SCHERING PLOUGH CORP
Form DEF 14A
March 15, 2004

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934 (AMENDMENT NO.)

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement
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[ ] Definitive Additional Materials
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SCHERING-PLOUGH CORPORATION

(NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

(NAME OF PERSON(S) FILING PROXY STATEMENT)

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[SCHERING-PLOUGH LOGO]

A MESSAGE FROM THE NEW CEO

Dear Fellow Shareholder,

As we approach this year's Annual Meeting, I wanted to update you on the progress of our five-stage Action Agenda to transform our company into a long-term, high-performance organization.

I am pleased to report that we continue on track with the Stabilization and Repair phases of the Action Agenda. We are building the foundation for future growth and looking forward to a Turnaround.

Although the situation we confronted when I joined Schering-Plough less than one year ago has been the most challenging of my career, we are making the fundamental changes in nearly every area of the business that are needed to achieve our goals and to earn your trust.

Among the many actions that are already having positive impact are the re-engineering of our commercial prescription business in the United States, globalization and integration of operations worldwide, building our customer relationships and implementation of significant cost-cutting measures to reduce our infrastructure and reallocate investment to growth-driving actions. We are also embedding a culture focused on shared accountability, transparency and business integrity that will drive every dimension of our business.

We have many challenges ahead of us. I have confidence however, that with the strength and commitment of our 30,500 people worldwide, we will be able to deliver on our Action Agenda.

You can learn more about what we are doing to build the New Schering-Plough in the Proxy Statement and Annual Report for 2003 that are enclosed. I believe you will see evidence in both documents of our commitment to improved transparency.

Thank you for your continued commitment to Schering-Plough. We are working hard to build a company that will reward that commitment and make you proud to be one of our owners.

Sincerely,

/s/
Fred
Hassan

Kenilworth, New Jersey
March 15, 2004

[SCHERING-PLOUGH LOGO]

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
APRIL 27, 2004

The Annual Meeting of Shareholders of Schering-Plough Corporation will be held at The Sheraton Crossroads Hotel, 1 International Boulevard, Mahwah, New Jersey, on Tuesday, April 27, 2004, at 2:00 p.m. to:

(1) Elect four Directors for terms of three years;

(2) Ratify the designation of Deloitte & Touche LLP to audit Schering-Plough's books and accounts for 2004;

(3) Approve the Operations Management Team Incentive Plan, a cash performance-based incentive plan; and

(4) Transact such other business as may properly come before the meeting.

Only holders of record of Common Shares at the close of business on March 5, 2004 will be entitled to vote at the meeting or any adjournments or postponements thereof.

While we welcome shareholder participation, we have changed our admission process for the 2004 Annual Meeting in order to assure tighter security. Shareholders must write to our transfer agent, The Bank of New York, to obtain an admission ticket at the address described in the proxy statement on page 2. TO BE ADMITTED THE SHAREHOLDER MUST PRESENT BOTH THE ADMISSION TICKET AND A PHOTO IDENTIFICATION.

Your vote is important. Whether or not you plan to attend the meeting, you can vote in advance by proxy in whichever way is most convenient - in writing, by telephone or by the Internet.

JOSEPH J. LAROSA
Secretary

Kenilworth, New Jersey
March 15, 2004

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Schering-Plough Corporation
2000 Galloping Hill Road
Kenilworth, New Jersey 07033

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Schering-Plough Corporation to be voted at its Annual Meeting of Shareholders on April 27, 2004 and any adjournments or postponements thereof. The Annual Report for 2003, including financial statements for the year ended December 31, 2003, and this proxy statement and the accompanying form of proxy are being mailed beginning on or about March 15, 2004 to all shareholders of record as of the close of business on March 5, 2004.

QUESTIONS AND ANSWERS ABOUT VOTING

WHAT AM I VOTING ON?

- Election of four Directors (Fred Hassan, Philip Leder, M.D., Eugene R. McGrath and Richard de J. Osborne) for terms of three years;
- Ratification of the designation of Deloitte & Touche LLP to audit Schering-Plough's books and accounts for 2004; and
- Approval of the Operations Management Team Incentive Plan (the "OMT Incentive Plan"), which is a cash performance-based incentive plan.

WHO IS ENTITLED TO VOTE?

Only shareholders of record at the close of business on the record date, March 5, 2004, are entitled to vote shares held on that date at the Annual Meeting. Each outstanding share entitles its holder to cast one vote.

HOW DO I VOTE?

Vote By Mail: Sign and date each proxy card you receive and return it in the prepaid envelope. If you return your signed proxy but do not indicate your voting preferences, your shares will be voted on your behalf FOR the election of the four nominated Directors and FOR the ratification of the designation of Deloitte & Touche LLP to audit Schering-Plough's books and accounts for 2004 and FOR approval of the OMT Incentive Plan.

Vote By Telephone or Via Internet: If you are a shareholder of record (that is, if you hold your stock in your own name), you may vote by telephone or via the Internet by following the instructions on your proxy card. The telephone number is toll-free, so voting by telephone is at no cost to you.

If your shares are held in the name of a bank, broker or other holder of record (i.e., in "street name"), you will receive instructions from the holder of record that you must follow in order for your shares to be voted. Telephone and Internet voting will be offered to shareholders owning shares through most banks and brokers.

If you vote by telephone or via the Internet you do not need to return your proxy card.

CAN I ACCESS THE PROXY MATERIALS AND ANNUAL REPORT ELECTRONICALLY?

This proxy statement and the 2003 Annual Report are available on Schering-Plough's Internet site at www.schering-plough.com.

CAN I CHANGE MY VOTE OR REVOKE MY PROXY?

Yes. You may change your vote or revoke your proxy at any time before the proxy is exercised. If you submitted your proxy by mail, you must (a) file with the Secretary of Schering-Plough a written notice of revocation or (b) timely deliver a valid, later-dated proxy. If you submitted your proxy by telephone or via the Internet, you may change your vote or revoke your proxy with a later telephone or Internet proxy, as the case may be. Attendance at the Annual Meeting will not have the effect of revoking a proxy unless you give written notice of revocation to the Secretary before the proxy is exercised or you vote by written ballot at the Annual Meeting.

HOW DO I GET AN ADMISSION TICKET TO ATTEND THE MEETING?

You must write to our transfer agent, The Bank of New York, using one of the following methods:

Email at: shareowners@bankofny.com

Mail at: The Bank of New York, c/o Investor Services Correspondence, P.O. Box 11598, New York, N.Y. 10277-2075

If you are a record owner (so your shares are held in your name), you must list your name exactly as it appears on your stock ownership records at The Bank of New York. If you hold through a bank or broker or trustee, you must also include a copy of your latest bank or broker statement showing your ownership.

WHAT CONSTITUTES A QUORUM?

The presence at the Annual Meeting, in person or by proxy, of the holders of a majority of the common shares outstanding on the record date will constitute a quorum. On March 5, 2004, the record date, Schering-Plough had outstanding and entitled to vote at the Annual Meeting 1,471,636,742 Common Shares, par value $.50 per share ("Common Shares").

Abstentions and broker non-votes are counted only for purposes of determining whether a quorum is present at the meeting.

WHAT VOTE IS REQUIRED TO APPROVE EACH ITEM?

The affirmative vote of a plurality of the votes cast at the meeting by shareholders entitled to vote thereon is required for the election of Directors. For the ratification of the designation of Deloitte & Touche LLP and for approval of the OMT Incentive Plan, the affirmative vote of a majority of the votes cast on each item by shareholders entitled to vote thereon will be required.

Abstentions and broker non-votes will not be included in determining the number of votes cast concerning any matter. Under the rules of the New York Stock Exchange, absent instructions from the beneficial owners, brokers who hold shares in street name for beneficial owners have the authority to vote on the election of Directors and the designation of auditors.

WHAT ARE THE BOARD'S RECOMMENDATIONS?

Unless you give other instructions when you vote, the persons named as proxy holders will vote:

- FOR the election of the four nominated Directors;

- FOR ratification of the designation of Deloitte & Touche LLP to audit

Schering-Plough's books and accounts for 2004; and

- FOR approval of the OMT Incentive Plan.

With respect to any other matter that properly comes before the Annual Meeting, the proxy holders will vote as recommended by the Board of Directors or, if no recommendation is given, in their own discretion.

PROPOSAL ONE: ELECTION OF DIRECTORS

Pursuant to Schering-Plough's Certificate of Incorporation, the Board of Directors is divided into three classes, the terms of which expire successively over a three-year period. Four Directors are to be elected at this Annual Meeting to hold office for a term of three years expiring at the 2007 Annual Meeting and until successors shall have been elected and qualified. In the event one or more of the named nominees is unable to serve, the persons designated as proxies may cast votes for other persons as substitute nominees. The Board of Directors has no reason to believe that any of the nominees named below will be unavailable, or, if elected, will decline to serve.

Donald L. Miller will retire as a Director at the Annual Meeting in keeping with the policy that Directors retire at age 72. Schering-Plough appreciates his seven years of service as a Director.

David H. Komansky retired from his position as Chairman of the Board and Chief Executive Officer of Merrill Lynch during his current three-year term as a Director, which ends at the 2004 Annual Meeting. Mr. Komansky has decided not to stand for re-election. We appreciate Mr. Komansky's four years of service as a Director.

Biographical information is given below for each nominee for Director, and for each Director whose term of office will continue after the Annual Meeting. All of the nominees are presently Directors and were previously elected by the shareholders, except Fred Hassan and Philip Leder, M.D., who were elected to the Board effective April 22, 2003, and November 1, 2003, respectively.

NOMINEES FOR DIRECTOR
TERM TO EXPIRE 2007

NOMINEE AND YEAR FIRST ELECTED A DIRECTOR	PRINCIPAL OCCUPATION AND OTHER INFORMATION
[Fred Hassan PHOTO] FRED HASSAN 2003	Chairman of the Board, Chief Executive Officer and President since April 2003. Mr. Hassan, 58, was Chairman of the Board and Chief Executive Officer of Pharmacia Corporation from February 2001 until April 2003, President and Chief Executive Officer of Pharmacia from March 2000 to February 2001, and President and Chief Executive Officer of Pharmacia & Upjohn, Inc. from May 1997 until March 2000. Mr. Hassan was Executive Vice President and a member of the Board of Directors of Wyeth (formerly American Home Products Corporation), from 1995 to 1997. Mr. Hassan is a Director of Avon Products, Inc.

NOMINEE AND YEAR FIRST ELECTED A DIRECTOR	PRINCIPAL OCCUPATION AND OTHER INFORMATION
[Philip Leder PHOTO] PHILIP LEDER, M.D. 2003	Chairman, Department of Genetics, Harvard Medical School. Dr. Leder, 69, has been Chairman, Department of Genetics, Harvard Medical School, since 1980; John Emory Andrus Professor of Genetics since 1980; and Senior Investigator at Howard Hughes Medical Institute since 1986. He is an honorary Trustee of the Massachusetts General Hospital, and a Trustee and Chairman of the Board of the Charles A. Revson Foundation and a Trustee of the Foundation for Advanced Education in the Sciences, and the Hadassah Medical Organization.
[Eugene R. McGrath PHOTO] EUGENE R. MCGRATH 2000	Chairman, President and Chief Executive Officer of Consolidated Edison, Inc. (energy company). Mr. McGrath, 62, has been associated with Con Edison since 1963. He assumed his current position in October 1997, and has served as Chairman and Chief Executive Officer of Con Edison's subsidiary, Consolidated Edison Company of New York, Inc., since September 1990. Mr. McGrath also serves as Chairman of the executive committee of the Energy Association of New York State and the Union Square Partnership. He is a Director or Trustee of AEGIS, Atlantic Mutual, Barnard College, the Edison Electric Institute, Manhattan College and the Wildlife Conservation Society.
[Richard de J. Osborne PHOTO] RICHARD DE J. OSBORNE 1988	Retired Chairman and Chief Executive Officer of ASARCO Incorporated (non-ferrous metals producer) from 1985 to 1999. Mr. Osborne, 69, also served as Chairman of the Board of Schering-Plough from November 2002 to April 2003. Mr. Osborne is the non-executive Chairman and a Director of Datawatch Corporation, and a Director of Goodrich Corporation, NACCO Industries, Inc. and The Tinker Foundation. He is former Chairman and Director of the International Copper Association, the Copper Development Association, the Silver Institute and the National Mining Association. He is also a Director and Treasurer of the Americas Society. Mr. Osborne is a member of the Council on Foreign Relations and the Economic Club of New York.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE FOUR NOMINATED DIRECTORS.

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DIRECTORS CONTINUING IN OFFICE
TERM TO EXPIRE 2005

DIRECTOR AND YEAR FIRST ELECTED A DIRECTOR	PRINCIPAL OCCUPATION AND OTHER INFORMATION
[Hans W. Becherer	Retired Chairman, Chief Executive Officer and Chief

PHOTO] HANS W. BECHERER 1989	Operating Officer of Deere & Company (manufacturer of mobile power machinery and supplier of financial and health care services). Mr. Becherer, 68, was associated with Deere & Company from 1962 until his retirement in 2000. He was elected President and Chief Operating Officer of Deere & Company in 1987, President and Chief Executive Officer in 1989, and Chairman and Chief Executive Officer in May 1990, and assumed the duties of Chief Operating Officer in 1996. Mr. Becherer is a member of the Board of Directors of Honeywell International Inc. and J.P. Morgan Chase & Co. He is also a member of the Business Council.
[Kathryn C. Turner PHOTO] KATHRYN C. TURNER 2001	Chairperson, Chief Executive Officer and President of Standard Technology, Inc. (management and technology solutions firm) since 1985. Ms. Turner, 56, serves on the Board of Directors of ConocoPhillips Company, Carpenter Technology Corporation and Tribune Company. Ms. Turner also serves on the boards of the National Capital Area Council of the Boy Scouts of America and Children's Hospice International.
[Robert F.W. van Oordt PHOTO] ROBERT F.W. VAN OORDT 1992	Chairman of the Supervisory Board of Rodamco Europe N.V. ("RE"), the largest retail real estate investment company in Europe. Mr. van Oordt, 67, served RE as Chief Executive Officer from March 2000 to June 2001. Prior to this assignment, Mr. van Oordt served as Chairman of the Executive Board of NV Koninklijke KNP BT (producer of paper, board and packaging products; and distributor of graphic paper, graphic and information systems and office products) from March 1993, following the merger of three leading Dutch-based industrial corporations, including Buhrmann-Tetterode N.V. ("BT"), until his retirement in April 1996. From 1990 until March 1993, Mr. van Oordt served as Chairman and Chief Executive Officer of BT. Mr. van Oordt is a member of the Board of Directors of Nokia Corporation, Fortis Bank N.V. and n.v. Umicore s.a. and of the Supervisory Board of Draka Holding N.V. He is a member of the International Advisory Board of Nijenrode University and a senior member of the Conference Board. He also serves as Chairman of the Foundation for Arts and Business in the Netherlands.

DIRECTORS CONTINUING IN OFFICE
TERM TO EXPIRE 2006

DIRECTOR AND YEAR FIRST ELECTED A DIRECTOR	PRINCIPAL OCCUPATION AND OTHER INFORMATION
[Carl E. Mundy, Jr. PHOTO] CARL E. MUNDY, JR. 1995	Retired General, Former Commandant of the Marine Corps. General Mundy, 68, entered the Marine Corps in 1953. He held senior positions of operational command and top-level management prior to appointment as Commandant and Joint Chiefs of Staff member in 1991. He led the Marine Corps and served as military adviser to the President and Secretary of Defense from 1991 to 1995. He is past

president of worldwide operations of the United Services Organization. General Mundy is a Director of General Dynamics Corporation and NationsFunds. He also serves as Chairman of the Marine Corps University Foundation, is a member of the boards of advisors to the Comptroller General of the United States and to the Navy League of the United States, and is a member of the Council on Foreign Relations.

[Patricia F. Russo PHOTO]

PATRICIA F. RUSSO
1995

Chairman and Chief Executive Officer of Lucent Technologies Inc. (communications). Ms. Russo, 51, assumed the position of Chairman in February 2003 and the positions of Chief Executive Officer and President in January 2002, serving as President until she assumed the additional office of Chairman. Ms. Russo was President and Chief Operating Officer of Eastman Kodak Company from April 2001 and Director from July 2001, and non-executive Chairman of Avaya Inc. since December 2000, until she rejoined Lucent. Prior to that, Ms. Russo was Executive Vice President and Chief Executive Officer of the Service Provider Networks business of Lucent from November 1999 to August 2000, having served as Executive Vice President of Strategy, Business Development and Corporate Operations from January 1997 to October 1999, and from 1992 to 1996 as President of Lucent's Business Communications Systems unit (formerly a unit of AT&T Corp., now Avaya Inc.). She joined AT&T in 1981, and held various management and executive positions at AT&T. She is a member of the Board of Trustees of Georgetown University.

[Arthur F. Weinbach PHOTO]

ARTHUR F. WEINBACH
1999

Chairman and Chief Executive Officer of Automatic Data Processing, Inc. (independent computing services). Mr. Weinbach, 60, has been associated with ADP since 1980, assuming his current position in April 1998, having served as President and Chief Executive Officer since 1996 and President and Chief Operating Officer since 1994. Mr. Weinbach serves on the Boards of Directors of First Data Corp. and United Way of Tri-State. He is on the Boards of Trustees of New Jersey Seeds and New Jersey Institute of Technology.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has a standing Audit Committee, Nominating and Corporate Governance Committee and Compensation Committee, each consisting exclusively of independent Directors, as independence is defined in the New York Stock Exchange listing standards and the more restrictive Schering-Plough Board Independence Standard specified in the Corporate Governance Guidelines. Members of the Audit Committee also all meet the independence requirements set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934. The Board of Directors also has a standing Business Practices Oversight Committee and Finance Committee, as well as an Executive Committee which meets as needed. The Charters of the Committees, which have been adopted by the Board, are attached as exhibits to this proxy statement and are also available on Schering-Plough's Web site at www.schering-plough.com. In 2003 there was a standing Pension Committee, and it was disbanded in early 2004.

AUDIT COMMITTEE

MEMBERS: Mr. Weinbach (Chair), Mr. Becherer, Mr. McGrath and Mr. van Oordt

The Board of Directors has determined that Mr. Weinbach meets the SEC requirements for, and has designated him as, the Audit Committee Financial Expert.

NUMBER OF MEETINGS IN 2003: 12

FUNCTIONS:

- Selects the independent auditors, subject to shareholder ratification, and provides oversight of their independence, qualifications and performance

- Assists the Board in its oversight function by monitoring:

  -- the integrity of Schering-Plough's financial statements

  -- the performance of the corporate audit function

  -- compliance by Schering-Plough with legal and regulatory requirements

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

MEMBERS: Ms. Russo (Chair), Mr. Becherer, General Mundy, Mr. Osborne, Ms. Turner and Mr. van Oordt

NUMBER OF MEETINGS IN 2003: 3

FUNCTIONS:

- Assists the Board with Board and Committee structure, function and composition, including identifying nominees (and considers shareholder nominees in accordance with provisions of the By-laws described on page 43)

- Develops and recommends the Schering-Plough Board Independence Standard and Corporate Governance Guidelines (found on page 13 of this proxy statement) to the Board for approval

- Recommends Director compensation and the annual performance review process for the Board and for each Committee

COMPENSATION COMMITTEE

MEMBERS: Mr. Miller (Chair), Mr. Becherer, Mr. Osborne, Ms. Russo and Mr. Weinbach

NUMBER OF MEETINGS IN 2003: 11

FUNCTIONS:

- Discharges the Board's responsibilities relating to the compensation of Officers

- Responsible for the approval, evaluation and administration of executive compensation plans, policies and programs

- Assists the Board regarding equity compensation and incentive plans

BUSINESS PRACTICES OVERSIGHT COMMITTEE

MEMBERS: Mr. van Oordt (Chair), Dr. Leder, Mr. McGrath, General Mundy and Ms. Turner

NUMBER OF MEETINGS IN 2003: 10

FUNCTIONS:

- Assists the Board with oversight of non-financial compliance systems and practices and related management activities, including Good Manufacturing Practices

- Assists the Board with oversight of systems for compliance with Schering-Plough's Business Conduct Policy

- Assists the Board with oversight of regulatory and government affairs and developments regarding material litigation and investigations

FINANCE COMMITTEE

MEMBERS: Mr. Becherer (Chair), Mr. Komansky, General Mundy, Mr. Osborne and Ms. Turner

NUMBER OF MEETINGS IN 2003: none (this Committee was formed on January 27, 2004)

FUNCTIONS:

- Assists the Board with oversight of strategic financial matters

- Assists the Board with oversight of capital structure

- Recommends dividend policy to the Board

Also, the Pension Committee, which was disbanded in early 2004, met 3 times in 2003. During 2003 the members were: Mr. Komansky, Mr. McGrath, Mr. Miller, General Mundy and Ms. Turner.

BOARD MEETINGS AND ATTENDANCE OF DIRECTORS

The Board of Directors held 21 meetings in 2003, including a two-day strategic planning meeting. All Directors attended more than 75% of the aggregate of (i) the total number of meetings of the Board, and (ii) the total number of meetings held by all Committees of the Board on which they served.

DIRECTORS ATTENDANCE AT ANNUAL MEETING OF SHAREHOLDERS

Directors are expected to attend the Annual Meeting of Shareholders unless an emergency makes such attendance imprudent. Since 1990 only one Director has missed one Annual Meeting of Shareholders (due to illness), and all other Directors have attended all Annual Meetings of Shareholders, including the 2003 Annual Meeting at which all ten Directors were present.

DIRECTORS' COMPENSATION

The Board has not increased Directors' compensation since 1999 in light of Schering-Plough's business and financial challenges.

Employee Directors receive no compensation for services rendered in their capacity as Directors. Non-employee Directors receive an annual retainer of $39,000, a fee of $1,000 per meeting for each Board meeting and for each Committee meeting attended, and a $1,000 per diem fee, plus expenses, for special assignments. The Chair of each Committee receives an additional fee of $1,000 for each meeting. Directors may elect to defer until termination of service as a Director all or a portion of such fees under a Directors' Deferred Compensation Plan. Amounts deferred are, at the Director's election, valued as if invested in Schering-Plough Common Shares or in a simple interest fund and are payable in cash, in installments or in a lump sum.

Under the Directors' Deferred Stock Equivalency Program, each non-employee Director is also credited annually with a $25,000 deferred payment in a stock equivalency account, which is valued as if invested in Schering-Plough Common Shares. Upon termination of service as a Director, the value of a Director's deferred account is payable in cash, in installments or in a lump sum, as elected by the Director.

Non-employee Directors also receive an annual award of 2,500 Common Shares under the Directors Stock Award Plan. This plan was amended effective February 25, 2003 to permit Directors to elect to defer the award, in which case Stock Units are awarded and valued as if invested in Schering-Plough Common Shares. The Stock Units are then paid in Common Shares when the deferral period ends.

In November 2002 Mr. Osborne was elected Chairman of the Board upon R. Kogan's resignation from that position. In light of that assignment, effective November 1, 2002, Mr. Osborne began receiving special compensation of $100,000 per month, plus expenses, and stopped receiving other Directors' compensation. This special compensation ceased and Mr. Osborne's compensation reverted to standard Directors' compensation when he ceased serving as Chairman of the Board upon Mr. Hassan's election as Chairman of the Board on April 22, 2003.

CERTAIN TRANSACTIONS

Dr. Leder's son, Ethan Leder, is chief executive officer and the owner of approximately 13% of the equity of United Biosource LLP. In January 2004, United Biosource acquired MedTap International Inc., a provider of pharmacoeconomic analysis and information. Schering-Plough in the past has retained MedTap to provide services in connection with specific pharmacoeconomic projects and may do so in the future. In 2003, Schering-Plough paid MedTap $153,308 for pharmacoeconomic services.

Under the New York Stock Exchange Listing Standards and the more restrictive Schering-Plough Board Independence Standard this matter does not impair Dr. Leder's independence. The Nominating and Corporate Governance Committee and the Board of Directors, after reviewing this matter, have determined that Dr. Leder is independent.

CERTAIN LEGAL PROCEEDINGS AND INDEMNIFICATION OF CURRENT AND FORMER DIRECTORS AND OFFICERS

Several lawsuits are pending that, among other matters, relate to Schering-Plough's disclosures about the actions of the U.S. Food and Drug Administration (FDA) regarding Schering-Plough's compliance with Good Manufacturing Practices, primarily relating to production processes, controls and procedures as well as the related Consent Decree negotiated with the FDA effective May 17, 2002. These lawsuits include:

- Lawsuits alleging violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), and Rule 10b-5. On July 2, 2001, these lawsuits were consolidated into one action in the U.S. District Court for the District of New Jersey and a lead plaintiff, the Florida State Board of Administration, was appointed by the Court. The Court has certified this as a class action consisting of shareholders who purchased shares of Schering-Plough stock between

dates as early as May 9, 2000, and dates relevant to disclosures about the FDA issues. Schering-Plough, certain Officers and certain former Directors and Officers are named as defendants in this matter. The plaintiffs seek damages for the class for having purchased Schering-Plough stock at allegedly inflated prices.

- Two lawsuits that were consolidated into one action on August 20, 2001 in the U.S. District Court for the District of New Jersey allege a failure to disclose material information and breach of fiduciary duty by the Directors in relation to the above matters and certain other legal matters as described in the legal proceedings item of Schering-Plough's 2003 10-K. The plaintiffs are seeking damages on behalf of Schering-Plough, including disgorgement of trading profits made by certain Directors and a former Officer/Director allegedly obtained on the basis of material non-public information.

- On January 2, 2002, Schering-Plough received a demand letter dated December 26, 2001, from a law firm not involved in the derivative actions described above, on behalf of a shareholder who also is not involved in the derivative actions, demanding that the Board of Directors bring claims on behalf of Schering-Plough based on allegations substantially similar to those alleged in the derivative actions. On January 22, 2002, the Board of Directors adopted a board resolution establishing an Evaluation Committee, consisting of three independent Directors (Messrs. McGrath and Miller and Ms. Turner), to investigate, review and analyze the facts and circumstances surrounding the allegations made in the demand letter and the complaint described in the immediately preceding paragraph but reserving to the full Board authority and discretion to exercise its business judgment in respect of the proper disposition of the demand. The Committee engaged independent outside counsel to advise it and met eleven times in 2002 and once in 2003. The Committee issued a report on the findings of its investigation to the independent Directors of the Board in late October 2002. That report determined that the shareholder demand should be refused, and found no liability on the part of any Officers or Directors. In November 2002, the full Board adopted the recommendation of the Evaluation Committee. The plaintiffs seek a recovery on behalf of Schering-Plough and monetary damages.

- In September 2003, the Securities and Exchange Commission and Schering-Plough announced the settlement of the Commission's enforcement proceeding against Schering-Plough and Mr. Kogan regarding meetings with investors the week of September 30, 2002 and other communications. In connection with that settlement, Schering-Plough and Mr. Kogan agreed not to commit future violations of Regulation FD and related securities laws and paid a civil penalty of $1 million. Mr. Kogan paid a civil penalty of $50,000.

- Private plaintiffs have filed several federal putative class action securities litigations relating to Schering-Plough's meetings with investors and other communications which were consolidated on January 10, 2003 in the U.S. District Court for the District of New Jersey against Schering-Plough and Mr. Kogan alleging violations of Sections 10(b) and 20(a) of the Exchange Act, relating to the alleged disclosures made during meetings with investors. The plaintiffs seek recovery for the alleged class of money damages for having purchased Schering-Plough stock at allegedly inflated prices.

- Another putative class action lawsuit against the Schering-Plough Board of Directors was filed on September 25, 2003 in New Jersey State Court alleging breach of fiduciary duty, negligent misrepresentation and fraud relating to the same meetings described above. The plaintiffs seek monetary damages for the alleged class members.

- A lawsuit alleging breach of fiduciary duty was filed on June 3, 2003 in New Jersey State Court against the Board of Directors relating to the announcement that Schering-Plough had received a Target Letter from the U.S. Attorney's office in Boston. The complaint seeks recovery of monetary damages on behalf of Schering-Plough.

- A Consolidated Amended Complaint was filed on October 6, 2003 in U.S. District Court in New Jersey against Schering-Plough, former members of the Board of Directors' Pension Committee, and several current and former Officers and employees, alleging breaches of fiduciary duty under ERISA relating to the decline in Schering-Plough stock in Schering-Plough's 401(k) plan. The action is styled as a putative class action consisting of former employees who owned Schering-Plough stock in their 401(k) plan from as early as January 1, 1998. The plaintiff seeks monetary damages and equitable remedies for the class.

Additional details about these matters are disclosed in Schering-Plough's 10-Ks and 10-Qs and certain 8-Ks filed under the Exchange Act.

All of the named defendants who are current or former Directors or Officers are entitled to indemnification under Schering-Plough's Certificate of Incorporation and By-Laws and New Jersey Corporation Law. In connection with such indemnification they may receive advance payment of counsel fees, subject to an obligation to reimburse Schering-Plough should the outcome of the legal matter be such that indemnification would not be permitted. Mr. Kogan also received payment of legal fees for his counsel in connection with his Retirement Agreement and Employment Agreements, which was required by the terms of those Agreements. In connection with the above legal matters, Schering-Plough paid counsel fees for Mr. Kogan of $177,194 in 2003 (other fees relating to his Retirement Agreement are considered perquisites and included in Column D to the "Summary Compensation Table"). In connection with legal matters relating primarily to the indemnification provisions included in the Sixth Amendment to his Employment Agreement, Schering-Plough paid counsel fees for Mr. Kogan of $82,714.25 in 2002 and $25,021.25 in 2001. In accordance with his agreement, Schering-Plough also paid Mr. Wyszomierski's legal expenses incurred in 2003 relating to claims under his agreement in the amount of $16,888.86. See the description of Mr. Wyszomierski's Agreement under the heading "Matters Regarding Certain Former Officers" on page 25. In connection with investigations by the U.S. Attorney for Massachusetts (disclosed in Schering-Plough's 10-K and 10-Q filings), Mr. Zahn has separate counsel for which Schering-Plough paid $366,432.25 in 2003. Schering-Plough also paid Mr. Zahn's legal expenses incurred in connection with his employment arrangement in the amount of $12,637.95.

In the legal actions described above, all covered individual defendants except Mr. Kogan are represented by outside counsel for Schering-Plough. This arrangement does result in some benefit, however, it is difficult to quantify and Schering-Plough believes that, given the current litigation postures of these lawsuits, it has not incurred any additional expenses as a result of these representations of individuals.

CORPORATE GOVERNANCE

At Schering-Plough, we believe that good corporate governance practices create a solid foundation for achieving our business goals and keeping the interests of our shareholders and other stakeholders in perspective.

Under the leadership of our new Chairman of the Board and CEO, Fred Hassan, Schering-Plough has adopted a new mission -- to earn trust, EVERY day -- and new leader behaviors: shared accountability and transparency, cross-functional teamwork and collaboration, listening and learning, benchmark and continuously improve, coaching and developing others and business integrity.

As a result, we have recently enhanced our governance practices, as reflected in our Corporate Governance Guidelines set forth on page 13 and the Charters of our Board Committees that are attached as exhibits to this proxy statement.

ABOUT THE NOMINATING AND CORPORATE GOVERNANCE COMMITTEE

The Nominating and Corporate Governance Committee is comprised of six independent Directors, as independence is defined in the New York Stock Exchange listing standards and the more restrictive

Schering-Plough Board Independence Standard. The Committee operates under a written Charter adopted by the Board, and a copy of the Charter is attached to this proxy statement as Exhibit B.

One of the Nominating and Corporate Governance Committee's most important functions is identification of Director nominees. The Committee considers nominees from all sources, including shareholders, nominees submitted by other outside parties, and candidates known to current Directors. The Committee also has from time-to-time retained an expert search firm (that is paid a fee) to help identify candidates possessing the minimum criteria and other qualifications identified by the Committee as being desired in connection with a vacancy on the Board. All candidates must meet the minimum criteria for Directors established by the Committee. These criteria are listed in our Corporate Governance Guidelines on page 13 of this proxy statement.

Candidates are evaluated in the same manner no matter who first suggests they be nominated. The candidate's credentials are provided to the Committee by the Corporate Secretary with the advance materials for the next Committee meeting. If any member of the Committee believes the candidate may be qualified to be nominated, the Committee discusses the matter at the meeting. For each candidate who is discussed at a meeting, the Committee decides whether to further evaluate the candidate. Evaluation includes a thorough background check, interaction and interviews with the Committee members and other Directors and discussion about the candidate's availability and commitment. When there is a vacancy on the Board, the best candidate from all evaluated is recommended by the Committee to the full Board to consider for nomination.

Dr. Leder is nominated by the Board for election by the shareholders for the first time this year. Dr. Leder meets the criteria for Director and his many accomplishments as a leader in the medical and scientific community also satisfied the Board's wish to increase the scientific and medical expertise represented on the Board. The Committee identified Dr. Leder based upon the recommendation of Mr. Hassan, Chairman of the Board and CEO, as Dr. Leder and Mr. Hassan served together on the Board of Pharmacia Corporation. Mr. Hassan did not participate in the deliberations of the Board concerning the decision to nominate Dr. Leder.

DIRECTOR INDEPENDENCE

Each independent Director has no material relationship with Schering-Plough.

The Nominating and Corporate Governance Committee and the Board have determined that Mr. Becherer, Dr. Leder, Mr. McGrath, General Mundy, Mr. Osborne, Ms. Russo, Ms. Turner and Messrs. van Oordt and Weinbach are independent under both the New York Stock Exchange listing standards and the more restrictive Schering-Plough Board Independence Standard.

The Nominating and Corporate Governance Committee and the Board have determined that Mr. Hassan is not independent because as Chairman of the Board and Chief Executive Officer of Schering-Plough, he is an Officer and employee of Schering-Plough.

The Nominating and Corporate Governance Committee and the Board have determined that all members of the Audit Committee -- Messrs. Weinbach, Becherer, McGrath and van Oordt -- also are independent pursuant to the requirements of Rule 10A-3(b)(1) under the Securities Exchange Act of 1934.

EXECUTIVE SESSIONS OF THE BOARD OF DIRECTORS

As required in the Corporate Governance Guidelines, the Board periodically meets in executive session without any Director present who is also a member of management. During 2003, the Board held eight such sessions.

Executive sessions are always chaired by a non-management Director. The non-management Directors have determined to rotate this responsibility every six months among the non-management Directors who

Chair Committees of the Board. Currently, Mr. van Oordt, a non-management Director who chairs the Business Practices Oversight Committee, is chairing the executive sessions.

COMMUNICATIONS WITH DIRECTORS

The Board of Directors has adopted a process for shareholders and others to send communications to the Board, the non-management Directors as a group, the current Chair of the Board's executive sessions or other specified individual Directors. All communications are to be sent by mail or by fax care of the Corporate Secretary at Schering-Plough headquarters, addressed as follows:

[Board or Name of Individual Director(s)]
c/o Corporate Secretary
Schering-Plough Corporation
2000 Galloping Hill Road
Kenilworth, New Jersey 07033
Fax (908) 298-7303

The non-management Directors have directed the Corporate Secretary to screen the communications. First, communications sent by mail are subject to the same security measures as other mail coming to Schering-Plough, which may include x-ray, scanning, etc. Next, the Board has directed the Corporate Secretary and his staff to read all communications and to discard communications having nothing to do with Schering-Plough or the Board. All other communications are to be promptly passed along to the addressee(s). Further, the Corporate Secretary's staff is to retain a copy in the corporate files and to provide a copy to other Directors, members of management and third parties as appropriate. For example, if a communication were about auditing or accounting matters, the policy established by the Audit Committee provides that Audit Committee members also would receive a copy, as would the head of Corporate Audits, and in certain cases, the independent auditors.

Anyone who wishes to contact the Audit Committee to report complaints or concerns about accounting, internal accounting controls or auditing matters, may do so anonymously by using the above procedure.

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

Schering-Plough Corporation is committed to the patients who use our products -- through the innovative discovery, development and marketing of new therapies and treatment programs that can improve their health and extend their lives -- while providing solid long-term performance to shareholders. Schering-Plough has long recognized good corporate governance as one key to achieving its commitment, first adopting its Statement of Corporate Director Policies in 1971, which among other things required that a majority of the Board be independent.

Schering-Plough's mission is "TO EARN TRUST EVERY DAY." These Corporate Governance Guidelines are fundamental to achieving our mission.

BOARD COMPOSITION AND DIRECTOR QUALIFICATIONS. Directors are recommended for nomination by the Nominating and Corporate Governance Committee and are nominated by the full Board. The Nominating and Corporate Governance Committee annually assesses the needs of the Board and recommends the criteria for selecting new Directors. All nominees must meet the following minimum criteria for Directors:

1. Nominees have the highest ethical character and share the values of Schering-Plough as reflected in the leader behaviors: shared accountability and transparency, cross-functional teamwork and collaboration, listening and learning, benchmark and continuously improve, coaching and developing others and business integrity.

2. Nominees are highly accomplished in their respective field, with superior credentials and recognition.

3. The majority of Directors on the Board are required to be independent as required by the New York Stock Exchange listing standards and the more restrictive Schering-Plough Board Independence Standard set forth below.

4. Nominees are selected so that the Board of Directors represents a diversity of expertise in areas needed to foster Schering-Plough's business success, including science, medicine, finance, manufacturing, technology, commercial activities, international affairs and public service. Nominees are also selected so that the Board of Directors represents a diversity of personal characteristics, including gender, race, ethnic origin and national background.

5. Nominees must indicate they have the time and commitment to provide energetic and diligent service to Schering-Plough. New Directors should be willing and able to serve at least one three-year term prior to the mandatory retirement age of 72.

The Nominating and Corporate Governance Committee considers shareholder nominees for Director and bona fide candidates for nomination that are submitted by other third parties. Directors offer to resign, and are re-evaluated, when they have changes in employment or Board memberships at other companies. Directors notify the Chair of the Nominating and Corporate Governance Committee in advance of a change in their Committee assignments at other companies.

SCHERING-PLOUGH BOARD INDEPENDENCE STANDARD. If a Director is to be classified as independent, he or she must meet the independence requirements in the New York Stock Exchange corporate governance listing standards and the following, more restrictive categorical standard, called the "Schering-Plough Board Independence Standard":

1. A Director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, Schering-Plough for property which, in any single fiscal year, exceeds the greater of $500,000 or 2% of such other company's consolidated gross revenues, is not "independent" until three years after falling below such threshold.

2. Directors are independent of any particular constituency and are able to represent all shareholders of Schering-Plough.

3. In the event that a Director is an executive officer or an employee, or his/her immediate family member is an executive officer, of a charitable organization that receives payments from Schering-Plough which, in any single fiscal year, exceed the greater of $500,000 or 2% of the charitable organization's gross revenues, such payments will be disclosed in the proxy statement.

4. A Director who was, or whose immediate family member was:

a. an Executive Officer of Schering-Plough, or

b. affiliated with or employed by the independent auditor, or

c. an executive officer of another company where any of Schering-Plough's current executives serve on that company's compensation committee will not be independent until four years after the end of such relationship.

In this Standard, "immediate family" shall have the meaning provided in the New York Stock Exchange corporate governance listing standards (general commentary to Section 303A.02(b)).

All Audit Committee members must meet the above Standard plus the additional independence requirements in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934.

BOARD FUNCTION AND DIRECTOR RESPONSIBILITIES. The Chairman sets the agenda for Board meetings, in consultation with Committee chairs and other Directors as appropriate. The frequency and length of meetings is determined based upon the business to be conducted, but the Board will meet at least six times per year. The non-management Directors hold regularly scheduled executive sessions and additional unscheduled executive sessions as desired. A non-management Director chairs the executive sessions.

Advance materials are provided before meetings.

The Board takes an active role with senior management regarding strategic planning and business development. All members of senior management participate in portions of meetings of the Board and Committees. Upon request, Directors have access to any employee of Schering-Plough and any of Schering-Plough's information.

There is an orientation program for new Directors. Ongoing Director education about issues facing Schering-Plough and the industry is provided as needed.

The Board retains outside advisors as it deems appropriate.

COMMITTEE COMPOSITION AND FUNCTION. The Nominating and Corporate Governance Committee recommends to the Board the optimal structure and functions of the standing Committees of the Board, as well as individual Committee assignments. The following standing Committees are comprised solely of independent Directors:

- Audit Committee,

- Compensation Committee, and

- Nominating and Corporate Governance Committee.

The Board has three other standing Committees: the Business Practices Oversight Committee, the Finance Committee and the Executive Committee.

Each Committee has a charter. The Chair of each Committee sets the agenda and determines the frequency and length of meetings. Each Committee holds executive sessions as required and more frequently as the Committee determines.

Each Committee retains outside advisors as it deems appropriate.

BOARD COMPENSATION. All Directors own shares of Schering-Plough common stock. The Nominating and Corporate Governance Committee annually reviews Director compensation and makes recommendations to the full Board as to the amount of compensation and the form of compensation which may include cash, stock and/or equity-based awards.

BOARD AND COMMITTEE PERFORMANCE EVALUATIONS. The Board and the standing Committees each perform an annual self-evaluation. The Nominating and Corporate Governance Committee provides oversight to ensure that the process is completed each year. That Committee also periodically re-examines these Corporate Governance Guidelines and recommends changes to the Board.

MANAGEMENT SUCCESSION. One of the Board's most important functions is ensuring sound management of Schering-Plough. The Compensation Committee assists the Board with succession planning and human resource development, with special focus on Chief Executive Officer succession.

COMPLIANCE AND ETHICS. The composition and functions of the Board and each Committee meet all requirements of the New York Stock Exchange and other applicable laws and regulations.

The Board and its Committees are responsible for oversight of the processes designed by senior management regarding compliance, including with Schering-Plough's Business Conduct Policy for all employees, the Schering-Plough Board of Directors Code of Business Conduct and Ethics and the Code of Ethics for Senior Financial Executives for the Chief Executive Officer, the Chief Financial Officer and the Controller. These Codes articulate Schering-Plough's commitment to ethical standards and to compliance with all applicable laws and regulations. Each of these Codes is available on the Schering-Plough Web site.

The Board has established the Business Practices Oversight Committee, which has the sole purpose of oversight of non-financial compliance matters.

Schering-Plough's reputation is a valuable asset and compliance programs also stress preservation of reputation and good corporate citizenship, through consideration of the concerns of the patients who use our products, our shareholders, our employees and the communities where our operations are located.

NO REPRICING WITHOUT SHAREHOLDER APPROVAL. Schering-Plough will not directly or indirectly reprice any stock option unless prior shareholder approval is obtained.

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STOCK OWNERSHIP

STOCK OWNERSHIP OF DIRECTORS AND OFFICERS

Set forth below is information with respect to beneficial ownership of Schering-Plough Common Shares as of March 5, 2004 by each Director, certain Executive Officers and by all Schering-Plough Directors and Executive Officers as a group:

NAME	NUMBER OF COMMON SHARES(A)
Hans W. Becherer..........	19,900
Fred Hassan...............	1,103,500(b)
David H. Komansky.........	8,750
Philip Leder, M.D.	1,250
Eugene R. McGrath.........	11,662
Donald L. Miller..........	15,301
Carl E. Mundy, Jr.	15,866
Richard de J. Osborne.....	69,335
Patricia F. Russo.........	19,800
Kathryn C. Turner.........	5,108
Robert F. W. van Oordt....	13,500
Arthur F. Weinbach........	8,750
Joseph C. Connors.........	1,350,637(b)(c)
Carrie S. Cox.............	100,000
Raul E. Kohan.............	448,466(b)
Cecil B. Pickett..........	708,730(b)
Richard W. Zahn...........	786,972(b)
Jack L. Wyszomierski......	1,114,048(b)(d)
Richard Jay Kogan.........	2,007,695(b)(d)
All Directors and Executive Officers as a group including those above(23)..............	8,070,490(b)(c)

STOCK EQUIVALENTS OWNERSHIP OF DIRECTORS

The following table sets forth the number of Common Share equivalents credited as of March 5, 2004 to the accounts of Schering-Plough's participating non-employee Directors under the Directors' Deferred Compensation Plan and under the Directors' Deferred Stock Equivalency Program, including dividends credited, rounded to the nearest whole number. Under both, payments are made in cash following termination of service as a Director based on the market value of Schering-Plough Common Shares at that time. For additional information, see "Directors' Compensation" on page 9.

Hans W. Becherer..................	30,399
David H. Komansky.................	12,073
Philip Leder, M.D.	1,717
Eugene R. McGrath.................	15,355
Donald L. Miller..................	5,498
Carl E. Mundy, Jr.	8,582
Richard de J. Osborne.............	12,823
Patricia F. Russo.................	24,020
Kathryn C. Turner.................	3,718
Robert F. W. van Oordt............	61,315
Arthur F. Weinbach................	17,280
Total.............................	192,780

(a) The total for each individual, and for the group of all Directors and Executive Officers (23 persons), is less than one percent of the outstanding Common Shares (including shares which could be acquired within 60 days of March 5, 2004 through the exercise of outstanding options or the distribution of shares under the Stock Incentive Plans). The information shown is based upon information furnished by the respective Directors and Executive Officers.

(b) Includes shares which could be acquired within 60 days of March 5, 2004 through the exercise of employee stock options as follows: Mr. Hassan (600,000); Mr. Connors (1,185,227); Mr. Kohan (430,914); Dr. Pickett (640,201); Mr. Zahn (786,967); Mr. Wyszomierski (993,967); Mr. Kogan (1,546,000); all Directors and Executive Officers as a group (6,409,710).

(c) Does not include 29,187 shares owned by family members and as to which beneficial ownership is disclaimed by Mr. Connors.

(d) No longer Executive Officers. Direct stock ownership verified as of the date they were no longer subject to Section 16 filing requirements; Mr. Wyszomierski (12/3/03) and Mr. Kogan (4/21/03).

STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Set forth below is certain information with respect to those persons who are known to Schering-Plough to own beneficially more than five percent of the outstanding Schering-Plough Common Shares, as of March 5, 2004.

NAME AND ADDRESS OF BENEFICIAL OWNER	COMMON SHARES BENEFICIALLY OWNED	PERCENT OF CLASS

Wellington Management Company, LLP(a)................ 75 State Street Boston, MA 02109	94,028,996	6.4%
Dodge & Cox(b)....................................... One Sansome Street 35th Floor San Francisco, CA 94104	79,706,603	5.4%

(a) As reported on Schedule 13G filed with the Securities and Exchange Commission on February 12, 2004, Wellington Management Company, LLP, through one of its subsidiaries, has (i) sole voting power as to none of the shares and shared voting power as to 39,742,350 of the shares and (ii) sole dispositive power as to none of the shares and shared dispositive power as to all 94,028,996 of the shares.

(b) As reported on Schedule 13G filed with the Securities and Exchange Commission on February 17, 2004, Dodge & Cox has (i) sole voting power as to 74,926,467 of the shares and shared voting power as to 772,100 of the shares and (ii) sole dispositive power as to 79,706,603 of the shares and shared dispositive power as to none of the shares.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Directors, Officers and beneficial owners of more than 10% of our Common Shares are required by Section 16(a) of the Exchange Act and related regulations to file ownership reports on Forms 3, 4 and 5 with the Securities and Exchange Commission and the New York Stock Exchange and to furnish us with copies of the reports.

Schering-Plough believes that all required Section 16(a) reports were timely filed in 2003, except that Messrs. Gingerella, Kelly, Lemma, Moore, Nichols, Wyszomierski and Zahn and Ms. Foster each had one Form 4 reporting one transaction that was filed one day late due to computer difficulties at Schering-Plough. Schering-Plough's belief is based solely upon a review of:

- Forms 3 and 4 filed during 2003, Forms 5 relating to 2003, and amendments to those Forms, and

- representation letters from those who did not file a Form 5 stating that no Form 5 was due.

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EXECUTIVE COMPENSATION

The following table sets forth compensation of the five most highly compensated Executive Officers of Schering-Plough, including the Chief Executive Officer, for the fiscal year ended December 31, 2003 ("Fiscal 2003"), as well as the compensation of the former Chief Executive Officer and President of Schering-Plough and two other former Executive Officers.

SUMMARY COMPENSATION TABLE

LONG-TERM COMPENS

		ANNUAL COMPENSATION			AWARDS	
NAME AND PRINCIPAL POSITION IN 2003*	YEAR	SALARY	BONUS(C)	OTHER ANNUAL COMPENSATION(D)	RESTRICTED STOCK AWARDS(E)	SECU UNDE OPT
Fred Hassan..................	2003	$1,046,154(b)	$ -0-	$ 349,156	$3,486,000	900
Chairman of the Board,	2002	--	--	--	--	
Chief Executive Officer	2001	--	--	--	--	
and President(a)						
Joseph C. Connors............	2003	$ 647,000	-0-	--	$ 190,281	246
Executive Vice President	2002	582,000	$ 38,000	--	827,812	138
and General Counsel	2001	542,000	-0-	--	934,767	138
Carrie S. Cox................	2003	$ 565,962	$452,770	--	$1,850,000	450
Executive Vice President	2002	--	--	--	--	
and President, Global	2001	--	--	--	--	
Pharmaceuticals(g)						
Raul E. Kohan................	2003	$ 386,000	-0-	--	$ 242,760	59
President, Animal Health and	2002	--	--	--	--	
Group Head, Global						
Specialty	2001	--	--	--	--	
Operations(h)						
Cecil B. Pickett, Ph.D	2003	$ 699,500	-0-	--	$ 297,024	253
Vice President and President,	2002	626,500	$ 55,000	--	651,984	47
Schering-Plough Research	2001	428,375	150,500	--	752,940	47
Institute						
Richard W. Zahn..............	2003	$ 500,000	-0-	--	$ 75,773	144
Former President,	2002	485,000	$ 26,500	--	411,998	90
Schering Labs(i)	2001	462,000	-0-	--	465,381	90
Jack L. Wyszomierski.........	2003	$ 647,000	-0-	--	$ 190,281	246
Former Executive Vice						
President	2002	555,000	$ 36,500	--	827,812	138
and Chief Financial Officer	2001	515,000	-0-	--	934,767	138
Richard Jay Kogan............	2003	$ 433,583	$ -0-	$ 380,159	$ --	
Former Chief Executive						
Officer	2002	1,430,000	-0-	92,573	3,614,350	368
and President(k)	2001	1,430,000	-0-	87,460	4,081,295	368

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* Robert Bertolini joined Schering-Plough as Executive Vice President and Chief Financial Officer on November 17, 2003 and is one of Schering-Plough's most senior executives. Although he is not included in the Summary Compensation Table because he had only 1 1/2 months of pay in 2003, information about his employment agreement is included under "Employment and Change of Control Agreements."

(a) Mr. Hassan was named Chief Executive Officer and President on April 20, 2003, and was elected Chairman of the Board on April 22, 2003.

(b) Includes a portion of salary deferred at the election of Mr. Hassan.

(c) Although Mr. Hassan satisfied the personal performance goals set by the Board necessary to receive a bonus for 2003, in light of the serious situation facing Schering-Plough, Mr. Hassan waived his

incentive bonus for 2003. Since Schering-Plough did not meet the performance goals set forth in a pre-established formula for 2003, no incentive bonuses were paid to Messrs. Connors and Kohan, Dr. Pickett or Messrs. Zahn and Wyszomierski. The amount shown was paid to Ms. Cox in lieu of a performance-based bonus for 2003 as required by her employment agreement. Mr. Kogan was not eligible for a 2003 bonus. See "Annual Incentive Bonus" on page 31.

(d) Includes perquisites, except where the total for a named executive is less than the threshold requiring disclosure. Perquisites provided to some or all of the named executives are as follows: financial planning, tax preparation, personal use of company-owned aircraft, installation and operation of home security systems, personal security services and payment of legal fees for negotiation of terms of employment and retirement agreements (excludes legal fees relating to indemnification which are disclosed under "Certain Legal Proceedings and Indemnification of Current and Former Directors and Officers" on page 9).

For information about our security policies and our executive use of company owned aircraft, as well as a newly developed methodology we use to calculate the incremental cost of the personal use of company-owned aircraft, see "Our Security Policies and How We Value The Use of Corporate Aircraft" on page 20.

For Mr. Hassan, the amount shown includes $90,000 for legal fees, $104,240.57 for his home security system and $116,275 for personal security services.

For Mr. Kogan for 2003, perquisites also include the renovation and furnishing of an office away from Schering-Plough property ($97,879), provision of secretarial support at that office ($105,256) and other items, all as required by his Retirement Agreement. The table also includes Mr. Kogan's personal use of company-owned aircraft for 2002 ($61,707) and for 2001 ($77,518), as recalculated under the newly developed methodology.

Does not include the personal use of company-owned cars driven by company personnel. The company makes one car and driver available to Mr. Hassan. The other named executives use cars and drivers from a pool. The executives use the cars primarily for business purposes, and the cars are also used by other company personnel for business purposes. The total annual cost to Schering-Plough of one car and driver is estimated to be $155,000.

(e) Under the terms of his employment agreement, Mr. Hassan received 200,000 restricted stock awards in 2003, which grant was not subject to the attainment of performance goals and is included in the table at fair market value on the date of grant. The value of those shares as of December 31, 2003 was $3,478,000. Under the terms of her employment agreement, Ms. Cox received 100,000 restricted shares, which grant was not subject to the attainment of performance goals and is included in the table at fair market value on the date of the grant. The value of these shares as of December 31, 2003 was $1,739,000.

For 2003, Mr. Connors, Dr. Pickett and Messrs. Zahn and Wyszomierski each received performance stock awards which were granted as phantom stock units. These units vest and become distributable to the executive only upon, and to the extent of, the achievement of applicable corporate performance goals. Because the corporate performance goals were not fully satisfied, only approximately 24.1% of the 2003 performance stock award grant to such executives vested as follows: Dr. Pickett, 16,640 shares out of a total of 69,000 shares; Mr. Connors, 10,660 shares, out of a total of 44,200 shares and Mr. Zahn, 4,245 out of a total of 17,600 shares. The amounts shown in the table for these executives represents the approximately 24.1% of the award that vested, valued at the share price on the award grant date. The remainder of these awards did not vest and were forfeited. The vested portion of the awards are generally distributed in five equal annual installments. Upon the termination of his employment effective December 31, 2003, Mr. Wyszomierski forfeited all 44,200 shares of restricted stock related to 2003 performance goals as well as 23,658 shares relating to other undistributed restricted stock awards.

In 2003, Mr. Kohan was granted a deferred stock unit award before he became an Executive Officer which was not subject to attainment of performance goals and is distributable over a 5-year period. This award is shown in the table valued at the share price on the award grant date.

At December 31, 2003, the total number and value of vested but undistributable shares was 67,858 shares ($1,180,051) for Mr. Connors, 27,200 shares ($473,008) for Mr. Kohan, 87,800 shares ($1,526,842) for Dr. Pickett, and 29,376 shares ($510,849) for Mr. Zahn.

Cash equivalent to the amount of all dividends paid on the Common Shares is paid on all shares of restricted stock and all phantom stock units before they are distributed or forfeited.

(f) For each of the named executives other than Messrs. Kohan, Wyszomierski and Kogan, the amount shown for 2003 represents the cost of medical and dental insurance. For Mr. Kohan, the amount represents $14,926 for medical and dental insurance and $23,925 for life insurance paid by Schering-Plough on his behalf before Mr. Kohan became an Executive Officer. See notes (j) and (l) regarding the amounts shown for Messrs. Wyszomierski and Kogan.

(g) Ms. Cox assumed her present position on May 15, 2003.

(h) Mr. Kohan did not serve as an Executive Officer of Schering-Plough prior to 2003, therefore his pre-2003 compensation from Schering-Plough is not included in the Summary Compensation Table.

(i) Mr. Zahn's employment with Schering-Plough has continued although his position was eliminated in 2003. Mr. Zahn ceased serving as an Executive Officer on December 4, 2003.

(j) Mr. Wyszomierski's employment terminated effective December 31, 2003. The amount shown for him consists of $14,926 for the cost of medical and dental insurance, $3,284,750 paid as severance pay upon his termination of employment pursuant to the supplement to his employment agreement with Schering-Plough dated as of January 1, 2002 and $400,000 to be paid in resolution of certain claims under his agreement.

(k) Mr. Kogan retired from the positions of Chief Executive Officer and President on April 20, 2003. He had previously resigned the position of Chairman of the Board on November 13, 2002.

(l) For Mr. Kogan, the amount shown consists of $8,982 for the cost of medical and dental insurance, $670,813 paid for unused vacation, $97,887.50 for executive life insurance for the period during 2003 following his retirement, and $12,062 representing the difference between the amount actually paid to Mr. Kogan as the pro-rata bonus portion of the severance payment to which he was entitled pursuant to his Retirement Agreement and the amount estimated and reported in the 2003 proxy statement in respect of such pro-rata bonus (which amount is shown on the 2002 line of this column). See the description of Mr. Kogan's Retirement Agreement and these payments under the heading "Matters Regarding Certain Former Officers" on page 25.

Also, does not include certain payments to Mr. Kogan under Schering-Plough's retirement plans which payments are disclosed under "Pension Plan Information" on page 28 as well as "Matters Regarding Certain Former Officers" on page 25.

OUR SECURITY POLICIES AND HOW WE VALUE THE USE OF CORPORATE AIRCRAFT

During 2003, Schering-Plough owned and operated two aircraft and a helicopter (together, company-owned aircraft). Schering-Plough owns the company-owned aircraft for the purpose of facilitating business travel of senior executives in as safe conditions as possible and with the best use of their time.

Generally, pilots who are salaried employees of Schering-Plough fly the company-owned aircraft, although on occasion temporary pilots are also used. Our CEO has been directed by the Board to use the company-owned aircraft for all travel. We believe this provides several business benefits to Schering-Plough. First, the policy is intended to ensure the personal safety of Mr. Hassan, who maintains a significant public role as the leader of Schering-Plough. Second, the policy is intended to ensure his availability and to maximize the time available for Schering-Plough business. Certain of the other named executives (and other key executives) use the company-owned aircraft for business travel, and on occasion for personal travel.

In past proxy statements, Schering-Plough calculated the cost of the personal use of company-owned aircraft using the Standard Industrial Fare Level (SIFL) tables found in the tax regulations. Earlier this year, Schering-Plough engaged a third party consultant to study the cost of travel by company-owned

aircraft as part of its cost savings initiative. Schering-Plough reviewed the methodology developed by the consultant with another independent party, which advised Schering-Plough that the methodology is a reasonable method of calculating the incremental cost to Schering-Plough of the personal use of company-owned aircraft. The methodology calculates the incremental cost based on the average weighted cost of fuel, crew hotels and meals, on-board catering, trip-related maintenance, landing fees, trip-related hangar/parking costs and smaller variable costs. Since the company-owned aircraft are used primarily for business travel, the methodology excludes the fixed costs which do not change based on usage, such as pilots' salaries, the purchase costs of the company-owned aircraft and the cost of maintenance not related to trips.

Schering-Plough used this newly developed methodology to calculate the incremental cost of personal use of the company-owned aircraft for 2003 and determined that it produces higher amounts than use of the SIFL calculation method. As a result, in the Summary Compensation Table, Schering-Plough also used this newly developed methodology to calculate the incremental cost of personal use of company-owned aircraft in 2002 and 2001. Schering-Plough included such disclosures in the "Other Annual Compensation" column in the Summary Compensation Table for 2002 and 2001 whenever use of the new methodology produced a total perquisite amount in excess of the disclosure threshold. Schering-Plough retained the third party to apply the methodology to calculate the personal use of company-owned aircraft for each named executive for 2003, 2002, and 2001.

EMPLOYMENT AND CHANGE OF CONTROL ARRANGEMENTS

Mr. Hassan's Agreement. In April 2003, Schering-Plough entered into an employment agreement with Mr. Hassan. His agreement provides for his employment as Chief Executive Officer of Schering-Plough through December 31, 2005. The terms of his employment automatically extend for additional successive one-year periods until December 31, 2010 unless Mr. Hassan or Schering-Plough elects to terminate the agreement at least 90 days prior to the end of any of his employment periods. Mr. Hassan's agreement also provides for a three year extension of his employment period in the event of a change of control. Under his agreement, Mr. Hassan will receive an annual base salary of at least $1,500,000. He will be eligible to receive annual cash incentive awards in accordance with Schering-Plough's cash bonus plans, as well as Schering-Plough's other executive benefit and incentive plans. Upon joining Schering-Plough, Mr. Hassan received 200,000 shares of restricted stock that vest on the third anniversary of his employment and an option to purchase 900,000 shares of Common Stock that vests as to 600,000 shares on the first anniversary of his employment and 150,000 shares on each of the second and third anniversaries of his employment. He may also receive future grants under Schering-Plough's stock incentive program consistent with other senior executives and competitive pay practices generally. His employment agreement also provides for his participation in all employee compensation plans and welfare benefit plans generally available to Schering-Plough's other senior executives. Mr. Hassan also will receive reimbursement of all reasonable business expenses, fringe benefits (including security services and the use of Schering-Plough's private transportation services), office and support staff and vacation benefits in accordance with Schering-Plough's plans, policies, and practices and in a manner comparable to other senior executives.

Mr. Hassan's employment agreement also provides that if his employment is terminated by reason of his death or disability, he or his estate or his beneficiary will be entitled to receive a payment equal to (1) his base salary through the date of termination of his employment to the extent not paid; (2) any compensation previously deferred and due upon his termination of employment; (3) any accrued vacation pay; and (4) any unreimbursed expenses. In addition, the option and restricted stock awards granted to Mr. Hassan upon his commencement of employment will fully vest upon his termination of employment due to death or disability. Upon termination of employment due to disability, Mr. Hassan and his family shall also continue to receive welfare benefits for three years after termination. Under his agreement, if Schering-Plough terminates Mr. Hassan's employment without cause, if he terminates employment for good reason, or if he resigns during the one-month "window" period one year after a change of control of Schering-Plough, Mr. Hassan will be entitled to receive (1) a cash payment equal to his base salary through the date of termination of employment to the extent not paid, any compensation previously

deferred and due upon his termination of employment, any accrued vacation pay, and any unreimbursed expenses; (2) a pro-rata bonus payment based upon the greater of the highest annual bonus paid in the three most recent fiscal years or the target annual bonus then in effect; (3) a severance payment equal to three times the sum of (a) his annual base salary, (b) his highest annual bonus paid in the three most recent fiscal years, and (c) the amount of the contribution by Schering-Plough on his behalf under Schering-Plough's qualified and nonqualified profit-sharing plans; (4) continued welfare benefits for at least three years following termination; (5) full vesting of the option and restricted stock awards granted to him at the time of his employment; and (6) a minimum benefit under Schering-Plough's supplemental executive retirement plan equal to 32% of Mr. Hassan's average final earnings calculated as if his employment continued through December 31, 2010 and without reduction for early payment. Mr. Hassan's agreement gives him the right to terminate for good reason and receive the benefits described in the immediately preceding sentence if Schering-Plough gives him notice of its election to terminate or otherwise not extend his employment at any time before December 31, 2010. The amount of Mr. Hassan's severance payment under his employment agreement will be either reduced by the amount due Mr. Hassan under any other severance program of Schering-Plough or paid in full in lieu of any such other severance payment. Mr. Hassan will also receive a gross-up payment to the extent any payment would constitute an excess parachute payment under the Internal Revenue Code.

Mr. Bertolini's Agreement. In November 2003, Schering-Plough entered into an employment agreement with Mr. Bertolini that provides for his employment as Executive Vice President and Chief Financial Officer of Schering-Plough. Under his agreement, Mr. Bertolini will receive an annual base salary of at least $775,000. Mr. Bertolini's annual incentive opportunity is targeted at 70% of his base salary, and he is entitled to receive a bonus guaranteed at target for 2004 unless his performance for 2004 is substantially inadequate. He will be eligible to receive annual cash incentive awards in accordance with Schering-Plough's cash bonus plans, as well as Schering-Plough's other executive benefit and incentive plans. Upon joining Schering-Plough, Mr. Bertolini received 65,000 shares of restricted stock that vest on the third anniversary of the grant date and an option to purchase 350,000 shares of Common Stock that vests in three equal annual installments beginning one year from the date of grant. He may also receive future grants under Schering-Plough's stock incentive program consistent with other senior executives and competitive pay practices generally. Mr. Bertolini also received a $100,000 commencement bonus and a payment of $266,521 representing certain tax liabilities that Mr. Bertolini incurred as a result of his leaving his prior employer to join Schering-Plough. His employment agreement also provides for his participation in all employee compensation plans and welfare benefit plans generally available to Schering-Plough's other senior executives. Mr. Bertolini will also receive reimbursement of all reasonable business expenses, fringe benefits (including security services and the use of Schering-Plough's private transportation services), office and support staff and vacation benefits in accordance with Schering-Plough's plans, policies, and practices and in a manner comparable to other senior executives.

Upon commencing employment with Schering-Plough, Mr. Bertolini became a participant in Schering-Plough's Supplemental Executive Retirement Plan (SERP). His agreement provides that he will receive an additional 20 years of benefit service under the SERP that will vest upon his fifth anniversary of employment with Schering-Plough. Mr. Bertolini's SERP benefit will be offset by his retirement benefits from the qualified and non-qualified defined benefit retirement plans of Schering-Plough and of any and all of his former employers. In the event that Mr. Bertolini voluntarily terminates his employment after attaining age 50, Schering-Plough will provide him with a special retirement benefit equal to the difference between the estimated annual retirement benefit that he would have received at such age from his former employer reduced by his benefits under Schering-Plough's qualified and non-qualified defined benefit retirement plans, including his SERP benefit.

If Schering-Plough terminates Mr. Bertolini's employment without cause or if he terminates employment for good reason, he will be entitled to receive a lump sum payment equal to three times his base salary and annual bonus calculated at target. The amount of his severance payment will be offset by the amount due Mr. Bertolini under any other severance program of Schering-Plough. In addition, his outstanding stock options and restricted stock awards will fully vest. Schering-Plough will also provide him

with a fully vested unreduced SERP benefit (calculated including the 20 years of additional credited benefit service described in the preceding paragraph) payable at age 55 without reduction for early retirement (or, at Mr. Bertolini's election, payable earlier than age 55 with the application of actuarial assumptions). This fully vested unreduced SERP benefit is also provided upon his termination due to death or disability.

If, following a change in control, Schering-Plough terminates Mr. Bertolini's employment without cause, or if he terminates employment for good reason, or if he resigns during the one month "window" period one year after a change in control of Schering-Plough, he will be entitled to receive (1) a cash payment equal to his base salary through the date of termination of employment to the extent not paid, any compensation previously deferred and due upon his termination of employment, any accrued vacation pay, and any unreimbursed expenses; (2) a pro-rata bonus payment based upon the greater of the highest annual bonus paid in the three most recent fiscal years or the target annual bonus then in effect; (3) a severance payment equal to three times the sum of (a) his annual base salary, (b) his highest annual bonus paid in the three most recent fiscal years, and (c) the amount of the highest contribution by Schering-Plough on his behalf under Schering-Plough's qualified and nonqualified profit-sharing plans made in the three years preceding his termination date; (4) a lump sum supplemental pension amount based on three years of deemed employment or to age 65, if sooner; (5) continued welfare benefits following termination for a period of at least three years; (6) full vesting of the option and restricted stock awards; (7) his SERP benefit calculated without application of any reduction factors if he is at least age 50 or, if his termination occurs prior to his reaching age 50, Mr. Bertolini will be entitled to a SERP benefit reduced for each year prior to this 50th birthday by the same annual reduction factors as are applicable under the SERP's pre-age 62 early retirement reduction schedule; and (8) if he is at least age 45 as of his termination date, he will be entitled to retiree medical coverage following the end of his other welfare benefit coverage provided by Schering-Plough. Mr. Bertolini will also receive a gross-up payment to the extent that any payment would constitute an excess parachute payment under the Internal Revenue Code.

Ms. Cox's Agreement. In May 2003, Schering-Plough entered into an employment agreement with Ms. Cox. Her agreement provides for her employment as Executive Vice President and President, Global Pharmaceuticals, through May 31, 2008. The terms of her employment automatically extend for additional successive one-year periods until October 1, 2022, unless either party to her agreement elects to terminate the agreement at least 90 days prior to the end of any of her employment periods. Ms. Cox's agreement also provides for a three-year extension of her employment period in the event of a change of control. Under her agreement, Ms. Cox will receive an annual base salary of at least $900,000. She will be eligible to receive annual cash incentive awards in accordance with Schering-Plough's cash bonus plans, as well as Schering-Plough's other executive benefit and incentive plans. Ms. Cox's agreement also provided her with a guaranteed minimum 2003 bonus equal to 80% of the base salary she received in 2003. Upon joining Schering-Plough, Ms. Cox received 100,000 shares of restricted stock that vests on the third anniversary of her employment agreement, and an option to purchase 450,000 shares of Common Stock with a grant date of May 14, 2003, that vest as to 150,000 shares on each of the first, second and third anniversaries of the grant date. She may also receive future grants under Schering-Plough's stock incentive program consistent with other senior executives and competitive pay practices generally. Her employment agreement also provides for her participation in all employee compensation plans and welfare benefit plans generally available to Schering-Plough's other senior executives. Ms. Cox will also receive reimbursement of all reasonable business expenses, fringe benefits (including security services and the use of Schering-Plough's private transportation services), office and support staff and vacation benefits in accordance with Schering-Plough's plans, policies, and practices and in a manner comparable to other senior executives.

Ms. Cox's employment agreement also provides that if her employment is terminated by reason of her death or disability, she or her estate or her beneficiary will be entitled to receive a payment equal to (1) her base salary through the date of termination of her employment to the extent not paid; (2) any compensation previously deferred and due upon her termination of employment;

(3) any accrued vacation

pay; and (4) any unreimbursed expenses. In addition, the option and restricted stock awards granted to Ms. Cox upon her commencement of employment will fully vest upon her termination of employment due to death or disability. Upon termination of employment due to disability, Ms. Cox and her family shall also continue to receive welfare benefits for two years after termination. Under the agreement, if Schering-Plough terminates Ms. Cox's employment without cause, if she terminates employment for good reason, or if she resigns during the one-month "window" period one year after a change of control of Schering-Plough, Ms. Cox will be entitled to receive (1) a cash payment equal to her base salary through the date of termination of employment to the extent not paid, any compensation previously deferred and due upon her termination of employment, any accrued vacation pay, and any unreimbursed expenses; (2) a pro-rata bonus payment based upon the greater of the highest annual bonus paid in the three most recent fiscal years or the target annual bonus then in effect; (3) a severance payment equal to two times the sum of (a) her annual base salary, (b) her highest annual bonus paid in the three most recent fiscal years, and (c) the amount of the contribution by Schering-Plough on her behalf under Schering-Plough's qualified and nonqualified profit-sharing plans; (4) continued welfare benefits for at least two years following her termination; (5) full vesting of the option and restricted stock awards granted to Ms. Cox at the time of her employment; and (6) a minimum benefit under Schering-Plough's supplemental executive retirement plan equal to 26% of Ms. Cox's average final earnings calculated using average final earnings as defined in the supplemental executive retirement plan and modified by her employment agreement. Ms. Cox's agreement gives her the right to terminate for good reason and receive the benefits described in the immediately preceding sentence if Schering-Plough gives her notice of its election to terminate or otherwise not extend her employment at any time before October 1, 2022. Ms. Cox will also receive a gross-up payment to the extent that any payment would constitute an excess parachute payment under the Internal Revenue Code.

Dr. Pickett and Messrs. Connors, Kohan and Zahn Agreements. Dr. Pickett and Messrs. Connors, Kohan and Zahn each are party to an agreement with Schering-Plough that triggers an employment period of three years or to age 65, if sooner, upon a Change of Control or upon a termination of employment by Schering-Plough in anticipation of a Change of Control (Mr. Wyszomierski had a similar agreement in place prior to the termination of his employment effective December 31, 2003). During the employment period, the agreement provides that the executive is entitled to receive an annual base salary at his highest rate during the twelve months prior to the Change of Control and an annual bonus equal to his highest bonus for the three years prior to the Change of Control. If his employment is terminated during the employment period (i) by Schering-Plough other than for cause or disability or (ii) by the executive for good reason or during a 30-day period following the first anniversary of the Change of Control or (iii) by Schering-Plough without cause in anticipation of a Change of Control, he is entitled to receive a lump sum equal to three times (a) his annual base salary plus (b) the highest of his annual bonuses during the preceding year and the three years prior to the Change of Control plus (c) his highest profit-sharing award during the three years prior to termination. However, if the executive will attain age 65 less than three years from his date of termination, he will receive a proportionately reduced amount. In the event of such a termination of employment, each executive is also entitled to (i) a pro-rata bonus for the year of termination, (ii) a lump sum supplemental pension amount based on three years of deemed employment after termination or to age 65, if sooner, (iii) continued coverage under Schering-Plough's welfare benefit plans for three years or to age 65, if sooner, (iv) retiree medical coverage if termination is at or after attainment of age 45, and (v) supplemental pension payments without reduction for early retirement if termination is at or after age 50. If any payment or distribution by Schering-Plough to the executive is determined to be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code, Schering-Plough will hold him harmless from the excise tax imposed.

Schering-Plough entered into a supplement to the agreement with each of Messrs. Connors, Kohan, Zahn and Wyszomierski that has a term of January 1, 2002 through December 31, 2005 or until the change of control provisions of the agreement become applicable if sooner than December 31, 2005. In each supplement, the executive agrees that he may not engage in any activity competitive with Schering-Plough during his employment and for a period of two (2) years after such executive leaves

Schering-Plough, if he leaves during the term of the supplement because of a termination by Schering-Plough for cause or a termination by him without good reason. Under the supplements, if either Mr. Kohan or Mr. Zahn is terminated during the term of the supplement by Schering-Plough without cause or by him for good reason, he will be generally entitled to receive (a) any accrued but unpaid compensation, any deferred compensation and a pro-rated annual bonus payment, (b) a lump sum equal to three times (I) his annual base salary and (II) the highest of both his annual bonus and profit-sharing awards for the three preceding years, and (c) a supplemental pension payment without reduction for early retirement. Mr. Connors' supplement was amended as of December 16, 2003 and provides that if at any time during the term of the supplement he is terminated without cause or terminates his own employment for good reason, he will be generally entitled to receive (a) any accrued but unpaid compensation, any deferred compensation and a pro-rated annual bonus payment, (b) a lump sum equal to three times (I) his annual base salary, (II) the higher of (x) his highest annual bonus for the three preceding years and (y) his annual bonus for the year 2000, and (III) his highest profit-sharing award for the three preceding years, and (c) a supplemental pension payment without reduction for early retirement.

On March 4, 2004 Mr. Connors and Schering-Plough announced that he has chosen to leave Schering-Plough upon the appointment of his successor. Mr. Connors will retain his position until then and will assist Schering-Plough during the transition. Under his agreement, as supplemented and amended, upon his departure Mr. Connors will receive the benefits described above.

Schering-Plough entered into a letter agreement with Mr. Zahn in July of 2003 pursuant to which it was determined that Mr. Zahn would no longer serve as President of Schering Labs. In accordance with the letter agreement, Mr. Zahn was placed on a paid leave of absence for up to a 12-month period at his then current base rate of pay during which period he would remain available to work on projects and assignments assigned to him by Schering-Plough. Notwithstanding this agreement, Mr. Zahn remains eligible for the severance benefits described above in the event he experiences a qualifying termination. Schering-Plough paid Mr. Zahn's legal expenses incurred in connection with his employment agreement in the amount of $12,637.95.

Under Schering-Plough's Stock Incentive Plans, stock awards and stock options granted to the named Executive Officers (and other participants in the Plans) may vest and be cashed out upon a Change of Control.

MATTERS REGARDING CERTAIN FORMER OFFICERS

Mr. Wyszomierski's Agreement. Mr. Wyszomierski received the cash severance benefits to which he was entitled under the supplement to his agreement consisting of a lump sum equal to three times (I) his annual base salary and (II) the highest of both his annual bonus and profit-sharing awards for the three preceding years. His agreement also provides for his supplemental pension payment without reduction for early retirement. In 2004, Schering-Plough will pay Mr. Wyszomierski $5,119,373 representing that supplemental pension obligation. In resolution of claims relating to his agreement, Schering-Plough will pay Mr. Wyszomierski a lump sum of $400,000 and will provide him with continued coverage under Schering-Plough's welfare benefit plans for a period of two years following his termination. In accordance with his agreement, Schering-Plough also paid Mr. Wyszomierski's legal expenses incurred in 2003 relating to claims under his agreement in the amount of $16,888.86.

Mr. Kogan's Agreement. Pursuant to the Retirement Agreement entered into with Schering-Plough on November 13, 2002, Mr. Kogan agreed to retire from his employment with Schering-Plough and his position as a member of the Board at the 2003 Annual Meeting or, if sooner, upon the appointment of his successor. On April 20, 2003, Schering-Plough announced Mr. Kogan's retirement from his position as Chief Executive Officer and President of Schering-Plough. Mr. Kogan previously resigned from his position as the Chairman of the Board of Directors on November 13, 2002. Mr. Kogan's Retirement Agreement was based on the provisions of an employment agreement first entered into in 1989 and amended six times. Under the Retirement Agreement, Mr. Kogan received his base salary at the annual rate of $1,430,000 (the prorated amount, $433,583 is included in the Summary Compensation Table in the

Salary Column) and the other compensation and benefits provided for in the employment agreement through his actual retirement, except that he did not receive any further bonuses, stock option grants or other incentive compensation.

Pursuant to the Retirement Agreement, Mr. Kogan received the severance and retirement benefits to which he was entitled under his then current employment agreement with Schering-Plough. The severance benefits consist of: (1) a payment based upon his highest annual bonus for 1999, 2000 and 2001, pro-rated through November 13, 2002; (2) a lump sum equal to three times (a) his annual base salary and (b) the highest of his annual bonuses and profit-sharing awards for 1999, 2000 and 2001; (3) three years' continued coverage under Schering-Plough's welfare benefit plans; and (4) a lump sum supplemental pension amount based on three additional years of deemed employment. The amounts paid in connection with the items described in clauses (1), (2) and (3) of the prior sentence are included in the "All Other Compensation" column. Certain amounts that were known to be accrued or payable under the Retirement Agreement at the date of the proxy statement for the 2003 annual meeting of shareholders were disclosed in that proxy statement in the "All Other Compensation" column for 2002. Such amounts are again disclosed in the "All Other Compensation" column for 2002 in this proxy statement. Amounts paid in 2003 for those items are disclosed in the "All Other Compensation" column for 2003 in this proxy statement but are offset by amounts included for 2002 because they were accrued or known to be payable. The supplemental pension amount described in clause (4) above is disclosed under "Pension Plan Information" on page 28. The retirement benefits consist of: (i) cash retirement benefits having a total value on an actuarial basis equal to 55% of his final average annual compensation per year, with a survivor benefit to his wife equal to 45% of his final average annual compensation per year; (ii) vesting of his unvested stock options; and (iii) an office and certain executive-level support services, including secretarial, transportation and security services.

In exchange for the benefits under the Retirement Agreement, Mr. Kogan agreed to cooperate in any pending or future governmental or regulatory investigation or proceeding, and to provide consulting services to Schering-Plough after his retirement, and give Schering-Plough a general release.

STOCK OPTION INFORMATION

The following tables provide information with respect to stock options granted to or exercised by the named Executive Officers during Fiscal 2003 and the fiscal year-end value of options held by such officers.

OPTION GRANTS IN LAST FISCAL YEAR

	INDIVIDUAL GRANTS				
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(A)	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE	EXPIRATION DATE	GRA PRESEN
Fred Hassan......................	900,000	3.84%	$17.43	4/19/13	$5,
Joseph C. Connors................	246,100	1.05	17.85	2/23/13	1,
Carrie S. Cox....................	450,000	1.92	18.50	5/13/13	3,
Raul E. Kohan....................	59,100	.25	17.85	2/23/13	
Cecil B. Pickett.................	253,000	1.08	17.85	2/23/13	1,
Richard W. Zahn..................	144,300	.62	17.85	2/23/13	
Jack L. Wyszomierski.............	246,100	1.05	17.85	3/31/04	1,
Richard Jay Kogan................	0	0	--	--	

(a) Under the terms of Mr. Hassan's employment agreement, the option granted to him during 2003 vests as to 600,000 shares on the first anniversary of the grant date (the grant date was April 20, 2003) and 150,000 shares on each of the second and third anniversaries of such date. Option grants for the other named Executive Officers who received grants in 2003 are either exercisable in full one year after the

date of grant on February 24, 2004, or in installments of 33 1/3% per year on each of the first through third anniversaries of the grant date, except that transferable options which were transferred became exercisable immediately upon transfer. The exercise price of the options is the fair market value of the Common Shares on the date of grant. Options have a term of 10 years, and after the occurrence of a Change of Control, they become exercisable and may be cashed out for a period of 60 days. If an optionee's employment is involuntarily terminated after a change of control, any then-outstanding options that he or she held at the time of the change of control will remain exercisable for their full remaining term, notwithstanding the termination. The options granted during 2003 to Messrs. Hassan, Connors and Wyszomierski are transferable in accordance with the terms of the plan. Messrs. Connors and Wyszomierski transferred their options granted in 2003 during 2003.

(b) The valuation calculations are solely for purposes of compliance with the rules and regulations promulgated under the Exchange Act, and are not intended to forecast possible future appreciation, if any, of Schering-Plough's stock price. The grant date present value for the options expiring on February 24, 2013 is derived by using the Black-Scholes option pricing model with the following assumptions: the average dividend yield for the three years ended January 31, 2002 (2.01%); volatility of the Common Shares based on monthly total returns for the three years ended January 31, 2002 (33.64%); an annualized risk-free interest rate of 4.13%; and an option term of 10 years. If the named Executive Officers should realize the grant date values shown in the table for the options expiring on February 24, 2013, the equivalent value of the appreciation of all Common Shares of Schering-Plough outstanding on the grant date of those options would be approximately $10 billion, of which the value of the named Executive Officers' options would be 0.15%. This valuation model was not adjusted for risk of forfeiture or the vesting restrictions of the options. This valuation model does not necessarily represent the fair market value of individual options. At the expiration date, the options will have no actual value unless, and only to the extent that, the price of the Common Shares appreciates from the grant date to the exercise date. Upon his termination of employment on December 31, 2003, Mr. Wyszomierski's transferred 2003 options can be exercised through March 31, 2004, in accordance with the 2002 Stock Incentive Plan. The valuation calculation, however, assumes full-term value, which cannot actually occur in Mr. Wyszomierski's case.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR-END OPTION VALUES

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY-END(A)		VALUE OF UNEX IN-THE-MO OPTIONS AT FY-	
NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UN
Fred Hassan.............	-0-	$ -0-	-0-	900,000	$ -0-	
Joseph C. Connors.......	26,440	227,299	1,185,227	233,333	933,718	
Carrie S. Cox...........	-0-	-0-	-0-	450,000	-0-	
Raul E. Kohan...........	-0-	-0-	388,214	275,766	859,795	
Cecil B. Pickett........	110,000	856,141	413,734	439,666	46,800	
Richard W. Zahn.........	-0-	-0-	639,867	445,633	855,595	
Jack L. Wyszomierski....	-0-	-0-	993,967	-0-	463,950	
Richard Jay Kogan.......	-0-	-0-	1,546,000	-0-	-0-	

(a) Table includes stock options which were transferred in accordance with the terms of Schering-Plough's Stock Incentive Plans. After transfer, certain of these stock options were no longer beneficially owned (Mr. Kogan 347,000; Mr. Connors 246,100; Mr. Wyszomierski 246,100).

(b) Based on the difference between the closing price of Common Shares on the New York Stock Exchange on December 31, 2003 of $17.39 and the exercise price of the option.

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PENSION PLAN INFORMATION

PENSION PLAN TABLE

The approximate total annual benefits payable upon retirement at age 65 in specified compensation and years of service classifications are shown in the following table.

	YEARS OF SERVICE				
REMUNERATION	15	20	25	30	35
$ 200,000	$ 70,000	$ 80,000	$ 90,000	$ 100,000	$ 110,000
400,000	140,000	160,000	180,000	200,000	220,000
600,000	210,000	240,000	270,000	300,000	330,000
800,000	280,000	320,000	360,000	400,000	440,000
1,000,000	350,000	400,000	450,000	500,000	550,000
1,200,000	420,000	480,000	540,000	600,000	660,000
1,400,000	490,000	560,000	630,000	700,000	770,000
1,600,000	560,000	640,000	720,000	800,000	880,000
1,800,000	630,000	720,000	810,000	900,000	990,000
2,000,000	700,000	800,000	900,000	1,000,000	1,100,000
2,200,000	770,000	880,000	990,000	1,100,000	1,210,000
2,400,000	840,000	960,000	1,080,000	1,200,000	1,320,000
2,600,000	910,000	1,040,000	1,170,000	1,300,000	1,430,000
2,800,000	980,000	1,120,000	1,260,000	1,400,000	1,540,000
3,000,000	1,050,000	1,200,000	1,350,000	1,500,000	1,650,000
3,200,000	1,120,000	1,280,000	1,440,000	1,600,000	1,760,000
3,400,000	1,190,000	1,360,000	1,530,000	1,700,000	1,870,000
3,600,000	1,260,000	1,440,000	1,620,000	1,800,000	1,980,000

The table above reflects benefits on a life annuity basis and amounts payable are not subject to Social Security or other offset. Retirement benefits under Schering-Plough's nonqualified plans are payable on an annuity basis or on a present value lump sum basis at the election of the executive. Covered compensation consists of salary and bonus which, for the named Executive Officers, is shown in the Summary Compensation Table on page 18. Benefits are calculated with reference to the highest average annual compensation (salary and bonus) for any period of 60 consecutive months during the last 120 months prior to retirement. The credited years of service (Executives who joined Schering-Plough in 2003 have been rounded up to 1 year of service) as of December 31, 2003 are: Mr. Hassan (1 year), Mr. Bertolini (1 year), Mr. Connors (26 years), Ms. Cox (1 year), Mr. Kohan (18 years), Dr. Pickett (10 years), Mr. Zahn (11 years), Mr. Wyszomierski (20 years), and Mr. Kogan (21 years).

As described in detail on page 22, Mr. Bertolini is entitled to an additional 20 years of benefit service under Schering-Plough's supplemental executive retirement plan that will vest upon his fifth anniversary of employment with Schering-Plough. Mr. Bertolini's supplemental pension benefit will be offset by his retirement benefits from the qualified and non-qualified defined benefit pension plans of Schering-Plough and of any and all of his former employers. Employment terms that may impact Mr. Bertolini's pension benefits are described in detail on page 22 under "Mr. Bertolini's Agreement."

As noted under "Matters Regarding Certain Former Officers" on page 25, Mr. Kogan's Retirement Agreement provided that at the time of his retirement, he would receive cash retirement benefits having a total value on an actuarial basis equal to a life annuity of 55% of his final average annual compensation per year, with a survivor benefit to his wife equal to 45% of his final average annual compensation per year. During 2003, Mr. Kogan was paid $27,256,617 representing the portion of this benefit payable under Schering-Plough's nonqualified arrangements. In addition to the lump sum amount, the amount of monthly benefit that Mr. Kogan is receiving from the qualified pension plan is $3,856.43.

Please see "Matters Regarding Certain Former Officers" on page 25 regarding the supplemental pension amount payable to Mr. Wyszomierski following his employment termination.

Descriptions of how employment terms may impact the named Executive Officers' pension benefits are provided on page 21 under "Employment and Change of Control Arrangements."

COMPENSATION COMMITTEE REPORT

Within two days of his election as Chief Executive Officer, Mr. Hassan spoke at Schering-Plough's 2003 Annual Meeting of Shareholders and introduced an Action Agenda to create a foundation on which to build growth. He completed a 100 day, 360 degree review of the Company requested by the Board of Directors in August 2003 and recommended that in view of the serious situation facing Schering-Plough, all 2003 bonuses should be waived and routine merit increases should be frozen through 2004. The Committee and the Board accepted Mr. Hassan's recommendation and this was announced in August 2003.

2004 Total Compensation Philosophy

As part of his 100-day review, Mr. Hassan also proposed that Schering-Plough implement a "fix and build" initiative to inculcate a performance-driven culture throughout the Company. During the months leading up to the date of this Committee report, Mr. Hassan has made a number of important management and strategic changes, with oversight and approval of the Board. Among the changes approved by this Committee with the advice of the full Board was the creation of a total compensation program for the Chief Executive Officer and other key executives that will drive business performance and transformational change at Schering-Plough. The program is designed to foster productive behaviors aligned with Schering-Plough's Action Agenda, consistent with the Company's commitment to business integrity.

Effective in 2004, Schering-Plough has implemented a new total compensation philosophy. This new philosophy is based on guiding principles against which Schering-Plough's compensation and benefits programs will be measured. The objectives are to (1) maximize shareholder value over time, (2) reward above average execution by providing opportunities for above average rewards, (3) reward efforts that create shareholder value, and (4) encourage excellence by building an ownership mentality throughout Schering-Plough.

For 2004, the changes include a restructured short and long-term pay philosophy and pay mix for members of Schering-Plough's Operations Management Team, which is made up of the top 35 or so key executives responsible for driving Schering-Plough's business and other key executives. In addition, Schering-Plough has adopted a new annual cash bonus plan, the Operations Management Team Incentive Plan, applicable to members of the Operations Management Team. This new bonus program is designed to reward key executives upon the achievement of sales growth and earnings per share targets as well as exceptional individual performance. New cash-based and performance share-based long-term incentive plans have also been implemented for 2004 to motivate Schering-Plough's key leaders. These plans will have three-year or five-year performance periods, followed by two-year retention periods for full vesting. The objectivSequence; Type: Arabic; Name: PageNo -->7

ORAMED PHARMACEUTICALS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except share and per share data)

(UNAUDITED)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

The closing of the License Agreement was conditioned upon the approval of the Israel Innovation Authority of the Israeli Ministry of Economy & Industry ("IIA"), which was received on December 21, 2015.

The initial payment of $3,000 was received in January 2016 and the second payment of $6,500 was received in July 2016 following achievement of certain milestones. Subsequent to entering into the required agreements with certain third parties, as detailed in notes 2f and 2g, the Company received additional payments of $4,000 in July 2016 and $4,000 in October 2016.

In addition, on November 30, 2015, the Company entered into a Stock Purchase Agreement with HTIT (the “SPA”). According to the SPA, the Company issued 1,155,367 shares of common stock to HTIT for $12,000. The transaction closed on December 28, 2015.

The License Agreement and the SPA were considered a single arrangement with multiple deliverables. The Company allocated the total consideration of $49,500 between the License Agreement and the SPA according to their fair value, as follows: $10,617 was allocated to the issuance of common stock (less issuance expenses of $23), based on the quoted price of the Company's shares on the closing date of the SPA on December 28, 2015, and $38,883 to the License Agreement. Given the Company's continuing involvement through the expected product submission (June 2023), amounts received relating to the License Agreement are recognized over the period from which the Company is entitled to the respective payment, and the expected product submission date using a time-based model approach over the periods that the fees are earned.

In July 2015, according to the letter of intent signed between the parties or their affiliates, HTIT's affiliate paid the Subsidiary a non-refundable amount of $500 as a no-shop fee. The no-shop fee was deferred and the related revenue is recognized over the estimated term of the License Agreement.

Amounts that were allocated to the License Agreement as of November 30 2016 aggregated $19,383, all of which were received through the balance sheet date. Through November 30, 2016, the Company recognized revenue in the amount of $1,251, and deferred the remaining amount of $18,132.

2) Development and liquidity risks

The Company is engaged in research and development in the biotechnology field for innovative pharmaceutical solutions, including an orally ingestible insulin capsule to be used for the treatment of individuals with diabetes, and the use of orally ingestible capsules for delivery of other polypeptides, and has not generated significant revenues from its operations. Continued operation of the Company is contingent upon obtaining sufficient funding until it becomes profitable.

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ORAMED PHARMACEUTICALS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except share and per share data)

(UNAUDITED)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

Successful completion of the Company's development programs and its transition to normal operations is dependent upon obtaining necessary regulatory approvals from the U.S. Food and Drug Administration prior to selling its products within the United States, obtaining foreign regulatory approvals to sell its products internationally, or entering into licensing agreements with third parties. There can be no assurance that the Company will receive regulatory approval of any of its product candidates, and a substantial amount of time may pass before the Company achieves a level of revenues adequate to support its operations, if at all. The Company also expects to incur substantial expenditures in connection with the regulatory approval process for each of its product candidates during their respective developmental periods. Obtaining marketing approval will be directly dependent on the Company's ability to implement the necessary regulatory steps required to obtain marketing approval in the United States and in other countries. The Company cannot predict the outcome of these activities.

b. Loss per common share

Basic and diluted net loss per common share are computed by dividing the net loss for the period by the weighted average number of shares of common stock outstanding for each period. Outstanding stock options, warrants and restricted stock units ("RSUs") have been excluded from the calculation of the diluted loss per share because all such securities are anti-dilutive for all periods presented. The total number of common stock options, warrants and RSUs excluded from the calculation of diluted net loss was 2,470,494 and 3,109,787 for the three month periods ended November 30, 2016 and 2015, respectively, because the effect would be anti-dilutive.

c. Condensed Consolidated Financial Statements Preparation

The condensed consolidated financial statements included herein have been prepared in accordance with U.S. GAAP and on the same basis as the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended August 31, 2016 (the "2016 Form 10-K"). These condensed consolidated financial statements reflect all adjustments that are of a normal recurring nature and that are considered necessary for a fair statement of the results of the periods presented. Certain information and disclosures normally included in annual consolidated financial statements have been omitted in this interim period report pursuant to the rules and regulations of the Securities and Exchange Commission. Because the condensed consolidated interim financial statements do not include all of the information and disclosures required by U.S. GAAP for annual financial statements, they should be read in conjunction with the audited consolidated financial statements and notes included in the 2016 Form 10-K. The results for interim periods are not necessarily indicative of a full fiscal year's results.

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ORAMED PHARMACEUTICALS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except share and per share data)

(UNAUDITED)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

d. Newly issued and recently adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue upon the transfer of goods or services to customers in an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of the time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. The guidance is effective for the interim and annual periods beginning on or after December 15, 2017 (early adoption is permitted for the interim and annual periods beginning on or after December 15, 2016). The Company is currently evaluating the impact of the guidance on its consolidated financial statements.

NOTE 2 - COMMITMENTS:

a. In March 2011, the Subsidiary sold shares of its investee company, Entera Bio Ltd. (“Entera”) to D.N.A Biomedical Solutions Ltd. (“D.N.A”), retaining a 3% interest as of March 2011, which is accounted for as a cost method investment (amounting to $1). In consideration for the shares sold to D.N.A, the Company received, among other payments, 4,202,334 ordinary shares of D.N.A (see also note 4).

As part of this agreement, the Subsidiary entered into a patent transfer agreement according to which, the Subsidiary assigned to Entera all of its right, title and interest in and to the patent application that it has licensed to Entera since August 2010. Under this agreement, the Subsidiary is entitled to receive from Entera royalties of 3% of Entera’s net revenues (as defined in the agreement) and a license back of that patent application for use in respect of diabetes and influenza. As of November 30, 2016, Entera had not yet realized any revenues and had not paid any royalties to the Subsidiary.

In addition, as part of a consulting agreement with a third party, dated February 15, 2011, the Subsidiary is obliged to pay this third party royalties of 8% of the net royalties received in respect of the patent that was sold to Entera in March 2011.

b. On January 3, 2017, the Subsidiary entered into a lease agreement for its office facilities in Israel. The lease agreement is for a period of 60 months commencing October 1, 2016.

The annual lease payment will be New Israeli Shekel ("NIS") 119 thousand ($31) from October 2016 through September 2018 and NIS 132 thousand ($34) from October 2018 through September 2021, and will be linked to the increase in the Israeli consumer price index ("CPI") (as of November 30, 2016, the future lease payments until the expiration of the lease agreement will be $160, based on the exchange rate as of November 30, 2016).

As security for its obligation under this lease agreement, the Company provided a bank guarantee in an amount equal to three monthly lease payments.

c. On March 3, 2016, the Subsidiary entered into an agreement for process development and production of its capsules and on November 24, 2016 into an amendment to such agreement with a vendor in an amount of up to Swiss Franc ("CHF") 790 thousand ($778), CHF 145 thousand ($143) of which was recognized through November 30, 2016.

d. On May 11, 2016, the Subsidiary entered into a Master Service Agreement with a vendor to retain its services for a pre-clinical toxicology trial for an oral GLP-1 analog capsule for type 2 diabetes patients. As consideration for its services, the Subsidiary will pay the vendor a total amount of $1,200 during the term of the engagement and based on achievement of certain milestones, of which $492 was recognized through November 30, 2016.

e. On May 31, 2016, the Company entered into a consulting agreement with a third party advisor for a period of one year, pursuant to which such advisor will provide investor relations services and will be entitled to receive a monthly cash fee and 10,000 shares of the Company's common stock that will be issued in four equal quarterly installments commencing August 1, 2016. As of November 30, 2016, the Company had issued to such advisor 5,000 shares. The fair value of the shares at the grant date was $37.

ORAMED PHARMACEUTICALS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except share and per share data)

(UNAUDITED)

NOTE 2 - COMMITMENTS (continued):

f. On June 13, 2016, the Subsidiary entered into a four-year service agreement with a third party and on December 19, 2016, this agreement and all of the third party rights and obligations thereunder were assigned to another third party. This agreement is part of the requirements of the License Agreement as described in note 1. This agreement will support the Company's research and development. The Subsidiary is obligated to pay the third party a total amount of up to €2,360 thousand ($2,526), out of which €800 thousand ($867) is a non-refundable fee to be paid within 12 months from the effective date, €300 thousand ($336) of which were recognized in research and development through November 30, 2016. The remaining fee will be paid over the term of the engagement and will be based on achievement of certain milestones.

g. On March 3, 2014, the Subsidiary entered into a Master Service Agreement with a vendor for the process development and production of one of its oral capsule ingredients in the amount of $311, $40 of which was recognized through November 30, 2016, and bonus payments of up to $600 that will be paid upon achieving certain milestones, as described in the agreement, none of which was recognized through November 30, 2016.

On July 24, 2016, the Subsidiary entered into a General Technical Agreement with the same vendor, for the scale-up process development and production of the same capsule ingredients in the amount of $4,300 that will be paid over the term of the engagement and based on the achievement of certain development milestones, $2,065 of which were recognized in research and development through November 30, 2016. This agreement is part of the requirements of the License Agreement as described in note 1.

h. On September 21, 2016, the Subsidiary entered into a Clinical Research Organization Service Agreement with a third party to retain it as a Clinical Research Organization (“CRO”) for its Phase 2a dose finding clinical trial for an oral insulin capsule for type 2 diabetes patients, which began in the fourth quarter of calendar year 2016. As consideration for its services, the Subsidiary will pay the CRO a total amount of approximately $819 during the term of the engagement and based on achievement of certain milestones, $527 of which were recognized through November 30, 2016.

i. Grants from the Bio-Jerusalem Fund (“Bio-Jerusalem”)

The Subsidiary is committed to pay royalties to Bio-Jerusalem on proceeds from future sales at a rate of 4% and up to 100% of the amount of the grant received (Israeli CPI linked) at the total amount of $65. The Company received no grants from Bio-Jerusalem since fiscal year 2013.

Royalty expenses for the three month period ended November 30, 2016 of $47 are included in cost of revenues. As of November 30, 2016, the Subsidiary had realized revenues from its related project in the amount of $993.

j. Grants from the IIA

Under the terms of the Company's funding from the IIA, royalties of 3.5% are payable on sales of products developed from a project so funded, up to a maximum amount equaling 100%-150% of the grants received (dollar linked) with the addition of interest at an annual rate based on LIBOR.

ORAMED PHARMACEUTICALS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except share and per share data)

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NOTE 2 - COMMITMENTS (continued):

At the time the grants were received, successful development of the related projects was not assured.

The total amount that was received through November 30, 2016 was $2,194.

Royalty expenses for the three month period ended November 30, 2016 of $140 are included in cost of revenues and will be paid over the term of the License Agreement in accordance with the revenue recognized from the related project. As of November 30, 2016, the Subsidiary had realized revenues from its project in the amount of $993.

NOTE 3 - FAIR VALUE:

The Company measures fair value and discloses fair value measurements for financial assets and liabilities. Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, the guidance establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described as follows:

Level 1:	Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
Level 2:	Observable prices that are based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
Level 3:	Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

As of November 30, 2016, the assets or liabilities measured at fair value are comprised of available for sale equity securities (level 1).

In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

As of November 30, 2016, the carrying amount of cash and cash equivalents, short-term deposits and other current assets, accounts payable and accrued expenses approximate their fair values due to the short-term maturities of these instruments.

As of November 30, 2016, the carrying amount of long-term deposits approximates their fair values due to the stated interest rates which approximate market rates.

The fair value of held to maturity bonds as presented in note 4 was based on a level 1 measurement.

The amounts funded in respect of employee rights are stated at cash surrender value which approximates its fair value.

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ORAMED PHARMACEUTICALS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except share and per share data)

(UNAUDITED)

NOTE 4 - MARKETABLE SECURITIES:

The Company's marketable securities include investments in equity securities of D.N.A and in held to maturity bonds.

a. Composition:

	November 30, 2016	August 31, 2016
Short-term:		
D.N.A (see b below)	$ 638	$ 701
Held to maturity bonds (see c below)	3,052	2,154
	$ 3,690	$ 2,855
Long-term:		
Held to maturity bonds (see c below)	$ 350	$ 530

b. D.N.A

The investment in D.N.A is reported at fair value, with unrealized gains and losses, recorded as a separate component of other comprehensive income in equity until realized. Unrealized losses that are considered to be other-than-temporary are charged to statement of operations as an impairment charge and are included in the consolidated statement of operations under impairment of available-for-sale securities.

The D.N.A ordinary shares are traded on the Tel Aviv Stock Exchange and have a quoted price. The fair value of those securities is measured at the quoted prices of the securities on the measurement date.

During the three month periods ended November 30, 2016 and 2015, the Company did not sell any of the D.N.A ordinary shares.

As of November 30, 2016, the Company owns approximately 8.7% of D.N.A's outstanding ordinary shares.

The cost of the securities as of November 30, 2016 and August 31, 2016 is $595.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

U.S. Dollars in thousands (except share and per share data)

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NOTE 4 - MARKETABLE SECURITIES (continued):

c. Held to maturity bonds

The amortized cost and estimated fair value of held-to-maturity securities at November 30, 2016, are as follows:

	November 30, 2016		
	Amortized cost	Gross unrealized losses	**Estimated fair value**
Short-term:			
Commercial bonds	$3,021	$ (2)	$ 3,019
Accrued interest	31	-	31
Long-term	350	(2)	348
	$3,402	$ (4)	$ 3,398

As of November 30, 2016, the contractual maturities of debt securities classified as held-to-maturity are as follows: after one year through two years, $350, and the yield to maturity rates vary between 1.05% to 1.8%.

The amortized cost and estimated fair value of held-to-maturity securities at August 31, 2016, are as follows:

	August 31, 2016		
	Amortized cost	Gross unrealized gains	**Estimated fair value**
Short-term:			

Commercial bonds	$2,118	$ -	$ 2,118
Accrued interest	36	-	36
Long-term	530	1	531
	$2,684	$ 1	$ 2,685

As of August 31, 2016, the contractual maturities of debt securities classified as held-to-maturity are as follows: after one year through two years, $530 and the yield to maturity rates vary between 0.96% to 1.8%.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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(UNAUDITED)

NOTE 5 -STOCK-BASED COMPENSATION

On November 1, 2016, the Company granted a total of 70,000 RSUs representing a right to receive 70,000 shares of the Company's common stock to an employee of the Subsidiary. The RSUs vest in 19 installments, consisting of one installment of 9,000 shares on November 1, 2016 18 equal monthly installments of 1,500 shares each, commencing November 30, 2016 and 17,000 shares on each of April 30, 2017 and 2018. The total fair value of these RSUs on the date of grant was $463, using the quoted closing market share price of $6.62 on the Nasdaq Capital Market on the date of grant. The Company elected to recognize compensation cost for this award using the accelerated method based on the multiple-option award approach.

NOTE 6 -RELATED PARTIES - TRANSACTIONS

On July 1, 2008, the Subsidiary entered into a consulting agreement with KNRY Ltd. ("KNRY"), an Israeli company owned by the Company's Chief Executive Officer ("CEO"), whereby the CEO, through KNRY, provides services to the Company (the "Consulting Agreement"). The Consulting Agreement is terminable by either party upon 60 days written notice. The Consulting Agreement provides that KNRY (i) will be paid a gross amount of NIS 50,400 ($13) per month for the CEO and (ii) will be reimbursed for reasonable expenses incurred in connection with the performance of the Consulting Agreement.

The Consulting Agreement has been amended several times. According to the latest amendment on November 28, 2016, the CEO's monthly payment was set at NIS 127,570 ($33) effective January 2017, and additional cost of $10 per year was approved for the use and maintenance of the CEO's car effective November 2016.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the condensed consolidated financial statements and the related notes included elsewhere herein and in our consolidated financial statements, accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Annual Report (as defined below).

Forward-Looking Statements

The statements contained in this Quarterly Report on Form 10-Q that are not historical facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. Words such as "expects," "anticipates," "intends," "plans," "planned expenditures," "believes," "seeks," "estimates" and expressions or variations of such words are intended to identify forward-looking statements, but are not deemed to represent an all-inclusive means of identifying forward-looking statements as denoted in this Quarterly Report on Form 10-Q. Additionally, statements concerning future matters are forward-looking statements. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements, or industry results, expressed or implied by such forward-looking statements. Such forward-looking statements include, among other statements, statements regarding the following:

- the expected development and potential benefits from our products in treating diabetes;
- future milestones, conditions and royalties under the license agreement with Hefei Tianhui Incubation of Technologies Co. Ltd., or HTIT;
- our research and development plans, including pre-clinical and clinical trials plans, the timing of conclusion of trials and trials' results;
- our expectation that in the upcoming years our research and development expenses, net, will continue to be our major expenditure;
- our expectations regarding our short- and long-term capital requirements;
- our outlook for the coming months and future periods, including but not limited to our expectations regarding future revenue and expenses; and
- information with respect to any other plans and strategies for our business.

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Although forward-looking statements in this Quarterly Report on Form 10-Q reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. Factors that could cause or contribute to such differences in results and outcomes include, without limitation, those specifically addressed under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended August 31, 2016, or our Annual Report, as filed with the Securities and Exchange Commission, or the SEC, on November 25, 2016, as well as those discussed elsewhere in our Annual Report and in this Quarterly Report on Form 10-Q. Readers are urged not to place undue reliance on these forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we undertake no obligation to revise or update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Quarterly Report on Form 10-Q. Readers are urged to carefully review and consider the various disclosures made throughout the entirety of this Quarterly Report on Form 10-Q which attempts to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Overview of Operations

We are a pharmaceutical company currently engaged in the research and development of innovative pharmaceutical solutions, including an oral insulin capsule to be used for the treatment of individuals with diabetes, and the use of orally ingestible capsules or pills for delivery of other polypeptides.

Recent business developments

Product Candidates

We completed a Phase IIb clinical trial on 180 type 2 diabetic patients that was conducted in 33 sites in the United States. This double-blind, randomized, 28-day study clinical trial was conducted under an Investigational New Drug application, or IND, with the U.S. Food and Drug Administration, or FDA. The clinical trial, designed to assess the safety and efficacy of ORMD-0801, investigated ORMD-0801 over a longer treatment period and had statistical power to give us greater insight into the drug’s efficacy. The trial was initiated in June 2015, was completed during April 2016 and indicated a statistically significant lowering of blood glucose levels relative to placebo across several endpoints. The trial successfully met its primary and most of its secondary and exploratory endpoints for safety and efficacy.

We also conducted a glucose clamp study of our oral insulin capsule on type 1 diabetic volunteers that was performed at The University of Texas Health Science Center at San Antonio. The glucose clamp is a method for quantifying insulin absorption in order to measure a patient's insulin sensitivity and how well a patient metabolizes glucose. The patients' recruitment was completed in October 2016, and we anticipate receiving the results during the first quarter of calendar year 2017.

In October 2016, we initiated a Phase IIa dose finding clinical trial on approximately 30 adults type 2 diabetic patients. This randomized, double-blind trial is being conducted in order to define the optimal dosing of ORMD-0801 moving forward.

In September 2013, we submitted a pre-IND package to the FDA for ORMD-0901, our oral exenatide capsule, for a Phase II clinical trial on healthy volunteers and type 2 diabetic patients. We began a toxicology study in June 2016 and expect to file an IND and move directly into a large Phase II trial in the United States. In August 2015, we began a non-FDA approved clinical trial on type 2 diabetic patients. The trial was completed during the second quarter of calendar year 2016 and indicated positive results as it showed ORMD-0901 to be safe and well tolerated and also demonstrated encouraging trending efficacy data.

The table below gives an overview of our product pipeline (calendar quarters):

		Phase I	Phase II	Phase III	Timeline
ORMD-0801 **oral insulin**	Type 2 diabetes				Q1 ’14: Phase IIa completed Q2 ’16: Phase IIb multi-center study completed Q4 ’16: Phase IIa - dose finding study initiated
	Type 1 diabetes				Q3 ’14: Phase IIa study completed
ORMD-0901 **oral GLP-1**	Type 2 diabetes				Q2 ’16: Toxicology study initiated Q2 ’16: Phase Ib ex-US study completed Q3 ’17: Phase II study projected initiation

Out-Licensed Technology

On November 30, 2015, we, our Israeli subsidiary and HTIT entered into a Technology License Agreement, and on December 21, 2015 these parties entered into an Amended and Restated Technology License Agreement that was further amended by these parties on June 3, 2016 and July 24, 2016, or the License Agreement. According to the License Agreement, we granted HTIT an exclusive commercialization license in the territory of the People's Republic of China, Macau and Hong Kong, or the Territory, related to our oral insulin capsule, ORMD-0801. Pursuant to the License Agreement, HTIT will conduct, at its own expense, certain pre-commercialization and regulatory activities with respect to our technology and ORMD-0801 capsule, and will pay (i) royalties of 10% on net sales of the related commercialized products to be sold by HTIT in the Territory, or Royalties, and (ii) an aggregate of approximately $37.5 million, of which $3 million is payable immediately, $8 million will be paid in near term installments subject to our entry into certain agreements with certain third parties, and $26.5 million will be payable upon achievement of certain milestones and conditions. In the event that we will not meet certain conditions, the Royalties rate may be reduced to a minimum of 8%. Following the expiration of our patents covering the technology in the Territory, the Royalties rate may be reduced, under certain circumstances, to 5%. The initial payment of $3 million was received in January 2016. Following achievement of certain milestones, the second and third milestone payments of $6.5 million and $4 million, respectively, were received in July 2016, and the fourth milestone payment of $4 million was received in October 2016.

We also entered into a separate securities purchase agreement with HTIT, or the SPA, pursuant to which HTIT invested $12 million in us in December 2015 (see – "Liquidity and capital resources" below). In connection with the License Agreement and the SPA, we received a non-refundable payment of $500,000 as a no-shop fee.

Results of Operations

Comparison of three month periods ended November 30, 2016 and 2015

The following table summarizes certain statements of operations data of the Company for the three month periods ended November 30, 2016 and 2015 (in thousands of dollars except share and per share data):

	Three months ended November 30,	
	2016	2015
Revenues	$(610)	$-
Cost of revenues	187	-
Research and development expenses	2,353	1,901
General and administrative expenses	468	548
Financial income, net	(162)	(59)
Taxes on income	400	-
Net loss for the period	$2,636	$2,390
Loss per common share - basic and diluted	$0.20	$0.21
Weighted average common shares outstanding	13,205,971	11,572,809

Revenues

Revenues consist of proceeds related to the License Agreement that are recognized over the term of the License Agreement through June 2023.

Revenues for the three month period ended November 30, 2016 totaled $610,000. No revenues were recorded for the three month period ended November 30, 2015.

Cost of revenues

Cost of revenues consists of royalties related to the License Agreement that will be paid over the term of the License Agreement in accordance with the revenue recognition accounting policy and the Israeli Law for the Encouragement of Industrial Research and Development, 1984, as amended.

Cost of revenues for the three month period ended November 30, 2016 totaled $187,000. No cost of revenues was recorded for the three month period ended November 30, 2015.

Research and development expenses

Research and development expenses include costs directly attributable to the conduct of research and development programs, including the cost of salaries, payroll taxes, employee benefits, costs of materials, supplies, the cost of services provided by outside contractors, including services related to our clinical trials, clinical trial expenses, the full cost of manufacturing drugs for use in research, and preclinical development. All costs associated with research and development are expensed as incurred.

Clinical trial costs are a significant component of research and development expenses and include costs associated with third-party contractors. We outsource a substantial portion of our clinical trial activities, utilizing external entities such as contract research organizations, or CROs, independent clinical investigators, and other third-party service providers to assist us with the execution of our clinical studies.

Clinical activities which relate principally to clinical sites and other administrative functions to manage our clinical trials are performed primarily by CROs. CROs typically perform most of the start-up activities for our trials, including document preparation, site identification, screening and preparation, pre-study visits, training, and program management.

Clinical trial and pre-clinical trial expenses include regulatory and scientific consultants’ compensation and fees, research expenses, purchase of materials, cost of manufacturing of the oral insulin and exenatide capsules, payments for patient recruitment and treatment, as well as salaries and related expenses of research and development staff.

Research and development expenses for the three month period ended November 30, 2016 increased by 23.8% to $2,353,000, from $1,901,000 for the three month period ended November 30, 2015. The increase is mainly attributable to expenses related to process development and production of our capsules and the required ingredients and is offset by a decrease in clinical trials due to completion of our Phase IIb clinical trial. Stock-based compensation costs for the three month period ended November 30, 2016 totaled $136,000, as compared to $184,000 during the three month period ended November 30, 2015. The decrease is mainly attributed to the progress in amortization of awards granted in prior periods and is partially offset by an increase due to restricted stock units granted to employees in November 2016.

Government grants

In the three month periods ended November 30, 2016 and 2015, we did not recognize any research and development grants. As of November 30, 2016, we incurred liabilities to pay royalties to the Israel Innovation Authority of the Israeli Ministry of Economy & Industry, or the IIA, of $606,000.

General and administrative expenses

General and administrative expenses include the salaries and related expenses of our management, consulting costs, legal and professional fees, traveling, business development costs, insurance expenses and other general costs.

General and administrative expenses for the three month period ended November 30, 2016 decreased by 14.6% to $468,000 from $548,000 for the three month period ended November 30, 2015. The decrease in costs related to general and administrative activities during the three month period ended November 30, 2016 is due to a decrease in stock-based compensation costs. This decrease was partially offset by an increase in salaries and consulting expenses. Stock-based compensation costs for the three month period ended November 30, 2016 totaled $23,000, as compared to $136,000 during the three month period ended November 30, 2015. The decrease is mainly attributed to the progress in amortization of awards granted in prior periods.

Financial income, net

Net financial income increased by 175% from net income of $59,000 for the three month period ended November 30, 2015 to net income of $162,000 for the three month period ended November 30, 2016. The increase is mainly due to an increase in income from bank deposits and held to maturity bonds as a result of the increase in cash and investment balances.

Taxes on income

We had taxes on income of $400,000 for the three month period ended November 30, 2016 as compared to no taxes on income for the three month period ended November 30, 2015. The increase is due to withholding tax deducted from revenues received from the License Agreement, since according to the Company's estimations, the withholding tax is not expected to be utilized in the next five years.

Other comprehensive income

Unrealized loss on available for sale securities for the three month period ended November 30, 2016 and 2015 of $63,000 and $406,000, respectively, resulted from the decrease in fair value of the ordinary shares of D.N.A Biomedical Solutions Ltd. that we hold.

Liquidity and capital resources

From inception through November 30, 2016, we have incurred losses in an aggregate amount of $48,652,000. During that period we have financed our operations through several private placements of our common stock, as well as public offerings of our common stock, raising a total of $56,054,000, net of transaction costs. During that period, we also received cash consideration of $3,639,000 from the exercise of warrants and options. We will seek to obtain additional financing through similar sources in the future as needed. As of November 30, 2016, we had $2,290,000 of available cash, $38,126,000 of short-term and long-term bank deposits and $4,040,000 of marketable securities.

On November 30, 2015, we entered into the SPA, pursuant to which HTIT agreed to buy and we agreed to sell 1,155,367 shares of our common stock at a price of approximately $10.39 per share, for the aggregate amount of $12 million. The transaction closed on December 28, 2015.

Management continues to evaluate various financing alternatives for funding future research and development activities and general and administrative expenses through fundraising in the public or private equity markets. Although there is no assurance that we will be successful with those initiatives, management believes that it will be able to secure the necessary financing as a result of future third party investments. Based on our current cash resources, including the investment and recent milestone payments by HTIT, and commitments, we believe we will be able to maintain our current planned development activities and the corresponding level of expenditures for at least the next 12 months and beyond.

As of November 30, 2016, our total current assets were $30,495,000 and our total current liabilities were $4,734,000. On November 30, 2016, we had a working capital surplus of $25,761,000 and an accumulated loss of $48,652,000. As of August 31, 2016, our total current assets were $31,230,000 and our total current liabilities were $3,621,000. On August 31, 2016, we had a working capital surplus of $27,609,000 and an accumulated loss of $46,016,000. The decrease in working capital from August 31, 2016 to November 30, 2016 was primarily due to the investment of a portion of the milestone payments received related to the License Agreement in long-term bank deposits.

During the three month period ended November 30, 2016, cash and cash equivalents decreased to $2,290,000 from the $3,907,000 reported as of August 31, 2016, which is due to the reasons described below.

Operating activities provided cash of $1,498,000 in the three month period ended November 30, 2016, as compared to $2,247,000 used in the three month period ended November 30, 2015. Cash provided by operating activities in the three month period ended November 30, 2016 primarily consisted of changes in deferred revenues due to the License Agreement partially offset by net loss resulting from research and development and general and administrative expenses, while cash used for operating activities in the three month period ended November 30, 2015 primarily consisted of net loss resulting from research and development and general and administrative expenses, partially offset by stock-based compensation expenses.

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Investing activities used cash of $3,436,000 in the three month period ended November 30, 2016, as compared to $818,000 that were provided in the three month period ended November 30, 2015. Cash used for investing activities in the three month period ended November 30, 2016 consisted primarily of the purchase of short-term and long-term bank deposits, as well as the purchase of marketable securities, while cash provided by investing activities in the three month period ended November 30, 2015 consisted primarily of the proceeds from short-term bank deposits.

Financing activities provided cash of $320,000 in the three month period ended November 30, 2016, as compared to $164,000 that were provided in the three month period ended November 30, 2015. Financing activities in the three month period ended November 30, 2016 consisted of proceeds from exercise of options while financing activities in the three month period ended November 30, 2015 consisted of proceeds from exercise of warrants.

Off-balance sheet arrangements

As of November 30, 2016, we had no off balance sheet arrangements that have had or that we expect would be reasonably likely to have a future material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

Critical Accounting Policies

Our significant accounting policies are described in the notes to the consolidated financial statements as of August 31, 2016 included in our Annual Report.

Planned Expenditures

We invest heavily in research and development, and we expect that in the upcoming years our research and development expenses, net, will continue to be our major operating expense.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in our exposure to market risk during the three month period ended November 30, 2016. For a discussion of our exposure to market risk, refer to Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” contained in our Annual Report.

ITEM 4 - CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of November 30, 2016. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended November 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 2 - UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On November 7, 2016, we issued 2,500 shares of our common stock to Corporate Profile, LLC, or Corporate Profile, in payment of a portion of the consulting fee for investor relations services owed to Corporate Profile pursuant to a Letter Agreement and a Stock Purchase Agreement, dated May 18, 2016 between us and Corporate Profile. We issued these shares pursuant to an exemption from registration contained in Section 4(a)(2) of the Securities Act of 1933, as amended.

ITEM 6 – EXHIBITS

Exhibit Number	Description
10.1*	Agreement and Amendment No. 5, dated November 28, 2016, to Consulting Agreements by and between Oramed Ltd. and KNRY, Ltd., entered into as of July 1, 2008, for the services of Nadav Kidron.
10.2*	Fourth Amendment to Employment Agreement, dated November 28, 2016, by and between Oramed Ltd. and Yifat Zommer.
10.3*	Indemnification Agreement, dated August 30, 2016, between Oramed Pharmaceuticals Inc. and Kevin Rakin.
31.1*	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Principal Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as amended.
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350.
101.1*	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended November 30, 2016, formatted in XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Comprehensive Loss, (iii) Condensed Consolidated Statements of Changes in Stockholders' Equity, (iv) Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements.

* Filed herewith
** Furnished herewith

SIGNATURES

Pursuant to the requirements 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.

ORAMED PHARMACEUTICALS INC.

Date: January 11, 2017 By: /s/ Nadav Kidron
Nadav Kidron
President and Chief Executive Officer

Date: January 11, 2017 By: /s/ Yifat Zommer
Yifat Zommer
Chief Financial Officer
(principal financial and accounting officer)