

## MERCK & CO., INC.

### POLICIES OF THE BOARD

#### (1) *Philosophy and functions of the Board*

The primary mission of the Board is to represent and protect the interests of the Company's stockholders. In so doing, the Board has the legal responsibility for overseeing the affairs of the Company and has certain specified powers and authorities with respect to corporate action provided by the New Jersey statutes. The Board's oversight function can and should be exercised through the election and appointment of competent officers. The Board nevertheless remains responsible for oversight and thus has an obligation to keep informed in order to assist management in formulating and developing plans; it also sets necessary criteria and serves as a body to review and advise management on the operations of the Company. These duties should be discharged by the full Board, the Board's committees, or the independent members of the Board, as appropriate in the circumstance.

Specifically, the Board, as a body or through its committees or members, should

- (a) Select, and set compensation for, the Chief Executive Officer; approve the selection and compensation of senior management; evaluate the performances of the CEO and senior management; periodically review plans for management succession; and assess the soundness of the organizational structure,
- (b) Encourage the long-term success of the Company by exercising sound and independent business judgment with respect to significant strategic and operational issues, including major capital expenditures, diversifications, acquisitions, divestitures and new ventures,
- (c) Safeguard the corporate assets by periodically reviewing the financial affairs and policies of the Company and overseeing the Company's financial reporting process and internal controls,
- (d) Oversee the Company's risk assessment process and ensure that the Company has appropriate procedures in place to manage risks and handle crises,
- (e) Ensure the Company's compliance with applicable laws and regulations,
- (f) Be sensitive to the public and political environment, taking into account the responsibility of the Company to its shareholders, employees, customers, and society,
- (g) At least annually, evaluate the effectiveness of the Board as a body, the Audit Committee, Committee on Corporate Governance, and Compensation and Benefits Committee,
- (h) Determine the structure, composition, and responsibilities of the committees of the Board,
- (i) Remain knowledgeable about Company affairs and developments through regular attendance at Board and Board committee meetings and review of meeting materials in advance of those meetings,
- (j) Remain knowledgeable about stockholder views and concerns through direct communications from stockholders and attendance at annual stockholder meetings.

- (k) Meet no less frequently than three times each year in executive session to allow full and candid discussion among Board members on matters of importance to the Company, and
- (l) Become exposed to a variety of perspectives on matters of importance to the Company through access to members of senior management and consultation with independent advisors.

## (2) *Composition of the Board*

Under normal circumstances, the size of the Board should be 12-16 members. The Board should have a "balanced" membership, with representation of relevant areas of experience, types of expertise, and backgrounds. A substantial majority of the members of the Board should be independent members. In making independence determinations, the Board observes all criteria for independence established by the Securities and Exchange Commission and the New York Stock Exchange ("NYSE"). The Board considers all relevant facts and circumstances in making an independence determination. To be considered independent, an outside director must meet the bright line independence tests established by the NYSE and the Board must affirmatively determine that the director has no direct or indirect material relationship with the Company. A material relationship is one which impairs or inhibits - or has the potential to impair or inhibit - a director's exercise of critical and disinterested judgment on behalf of the Company and its stockholders. The Board consults with the Company's counsel to ensure that the Board's determinations are consistent with all relevant securities and other laws and regulations regarding the definition of "independent director," including those set forth in pertinent listing standards of the NYSE as in effect from time to time. The Committee on Corporate Governance reviews the Board's approach to determining director independence periodically and recommends changes as appropriate for consideration and approval by the full Board.

### *Categorical Independence Standards*

As contemplated by the NYSE rules, the Board shall use categorical standards to assist it in making independence determinations. Independence determinations under these categorical standards will be based upon a director's relationships with the Company during the three years preceding the determination. The following will not be considered material relationships that would impact a director's independence:

1. The director is an executive officer or employee or any member of his or her immediate family is an executive officer of another organization that does business with the Company, and the annual payments to or payments received from that organization during any single fiscal year during the evaluation period are less than the greater of \$1 million or 2% of the other organization's consolidated gross revenues.
2. The director or any member of his or her immediate family serves as an executive officer of a charitable, educational or other non-profit organization that receives contributions from the Company or The Merck Company Foundation in a single fiscal year of less than the greater of \$1 million or 2% of that organization's annual consolidated gross revenues during its last completed fiscal year. The Company's automatic matching of employee charitable contributions will not be included in the amount of the Company's contributions for this purpose.
3. Subject to standard 11 below, the director is a director or trustee, but not an executive officer nor employee, or any member of his or her immediate family is a director, trustee or employee, but not an executive officer, of any other organization (other than the Company's external auditor) that does business with, or receives charitable contributions from, the Company.

4. More than three years have elapsed since:
  - a. the director was an employee of the Company, or
  - b. an immediate family member of the director was an executive officer of the Company, or
  - c. an executive officer of the Company served on the board of directors of a company that employs or employed the director, or an immediate family member of the director, as an executive officer.
5. An immediate family member is or has been an employee of the Company, provided that such family member is not, and has not been for a period of at least three years, an executive officer of the Company.
6. Subject to standard 8 below, the director does not receive more than \$120,000 annually in direct compensation from the Company, other than through retainers, meeting fees, deferred compensation for prior services (provided that such compensation is not contingent in any way on continued service) and an annual stock option grant provided as the Company's annual compensation to all Directors pursuant to the Non-Employee Directors Stock Option Plan, as amended and restated from time to time.
7. No immediate family member of the director receives more than \$120,000 per year in direct compensation from the Company.
8. In the case of Audit Committee members, no immediate family member receives direct compensation or other fees from the Company and the Audit Committee members otherwise meet the independence requirements set forth in Rule 10A-3(b)(1) under the Securities Exchange Act of 1934.
9. Neither the director nor his or her immediate family members serves as a paid consultant or advisor to the Company or to an executive officer of the Company.
10. The director or any member of his or her immediate family holds less than a 10% interest in any other organization that has a relationship with the Company.
11. With respect to the Company's independent external auditors:
  - a. The director is not a current partner nor employee of the external auditor, and
  - b. No immediate family member is a current partner of the external auditor nor an employee of the external auditor who personally works on the Company's audit, and
  - c. Within the past three years, neither the director nor an immediate family member of the director was a partner or an employee of the external auditor and personally worked on the Company's audit during that time.

In addition, the Board has determined that to be independent, all fees paid to a director by Merck must be in consideration of his/her duties as a director or committee member.

Employment of any immediate family member of a director shall be subject to the prior review and approval of the Committee on Corporate Governance.

*Lead Director.* There shall be a Lead Director of the Board who will serve as the principal liaison on board-wide issues between the independent members of the Board and the Chairman of the Board. The Lead Director will preside at all meetings of the Board at which the Chairman of the Board is not present, including executive sessions of the independent members of the Board. The Lead Director may call meetings of the independent members of the Board. The Lead Director will approve the agenda, the supporting material to be sent to the Board in preparation for meetings as well as the scheduling of Board meetings to ensure that there is sufficient time for discussion of all agenda items. The Lead Director will also serve as a liaison between the Board

and stockholders on investor matters and will be available for consultation and direct communication with major stockholders, as appropriate.

(3) *Qualifications of Members*

To be considered for membership on the Board, a candidate should meet the following criteria:

- (a) Must, above all, be of proven integrity with a record of substantial achievement in an area of relevance to the Company.
- (b) Must have demonstrated ability and sound judgment that usually will be based on broad experience.
- (c) Must be able and willing to devote the required amount of time to the Company's affairs, including attendance at Board meetings, Board committee meetings and annual stockholder meetings.
- (d) Must possess a judicious and somewhat critical temperament that will enable objective appraisal of management's plans and programs.
- (e) Must be committed to building sound, long-term Company growth.

(4) *Assessment of the Board*

No less frequently than annually, the Board shall assess its effectiveness as a body and take any necessary steps to improve its collective capacity to represent the shareholders in overseeing and guiding the Company. In the event it is believed that an individual director is not making meaningful contributions to the overall effectiveness of the Board, the Chairman of the Board, or if there is no Chairman of the Board, the Lead Director of the Board, or another Board member, should raise the matter with the Committee on Corporate Governance, which will then seek the views of the other Board members and, if appropriate, make a recommendation to the full Board regarding the future role of the director in question.

(5) *Committees of the Board*

There are currently six standing committees of the Board:

*Audit Committee* – oversees the Company's financial reporting process and internal controls. This committee is directly responsible for the appointment, engagement and oversight of the independent public accountants and has sole authority to approve audit engagement fees and terms as well as significant non-audit engagements with independent public accountants.

*Committee on Corporate Governance* – considers and makes recommendations on matters related to the practices, policies and procedures of the Board. This committee has sole authority to retain and terminate director search firms and to approve retention fees and terms.

*Compensation and Benefits Committee* – makes recommendations on organization, succession, the election of officers, consultantships and similar matters, and consults on matters concerning executive compensation and on pension, savings and welfare benefit plans. This committee has sole authority to retain and terminate compensation consultants who

advise on director or executive compensation and sole authority to approve retention fees and terms.

*Finance Committee* – considers and makes recommendations on matters related to the financial affairs and policies of the Company.

*Committee on Public Policy and Social Responsibility* – advises the Board and management on Company policies and practices that pertain to the Company’s responsibilities as a global corporate citizen, its obligations as a pharmaceutical company, and its commitment to high standards of ethics and integrity.

*Research Committee* – considers and makes recommendations on matters related to the Company's strategies and operations for the research and development of pharmaceutical products and vaccines.

It is the Board’s philosophy that matters of significance should be considered and, where appropriate, acted on by the full Board. The Board’s committees should function to perform the duties reserved to them by statute, regulation or charter, and to identify and focus issues for discussion by the full Board. At least annually, their respective members shall evaluate the effectiveness of the Audit Committee, Committee on Corporate Governance, and Compensation and Benefits Committee.

The Committee on Corporate Governance recommends the composition of the Board’s committees in consultation with the Chairman of the Board, or if there is no Chairman of the Board, with the Lead Director of the Board. Committee assignments are subject to the approval of a majority of the full Board. Committee assignments should reflect the expertise and interests of Board members, with the goal of ensuring that Committee members have the requisite background and expertise to participate fully on the committees on which they serve. There is not mandatory rotation of Board members among committees.

(6) *Continued Service on Board After Change in Career; Retirement of Directors*

- (a) In the event that a director changes his or her primary position, the director will (i) advise the Chairman of the Board of such change, or if there is no Chairman of the Board, the Lead Director of the Board; and (ii) submit his or her resignation from the Board. The Chairman of the Board, or if there is no Chairman of the Board, the Lead Director of the Board, will then consult with the Committee on Corporate Governance regarding the director’s continued service on the Board. The Committee will review each situation on an individual basis, taking into consideration the background, expertise and expected continued contribution of the director and make a recommendation to the full Board on whether to accept the director's resignation.
- (b) It is expected that a director shall not hold office beyond the next succeeding annual meeting after attaining the age of 72.
- (c) It is expected that a director who also is an employee of the Company will not be a candidate for reelection following termination of regular full-time employment.

(7) *Other Service*

The Board recognizes that individuals should limit the number of boards on which they serve so that they can give proper attention to each board responsibility. However, the philosophy of the

Board is not to set an invariant limit on the number of boards on which a director may serve. In the event that a director wishes to join the board of another company, it is expected that the director will advise the Chairman of the Board, or if there is no Chairman of the Board, the Lead Director of the Board, of his or her intention. The Chairman of the Board or Lead Director of the Board, as the case may be, will then consult with the Committee on Corporate Governance regarding whether the new commitment will allow the director to continue to fulfill his or her obligations to the Company. It is expected that a director will refrain from serving as a director, officer, employee or consultant with any competitive business during service with the Company and for three years or for a reasonable period of time, as determined by the Board of Directors, after service with the Company ends.

(8) *Compensation of Directors*

The Committee on Corporate Governance should regularly review the compensation that is provided to the directors of the Company and make recommendations to the Board regarding any appropriate modifications. The Compensation and Benefits Committee shall be responsible for engaging consultants and experts to assist with this process if necessary. Compensation provided to directors should remunerate the directors fairly for their service to the Board. It should also support the Company's goal of attracting and retaining the most qualified persons to the Board.

Directors' compensation should include stock-based components to align the interests of the directors with those of the stockholders of the Company. The Board has determined that the Company's compensation goals are met by a compensation package that includes meeting fees, retainer arrangements, deferred compensation opportunities, and stock options. In addition, directors joining the Board prior to January 1, 1996 are eligible to receive a retirement benefit; this benefit is not available to directors joining the Board after December 31, 1995.

As with all independent directors of the Company, directors who serve on the Audit Committee may not be paid remuneration by the Company other than the compensation provided to all directors of the Company. Directors who are current employees of the Company do not receive any additional compensation for their services as directors.

(9) *Stock Ownership Guidelines*

On joining the Board, each director must own at least one share of stock, with a target ownership level of 5,000 shares to be achieved by each director within five years of joining the Board or as soon thereafter as practicable. Shares held in the Merck Common Stock account under the Plan for Deferred Payment of Directors' Compensation will be included in the target goal. Upon the request of a director, the Committee on Corporate Governance will consider if modification of the target ownership level is appropriate in view of a director's personal circumstances.

(10) *Chairmanship of Meetings*

In the absence of the Chairman of the Board, or if there is no Chairman of the Board, in the absence of the Lead Director of the Board, the senior independent director present shall preside at all meetings of the stockholders and the Board of Directors.

(11) *Director Orientation and Continuing Education*

The Committee on Corporate Governance shall oversee the education and acculturation of new directors through an orientation program developed by management that exposes the director to the Company's business and strategies, allows for formal and informal interaction with members of management, and facilitates the building of relationships with other Board members. The Committee on Corporate Governance and management shall identify and communicate external and internal training and educational opportunities for continuing directors in areas of importance to the Company.

(12) *Incumbent Director Resignation Policy*

Under the Company's Restated Certificate of Incorporation, in the case of an uncontested election of directors (that is, the number of nominees for any election of directors does not exceed the number of directors to be elected), a nominee for election as a director shall be elected to the Board of Directors if the number of votes cast for such nominee's election exceeds the number of votes cast against such nominee's election. If an incumbent director who was a nominee for reelection is not reelected in an uncontested election of directors, the incumbent director shall tender his or her resignation promptly following certification of the stockholder vote for consideration by the Committee on Corporate Governance and the Board in accordance with the following procedures.

The Committee on Corporate Governance shall promptly consider such tendered resignation and recommend to the Board the action to be taken with respect to such tendered resignation. The recommendation of the Committee may be, among other things, to (i) accept the resignation; (ii) reject the resignation but address what the Committee believes to be the underlying reasons for the failure of the incumbent director to be re-elected; or (iii) reject the resignation. If the Committee recommends that the Board accept the tendered resignation, the Committee shall also recommend to the Board whether to fill the vacancy resulting from the resignation or to reduce the size of the Board.

In considering a tendered resignation, the Committee on Corporate Governance is authorized to consider all factors it deems relevant to the best interest of the Company, including (i) what the Committee believes to be the underlying reasons for the failure of the incumbent director to be re-elected, including whether these reasons relate to the incumbent director's performance as a director; whether these reasons relate to the Company or another company; and whether these reasons are curable and alternatives for effecting any cure; (ii) the tenure and qualifications of the incumbent director; (iii) the incumbent director's past and expected future contributions to the Company; (iv) the other Policies of the Board; and (v) the overall composition of the Board, including whether accepting the resignation would cause the Company to fail to meet any applicable requirements of the Securities and Exchange Commission, the New York Stock Exchange or any other regulatory or self-regulatory requirements.

The Board will act on the recommendation of the Committee on Corporate Governance no later than 90 days following certification of the stockholder vote for the stockholders' meeting at which the incumbent director was not re-elected. In considering the Committee's recommendation, the Board is authorized to consider the information and factors considered by the Committee and any additional information and factors as the Board deems relevant to the best interests of the Company. Following the Board's decision, the Company will promptly file a Current Report on Form 8-K or issue a press release describing the Board's decision and providing an explanation of the process by which the decision was reached and, if applicable, the reasons for rejecting the tendered resignation.

Any incumbent director who tenders his or her resignation pursuant to this Policy in connection with an election of directors will not participate in the Committee on Corporate Governance's or the Board's consideration of his or her tendered resignation or, except as provided below, in the consideration of any other resignation tendered pursuant to this Policy in connection with that election of directors; provided that any incumbent director may provide to the Committee and/or the Board any information or a statement he or she deems relevant to the Committee's and/or the Board's consideration of his or her tendered resignation.

In the event that a majority of the members of the Committee on Corporate Governance are required to tender their resignation pursuant to this Policy in connection with an election of directors, then, if the number of independent directors who are not required to tender their resignation in connection with an election of directors is three or greater, the Board shall appoint a committee, which shall be comprised of those independent directors selected by the independent directors from amongst themselves, for the purpose of considering the tendered resignations in accordance with the factors described above, and that committee shall make the recommendation contemplated to be made by the Committee on Corporate Governance to the Board under this Policy.

Notwithstanding the foregoing, in the event that the number of independent directors who are not required to tender their resignation pursuant to this Policy in connection with an election of directors is less than three, a committee comprised of all independent directors, which shall be appointed by the Board, shall consider and act upon the tendered resignations in accordance with the factors described above; provided that each independent director required to tender his or her resignation pursuant to this Policy shall recuse himself or herself from consideration of his or her resignation.

This Policy will be summarized or included in each proxy statement relating to election of directors of the Company.

### (13) *Related Person Transaction Policy*

This policy applies to any transaction that the Company determines would be required to be publicly disclosed under Item 404(a) of Securities and Exchange Commission Regulation S-K ("Item 404(a)"). Section 404(a) provides for the disclosure of transactions involving amounts exceeding \$120,000 that the Company is a party to and in which a "related person" has a direct or indirect material interest ("related person transaction"). The term "related person" is defined by Item 404(a) and includes Directors, executive officers, director nominees, and the immediate family members of these individuals.

It is the policy of the Board that related party transactions, and any material amendments or modifications to such transactions, shall be subject to review, approval or ratification by the Board, or a Committee of the Board, and monitoring in accordance with the standards set forth below.

Whether the related person's interest in a transaction is material or not will depend on the overall significance of the transaction to investors in light of all relevant facts and circumstances, including the amount involved in the transaction and the relationships of the parties to the transaction (i) with each other; and (ii) with the related person.

This policy shall be administered by the Committee on Corporate Governance (the "Committee"). Pursuant to the policy:

- (a) Company management shall be responsible for identifying transactions that meet the requirements of a related person transaction requiring review under this policy through annual submission of and any interim update to Director & Officer questionnaires or conflict of interest certifications, review of existing or proposed transactions with any shareholders owning five percent or greater of the Company's outstanding common stock as of the date upon which the Company received notice of such party's status as a related person, and through other disclosures to and reviews by Management. Management shall provide the Committee on Corporate Governance all material information relevant to related person transactions, with the exception of related person transactions that are excluded from the reporting requirements under Item 404(a), which shall not be subject to review, approval or ratification by the Committee on Corporate Governance pursuant to this policy.
- (b) Charitable contributions, grants or endowments by the Company to a university or other academic institution at which a related person's only interest is as a professor of such university or other academic institution and the aggregate amount involved does not exceed 0.5% of the recipient organization's total annual revenues shall be deemed pre-approved pursuant to this policy. Notwithstanding the foregoing, a charitable contribution, grant or endorsement shall not be deemed pre-approved where the related person has any role in the proposal or review of the contribution, grant or endowment or will specifically benefit from it personally or professionally.
- (c) The members of the Committee on Corporate Governance shall review the material facts of related person transactions, and the disinterested members of the Committee shall either approve or disapprove of the transactions. The Committee shall only approve the transaction(s) if it determines that such transaction(s) is fair and reasonable to the Company. If advance approval by the Committee is not feasible, then the related person transaction shall be considered and, if the Committee determines it be appropriate, ratified by the disinterested members of the Committee. If after considering the relevant facts and circumstances in connection with such transaction, the Committee determines that it cannot ratify the related person transaction, then the Committee shall take such course of action as the Committee deems appropriate under the circumstances.
- (d) As necessary, the Committee shall review approved (including pre-approved) or ratified related person transactions throughout the duration of the term of the transaction, but no less than annually, to ensure that such transaction remains fair and reasonable to the Company.
- (e) In determining whether a related person transaction is fair and reasonable to the Company, the Committee shall consider all relevant factors, including as applicable: (i) the Company's business rationale for entering into the transaction; (ii) the alternatives to entering into a related person transaction; (iii) whether the transaction is on terms comparable to those generally available to an unaffiliated third party under the same or similar circumstances; (iv) the extent of the related person's interest in the transaction; (v) the potential for the transaction to lead to an actual or apparent conflict of interest; and (vi) the impact on a director's independence in the event the related person is a director, an immediate family member of a director, or an entity in which a director is a partner, shareholder or executive officer.