ensure that its agents comply with Merck’s standards?



It is the responsibility of the employee making the recommendation to conduct research to ensure that the agent is reputable. At a minimum, this should include research on other parties and multinational companies with whom the agent has worked in the past. This information should be reflected in the approval memorandum submitted to management.

Compliance With Laws, Rules And Regulations

CP21

Being a good corporate citizen means that we comply with all applicable laws, rules and regulations. Managers are responsible for communicating relevant rules and regulations to their employees. For further assistance, contact the Legal Department.

Boycotts – As a U.S.-based Company, all Merck operations, including foreign subsidiaries, must comply with U.S. laws pertaining to foreign boycotts. These laws primarily refer to the Arab boycott of Israel. However, from time to time, other boycott issues may arise. A variety of activities are prohibited under anti-boycott laws, including:

- Furnishing information about Merck’s or any person’s past, present or prospective relationship with boycotted countries or blacklisted companies;
- Paying, honoring or confirming letters of credit containing boycott provisions.



Merck works to promote responsible business practices globally by supporting organizations such as the Gulf Center for Excellence in Ethics in the United Arab Emirates.

If you have questions or concerns, please refer to the resources listed on this website.



The law also requires that certain requests for boycott information be reported to the U.S. Government. Because anti-boycott legislation is complex, all such requests should be directed immediately to the Legal Department.

Import/Export Regulations –We may not export or sell drugs without proper approvals by the Merck Research Laboratories and the Clinical and Regulatory Development Review Committee. In addition, the drugs must first meet the legal requirements of the producing country and the countries to which the drugs would be exported. Further, we may not import from or export to countries against which there is a U.S. embargo (e.g., Sudan, Iran, Libya or Cuba). We may not import from or export to certain individuals or organizations contact with which is prohibited by U.S. government agencies.



How can we justify not sending medicine to people in need who live in places that are out of political favor with the United States?



In return for the right to operate in the United States, we are obligated to comply with all applicable United States laws that apply to our operations—whether or not we agree with such laws. Please note that some U.S. laws, such as those pertaining to export controls, do apply to Merck operations outside of the U.S.



In the country where I operate, it is illegal to comply with the U.S. trade embargo regulations with certain countries. How do I handle this situation?



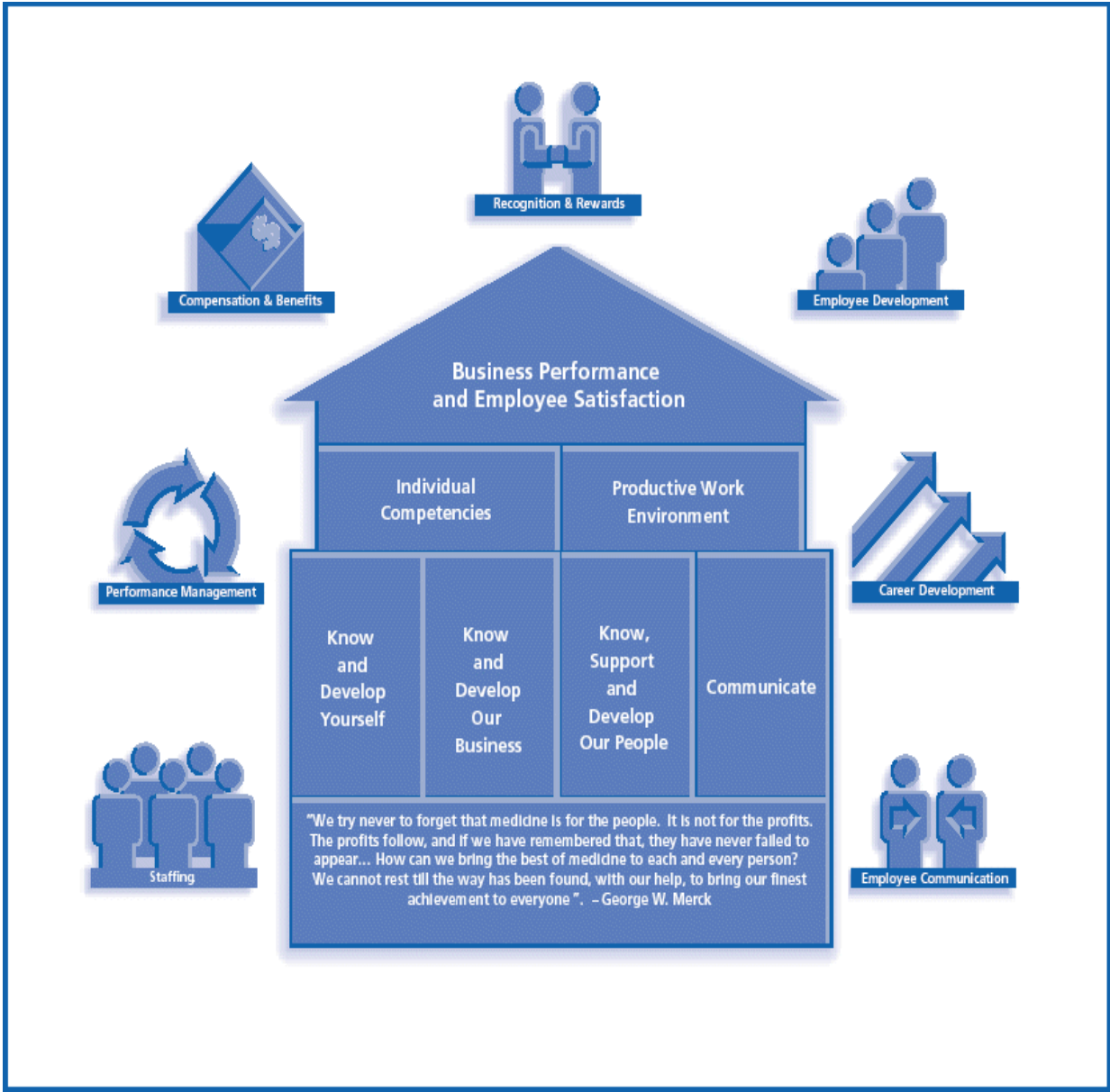
Transnational compliance with embargo regulations is a complex issue that varies from country to country. All such concerns must be directed to the Legal Department.

Political Activities – Good corporate citizenship requires that we do not unfairly or illegally influence the political process in the communities in which we operate. Due to the complexity and diversity of laws and regulations governing corporate political activities, political contributions and other related activities may only be undertaken with the prior approval of the Chief Executive Officer.

As private citizens, we may participate in the political process, including contributing to candidates or parties of our choice. However, we may not use Company time, property or resources for our personal political activities.



APPENDIX MERCK LEADERSHIP PRINCIPLES



Confidentiality

The Company will not tolerate retaliation against any employee who raises a business practices issue. This protection extends to anyone giving information in relation to an investigation. However, Merck reserves the right to discipline anyone who knowingly makes a false accusation, provides false information to the Company or has acted improperly.

When you contact the Merck Office of Ethics to raise an issue, you may remain anonymous, although you are encouraged to identify yourself. Should you choose to identify yourself, your identity will be kept confidential to the extent feasible or permissible under the law. To assist the Office of Ethics in maintaining confidentiality, however, it is imperative that you practice discretion and refrain from discussing your Office of Ethics consultation with colleagues or co-workers.

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MERCK & CO., INC. SUBSIDIARIES
as of 12/31/03

The following is a list of subsidiaries of the Company, doing business under the name stated.

Name	Country or State of Incorporation
Abello Farmacia, S.L. ¹	Spain
Algonquin SarL	Luxembourg
AMRAD Pharmaceuticals Pty. Ltd.	Australia
Aventis Pasteur MSD A/S	Denmark
Aventis Pasteur MSD Gestion S.A. ¹	France
Aventis Pasteur MSD GmbH	Austria
Aventis Pasteur MSD GmbH	Germany
Aventis Pasteur MSD Ltd.	Great Britain
Aventis Pasteur MSD Ltd.	Ireland
Aventis Pasteur MSD N.V./S.A.	Belgium
Aventis Pasteur MSD S.A.	Spain
Aventis Pasteur MSD S.p.A.	Italy
Aventis Pasteur MSD SNC ¹	France
Banyu Pharmaceutical Company, Ltd.	Japan
Banyu-A.S.C. Co., Ltd.	Japan
Blue Jay Investments C.V.	Netherlands
BRC Ltd	Bermuda
British United Turkeys Limited	Great Britain
Centra Medicamenta OTC SpA ¹	Italy
Charles E. Frosst (New Zealand) Ltd	New Zealand
Charles E. Frosst (U.K.) Limited	Great Britain
Chibret A/S	Denmark
Chibret Pharmazeutische GmbH	Germany
Chippewa Holdings LLC	Delaware
Cloverleaf International Holdings S.A.	Luxembourg
CM Delaware LLC	Delaware
Comsort, Inc.	Delaware
Coordinated Patient Care Scandinavia AS	Norway
Crosswinds B.V.	Netherlands
Dieckmann Arzneimittel GmbH	Germany
European Insurance Risk Excess Limited	Ireland
Farmacox-Companhia Farmaceutica, Lda	Portugal
Farmasix-Produtos Farmaceuticos, Lda	Portugal
Financiere MSD S.A.S	France
Fontelabor-Produtos Farmaceuticos, Lda.	Portugal
Fregenal Holdings S.A.	Panama
Frosst Iberica, S.A.	Spain
Frosst Laboratories, Inc.	Delaware
Frosst Portuguesa - Produtos Farmaceuticos, Lda.	Portugal
Hangzhou MSD Pharmaceutical Company Limited ¹	China

Name	Country or State of Incorporation
Hawk and Falcon L.L.C.	Delaware
Hubbard ISA LLC	Delaware
Hubbard ISA SAS	France
Infodoc AS ¹	Norway
Infodoc International AS ¹	Norway
International Indemnity Ltd.	Bermuda
Istituto Di Recherche Di Biologia Molecolare S.p.A.	Italy
Istituto Gentili S.p.A./Inc.	Italy/Delaware
Johnson & Johnson - Merck Consumer Pharmaceuticals Company ¹	New Jersey
Johnson & Johnson•MSD Consumer Pharmaceuticals Limited ¹	Great Britain
KBI Inc.	Delaware
KBI Sub Inc.	Delaware
KBI-E Inc.	Delaware
KBI-P Inc.	Delaware
Kiinteisto Oy Viistotie 11	Finland
Laboratoires Martin-Johnson & Johnson-MSD S.A.S. ¹	France
Laboratoires Merck Sharp & Dohme-Chibret SNC	France
Laboratorios Abello, S.A.	Spain
Laboratorios Biopat, S.A.	Spain
Laboratorios Chibret, S.A.	Spain
Laboratorios Frosst, S.A.	Spain
Laboratorios Neurogard, S.A.	Spain
Laboratorios Quimico-Farmaceuticos Chibret, Lda.	Portugal
Maple Leaf Holdings SRL	Barbados
MCM Vaccine Co. ¹	Pennsylvania
Medco de Mexico Managed Care S. de R.L. de C.V.	Mexico
Medco Holdings S. de R.L. de C.V.	Mexico
Medco Managed Care S.L.	Spain
Medco Servicios de Mexico, S. de R.L. de C.V.	Mexico
Merck and Company, Incorporated	Delaware
Merck Borinquen Holdings, Inc.	Delaware
Merck Capital Resources, Inc.	Delaware
Merck Capital Ventures, LLC	Delaware
Merck Cardiovascular Health Company	Nevada
Merck Enterprises Canada, Ltd.	Canada
Merck Finance Co., Inc.	Delaware
Merck Foreign Sales Corporation Ltd.	Bermuda
Merck Frosst Canada & Co.	Canada
Merck Frosst Canada Ltd.	Canada
Merck Hamilton, Inc.	California
Merck Holdings II Corp.	Delaware
Merck Holdings, Inc.	Delaware
Merck Institute for Vaccinology	Delaware
Merck Investment Co., Inc.	Delaware
Merck Liability Management Company	Delaware
Merck LMC Cash Management (Bermuda) Ltd.	Bermuda
Merck LMC Cash Management, Inc.	Delaware
Merck Resource Management, Inc.	Delaware

Name	Country or State of Incorporation
Merck Respiratory Health Company	Nevada
Merck SH Inc.	Delaware
Merck Sharp & Dohme	France
Merck Sharp & Dohme - Lebanon S.A.L.	Lebanon
Merck Sharp & Dohme (Argentina) Inc.	Delaware
Merck Sharp & Dohme (Asia) Limited	Hong Kong
Merck Sharp & Dohme (Australia) Pty. Limited	Australia
Merck Sharp & Dohme (China) Limited	Hong Kong
Merck Sharp & Dohme (Europe) Inc.	Delaware
Merck Sharp & Dohme (Holdings) Limited	Great Britain
Merck Sharp & Dohme (I.A.) Corp.	Delaware
Merck Sharp & Dohme (International) Limited	Bermuda
Merck Sharp & Dohme (Ireland) Ltd.	Bermuda
Merck Sharp & Dohme (Israel - 1996) Company Ltd.	Israel
Merck Sharp & Dohme (Italia) S.p.A.	Italy
Merck Sharp & Dohme (Middle East) Limited	Cyprus
Merck Sharp & Dohme (New Zealand) Limited	New Zealand
Merck Sharp & Dohme (Panama) S.A.	Panama
Merck Sharp & Dohme (Philippines) Inc.	Philippines
Merck Sharp & Dohme (Puerto Rico) Ltd.	Bermuda
Merck Sharp & Dohme (Singapore) Ltd.	Bermuda
Merck Sharp & Dohme (Sweden) A.B.	Sweden
Merck Sharp & Dohme Asia Pacific Services Pte Ltd.	Singapore
Merck Sharp & Dohme B.V.	Netherlands
Merck Sharp & Dohme Chibret A.G.	Switzerland
Merck Sharp & Dohme d.o.o.	Croatia
Merck Sharp & Dohme de Espana, S.A.	Spain
Merck Sharp & Dohme de Mexico, S.A. de C.V.	Mexico
Merck Sharp & Dohme de Venezuela S.R.L.	Venezuela
Merck Sharp & Dohme Farmaceutica Ltda.	Brazil
Merck Sharp & Dohme Finance Europe Limited	Great Britain
Merck Sharp & Dohme GmbH	Austria
Merck Sharp & Dohme Holdings de Mexico, S.A. de C.V.	Mexico
Merck Sharp & Dohme IDEA, Inc.	Switzerland
Merck Sharp & Dohme Industria Quimica e Veterinaria Limitada	Brazil
Merck Sharp & Dohme inovativna zdravila d.o.o.	Slovenia
Merck Sharp & Dohme International Services B.V.	Netherlands
Merck Sharp & Dohme Ireland (Human Health) Ltd	Ireland
Merck Sharp & Dohme Ísland hf	Iceland
Merck Sharp & Dohme L.L.C.	Russian Federation
Merck Sharp & Dohme Limited	Great Britain
Merck Sharp & Dohme of Pakistan Limited	Pakistan
Merck Sharp & Dohme Overseas Finance N.V.	Neth. Antilles
Merck Sharp & Dohme Peru SRL	Peru
Merck Sharp & Dohme Quimica de Puerto Rico, Inc.	Delaware
Merck Sharp & Dohme S. de R.L. de C.V.	Mexico
Merck Sharp & Dohme S.A.	Morocco
Merck Sharp & Dohme Tunisie Sarl	Tunisia

Name	Country or State of Incorporation
Merck Sharp & Dohme, Limitada	Portugal
Merck Sharp Dohme Ilaclari Limited Sirketi	Turkey
Merck Technology (U.S.) Company, Inc.	Nevada
Merck Ventures, Inc.	Delaware
Merial Animal Health Ltd	Great Britain
Merial GmbH	Germany
Merial Japan Ltd	Japan
Merial Inc.	Delaware
Merial Italia SpA	Italy
Merial Laboratorios SA	Spain
Merial Limited/LLC ¹	Great Britain/Delaware
Merial SAS	France
MSD (Japan) Co., Ltd.	Japan
MSD (Nippon Holdings) BV	Netherlands
MSD (Norge) A/S	Norway
MSD (Proprietary) Limited	South Africa
MSD (Thailand) Ltd.	Thailand
MSD Chibropharm GmbH	Germany
MSD Finance, B.V.	Netherlands
MSD International Holdings, Inc.	Delaware
MSD Ireland (Holdings) S.A.	Luxembourg
MSD Ireland (Investment) Ltd.	Bermuda
MSD Korea Ltd.	Korea/Delaware
MSD Lakemedel (Scandinavia) Aktiebolag	Sweden
MSD Latin America Services Ltd.	Bermuda
MSD Magyarország Kereskedelmi és Szolgáltató Kft	Hungary
MSD Overseas Manufacturing Co. (Ireland)	Ireland
MSD Overseas Manufacturing Co.	Bermuda
MSD Pembroke Ltd.	Bermuda
MSD Polska Sp z o.o.	Poland
MSD Sharp & Dohme GmbH	Germany
MSD Somerset Ltd.	Bermuda
MSD Technology Singapore Pte. Ltd.	Singapore
MSD Technology, L.P.	Delaware
MSD Unterstützungskasse GmbH	Germany
MSD Ventures Singapore Pte. Ltd.	Singapore
MSD Warwick (Manufacturing) Ltd.	Bermuda
MSD-Essex GmbH	Switzerland
MSD-SP Ltd.	Great Britain
MSP Distribution Services (C) LLC ¹	Nevada
MSP Distribution Services (R) LLC ¹	Nevada
MSP Marketing Services (C) LLC ¹	Nevada
MSP Marketing Services (R) LLC ¹	Nevada
MSP Singapore Company, LLC ¹	Delaware
MSP Singapore-Sub, LLC	Delaware
MSP Technology (U.S.) Company, LLC ¹	Delaware
Neopharmed S.p.A.	Italy
Nippon Merck-Banyu Co., Ltd.	Japan

Name	Country or State of Incorporation
Pasteur Vaccins S.A.	France
Readington Holdings, Inc.	New Jersey
Readington Investments, Inc.	New Jersey
Rosetta Inpharmatics LLC	Delaware
Ruskin Limited	Bermuda
Sharp & Dohme, S.A.	Spain
STELLARx, Inc.	Nevada
Suomen MSD Oy	Finland
TELERx Marketing Inc.	Pennsylvania
The MSD Foundation Limited	Great Britain
Thomas Morson & Son Limited	Great Britain
Tradewinds Manufacturing SRL	Barbados
Transrow Manufacturing Ltd. ¹	Bermuda
UAB Merck Sharp & Dohme	Lithuania
Varipharma Arzneimittel GmbH	Germany
Woelm Pharma GmbH & Co. Arzneimittelvertrieb OHG ¹	Germany
Woelm Pharma GmbH & Co. OHG ¹	Germany
Woelm Pharma Verwaltungs GmbH ¹	Germany

¹ own less than 100%

POWER OF ATTORNEY

Each of the undersigned does hereby appoint CELIA A. COLBERT and KENNETH C. FRAZIER and each of them, severally, his/her true and lawful attorney or attorneys to execute on behalf of the undersigned (whether on behalf of the Company, or as an officer or director thereof, or by attesting the seal of the Company, or otherwise) the Form 10-K Annual Report of Merck & Co., Inc. for the fiscal year ended December 31, 2003 under the Securities Exchange Act of 1934, including amendments thereto and all exhibits and other documents in connection therewith.

IN WITNESS WHEREOF, this instrument has been duly executed as of the 24th day of February, 2004.

MERCK & CO., Inc.

By /s/ Raymond V. Gilmartin

Raymond V. Gilmartin
(Chairman of the Board, President
and Chief Executive Officer)

/s/ Raymond V. Gilmartin

Raymond V. Gilmartin

Chairman of the Board, President
and Chief Executive Officer
(Principal Executive Officer; Director)

/s/ Judy C. Lewent

Judy C. Lewent

Executive Vice President & Chief Financial Officer
President, Human Health Asia; (Principal Financial Officer)

/s/ Richard C. Henriques, Jr.

Richard C. Henriques, Jr.

Vice President, Controller
(Principal Accounting Officer)

DIRECTORS

/s/ Lawrence A. Bossidy

Lawrence A. Bossidy

/s/ Heidi G. Miller

Heidi G. Miller

/s/ William G. Bowen

William G. Bowen

/s/ Thomas E. Shenk

Thomas E. Shenk

/s/ Johnnetta B. Cole

Johnnetta B. Cole

Anne M. Tatlock

/s/ William M. Daley

William M. Daley

/s/ Samuel O. Thier

Samuel O. Thier

/s/ William B. Harrison, Jr.

William B. Harrison, Jr.

/s/ Wendell P. Weeks

Wendell P. Weeks

/s/ William N. Kelley

William N. Kelley

/s/ Peter C. Wendell

Peter C. Wendell

I, Debra A. Bollwage, Assistant Secretary of MERCK & CO., Inc., a Corporation duly organized and existing under the laws of the State of New Jersey, do hereby certify that the following is a true copy of a resolution adopted at a meeting of the Directors of said Corporation held in New York City, New York, on February 24, 2004, duly called in accordance with the provisions of the By-Laws of said Corporation, and at which a quorum of Directors was present:

“Special Resolution No. 10-2004

RESOLVED, that the proposed form of Form 10-K Annual Report of the Company for the fiscal year ended December 31, 2003 presented to this meeting is hereby approved with such changes as the proper officers of the Company, with the advice of counsel, deem appropriate; and

RESOLVED, that each officer and director who may be required to execute the aforesaid Form 10-K Annual Report or any amendments thereto (whether on behalf of the Company or as an officer or director thereof, or by attesting the seal of the Company, or otherwise) is hereby authorized to execute a power of attorney appointing Celia A. Colbert and Kenneth C. Frazier and each of them, severally, his/her true and lawful attorney or attorneys to execute in his/her name, place and stead (in any such capacity) such Form 10-K Annual Report and any and all amendments thereto and any and all exhibits and other documents necessary or incidental in connection therewith and to file the same with the Securities and Exchange Commission, each of said attorneys to have power to act with or without the others, and to have full power and authority to do and perform in the name and on behalf of each of said officers and directors, or both, as the case may be, every act whatsoever necessary or advisable to be done in the premises as fully and to all intents and purposes as any such officer or director might or could do in person.”

IN WITNESS WHEREOF, I have hereunto subscribed my signature and affixed the seal of the Corporation this 10th day of March, 2004.

[Corporate Seal]

/s/ Debra A. Bollwage

Debra A. Bollwage
Assistant Secretary

CERTIFICATION

I, Raymond V. Gilmartin, certify that:

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

Date: March 10, 2004

By: /s/ Raymond V. Gilmartin

RAYMOND V. GILMARTIN
Chairman, President and Chief Executive Officer

CERTIFICATION

I, Judy C. Lewent, certify that:

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

Date: March 10, 2004

By: /s/ Judy C. Lewent

JUDY C. LEWENT
Executive Vice President & Chief Financial Officer
President, Human Health Asia

Section 1350
Certification of Chief Executive Officer

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Merck & Co., Inc. (the “Company”), hereby certifies that the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 10, 2004

/s/ Raymond V. Gilmartin

Name: Raymond V. Gilmartin
Title: Chairman, President and Chief
Executive Officer

Section 1350
Certification of Chief Financial Officer

Pursuant to 18 U.S.C. Section 1350, the undersigned officer of Merck & Co., Inc. (the “Company”), hereby certifies that the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2003 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 10, 2004

/s/ Judy C. Lewent

Name: Judy C. Lewent
Title: Executive Vice President & Chief
Financial Officer
President, Human Health Asia