



QUEST DIAGNOSTICS INCORPORATED

1997 ANNUAL REPORT

A large, semi-transparent green graphic in the background, consisting of a sunburst shape with a stylized 'Q' logo inside it.

Answers for Better Patient Care

Our Vision: Dedicated people improving the health of patients through unsurpassed diagnostic insights.

Our Business: Quest Diagnostics Incorporated is one of the nation's leading providers of diagnostic testing, information and services with laboratories and patient service centers across the United States. The wide variety of tests performed on human tissue and fluids help doctors and hospitals diagnose, treat and monitor disease. Nichols Institute conducts research, specializes in esoteric testing using genetic screening and other advanced technologies, performs clinical studies testing, and manufactures and distributes diagnostic test kits and instruments. Quest Informatics collects and analyzes laboratory, pharmaceutical and other data to help large health care customers identify and monitor patients who are at-risk for certain diseases.

Table of Contents:

Financial Highlights	1
Chairman's Letter	2
A Review of 1997	7
Board of Directors	14
Executive Officers	14
Subsidiaries, Affiliates and Equity Ventures	14
Investor Information	15
Our Values	17



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Senior Lab Technician
Parasitology Laboratory
Teterboro, New Jersey



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Route Service Representative
St. Joseph, Minnesota



Claire Breton
Phlebotomist
Bedford, New Hampshire



Bernard Kasten, M.D.
Chief Laboratory Officer
Teterboro, New Jersey

FINANCIAL HIGHLIGHTS

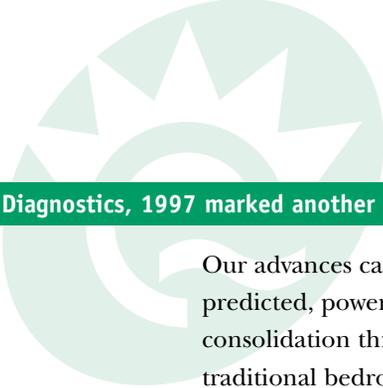
<i>(in millions, except per share data)</i>	Y E A R S E N D E D D E C E M B E R 3 1			
	1997	Pro Forma 1996 (a)	1996	1995
Net revenues	\$ 1,528.7	\$ 1,616.3	\$ 1,616.3	\$ 1,629.4
Net income (loss) before special charges	17.6	15.6	(15.9)	(19.2)
Net loss (b)	(22.3)	(594.5)	(626.0)	(52.1)
Weighted average common shares outstanding	29.2	28.8		
Net income per common share before special charges (c)	\$ 0.60	\$ 0.54		
Adjusted EBITDA (d)	\$ 153.8	\$ 166.4	\$ 166.4	\$ 176.5

(a) Assumes that the spin-off from Corning Incorporated had been completed and the change in accounting policy for intangible assets had been adopted as of January 1, 1996.

(b) Includes special charges totaling \$56 million, \$669 million and \$51 million in 1997, 1996 and 1995, respectively.

(c) Potentially dilutive common shares, which result primarily from options, are insignificant and do not impact net income per share. Historical earnings per share data are not meaningful as the Company's historical capital structure is not comparable with the capital structure subsequent to its spin-off from Corning Incorporated.

(d) Adjusted EBITDA represents income (loss) before income taxes plus net interest expense, depreciation, amortization and special charges.



For Quest Diagnostics, 1997 marked another step forward in our continuing turnaround.

Our advances came against the background of an industry in turmoil. Faster than anyone predicted, powerful trends are transforming the laboratory testing business. Ongoing consolidation throughout the health care industry is leading thousands of physicians to the traditional bedrock of our customer base to sell their practices to hospitals and health networks eager to take on their lab work. Simultaneously, more restrictive government regulations regarding requisitions and reimbursements are pressuring health care providers to further reduce test utilization. The result has been intensified competition for declining volume.

Despite these challenges, including a 7.3% decline in testing volume, we had stable operating earnings. Indeed, in the fourth quarter, excluding special charges, we achieved year-over-year operations improvement for the first time in two years. Perhaps even more critically, we generated more than \$175 million in cash from operations during 1997 as a result of our renewed focus on managing the fundamentals of the business.

Our progress in this fluid environment flows from an unwavering commitment to our vision and strategic objectives. That commitment is played out each day by Quest Diagnostics' employees, people who understand that everything they do directly influences critical health care decisions involving millions of patients across the country. Our employees are dedicated to providing outstanding value for all of our customers: millions of patients, tens of thousands of physicians, and thousands of other health care providers and payors. We firmly believe that satisfied employees play an essential role in developing and sustaining satisfied customers, and that in the end, satisfied customers yield satisfied shareholders.

Performance Summary

Quest Diagnostics reported a loss of \$22.3 million for the fiscal year ending December 31, 1997. However, excluding the impact of special consolidation-related charges, we had net income of \$17.6 million and earnings per share of \$0.60 in 1997 on revenues of \$1.5 billion. Along with the year-over-year operations improvement, there were other key indicators of our continuing turnaround:

¥ Despite declining volume, we raised average prices for the first time in five years. Indeed, a portion of the volume decrease resulted from a disciplined approach to pricing in the face of severe market pressure.

¥ We continued to strengthen our balance sheet by reducing accounts receivable balances and increasing cash. The number of days sales outstanding, a key measure of billing and collection efficiency, improved to 63 days by the end of the year, compared to 73 days at the beginning.

¥ Ongoing efforts toward standardization, operational improvements and actions involving underperforming facilities yielded cost reductions of more than \$76 million, \$45 million of which reflects permanent improvements in our clinical laboratory cost structure toward the stated goal of \$180 million in reductions by the year 2000.

We achieved these results by focusing on our strategic goals: improving quality while controlling costs; seeking new growth opportunities; and restoring an emphasis on innovation.

Controlling Costs and Enhancing Quality

In early 1997, we initiated a market-by-market analysis of operations, and committed to decide by this year's end the appropriate course of action for each underperforming facility.

That portion of the process is nearly complete. All but one of our unprofitable labs have either been restored to profitability, scheduled for downsizing and consolidation with other more profitable regional labs, or combined in a strategic alliance.

Beyond the anticipated savings, these actions address a broader strategic issue. Despite the fact that Quest Diagnostics is one of the "big three" national testing companies, the industry remains one in which most customer interaction occurs at a local or regional level. We believe we can maintain a national presence offering high quality service without having a laboratory in every market. In part, reductions in lab capacity help us shift away from the "bricks and mortar" notion of the business toward the model of an information and services provider.

Another major initiative involves standardization. This leads to more efficient operations, lower costs and higher quality. Moreover, our goal of partnering with regional and national health care providers requires standardized business processes and customer interfaces.

In particular, we have moved aggressively to standardize the management of the information technology function. As we shift our emphasis toward becoming a leading source of medical information, we must develop best-in-class information technology capabilities. Accordingly, we hired a seasoned Chief Information Officer who assumed overall responsibility for all information technology activities as of November, 1997.

We achieved these results by focusing on our strategic goals: improving quality while controlling costs; seeking new growth opportunities; and restoring an emphasis on innovation.



We remain committed to managing costs while, at the same time, enhancing the quality of the services provided. Quality improvement leads to lower costs by reducing rework and errors. Our Quality Management System for evaluating the quality of work within each unit documented significant improvement over the course of the year.

Growing the Business

Managing costs is only part of the solution; clearly, no company can shrink its way to greatness. Throughout the year, positioning the company for future growth remained a top priority.

We aggressively pursued a variety of strategic alliances with leading health care providers. In Arizona, for instance, we joined with Samaritan Health Systems in a new joint venture, Sonora Quest Laboratories, that combines our respective lab operations into a single entity that is a strong leader in a vibrant market.

We are accelerating our efforts, pursuing a wide range of initiatives that we expect will significantly expand growth opportunities and dramatically extend our customer reach.

In order to strengthen focus and accountability, we restructured the sales and marketing organization in the fall, dividing it into two functions. One is responsible exclusively for extending into new areas with significant growth potential, such as large networks and regional health care providers, while the other concentrates on traditional customers.

Finally, in line with our stated interest in small, strategically significant acquisitions, we acquired the clinical laboratory assets of Diagnostic Medical Laboratory, a small company with many facilities throughout Connecticut. The acquisition of DML strengthened our market position while eliminating duplicate operations.

Innovation

We continue to pursue our third strategic objective, leadership in innovation.

Quest Informatics, which turns laboratory testing data into valuable information, began winning important contracts with major pharmaceutical firms and managed care organizations eager to tap into its database of diagnostic insights. Quest Informatics' unique application of data mining technology was recognized in 1997 with a prestigious Computerworld Smithsonian Award for visionary use of information technology in the field of medicine.

We also made progress in 1997 toward our goal of developing a world-class capability in the exciting field of molecular testing. The past decade has brought dramatic breakthroughs in the

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biomedical sciences, as researchers have found new ways of measuring genes to determine patients' predisposition to diseases, monitor treatment and prescribe drugs. At Quest Diagnostics, we strive to take medical discoveries and make them available to our customers in clinically useful ways that will aid medical decision-making and the delivery of health care. We anticipate that in the coming years, great progress will be made in the areas of molecular diagnostics for infectious diseases, oncology and genetics.

To that end, we have taken significant steps on several fronts. World-renowned leaders in the field are helping us develop this important part of the business. We are investing resources, capital and expertise in our applied genomics program, which converts medical research into clinical tests and information. And we have established partnerships with leading biotechnologists and academic centers to provide our scientists with access to leading edge discoveries as they occur.

The persistence of these trends in the marketplace underscores the importance of accelerating the progress we made in 1997.

The Outlook for 1998

Given the challenges we faced in 1997, what can we expect from the business environment in 1998? We will continue to face challenges, but we look forward to making more progress in our drive to become a leading provider of essential health care information and services.

To be sure, we anticipate intense competition and volume pressure to continue. We have been preparing for months to address the impact of new government-imposed requisition guidelines, using new American Medical Association test codes, which will further discourage test ordering.

The good news, from an industry perspective, is that the government appears to be leveling the regulatory playing field. Historically, the large, independent labs have been subjected to more stringent regulation than hospitals and smaller labs. More equitable treatment can only help us.

Still, the persistence of these trends in the marketplace underscores the importance of accelerating the progress we made in 1997.

We will stay focused on generating cash in order to remain financially flexible. We will closely monitor business trends and take appropriate steps to match capacity with volume. We will continue to exit relationships with customers who are unwilling to compensate us fairly for the services we provide.

Standardization will remain a critical objective as we speed our evolution from a network of semi-autonomous businesses to a single enterprise with centralized direction and standardized processes, practices and offerings. We will continue to build information technology capabilities, including, like all companies, appropriate preparations for the Year 2000.

History teaches us that periods of great turmoil also hold the promise of extraordinary opportunity. The challenges we face today are considerable; but they pale in comparison with the opportunities that await us tomorrow.

The restructured commercial organization will step up efforts to partner with leading buyers of testing information as we strive to push top-line and bottom-line growth. We will continue to selectively pursue small strategic acquisitions.

We have high hopes for informatics and molecular diagnostics, particularly as we build collaborations with other major players. In contrast with some competitors, which are owned in varying degrees by large pharmaceutical firms, our independence is a source of advantage that allows us greater freedom in choosing partners in this fast-growing field. As phenomenal as the progress in this area has been over the past decade, we fully believe the advances in the next ten years will be even more breathtaking. The steps we are taking now will position us to remain a national leader.

Summary

History teaches us that periods of great turmoil also hold the promise of extraordinary opportunity. The challenges we face today are considerable; but they pale in comparison with the opportunities that await us tomorrow.

With 10,000 Baby Boomers turning age 50 every day, we foresee a steadily growing appetite for medical testing and information to help people participate in managing their own health care. New developments in both medicine and information technology will make it possible to provide health care professionals and patients with faster, more accurate and more sophisticated information at a time when demand for those services will reach unprecedented levels.

The challenging course we pursued in 1997, and which we will continue in 1998, will provide the financial stability, disciplined business processes and medical innovations to position us as the leading provider of diagnostic information and insights for customers and patients.



Kenneth W. Freeman
Chairman and Chief Executive Officer

The American health care landscape is changing in fundamental ways, creating enormous challenges for any organization involved in patient care. In this difficult environment, we are aggressively pursuing our three-pronged business strategy: to become the highest quality, lowest cost provider of diagnostic testing, information and services; to become the preferred partner with large buyers; and to become the leading innovator for diagnostic testing, information and services.

While the wrenching changes of the past few years have brought pain to our industry, we see tremendous opportunity ahead. That opportunity lies in continuing to improve the efficiency of the health care services we provide; in teaming with large buyers who need our expertise; and in extending the frontiers of innovation to offer vital new testing services. We feel strongly that our employees are uniquely qualified to exploit the opportunities facing us and win in the marketplace.

Our Business

In general, doctors order laboratory tests for three main reasons: to screen healthy patients for unexpected problems; to help diagnose a sick patient; or to monitor therapy in a patient being treated for disease. In each case, the doctor's own five senses need to be extended to find answers that become the basis for critical health care decisions. The results of the tests we perform on patients' blood, other bodily fluids and tissues provide the doctor with a stunning array of answers that have enormous value not only for doctors and large health care organizations, but also, of course, for patients themselves.

The business of producing these answers is quite complex and labor-intensive. Our network of professional couriers retrieve tens of millions of specimens each year from doctors' offices, clinics, hospitals, and 800 Patient Service Centers, and speed them to one of our regional laboratories, branch labs or quick-turnaround STAT labs across the country. Most testing is performed overnight with results transmitted to doctors the next morning. After we perform the tests, we begin the laborious and highly regulated process of sending out the proper bills to ensure that we are reimbursed for our work. Our payors include patients, doctors, indemnity insurance companies, managed care companies, hospitals, clinics, employers and government payors such as Medicaid and Medicare.

Occasionally, some clinical situations require additional information beyond that provided by our regional and branch laboratories. In these situations, the specimens are sent to Nichols Institute in San Juan Capistrano, California, where we perform highly specialized esoteric testing. By concentrating on tests that require special knowledge and equipment, the scientists and medical directors at Nichols Institute are able to attract esoteric specimens from not just our own labs, but those of hospitals, physicians and even our competitors. Having this constant stream of specimens requiring sophisticated analysis, as well as a broad network of top medical specialists for clients to consult from our labs and throughout academia gives us a unique perspective from which to offer diagnostic insights.



Highest Quality and Lowest Cost

Acquisitions during the early and mid-1990s expanded our company and gave us a national presence. They also left us with a collection of diverse facilities and cultures. Since the spin-off from Corning Incorporated, we have focused on becoming one company, mainly by standardizing operations nationwide based on best practices we have identified across the company. Standardization initiatives helped us make significant progress during the year in improving the quality of the services we provide while significantly reducing costs.

Standardization initiatives involve everyone at Quest Diagnostics. To better match costs with revenues, we adjusted price and service levels at low-volume, low-margin customers. To reduce bad debt expense, we established a standard process to obtain missing billing information from physicians and patients that is required before we can issue a billable claim. To improve quality and simplify processes, we standardized test send-out procedures by reducing the number of vendors from over 1,000 laboratories to just two preferred providers. To get the best value from our vendors, we began working in a collaborative way with a few preferred national suppliers.

The impact of standardization is just beginning to show. It helped us to realize cost reductions of \$76 million during the year. It also enabled us to respond to difficult new requirements enforced in 1996 and 1997 by Medicare which require physicians to document the medical necessity of testing. And it enabled us to improve the way we manage employee attrition, creating a more productive workforce that included 2,000 fewer employees at yearend than at the start of 1997.

At the same time, we are improving quality throughout the company. We have installed a Quality Management System which focuses on enhancing customer satisfaction. We are using comprehensive customer satisfaction surveys to allow us to identify the causes of customer service failures and establish continuous improvement efforts company-wide. We have shown improvements in government-mandated College of American Pathologists proficiency testing as well as other measures of service quality, including turnaround time and customer service response time.

We believe our company and the industry have been operating significantly below available capacity. Late in the year, we began reducing excess capacity from our national network by downsizing three underperforming labs. In some markets we will maintain a presence through Local Customer Centers, consisting of sales staff, couriers and logistics support and phlebotomists, while the actual testing is performed elsewhere in the network. This will allow us to maintain or improve the level of quality and service we provide in those markets while reducing costs and increasing overall efficiency and profitability.

Good News for Heart Patients

Our efforts to standardize testing are resulting in better patient care. Last year, we took a leadership role in standardizing the way the industry performs prothrombin time testing, the primary test for monitoring blood clotting in heart patients. During the year, the test, virtually unchanged since the 1940s, was modernized using recombinant genetic technology that will provide uniform results for consistent, reliable interpretation. A study conducted by Dr. David Matchar of Duke University estimates that these improvements in laboratory monitoring and the appropriate drug therapy could prevent 40,000 strokes each year in the U.S. alone. That's good news for patients who depend on anticoagulant drug therapy to protect them from strokes, deep vein thrombosis and coronary artery occlusion.



We are seeing quality improvements throughout our system in testing proficiency as well as service quality measures, like turnaround and customer service response time.

A histology technician prepares slides for cancer testing from human tissue embedded in paraffin.

After entering patient data into our laboratory information system, a lab aide routes samples to the appropriate department for testing.

highest value



High-speed, automated chemistry analyzers perform multiple tests on a single blood sample to identify liver, heart and metabolic conditions.

We will be the highest quality, lowest cost provider of diagnostic testing, information and ser-

We will be the preferred partner with large buyers of health care services.



partnership

We are helping large buyers through our ability to develop a wide range of innovative collaborations.

Preferred Partner with Large Buyers

Our accumulated knowledge and experience gives us a unique capability when it comes to helping large health care organizations take better care of their patients.

As government and private payors continue to squeeze costs out of the nation's health care system, providers are forced to become more efficient while at the same time complying with a myriad of rules and regulations. Hospitals and physician practices hope to gain efficiencies as they consolidate to form integrated health care delivery networks. At the same time, managed care companies and group purchasing organizations are trying to maintain quality care as they search for new ways to cut their costs.

We are helping large buyers through our ability to develop a wide range of innovative collaborations. We believe that we are building competitive advantage through unique partnerships designed to reduce costs and improve lab quality and service, while adhering to a policy of total compliance with all applicable government rules and regulations.

Ten years ago we were asked to streamline and manage a laboratory system shared by two competing hospitals in Erie, Pennsylvania. Today, that lab network serves 19 hospitals in Western Pennsylvania and Southwestern New York. In Nebraska, we manage inpatient and outreach labs for 25 hospitals and provide outsourcing arrangements.

Last summer, we announced the formation of an equity joint venture with Samaritan Health System, Arizona's largest health care delivery system, to pursue opportunities in diagnostic testing, information and services throughout Arizona. Both partners have contributed their existing commercial labs, and integration will occur by the end of 1998. The joint venture, Sonora Quest Laboratories, is now the leading provider in the market.

We are involved in active discussions with hospital networks and other large buyers of health care services throughout the country.

Partnering for Mutual Benefit

We are helping the U.S. Department of Veterans Affairs create an integrated delivery network. The VA Great Lakes Health Care System, with eight hospitals and five clinics in Northern Illinois, Wisconsin and the Upper Peninsula of Michigan, is sending us specimens for routine and esoteric reference lab testing, and is also purchasing our logistics services as the glue that connects the facilities to form a truly integrated network.

“Before this, we had eight disassociated facilities that were often related just by name,” said Joan Cummings, M.D., Network Director for the VA Great Lakes Health Care System. “The agreement with Quest Diagnostics is more than a contract, it is a partnership.”

“Before our partnership with Quest Diagnostics, we had eight disassociated facilities that were often related just by name,” said Dr. Joan Cummings, Network Director for the U.S. Department of Veterans Affairs’ Great Lakes Health Care System.



Leading Innovator

At Nichols Institute, our research and development center, scientists develop assays, or tests, to find answers to the most confounding clinical questions. Founded in 1971 to develop new endocrine tests to detect hormones and diagnose thyroid and other diseases, Nichols Institute has evolved into a global leader in HIV and cancer testing, using genetic testing and other advanced technologies. As esoteric tests evolve to become routine, Nichols Institute makes its tests available to our high-volume labs around the country. A growing Clinical Studies business based at Nichols Institute is helping pharmaceutical companies speed the development of new drugs.

Nichols Institute Diagnostics turns the specialized tests developed at Nichols Institute into kits and instruments. It manufactures and sells its products to hospital, commercial and physician laboratories around the world. NID is currently awaiting approval from the Food and Drug Administration for its first cancer diagnostic products, which will be featured on its recently launched Nichols Advantage analyzer.

Exciting advances in biotechnology and computer science are unlocking the secrets of the human genome. At the same time, the advent of miniaturization is starting to revolutionize the clinical laboratory. Together, these trends have the potential to transform the clinical laboratory testing business. We are teaming with technology partners while investing resources, capital and expertise, primarily in genomics and medical informatics, to ensure our long-term success.

Identifying Patients at Risk

Increasingly, managed care organizations, pharmaceutical companies and large health care delivery networks are interested in monitoring and managing the health of large populations of patients. Many of these organizations have established disease management programs to identify and track those members who are at the highest risk for certain diseases. Targeting care early to those who need it most results in better patient care and helps reduce long-term treatment costs.

But finding these patients can be like looking for a needle in a haystack. Fortunately, Quest Informatics has developed innovative data collection and analysis tools to quickly identify these at-risk patients. We are mining a rich lode of data from our laboratories' test results.

Previously, labs throughout our industry did not recognize the value of clinical laboratory databases, explains R. Peter Mallon, Ph.D., Vice President, Medical Applications at Quest Informatics. As disease management programs evolve and become established, we have developed sophisticated processes to turn disparate data from multiple sources into valuable information.

Last year, Michigan managed care provider Blue Care Network of Southeast Michigan collaborated with Quest Informatics to create an innovative disease management capability. Quest Informatics developed a diabetes disease management tool which integrated clinical laboratory data with prescription records. This effort continues to provide network-wide improvement in the care of patients with diabetes. Research shows that proper monitoring of diabetes patients leads to reduced complication rates and decreased hospital admissions.



Our broad network of top medical specialists from our laboratories and throughout academia gives us a unique perspective from which to offer diagnostic insights.

At Nichols Institute, our research and development center, scientists develop assays, or tests, to find answers to the most confounding clinical questions.

To diagnose inborn errors of metabolism, a medical technologist in Biochemical Genetics tests for organic acids.



innovation



A laboratory scientist in Molecular Genetics prepares an automated gene sequencer to determine drug resistance to HIV therapy. With this knowledge, HIV drug regimens can be tailored to extend a patient's life.

We will be the [leading innovator](#) for diagnostic testing, information and services.

Board of Directors

Kenneth D. Brody

Founding Partner
Winslow Partners LLC
Washington, District of Columbia

Van C. Campbell

Vice Chairman
Corning Incorporated
Corning, New York

Mary A. Cirillo

Executive Vice President and
Managing Director
Bankers Trust New York Corporation
New York, New York

David A. Duke, Ph.D.

Retired Vice Chairman
Corning Incorporated
Corning, New York

Kenneth W. Freeman

Chairman
Chief Executive Officer
Quest Diagnostics Incorporated
Teterboro, New Jersey

Dan C. Stanzione, Ph.D.

President of Bell Laboratories and
Chief Operating Officer
Lucent Technologies Incorporated
Murray Hill, New Jersey

Gail R. Wilensky, Ph.D.

John M. Olin Senior Fellow
Project HOPE
Bethesda, Maryland

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Chairman
Chief Executive Officer

James D. Chambers

Senior Vice President
Marketing and Business Development

Gregory C. Critchfield, M.D.

Senior Vice President
Chief Medical and Science Officer

Gerald C. Marrone

Senior Vice President
Chief Information Officer

Douglas M. VanOort

Senior Vice President
Operations

Robert A. Carothers

Vice President
Chief Financial Officer

Kurt R. Fischer

Vice President
Human Resources

Raymond C. Marier

Vice President
General Counsel

C. Kim McCarthy

Vice President
Compliance and Government Affairs

Alister W. Reynolds

Vice President
Strategic Planning

David M. Zewe

Vice President
Sales

Major Facilities and Affiliated Equity Ventures

Regional Laboratories:

San Diego, California
Wallingford, Connecticut
Denver, Colorado
Deerfield Beach, Florida
Wood Dale, Illinois
Baltimore, Maryland
Cambridge, Massachusetts
Auburn Hills, Michigan
St. Louis, Missouri
Lincoln, Nebraska
Teterboro, New Jersey
Portland, Oregon
Horsham, Pennsylvania
Pittsburgh, Pennsylvania
Irving, Texas

Nichols Institute

San Juan Capistrano, California

Patient Service Centers located across the United States

For the center nearest you, please call:
800-225-7483

Subsidiaries, Affiliates and Equity Ventures (% ownership)

Nichols Institute Diagnostics (100%)
San Juan Capistrano, California

Associated Clinical Laboratories (54%)
Erie, Pennsylvania

Sonora Quest Laboratories (49%)
Phoenix, Arizona

National Imaging Associates (27%)
Saddle River, New Jersey

Home Access Health (13%)
Hoffman Estates, Illinois

Common Stock

Shares of Quest Diagnostics Incorporated common stock (ticker symbol: ÖDGXÓ) are listed on the New York Stock Exchange and also trade on the Stuttgart (Germany) Stock Exchange. Options on Quest Diagnostics shares are traded on the Chicago Board Options Exchange.

Corporate Headquarters

One Malcolm Avenue
Teterboro, New Jersey 07608
201-393-5000

Annual Meeting

The first annual meeting of Quest Diagnostics shareholders will be held on May 12, 1998, in New York City. A proxy statement and annual report were mailed to shareholders of record as of March 16, 1998.

Additional Information

All inquiries should be addressed to:
Investor Relations Department
Quest Diagnostics Incorporated
One Malcolm Avenue
Teterboro, New Jersey 07608
201-393-5030

Shareholders may call the Quest Diagnostics Investor News and Information Line toll-free at: 888-DGX-0002.

Annual Report on Form 10-K

A copy of the Quest Diagnostics 1997 Annual Report on Form 10-K, filed with the Securities and Exchange Commission, is contained in this Annual Report, starting after page 16. Additional copies are available without charge by contacting the Investor Relations Department.

Internet Access

Corporate news releases, our annual report, Forms 10-K and 10-Q and other information about the company are available through Quest DiagnosticsÕ web site on the Internet. It may be accessed at the following address: <http://www.questdiagnostics.com>.

Transfer Agent and Registrar

Harris Trust and Savings Bank
Shareholder Services Division
P.O. Box 755
Chicago, Illinois 60690-0755
Telephone: 312-461-6001

For the hearing impaired, Harris Bank has a Telecommunication Device for the Deaf (TDD) telephone. The listing is Harris Bank Hearing Impaired Telephone TDD 312-461-5633 or TDD 312-461-5637.

Report change of address to Harris Trust and Savings Bank at the above address.

No dividends have been declared on common stock.

ÕSafe HarborÕ Statement under the Private Securities Litigation Reform Act of 1995

The statements in this Annual Report which are not historical facts or information are forward-looking statements. These forward-looking statements involve risks and uncertainties that could cause the outcome to be materially different. Certain of these risks and uncertainties are listed in the 1997 Annual Report on Form 10-K contained in this Annual Report. These risks and uncertainties include heightened competition, impact of changes in payor mix, adverse actions by governmental and other third-party payors, the impact upon Quest DiagnosticsÕ collection rates or general or administrative expenses resulting from compliance with Medicare administrative policies, adverse results from pending governmental investigations, reduction in tests ordered by existing customers, material increases in premiums for insurance coverage, denial of licensure, computer or other system failures, development of technologies that substantially alter the practice of medicine and changes in interest rates.

Compliance

Quest Diagnostics is committed to the highest ethical standards and complying with all applicable laws and regulations that govern its business operations, including those that apply to reimbursement for testing under the federal Medicare and Medicaid programs. Quest Diagnostics requires that all employees abide by these laws, rules and regulations and provides annual compliance training for all employees. Quest Diagnostics is committed to protecting the health and safety of its employees as well as the environmental resources of the communities in which it operates.

The Raymond Gambino Quality Award

The purpose of the Raymond Gambino Quality Award is to encourage and recognize quality excellence and best practices within Quest Diagnostics. The award is named for Quest Diagnostics' distinguished Chief Medical Officer Emeritus whose long career includes service as Director of Laboratories and Chief Pathologist at New York's St. Luke's-Roosevelt Hospital as well as a tenured professorship of pathology at the Columbia University College of Physicians and Surgeons.

1997 Challengers:

Denver, Colorado

Horsham, Pennsylvania

Trademarks

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Neither this report nor any statement contained herein is furnished in connection with any offering of securities or for the purpose of promoting or influencing the sale of securities.

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Quest Diagnostics is an equal opportunity employer.

Produced by:
Corporate Communications Department
Quest Diagnostics Incorporated

Design: Q. Cassetti
Photography: Ed Wheeler
Printing: Daniels Printing

Quality

The patient comes first in everything we do. Our passion is to provide every patient and every customer with services and products of uncompromising quality — error free, on time, every time. We do that by dedicating ourselves to the relentless pursuit of excellence in the services we provide.

Integrity

Credibility is the key to our success; therefore, all of our processes, decisions and actions ultimately are driven by integrity. We are honest and forthright in all our dealings with our customers and with each other. We are responsible corporate citizens in the communities we serve. We strictly comply with the laws and regulations governing our business, not only as a legal obligation and a competitive necessity, but because it is the right thing to do.

Innovation

We constantly seek innovative ways to enhance patient care and provide value to our customers. We support the creativity, courage and persistence that transform information into knowledge, and knowledge into insights. We seek continuous advancement through the adaptation of existing knowledge as well as through experimentation, with the full understanding that we learn from our failures as well as our successes.

Accountability

As a company and as individuals, we accept full responsibility for our performance and acknowledge our accountability for the ultimate outcome of all that we do. We strive for continuous improvement, believing that competence, reliability, and rigorous adherence to process discipline are the keys to excellence.

Collaboration

We believe in teamwork and the limitless possibilities of collaborative energy. We achieve excellence by putting collective goals ahead of personal interests. We support and encourage open communication and meaningful cooperation among colleagues from varying backgrounds and disciplines. We respect individual differences, and we value diversity.

Leadership

We strive to be the best at what we do — both as a company, and as individuals. We embrace the qualities of personal leadership: courage, competence, confidence and a passion for surpassing expectations. We will provide growth opportunities for our employees, quality services and products to our customers and superior returns to our shareholders.





Quest
Diagnostics

Quest Diagnostics Incorporated
One Malcolm Avenue
Teterboro, New Jersey 07608

<http://www.questdiagnostics.com>