KIRBY CORP
Form SC 13G/A
February 17, 2010

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 13G
Under the Securities Exchange Act of 1934
(Amendment No. 4)

Kirby Corporation
(Name of Issuer)

Common Stock
(Title of Class of Securities)

497266106
(CUSIP Number)

December 31, 2009
(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)

[ ] Rule 13d-1(c)

[ ] Rule 13d-1(d)

The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 497266106

1) Names of Reporting Persons

Select Equity Group, Inc.

2) Check The Appropriate Box If a Member of a Group (See Instructions)
(A) [ ]
(B) [ ]

3) SEC Use Only

4) Citizenship or Place of Organization

New York

Number of Shares Beneficially Owned by Each Reporting Person With:

5) Sole Voting Power

2,289,824

6) Shared Voting Power

0

7) Sole Dispositive Power

2,289,824

8) Shared Dispositive Power

0

9) Aggregate Amount Beneficially Owned by Each Reporting Person

2,289,824

10) Check If the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)

[ ]

11) Percent of Class Represented by Amount in Row (9)

4.26%

12) Type of Reporting Person (See Instructions)

IA

CUSIP No. 497266106

1) Names of Reporting Persons

Select Offshore Advisors, LLC

2) Check The Appropriate Box If a Member of a Group (See Instructions)
(A) [ ]
(B) [ ]

3) SEC Use Only

4) Citizenship or Place of Organization

New York

Number of Shares Beneficially Owned by Each Reporting Person With:

5) Sole Voting Power

626,372

6) Shared Voting Power

0

7) Sole Dispositive Power

626,372

8) Shared Dispositive Power

0

9) Aggregate Amount Beneficially Owned by Each Reporting Person

626,372

10) Check If the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)

[ ]

11) Percent of Class Represented by Amount in Row (9)

1.16%

12) Type of Reporting Person (See Instructions)

IA

CUSIP No. 497266106

1) Names of Reporting Persons

George S. Loening

2) Check The Appropriate Box If a Member of a Group (See Instructions)
(A) [ ]
(B) [ ]

3) SEC Use Only

4) Citizenship or Place of Organization

USA

Number of Shares Beneficially Owned by Each Reporting Person With:

5) Sole Voting Power

2,916,196

6) Shared Voting Power

0

7) Sole Dispositive Power

2,916,196

8) Shared Dispositive Power

0

9) Aggregate Amount Beneficially Owned by Each Reporting Person

2,916,196

10) Check If the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions)

[ ]

11) Percent of Class Represented by Amount in Row (9)

5.42%

12) Type of Reporting Person (See Instructions)

IN

Item 1. (a) Name of Issuer:

Kirby Corporation

(b) Address of Issuer's Principal Executive Offices:

55 Waugh Drive, Suite 1000
Houston, TX 77007

Item 2. (a) Name of Person Filing:

(b) Address of Principal Business Office or, if none, Residence:

(c) Citizenship:

This Schedule 13G is being filed jointly by Select Equity Group, Inc., a New York corporation ("Select"), Select Offshore Advisors, LLC, a New York limited liability corporation ("Select Offshore"), and George S. Loening, the controlling shareholder of Select and Select Offshore("Loening"). The business address of each of Select, Select Offshore and Loening is:

380 Lafayette Street, 6th Floor
New York, New York 10003

George S. Loening is a United States citizen.

(d) Title of Class of Securities:

Common Stock

(e) CUSIP Number:

497266106

Item 3. If this statement is being filed pursuant to Rule 13d-1(b) or (c), or 13d-2(b), check whether the person filing is:

(a) [ ] Broker or dealer registered under Section 15 of the Act
(b) [ ] Bank as defined in section 3(a)(6) of the Act
(c) [ ] Insurance company as defined in section 3(a)(19) of the Act
(d) [ ] Investment company registered under section 8 of the Investment Company Act of 1940
(e) [X] An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E)
(f) [ ] An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F)
(g) [X] A parent holding company or control person in accordance with Rule 13d-1(b)(ii)(G)
(h) [ ] A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act
(i) [ ] A church plan that is excluded from the definition of an investment company under Section 3(c)(14) of the Investment Company Act of 1940
(j) [ ] Group, in accordance with 13d-1(b)(1)(ii)(J)

Item 4. Ownership:

(a) Amount Beneficially Owned:	2,916,196*
(b) Percent of Class:	5.42%
(c) Number of Shares as to which such person has:	
(i) Sole power to vote or direct the vote:	2,916,196*
(ii) Shared power to vote or direct the vote:	0
(iii) Sole power to dispose or direct the disposition of:	2,916,196*
(iv) Shared power to dispose or direct the disposition of:	0

*See Attachment A

Item 5. Ownership of Five Percent or Less of a Class:

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities check the following

[ ]

Item 6. Ownership of More than Five Percent on Behalf of Another Person:

N/A

Item 7. Identification and Classification of the Subsidiary which Acquired the Security Being Reported on By the Parent Holding Company

N/A

Item 8. Identification and Classification of Members of the Group

N/A

Item 9. Notice of Dissolution of Group

N/A

Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

SELECT EQUITY GROUP, INC.	SELECT OFFSHORE ADVISORS, LLC
By: George S. Loening*	By: George S. Loening*
Title: President	Title: Manager

/s/ George S. Loening

George S. Loening*

* My signature to this document as an individual is made as well in my capacity as President of Select Equity Group, Inc. and as Manager of Select Offshore Advisors, LLC.

Date: February 16, 2010

ATTACHMENT A
REPORTING OWNERS - OWNERSHIP REPORTING DATE

Under Rule 13d-3 under the Securities Exchange Act of 1934, Select Equity Group, Inc. ("Select") and Select Offshore Advisors, LLC ("Select Offshore") may be deemed to be the beneficial owners of the securities named on the cover page of this Schedule 13G, in the aggregate amounts reported in Item 4 of this schedule. As the President and controlling shareholder of Select and the Manager of Select Offshore, George S. Loening has the power to vote or to direct the voting of and the power to dispose or direct the disposition of the securities owned by Select and Select Offshore. Accordingly, George S. Loening may also be deemed to be the beneficial owner of those securities under Rule 13d-3.

The amounts reported in Item 4 are current as of February 11, 2010.

ATTACHMENT B
AGREEMENT OF JOINT FILING

In accordance with Rule 13d-1(k) under the Securities Exchange Act of 1934, as amended, the undersigned hereby agree to the joint filing with all other persons signatory below of a report on Schedule 13G or any amendments thereto, and to the inclusion of this Agreement as an attachment to such filing, with respect to the ownership of securities named in this Schedule 13G.

This Agreement may be executed in any number of counterparts each of which shall be deemed to be an original and all of which together shall be deemed to constitute one and the same Agreement.

IN WITNESS WHEREOF, the undersigned hereby execute this Agreement on

February 16, 2010.

SELECT EQUITY GROUP, INC.	SELECT OFFSHORE ADVISORS, LLC
By: George S. Loening*	By: George S. Loening*
Title: President	Title: Manager

/s/ George S. Loening
George S. Loening*

* My signature to this document as an individual is made as well in my capacity as President of Select Equity Group, Inc. and as Manager of Select Offshore Advisors, LLC.

609

2008

5,000

2011

5,500

2012

1,500

Total

12,609

Confirmed credit facilities available mainly include:

8 billion syndicated credit facility in two tranches: one of 5.5 billion expiring 2011 (undrawn) and one of 2.5 billion expiring 2012 (1 billion drawn down at end 2006, and 1.5 billion undrawn).

Confirmed bank facilities available for backing commercial paper programs, of which 5.6 billion was not being used to back drawdowns under French and U.S. commercial paper programs as of December 31, 2006. As of the same date, no single counterparty represented more than 11.3% of undrawn confirmed credit facilities.

In addition, 0.6 billion of undrawn confirmed bank facilities were being used to back outstanding French and U.S. commercial paper programs at December 31, 2006.

d) Debt by interest rate type, at value on redemption

The tables below splits total debt, net of cash and cash equivalents between fixed and floating rate, and by maturity or contractual repricing date, at December 31, 2006 and December 31, 2005. The figures shown represent value on redemption, before taking account of the effects of derivative instruments:

2006

(*million)*	**Total**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013 and later**
Fixed-rate	1,565	65			1,500			
% fixed-rate	***27%***							
Floating-rate (maturity based on contractual repricing date)	4,155	4,155						
% floating-rate	***73%***							
Debt, net of cash and cash equivalents	**5,720**	**4,220**			**1,500**			

2005

(*million)*	**Total**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012 and later**
Fixed-rate	2,920	1,264	75	14	14	1,517	7	29
% fixed-rate	***30%***							

Floating-rate (maturity based on contractual repricing date)	6,923	6,923						
% floating-rate	***70%***							
Debt, net of cash and cash equivalents	**9,843**	**8,187**	**75**	**14**	**14**	**1,517**	**7**	**29**

Floating-rate debt is generally indexed to euro zone interbank offered rates (Euribor).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2006

In order to reduce the amount and volatility of the cost of debt, sanofi-aventis has contracted derivative instruments (swaps, caps, combinations of purchases of caps and sales of floors). This has the effect of altering the fixed/floating split of the Group s debt, net of cash and cash equivalents, and the maturity based on contractual repricing dates:

2006

(million)	**Total**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013 and later**
Fixed-rate	2,500				1,500		1,000	
% fixed-rate	***44%***							
Capped rates	750	750						
limits [cap]	*250*	*[4.00%]*						
limits [floor/cap]	*500*	*[3.68%; 4.00%]*						
% at capped rates	***13%***							
Floating-rate	2,470	2,470						
% floating-rate	***43%***							
Debt, net of cash and cash equivalents	**5,720**	**3,220**			**1,500**		**1,000**	

The weighted average interest rate on debt, net of cash and cash equivalents at December 31, 2006 was 4.1% before derivative instruments and 4.0% after derivative instruments.

Based on the Group s level of debt, and taking account of derivative instruments in place at December 31, 2006, sensitivity of pre-tax net income for the year ending December 31, 2007 to movements in market interest rates affecting the entire year is as follows:

Assumptions of change in 3-month Euribor interest rate	**Impact on pre-tax net income** *(million)*
+ 100 bp	(29)
+ 25 bp	(7)
- 25 bp	8
- 100 bp	31

2005

(million)	**Total**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012 and later**

Fixed-rate	4,855	2,264	10	14	14	1,517	7	1,029
% fixed-rate	***49%***	***33%***						
Capped rates	3,250	3,000	250					
Limits [floor/cap]		*[2.28%; 3.23%]*	*[0%; 4%]*					
% at capped rates	***33%***	***43%***						
Floating-rate	1,738	1,738						
% floating-rate	***18%***	***24%***						
Debt, net of cash and cash equivalents	**9,843**	**7,002**	**260**	**14**	**14**	**1,517**	**7**	**1,029**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2006

e) Debt, net of cash and cash equivalents by currency, at value on redemption

The tables below shows debt, net of cash and cash equivalents by currency at December 31, 2006 and December 31, 2005, before and after taking account of derivative instruments contracted to convert third-party debt into the functional currency of the borrower entity:

2006

(million)	**Before derivative instruments**	*%*	**After derivative instruments**	*%*
EUR	5,422	*95%*	5,563	*98%*
USD	93	*1%*	17	
Other currencies	205	*4%*	140	*2%*
Debt, net of cash and cash equivalents	**5,720**	***100%***	**5,720**	***100%***

2005

(million)	**Before derivative instruments**	*%*	**After derivative instruments**	*%*
EUR	8,469	*86%*	10,121	*103%*
USD	1,555	*16%*	20	
Other currencies	(181)	*(2%)*	(298)	*(3%)*
Debt, net of cash and cash equivalents	**9,843**	***100%***	**9,843**	***100%***

f) Market value of debt

The market value of debt, net of cash and cash equivalents (excluding derivative instruments) at December 31, 2006 was 5,741 million (December 31, 2005: 9,930 million), compared with a carrying amount of 5,791 million (December 31, 2005: 9,926 million).

Interest rate and currency derivatives contracted for debt management purposes had a positive fair value of 40 million (see Note D.20).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2006

D.18. Provisions and other non-current liabilities

Provisions and other non-current liabilities break down as follows:

(million)	**Provisions for pensions and other long-term benefits [2] (D.18.1.)**	**Restructuring provisions (D.18.2.)**	**Other provisions (D.18.3.)**	**Other non-current liabilities (D 18.4.)**	**Total**
January 1, 2004	**586**	**5**	**306**	**7**	**904**
Impact of Aventis acquisition	2,892	144	2,755	402	**6,193**
Charged during the period	150	48	269	2	**469**
Provisions utilized	(156)	(8)	(90)	(33)	**(287)**
Reversals of unutilized provisions			(107)		**(107)**
Transfers	(1)	(75)	(17)	35	**(58)**
Translation differences	(51)		(97)	(37)	**(185)**
Actuarial gains/losses on defined-benefit plans	401				**401**
December 31, 2004	**3,821[1]**	**114**	**3,019**	**376**	**7,330**
Changes in scope of consolidation	(7)				**(7)**
Charged during the period	345	89	535	3	**972**
Provisions utilized	(412)	(26)	(251)	(7)	**(696)**
Reversals of unutilized provisions *(3)*	(43)	(5)	(274)		**(322)**
Transfers *(4)*	78	(26)	176	14	**242**
Unwinding of discount		2	43	6	**51**
Unrealized foreign exchange gain/loss				(9)	**(9)**
Translation differences	93	3	178	31	**305**
Actuarial gains/losses on defined-benefit plans	384				**384**
December 31, 2005	**4,259[1]**	**151**	**3,426**	**414**	**8,250**
Changes in scope of consolidation	(2)		1		**(1)**
Charged during the period	348	98	931	22	**1,399**
Provisions utilized	(414)	(54)	(240)	(53)	**(761)**
Reversals of unutilized provisions *(3)*	(27)	(11)	(440)		**(478)**
Transfers *(4)*	94	35	(46)	(47)	**36**
Unwinding of discount		1	31	6	**38**
Unrealized foreign exchange gain/loss				(6)	**(6)**
Translation differences	(66)	(2)	(109)	(27)	**(204)**
Actuarial gains/losses on defined-benefit plans	(353)				**(353)**
December 31, 2006	**3,839**	**218**	**3,554**	**309**	**7,920**

(1) After adjusting for the change in accounting method for employee benefits, reported on the line Actuarial gains/losses on defined-benefit plans (see Note A.4).

(2) 3,555 million at December 31, 2006 and 4,014 million at December 31, 2005 for pension obligations; 284 million at December 31, 2006 and 245 million at December 31, 2005 for other post-employment benefits (see Note D.18.1).

(3) Reversals of unutilized provisions:

- Reversals of provisions for pensions and other long-term benefits are due to the effect of plan curtailments (see Note D18.1), most of which (in both 2006 and 2005) related to early retirement programs in France.
- Reversals of other provisions relate mainly to provisions for tax exposures, reversed either because (i) the risk exposure has become time-barred during the reporting period or (ii) the outcome of the tax dispute proved more favorable than expected for sanofi-aventis. In addition, provisions were reversed in 2005 following signature of the out-of-court settlement with Bayer (see Note D.22, Legal and Arbitral Proceedings , item (e) Contingencies Arising from Certain Business Divestitures).

(4) This line includes, in particular, transfers between current and non-current provisions due to revisions to the expected settlement date of certain obligations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2006

D.18.1. Provisions for pensions and other benefits

The Group and its subsidiaries have a significant number of pension plans covering the majority of their employees. The specific features (benefit formulas, funding policies and types of assets held) of the plans vary depending on regulations and laws in the particular country in which the employees are located. Several of these plans are defined benefit plans and cover certain members of the Board of Directors as well as employees.

Actuarial valuations of the Group s benefit obligations were computed as of December 31, 2006, 2005 and 2004. The calculations incorporate the following:

Assumptions on staff turnover and life expectancy, specific to each country

A retirement age of 60 to 65 for a total working life allowing for full rate retirement rights for French employees, and retirement assumptions reflecting local economic and demographic factors specific to foreign employees

A salary inflation rate for the principal countries ranging from 2.75% to 5.6% at December 31, 2006, from 3% to 4.5% at December 31, 2005, and from 3% to 4.5% at December 31, 2004

An annuity inflation rate for the principal countries ranging from 2% to 3% at December 31, 2006 and December 31, 2005, and from 1.5% to 3% at December 31, 2004

A weighted average healthcare cost inflation rate of 4.82% at December 31, 2006, 4.88% at December 31, 2005, and 5.14% at December 31, 2004, applied to post-employment benefits

Discount rates used to determine the present value of projected benefit obligations at the balance sheet date, as shown in the table below:

	Pensions and other long-term benefits			Other post-employment benefits		
Discount rate	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Weighted average for all regions:	4.80%	4.58%	4.91%	5.62%	5.51%	5.76%
- Euro zone	4.25% or 4.50%[1]	4% or 4.25%[1]	4.50%	4.50%		
- United States of America	5.75%	5.50%	5.75%	5.75%	5.50%	5.75%
- United Kingdom	5%	5%	5.50%	5%	5%	5.50%

(1) Depends on the plan: 4.25% medium-term, 4.50% long-term, versus 4% and 4.25% respectively in 2005

The discount rates used are based on market rates for high quality corporate bonds (AA) the term of which approximates that of the expected benefit payments of the plans. The main indices used are Iboxx Corporates AA in Europe and Moody s Aa bond rate in the United States of America.

Expected long-term rates of return for plan assets ranging from 2% to 11.5% for the year ended December 31, 2006; from 3.75% to 11.3% for the year ended December 31, 2005, and from 3% to 10% for the year ended December 31, 2004. The majority of fund assets are invested in Germany, the United States of America and the United Kingdom. The long-term rates of return used are as follows:

	Pensions and other long-term benefits			Other post-employment benefits		
Expected long-term rate of return on plan assets	**2006**	**2005**	**2004**	**2006**	**2005**	**2004**
Weighted average for all regions	6.67%	6.65%	6.59%	7.75%		
- Germany	6.50%	6.25%	7%			
- United States of America	7.75%	7.53%	8.12%	7.75%		
- United Kingdom	6.55%	6.97%	6.92%			

The average long-term rate of return on plan assets was determined on the basis of actual long-term rates of return in the financial markets. These returns vary according to the asset category (equities, bonds, property, other). As a general rule, sanofi-aventis applies the risk premium concept in assessing the return on equities relative to bond yields.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2006

The table below reconciles the net obligation under Group pension plans with the amounts recognized in the consolidated financial statements:

	Pensions and other long-term benefits			Other post-employment benefits (healthcare cover)		
	2006	2005	2004	2006	2005	2004
Valuation of obligation:						
Beginning of period	9,425	8,225	1,117	224	182	69
Service cost	276	238	99	16	7	3
Interest cost	407	393	143	17	11	6
Actuarial (gain)/loss	(172)	815	300	(2)	31	5
Contributions from plan members	9	10	7			
Plan amendments	(11)	13	8	(2)	(19)	
Translation differences	(179)	276	(158)	(34)	26	(14)
Plan curtailments/settlements	(23)	(56)	(4)		(1)	
Impact of Aventis acquisition			6,870			123
Other changes in scope of consolidation, transfers	(44)	(4)		122		
Benefits paid	(501)	(485)	(157)	(20)	(13)	(10)
Obligation at end of period	**9,187**	**9,425**	**8,225**	**321**	**224**	**182**
Market value of plan assets:						
Beginning of period	5,350	4,512	503			
Expected return on plan assets	343	331	109	4		
Difference between actual and expected return on plan assets	189	357	46	2		
Translation differences	(129)	222	(128)	(6)		
Contributions from plan members	9	9	6			
Employer s contributions	274	332	79		13	2
Plan settlements		(1)	(2)			
Impact of Aventis acquisition			3,972			
Other changes in scope of consolidation, transfers	(83)	3		60		
Benefits paid	(378)	(415)	(73)	(4)	(13)	(2)
Market value of plan assets at end of period	**5,575**	**5,350**	**4,512**	**56**		
Net amount shown in the balance sheet:						
Net obligation	3,612	4,075	3,713	265	224	182
Unrecognized past service cost	(60)	(61)	(76)	19	21	2
Net provision after reclassification	**3,552**	**4,014**	**3,637**	**284**	**245**	**184**
Amounts recognized in the balance sheet:						
Pre-funded obligations (D.7.)	(3)	(3)	(2)			
Obligations provided [1]	3,555	4,014	3,637	284	245	184
Net amount recognized	**3,552**	**4,011**	**3,635**	**284**	**245**	**184**

Benefit cost for the period:						
Service cost	276	238	99	16	7	3
Interest cost	407	393	143	17	11	6
Expected return on plan assets	(343)	(331)	(109)	(4)		
Recognition of transitional liability						
Amortization of past service cost	(10)	19	1	(2)		(1)
Recognition of actuarial (gains)/losses	(9)	11			(1)	2
Impact of plan curtailments	(27)	(42)	6		(1)	
Benefit cost for the period	**294**	**288**	**140**	**27**	**16**	**10**

(1) Long-term benefits awarded to employees prior to retirement (mainly discretionary bonuses, long service awards and deferred compensation plans) accounted for 379 million of provisions at December 31, 2006 (including 101 million transferred from other current liabilities to long-term benefits in 2006), 280 million of provisions as of December 31, 2005, and 249 million as of December 31, 2004.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2006

Actuarial gains arising during the year ended December 31, 2006 amounted to 359 million, including 126 million relating to experience adjustments that break down as follows:

- Actuarial gains of 191 million generated by the difference between the market value of plan assets at December 31, 2006 as compared with the expected return.

- Actuarial losses of 65 million on the pension obligation.

At December 31, 2006, the present value of obligations in respect of pensions and similar benefits under wholly or partially funded plans was 7,252 million, and the present value of unfunded obligations was 1,935 million (compared with, respectively, 7,442 million and 1,983 million at December 31, 2005, and 6,487 million and 1,738 million at December 31, 2004).

In Germany, sanofi-aventis is a member of a *Pensionskasse* multi-employer plan. This is a defined contribution plan which covers the current level of annuities. The obligation arising from future increases in annuity rates was included in the pension obligations of Aventis as assumed on August 20, 2004 at an amount of 250 million. The provision at December 31, 2006 was 465 million, 463 million at December 31, 2005 and 308 million at December 31, 2004.

The table below shows the sensitivity of the healthcare component of (i) the post-employment benefit obligation in the balance sheet and (ii) the pension cost recognized in the income statement to changes in healthcare costs:

(*million)*	**Sensitivity of assumptions 2006**
1% increase in healthcare costs	
Impact on pension cost	2
Impact on obligation in the balance sheet	22
1% reduction in healthcare costs	
Impact on pension cost	(2)
Impact on obligation in the balance sheet	(18)

The total pension cost (including other post-employment benefits, but excluding the effect of plan curtailments) was 348 million (2005: 347 million), split as follows:

Selling and general expenses: 201 million in 2006, 206 million in 2005

Cost of sales: 87 million in 2006, 81 million in 2005

Research and development expenses: 60 million in 2006, 60 million in 2005.

The weighted average allocation of funds invested in Group pension plans is shown below:

	Funds invested		
Asset category (percentage)	**2006**	**2005**	**2004**
Equities	54%	58%	59%
Bonds	43%	41%	40%
Other: real estate, cash, etc	3%	1%	1%
Total	**100%**	**100%**	**100%**

The target allocation of investments was not significantly different from the actual allocation at December 31, 2006.

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The table below shows the expected cash outflows on pensions and other post-employment benefits over the next ten years:

(million)	Pensions and similar benefits
Estimated employer s contribution in 2007	**394**
Estimated benefit payments:	
2007	509
2008	489
2009	510
2010	546
2011	556
2012 and later	2,989

D.18.2. Restructuring provisions

The table below shows movements in restructuring provisions classified in ***Other non-current liabilities*** and ***Other current liabilities***:

(million)	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Balance, beginning of period	**562**	**478**	**20**
of which:			
Classified in Other non-current liabilities	151	114	5
Classified in Other current liabilities	411	364	15
Change in provisions recognized in profit or loss for the period	231	560	309
Provisions utilized	(319)	(470)	(14)
Transfers	36	(33)	(58)
Unwinding of discount	1	2	
Changes in scope of consolidation		(1)	234
Translation differences	(15)	26	(13)
Balance, end of period	**496**	**562**	**478**
of which:			
Classified in Other non-current liabilities	218	151	114
Classified in Other current liabilities	278	411	364

Charges to restructuring provisions during 2006 mainly relate to reorganization plans decided upon and announced prior to the balance sheet date in response to the changing economic environment in Europe, primarily France and Germany. For a breakdown of restructuring costs for the period by type, refer to Note D.27.

Provisions classified in ***Other current liabilities*** at December 31, 2006 relate primarily to new employee-related obligations arising under these plans (in particular, the early retirement program in France) and to the residual obligation in respect of restructuring carried out in connection with the sanofi-aventis merger, especially in the United States of America.

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Year ended December 31, 2006

D.18.3. Other provisions

Other provisions include provisions for environmental, tax, commercial and product liability risks and litigation.

(million)	December 31, 2006	December 31, 2005	December 31, 2004
Tax risks	1,858	1,664	1,522
Environmental risks and remediation	528	529	452
Product liability risks, litigation and other	1,168	1,233	1,045
Total	**3,554**	**3,426**	**3,019**

Provisions for tax risks are recorded if the Group is exposed to a probable risk resulting from a tax position adopted by the Group or a subsidiary, and the risk has been quantified at the balance sheet date.

Provisions for environment and remediation are mainly related to contingencies that have arisen from business divestitures.

Identified environmental risks are covered by provisions estimated on the basis of the costs sanofi-aventis believes it will be obliged to meet over a period not exceeding (other than in exceptional cases) 30 years. Sanofi-aventis expects that 355 million of these provisions will be utilized over the period from 2007 through 2011.

Product liability risks, litigation and other mainly comprises provisions for risks relating to product liability, government investigations, regulatory or competition law claims or contingencies arising from business divestitures (other than environmental matters). The main pending legal and arbitral proceedings and government investigations are described in Note D.22.

A full risk and litigation assessment is performed with the assistance of the Group s legal advisers, and provisions are recorded as required by circumstances, in accordance with the principles described in Note B.12.

D.18.4. Other non-current liabilities

These liabilities include the liability related to Carderm (190 million at December 31, 2006; 212 million at December 31, 2005, 184 million at December 31, 2004).

On June 28, 2001, a financial investor paid $250 million to acquire preferred shares in Carderm Capital LP (Carderm), which owns certain assets of Aventis Pharma US. These preferred shares, representing a financial interest of 36.7% in Carderm, were entitled to preferred remuneration. The sanofi-aventis Group is the principal shareholder of Carderm, owning 63.3% of the capital and exercising control over its management. Carderm is included in the sanofi-aventis consolidated financial statements using the full consolidation method.

On or after March 10, 2007, the holder of the preferred shares may offer sanofi-aventis the option of repurchasing them, subject to certain conditions.

The fair value of this financial instrument was 190 million at December 31, 2006, against 215 million at December 31, 2005 and 194 million at December 31, 2004. The change in the value of the redeemable partnership interest between December 31, 2005 and December 31, 2006 was mainly due to the fall in value of the U.S. dollar against euro over the period, while the change between December 31, 2004 and December 31, 2005 was mainly due to the rise in the value of the US dollar against the euro over the period.

At December 31, 2005, this item also included a derivative instrument relating to Rhodia shares (see Note D.20.2), valued at 54 million (57 million at December 31, 2004). This equity instrument was closed out in early April 2006, generating a gain of 6 million recognized in the income statement in 2006.

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D.19. Other current liabilities

Other current liabilities comprise:

(million)	December 31, 2006	December 31, 2005	December 31, 2004
Taxes payable	956	1,039	693
Employee-related liabilities	1,298	1,490	1,285
Restructuring provisions (D.18.2.)	278	411	364
Interest rate derivatives (D.20.)	2	1	
Currency derivatives (D.20.)	20	47	237
Amounts payable for acquisitions of non-current assets	275	207	222
Other liabilities	1,996	2,348	2,240
Total	**4,825**	**5,543**	**5,041**

This item includes the current portion of provisions for litigation, product returns and other risks; amounts due to associates (see Note D.6); and amounts due to governmental agencies and the healthcare authorities (see Note D.23).

D.20. Derivative financial instruments and market risks

The table below shows the fair value of derivative instruments as of December 31, 2006:

(million)	Non-current assets	Current assets	Total assets	Non-current liabilities	Current liabilities	Total liabilities	Fair value at Dec. 31, 2006 (net)	Fair value at Dec. 31, 2005 (net)	Fair value at Dec. 31, 2004 (net)
Currency derivatives		70	**70**		(20)	**(20)**	50	210	454
operational		*14*	***14***		*(8)*	***(8)***	*6*	*(25)*	*161*
financial		*56*	***56***		*(12)*	***(12)***	*44*	*235*	*243*
net investment hedges									*50*
Interest rate derivatives	42		**42**		(2)	**(2)**	40	35	(84)
Equity derivatives	163		**163**				163	63	
Total	**205**	**70**	**275**		**(22)**	**(22)**	**253**	**308**	**370**

Objectives of the use of derivative financial instruments

Sanofi-aventis uses derivative instruments primarily to manage operational exposure to the risk of movements in exchange rates, and financial exposure to the risk of movements in interest rates and exchange rates (where debt is not contracted in the functional currency of the borrower or lender entity). Less frequently, sanofi-aventis uses equity derivatives in connection with asset divestments.

Sanofi-aventis performs periodic reviews of its transactions and contractual agreements in order to identify any embedded derivatives, which are accounted for separately from the host contract in accordance with IAS 39. As of December 31, 2006, 2005 and 2004, sanofi-aventis had only one material embedded derivative, which relates to the contingent CSL purchase consideration; a description of the accounting treatment of this transaction is provided in Note D.20.2.b).

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Counterparty risk

All currency and interest rate hedges, and all investments of surplus cash, are contracted with leading banks. No one counterparty accounts for more than 14.9% of the Group s currency or interest rate positions.

D.20.1. Currency and interest rate derivatives

a) Valuation methods

Sanofi-aventis estimates the fair value of financial instruments using methods and data based on financial market sources, as described below:

Currency forward and options contracts:

Market data	Source
Spot price	ECB Fixing
Interest rates: less than 1 year	Reuters Mid Money Market
Interest rates: more than 1 year	Mid Zero Coupon
Volatility	Reuters Mid ATM

Instrument	Model used
Forward contracts: less than 1 year	Proportional formula
Forward contracts: more than 1 year	Actuarial formula
Plain vanilla options	Black and Scholes

Interest rate forward and options contracts

Fair values are computed using a zero coupon yield curve for each currency, based on market instruments:

Market data	Source
Interest rates: less than 1 year	Reuters Mid Money Market
Interest rates: less than 2 years	Mid Zero Coupon

Interest rates: more than 2 years	Mid Zero Coupon
Cap/Floor volatility	Bloomberg volatility matrix, by strike

Instrument	**Model used**
Swap	NAV/cash flow projection
Cross currency	As for swap + ECB fixing for conversion
Plain vanilla options	Black and Scholes

b) Currency derivatives used to manage operational risk exposures

Sanofi-aventis operates a foreign exchange risk hedging policy to reduce the exposure of operating income to fluctuations in foreign currencies, in particular the US dollar. This policy involves regular assessments of the Group s worldwide foreign currency exposure, based on budget estimates of foreign-currency transactions to be carried out by the parent company and its subsidiaries. These transactions mainly comprise sales, purchases, research costs, co-marketing and co-promotion expenses, and royalties. To reduce the exposure of these transactions to exchange rate movements, sanofi-aventis contracts economic hedges using liquid financial instruments such as forward purchases and sales of currency, call and put options, and combinations of currency options (collars).

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The table below shows operational currency hedging instruments in place as of December 31, 2006, with the notional amount translated into euros at the relevant closing exchange rate.

			Derivatives designated as cash flow hedges			Derivatives not eligible for hedge accounting	
December 31, 2006							
(million)	Notional amount	Fair value	Notional amount	Fair value	of which recognized in equity	Notional amount	Fair value
Forward currency sales	**1,615**	**7**	**352**	**6**	**7**	**1,263**	**1**
of which U.S. dollar	*800*	*10*	*114*	*7*	*7*	*686*	*3*
of which Russian rouble	*126*					*126*	
of which Australian dollar	*86*		*66*			*20*	
of which Singapore dollar	*73*					*73*	
of which Japanese yen	*66*	*1*				*66*	*1*
of which Polish zloty	*66*		*47*			*19*	
of which Mexican peso	*65*	*1*	*42*	*1*	*2*	*23*	
of which Korean won	*52*					*52*	
of which Slovakian koruna	*49*	*(2)*	*18*	*(1)*	*(1)*	*31*	*(1)*
of which Czech koruna	*40*	*(1)*	*22*	*(1)*	*(1)*	*18*	*(1)*
Forward currency purchases	**351**	**(1)**				**351**	**(1)**
of which Swiss franc	*92*	*(1)*				*92*	*(1)*
of which Pound sterling	*81*					*81*	
of which Canadian dollar	*71*	*(1)*				*71*	*(1)*
of which Hungarian forint	*33*					*33*	
Put options purchased	**18**		**18**				
Call options written	**36**		**18**			**18**	
Total	**2,020**	**6**	**388**	**6**	**7**	**1,632**	

As of December 31, 2006, none of these instruments had an expiry date after December 31, 2007.

These positions hedge:

All material future foreign-currency cash flows arising after the balance sheet date in relation to transactions carried out during the year ended December 31, 2006 and recognized in the balance sheet at that date. Gains and losses on derivative instruments (forward contracts) have been and will continue to be calculated and recognized in parallel with the recognition of gains and losses on the hedged items.

Forecast foreign-currency cash flows relating to commercial transactions to be carried out in 2007. These hedges (forward contracts and options) cover approximately 20% to 40% of the expected net cash flows for 2007 in currencies subject to budgetary hedging, with the exception of the U.S. dollar for which the portfolio of derivatives used to hedge 2007 cash flows was immaterial as of

December 31, 2006.

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The table shows the portfolio of currency instruments in place to manage operational risk as of December 31, 2005:

			Derivatives designated as cash flow hedges			Derivatives not eligible for hedge accounting	
December 31, 2005							
(million)	Notional amount	Fair value	Notional amount	Fair value	of which recognized in equity	Notional amount	Fair value
Forward currency sales	**1,831**	**(19)**	**785**	**(3)**	**(1)**	**1,046**	**(16)**
of which U.S. dollar	*1,291*	*(12)*	*576*	*2*		*714*	*(13)*
of which Singapore dollar	*75*	*(1)*				*75*	*(1)*
of which Australian dollar	*75*	*(1)*	*37*	*(1)*		*38*	
of which Mexican peso	*69*	*(2)*	*43*	*(2)*		*26*	
of which Polish zloty	*63*	*(2)*	*41*	*(2)*		*22*	
of which Turkish lira	*63*	*(1)*				*63*	*(1)*
of which Japanese yen	*59*	*1*	*29*	*1*		*30*	
Forward currency purchases	**181**	**2**	**18**	**1**	**1**	**163**	**1**
of which Swiss franc	*50*					*50*	
of which Canadian dollar	*45*	*1*				*45*	*1*
Put options purchased	401	7	401	7	(1)		
of which U.S. dollar	*339*	*6*	*339*	*6*	*(1)*		
Call options written	**639**	**(14)**	**401**	**(9)**	**(4)**	**238**	**(5)**
of which U.S. dollar	*519*	*(10)*	*339*	*(7)*	*(3)*	*180*	*(3)*
Total	**3,052**	**(24)**	**1,605**	**(4)**	**(5)**	**1,447**	**(20)**

The table shows the portfolio of currency instruments in place to manage operational risk as of December 31, 2004:

			Derivatives designated as cash flow hedges			Derivatives not eligible for hedge accounting	
December 31, 2004							
(million)	Notional amount	Fair value	Notional amount	Fair value	of which recognized in equity	Notional amount	Fair value
Forward currency sales	**2,638**	**145**	**753**	**66**	**64**	**1,884**	**78**
of which U.S. dollar	*1,798*	*134*	*614*	*60*	*59*	*1,184*	*74*
Forward currency purchases	**1,482**	**(20)**	**82**	**2**		**1,399**	**(21)**
of which U.S. dollar	*970*	*(17)*				*970*	*(17)*
Put options purchased	**638**	**41**	**364**	**34**	**24**	**274**	**7**
of which U.S. dollar	*556*	*39*	*301*	*32*	*24*	*255*	*7*
Put options written	**105**	**(1)**	**37**	**(1)**		**68**	**(1)**
Call options purchased	**94**	**2**	**37**	**1**		**57**	**1**
of which U.S. dollar	*29*					*29*	
Call options written	**756**	**(5)**	**364**	**(2)**	**(1)**	**392**	**(3)**
of which U.S. dollar	*617*	*(3)*	*301*	*(1)*	*6*	*316*	*(1)*

Total	**5,713**	**162**	**1,637**	**100**	**87**	**4,074**	**61**

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c) Currency and interest rate derivatives used to manage financial risk exposures

Some of the Group s financing activities, such as U.S. commercial paper issues and the cash pooling arrangements for foreign subsidiaries outside the euro zone, expose certain entities (in particular the sanofi-aventis parent company) to **financial foreign exchange risk** (i.e. the risk of changes in the value of loans and borrowings denominated in a currency other than the functional currency of the lender or borrower). The net foreign exchange exposure for each currency and entity is hedged by firm financial instruments (usually currency swaps). The tables below show instruments of this type:

	December 31, 2006			December 31, 2005			December 31, 2004		
(million)	Notional amount	Fair value	Expiry	Notional amount	Fair value	Expiry	Notional amount	Fair value	Expiry
Forward currency purchases	**5,708**			**4,763**	**24**		**4,302**	**(71)**	
of which U.S. dollar	*4,984*	*2*	*2007*	*4,071*	*18*	*2006*	*3,533*	*(66)*	*2005*
of which Mexican peso	*197*	*(1)*	*2007*	*130*	*(1)*	*2006*			
of which Swiss franc	*155*	*(1)*	*2007*	*85*		*2006*			
of which Pound sterling	*146*		*2007*	*170*		*2006*			
Forward currency sales	**1,470**	**44**		**1,032**	**211**		**2,052**	**315**	
of which U.S. dollar	*1,032*	*44*	*2007*	*885*	*211*	*2006*	*1,744*	*316*	*2005 & 2007*
of which Hungarian forint	*176*	*(1)*	*2007*	*42*		*2006*			
Total	**7,178**	**44**		**5,795**	**235**		**6,354**	**244**	

The Group s **interest rate risk** exposure arises from the fact that most of its debt is floating-rate (credit facilities, commercial paper and floating-rate notes), predominantly in euros. To limit risk and optimize the cost of its short-term and medium-term debt, sanofi-aventis uses interest rate swaps, cross-currency swaps, and interest rate options (purchases of caps, or combined purchases of caps and sales of floors). The table below shows instruments of this type held at December 31, 2006:

		Notional amounts by expiry date as of December 31, 2006				Of which derivatives designated as fair value hedges		Of which derivatives designated as cash flow hedges		
(million)	Average rate	2007	2012	Total	Fair value	Notional amount	Fair value	Notional amount	Fair value	of which recognized in equity
Interest rate swap, pay fixed rate ( )	3.11%		1,000	1,000	42			1,000	42	42
Purchases of caps ( )	4.00%	250		250				250		
Collars ( )	(3.68%-4.00%)	500		500				200		
Cross currency swaps										
- pay at 3-month Euribor, receive CHF at 1.98%		65		65	(2)					

Total	**815**	**1,000**	**1,815**	**40**		**1,450**	**42**	**42**

For an analysis of the effect of financial instruments on the structure of the Group s debt, and of the Group s sensitivity to interest rates, see Note D.17.

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The portfolio of interest rate derivative instruments at December 31, 2005 was as follows:

		Notional amounts by expiry date as of December 31, 2005					Of which derivatives designated as fair value hedges		Of which derivatives designated as cash flow hedges		
(million)	Average rate	2006	2007	2012	Total	Fair value	Notional amount	Fair value	Notional amount	Fair value	of which recognized in equity
Interest rate swaps, receive fixed rate ( )	3.49%	1,250			1,250	29	640	19			
Interest rate swap, pay fixed rate ( )	2.90%	2,000		1,000	3,000	5			2,000	5	5
Purchases of caps ( )	3.45%	1,500	250		1,750				1,500		
Sales of caps ( )	4.33%	500			500						
Collars ( )	(2.31%-3.07%)	2,000			2,000				1,750		
Cross currency swaps											
- receive CHF at 1-month Libor, pay at 3-month Euribor		52			52						
- pay at 3-month Euribor, receive CHF at 1.98%			64		64	(1)					
Total		**7,302**	**314**	**1,000**	**8,616**	**33**	**640**	**19**	**5,250**	**5**	**5**

The portfolio of interest rate derivative instruments at December 31, 2004 was as follows:

		Notional amounts by expiry date as of December 31, 2004					Of which derivatives designated as fair value hedges		Of which derivatives designated as cash flow hedges		
(million)	Average rate	2005	2006	2007	Total	Fair value	Notional amount	Fair value	Notional amount	Fair value	of which recognized directly in equity
Interest rate swaps, receive fixed rate ( )	3.50%	4	1,250		1,254	42	1,254	42			
Interest rate swap, pay fixed rate ( )	2.50%	750	2,000		2,750	(4)			2,750	(4)	(4)
Interest rate swaps, floating/floating rate											
average positive margin of:	32bp	500	400		900	2					
average positive margin of:	53bp		1,047		1,047						

Purchases of caps *( )*	3.73%		1,602	250	1,852	3			1,750	3	(1)
Purchases of caps *($)*	4.50%		367		367						
Sales of caps *( )*	4.33%		500		500						
Collars *( )*	(2.26%-3.03%)	500	2,000		2,500	(2)			2,250	(2)	
Cross currency swaps											
- EUR/USD 5.56% / 6.25%		220			220	(127)					
- Pay at 3-month Euribor, receive CHF at 1.98%				65	65	2					
Total		**1,974**	**9,166**	**315**	**11,455**	**(84)**	**1,254**	**42**	**6,750**	**(3)**	**(5)**

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D.20.2. Equity derivatives

a) Rhodia equity swap

On May 2, 2003, Aventis entered into an equity swap contract with Crédit Lyonnais. This transaction was treated as an over-the-counter derivative instrument, and the unrealized loss of 54 million arising on the swap as of December 31, 2005 was recognized in the income statement for the year then ended. In early April 2006, the swap contract was closed out, generating a gain of 6 million in the year ended December 31, 2006 and a cumulative loss of 48 million.

b) Contingent CSL consideration

Aventis sold Aventis Behring to the Australian company CSL Ltd on March 31, 2004. The sale price included additional payments contingent upon the performance of CSL shares. Sanofi-aventis was entitled to receive $125 million if the CSL share price (calculated on the basis of an average price weighted for trading volumes) was greater than AUD 28 during a period from October 1, 2007 through March 31, 2008. Sanofi-aventis was entitled to receive a further $125 million if the CSL share price (calculated on the same basis and over the same period) was greater than AUD 35. CSL Ltd could opt to settle these amounts in shares. At December 31, 2006, based on a CSL share price of AUD 65.37, the fair value of this instrument was $214 million (against $137 million at December 31, 2005).

A new agreement between sanofi-aventis and CSL Ltd was signed with effect from January 31, 2007 under the terms of which it was agreed that CSL Ltd would pay the contingent consideration of $250 million in advance, rather than on the original contractually agreed date at end March 2008. Sanofi-aventis received payment of this amount on February 5, 2007.

D.21. Contractual obligations and other commercial commitments

The Group s contractual obligations and other commercial commitments are as follows:

		Payments due by period			
December 31, 2006					
(*million)*	**Total**	**Under 1 year**	**From 1 to 3 years**	**From 3 to 5 years**	**Over 5 years**
Finance lease obligations (including interest)	38	5	10	10	13
Operating lease obligations	1,462	270	426	229	537
Irrevocable purchase obligations:					

- given	2,324	1,586	296	80	362
- received	(133)	(60)	(62)	(7)	(4)
Guarantees:					
- given	385	300	18	18	49
- received	(215)	(131)	(15)		(69)
Property, plant and equipment pledged as security for liabilities	10	1			9
Other commercial commitments	1,513	53	115	150	1,195
Total: Other commitments	**5,384**	**2,024**	**788**	**480**	**2,092**
Debt	**7,502**	**2,641**	**2,139**	**1,680**	**1,042**
- principal	6,873	2,425	1,884	1,533	1,031
- interest	629	216	255	147	11
Undrawn confirmed credit facilities *(1)*	**(13,100)**	**(1,088)**	**(5,011)**	**(5,500)**	**(1,501)**

(1) These amounts include commitments received by some operational subsidiaries.

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Leases

Finance leases

Future minimum lease payments due under finance leases as of December 31, 2006 totaled 38 million (December 31, 2005: 45 million), including interest of 5 million (December 31, 2005: 6 million). The payment schedule is as follows:

(million)	Interest	Principal	Total
2007	1	4	5
2008	1	4	5
2009	1	4	5
2010	1	3	4
2011		6	6
2012 and later	1	12	13
Total	**5**	**33**	**38**

Operating leases

Sanofi-aventis leases certain of its properties and equipment used in the ordinary course of business under operating leases. Future minimum lease payments due under non-cancelable operating leases as of December 31, 2006 amounted to 1,462 million, against 1,032 million at December 31, 2005. The payment schedule is as follows:

(million)	December 31, 2006
2007	270
2008	244
2009	182
2010	125
2011	104
2012 and later	537
Total	**1,462**

Rental expense recognized amounted to 322 million in the year ended December 31, 2006, against 263 million in the year ended December 31, 2005 and 158 million in the year ended December 31, 2004.

Irrevocable purchase commitments

These mainly comprise irrevocable commitments (net of payments on account) to suppliers of property, plant and equipment, and irrevocable commitments to purchase goods and services.

Commercial commitments

This includes commitments to third parties under collaboration agreements. In pursuance of its strategy, sanofi-aventis acquires technologies and rights to products. Such acquisitions may be made in various contractual forms: acquisitions of shares, loans, license agreements, joint development and co-marketing. These contracts usually involve upfront payments on signature of the agreement, and development milestone payments. Some of these complex agreements include undertakings to finance research programs in future years, and payments contingent upon completion of development milestones by our alliance partners, or upon the granting of approvals or licenses, or upon the attainment of sales targets once a product is on the market.

The main collaborative agreements in the Pharmaceuticals segment are described below.

On July 3, 2006, sanofi-aventis signed an agreement with Taiho Pharmaceutical Co., Ltd. (Taiho) on the development and marketing of the oral anticancer agent S-1, a proprietary product from Taiho. S-1 has been marketed in Japan since 1999, and is currently in phase III in Europe, the United States and some other countries. Under the contract, milestone payments are payable at different stages of the

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development and marketing of S-1, and a royalty is payable on sales of the product. Outstanding milestone payments under the contract (contingent upon the granting of approval for indications and attainment of sales targets) amount to a total of $295 million.

Agreement with Regeneron: In January 2005, sanofi-aventis reaffirmed its commitment to develop the Vascular Endothelial Growth Factor (VEGF) Trap program in oncology, in collaboration with Regeneron Pharmaceuticals Inc. The companies will evaluate the VEGF Trap in a variety of cancer types. At end December 2005, the collaboration with Regeneron on the VEGF Trap program was extended to Japan. The treatment of ocular pathologies was excluded from the scope of the collaboration agreement.

Development milestone payments and royalties on VEGF Trap sales are payable under the contract. Total milestone payments could reach $400 million if all indications specified in the contract obtain approval in the United States, Europe and Japan. Sanofi-aventis will pay 100% of the development costs of the VEGF Trap. Once a VEGF Trap product starts to be marketed, Regeneron will repay 50% of the development costs (originally paid by sanofi-aventis) in accordance with a formula based on Regeneron s share of the profits, including royalties received in Japan.

Collaboration agreement with Cephalon, signed in 2001. This agreement covers the discovery and development of innovative small compounds able to inhibit angiogenesis, in the field of oncology. Payments relating to the product under development could reach $21 million.

Collaboration agreement with IDM signed in 2001. Under this agreement, IDM granted sanofi-aventis 20 development options on current and future research and development programs. For each option that leads to a commercially marketed product, IDM could receive between 17 million and 32 million depending on the potential of the market, plus reimbursement of the development costs. Contractually, sanofi-aventis may suspend the development program for each option exercised at any time and without penalty. As of December 31, 2006, sanofi-aventis had exercised only one option, relating to a program for the treatment of melanoma.

Because of the uncertain nature of development work, it is impossible to predict (i) whether sanofi-aventis will exercise further options for products, or (ii) whether the expected milestones will be achieved, or (iii) the number of compounds that will reach the relevant milestones. It is therefore impossible to estimate the maximum aggregate amount that sanofi-aventis will actually pay in the future under existing collaboration agreements.

Given the nature of its business, it is highly unlikely that sanofi-aventis will exercise all options for all products or that all milestones will be achieved.

Collaboration agreement with Zealand Pharma, signed in June 2003: Under this agreement, sanofi-aventis obtained rights relating to the development and worldwide marketing of ZP10, an agent used in the treatment of type 2 diabetes. Under the agreement, sanofi-aventis is responsible for the development of this compound and could, if marketing approvals are obtained, be required to pay Zealand Pharma a total of 75 million.

Various other collaboration agreements with partners including Ajinomoto, Immunogen, Coley, Novexel, Wayne State University and Innogenetics & Inserm, under which sanofi-aventis may be required to make total contingent payments of approximately $114 million over the next 5 years.

Co-promotion agreement with UCB, signed in September 2006: Under this agreement, sanofi-aventis will co-promote Xyzal® in the United States jointly with UCB. Xyzal® is a prescription antihistamine. The agreement requires payments to be made on attainment of development and marketing milestones, based on regulatory approvals and sales targets. Total milestone payments could reach $155 million. The agreement also specifies how profits are to be split between sanofi-aventis and UCB.

The main collaborative agreements in the Vaccines segment are described below.

License agreement between sanofi pasteur and Becton Dickinson, signed in October 2005, for the development of a vaccine microinjection system. The agreement requires sanofi-aventis to pay for exclusivity rights, and to make milestone payments that could reach $30 million.

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Sanofi pasteur has entered into a number of other collaboration agreements with partners including Emergent, Agensys, Crucell, Intercell and Vactech, under which sanofi pasteur may be required to make total contingent payments of around 66 million over the next 5 years.

Sanofi pasteur has contracted the following agreements to accelerate the development of influenza vaccines in anticipation of a possible pandemic:

Agreement between sanofi pasteur and the U.S. government, signed in November 2006, for the production of a new type of pre-pandemic vaccine against the H5N1 strain of avian influenza, under which sanofi pasteur will receive $118 million for delivery of the vaccine. A similar contract worth $150 million was signed in 2005; deliveries under this contract were made during 2006. Sanofi pasteur has initiated similar projects in Europe and the rest of the world.

Agreement between sanofi pasteur and the U.S. government, signed in April 2005, to speed the production process for new cell-culture pandemic influenza vaccines and design a production facility for cell-culture vaccines. The total amount payable to sanofi pasteur under the agreement is $97 million, of which $20 million was received in 2006.

Commercial commitments relating to the acquisition of commercial rights:

On July 5, 2005, sanofi-aventis Japan acquired all the commercial rights to Plavix® (clopidogrel) from Daiichi Pharmaceuticals Co. Ltd. (Daiichi) and a partnership jointly held by Daiichi and sanofi-aventis. The Japanese launch of Plavix® began in May 2006, and consequently the majority of the contractual milestone payments were made in 2006. There is one remaining future milestone payment under this contract, which is contingent on approval for an indication.

Commercial commitments related to divestments:

Following the divestment of the Notre Dame de Bondeville site, effective September 1, 2004, a contract was signed with the purchaser guaranteeing continuity of production of mature sanofi-aventis products at the site for a period of five years.

Guarantees given

These comprise surety bonds, totaling 385 million at December 31, 2006, 243 million at December 31, 2005 and 275 million at December 31, 2004.

Guarantees received

These mainly comprise surety bonds.

D.22. Legal and Arbitral Proceedings

Sanofi-aventis and its subsidiaries and affiliates may be involved in litigation, arbitration or other legal proceedings. These proceedings typically are related to product liability claims, proceedings relating to intellectual property rights (particularly claims by generic product manufacturers seeking to limit the patent protection of sanofi-aventis products), compliance and trade practices, and claims under warranties or indemnification arrangements relating to business divestitures. Provisions related to legal and arbitral proceedings are recorded in accordance with the principles described in Note B.12, Provisions for risks.

Most of these claims involve highly complex issues, actual damages and other matters. Often these issues are subject to substantial uncertainties, and, therefore, the probability of loss and an estimation of damages are difficult to ascertain. Consequently, for a majority of these claims, we are unable to make a reasonable estimate of the expected financial effect that will result from ultimate resolution of the proceeding. In those cases, we have disclosed information with respect to the nature of the contingency. We have not accrued a reserve for the potential outcome of these cases.

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In the cases that have been settled or adjudicated, or where quantifiable fines and penalties have been assessed, we have indicated our losses or the amount of provision accrued that is the estimate of the probable loss.

In a limited number of ongoing cases, while we are able to make a reasonable estimate of the expected loss or range of possible loss and have accrued a provision for such loss, we believe that publication of this information on a case-by-case basis or by class would seriously prejudice the Company s position in the ongoing legal proceedings or in any related settlement discussions. Accordingly, in those cases, we have disclosed information with respect to the nature of the contingency but have not disclosed our estimate of the range of potential loss, in accordance with paragraph 92 of IAS 37.

These assessments can involve a series of complex judgments about future events and can rely heavily on estimates and assumptions. Our assessments are based on estimates and assumptions that have been deemed reasonable by management. We believe that the aggregate provisions recorded for the above matters are adequate based upon currently available information. However, given the inherent uncertainties related to these cases and involved in estimating contingent liabilities, we could in the future incur judgments that could have a material adverse effect on our results of operations in any particular period.

Long term provisions other than provisions for pensions and other long-term benefits and restructuring provisions are disclosed in Note D.18.3, Other provisions.

Provisions for product liability risks, litigation and other amount to 1,168 million in 2006. These provisions are mainly related to product liabilities, government investigations, competition law, regulatory claims, contingencies that have arisen from business divestitures other than environmental matters and other claims.

Provisions for environmental risks and remediation amount to 528 million in 2006, the majority of which are related to contingencies that have arisen from business divestitures.

When a legal claim involves a challenge to the patent protection of a pharmaceutical product, the principal risk to sanofi-aventis is that the sales of the product might decline following the introduction of a competing generic product in the relevant market. In cases where the product right has been capitalized as an asset on the balance sheet (*i.e.*, assets acquired through a separate acquisition or through a business combination (see Note B.4, Intangible Assets)), such a decline in sales could negatively affect the value of the intangible asset. In those cases, the Company performs impairment tests in accordance with the principles disclosed in Note B.6, Impairment of property plant and equipment and intangibles, based upon the best available information and, where appropriate, records an impairment loss to reduce the carrying amount of the related intangible asset to its estimated fair value. The amounts of such impairments are disclosed in Note D.5, Impairment of property, plant and equipment and intangibles.

The principal ongoing legal and arbitral proceedings are described below.

a) Products

Sabril® Litigation (anti-epilepsy)

Aventis Pharma Ltd, UK, faces group litigation consisting of 179 active claimants in the United Kingdom relating to the anti-epilepsy drug Sabril®. The action alleges that patients have suffered irreversible visual field constriction as a result of taking Sabril®. Approximately 130 claimants have alleged damages amounting in the aggregate to approximately UK£ 47.5 million plus interest for these injuries. The remaining claimants have not yet submitted claims for specified damages. Trial of lead cases is currently scheduled for October 2007.

Sanofi pasteur Hepatitis B Vaccine Litigation

More than 160 lawsuits have been filed in various French civil courts against sanofi pasteur S.A. or Sanofi Pasteur MSD, two French subsidiaries of sanofi-aventis, in which the plaintiffs allege that they suffer from a

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variety of neurological disorders and autoimmune diseases, including multiple sclerosis or Guillain-Barré syndrome as a result of receiving the hepatitis B vaccine. More than 30 judgments in France have rejected claims alleging a causal link between the hepatitis B vaccine and the claimants alleged injuries, and to date no final decision has held group entities liable.

Sanofi pasteur Thimerosal Litigation

Since early 2001, sanofi pasteur has been a defendant in lawsuits filed in several federal and state courts in the U.S. alleging that serious personal injuries resulted from the presence of mercury in the preservative thimerosal, trace amounts of which are contained in vaccines manufactured by sanofi pasteur. Currently, there are 287 such cases pending. Several of the cases seek certification to proceed as class actions.

Sanofi pasteur believes that under U.S. law all of these claims must first be filed in the U.S. Court of Federal Claims to determine whether the claim qualifies for compensation by the National Vaccine Injury Compensation Program (VICP) before the claimants may bring direct actions against the company. The U. S. Court of Federal Claims has established a process designed to facilitate the handling of the thimerosal claims within the VICP. The process involves a committee of petitioner s representatives, and representatives of the U.S. Department of Justice who represent the government in the VICP. The first phase of the process calls for a determination of general causation, and the court has set June 11, 2007 as the tentative date for hearings on the issue of whether vaccines containing thimerosal can cause autism or other disorders.

Currently, all of these cases are either in the preliminary response stage, in the discovery process, have been stayed pending adjudication by the U.S. Court of Federal Claims, or have pending plaintiffs requests for reconsideration of preliminary determinations to stay proceedings pending such adjudication by the U.S. Court of Federal Claims. Sixteen of these cases have been brought on behalf of plaintiffs who had previously filed in the U.S. Court of Federal Claims and have now been filed against sanofi pasteur after the Claims Court failed to render a determination on the claims within the statutory 240 day period. These cases are in various stages of discovery, and none of these cases have been set for trial.

Sanofi pasteur Blood Products Litigation

Sanofi pasteur S.A. faces civil claims in Argentina, France, Iraq and the United States on behalf of several hundred individuals with hemophilia, alleging that they became infected with the Human Immunodeficiency Virus (HIV) or hepatitis C virus (HCV) as a result of the administration of non-heat-treated anti-hemophilic factor (AHF) manufactured in France in the early 1980s by a predecessor company.

Other Blood Products Litigation

On June 2, 2003 a purported worldwide class action was filed against current and former Group affiliates Armour Pharmaceutical Company, Aventis Behring and Aventis Inc. and against three other U.S. plasma fractionators, on behalf of a purported class of foreign and national

plaintiffs alleging infection with HIV and/or hepatitis C from 1978-1990. This action is pending before the U.S. District Court for the Northern District of Illinois. 93 additional individual and class action complaints have been filed in various jurisdictions, but have all been successfully removed to the Northern District of Illinois. In the aggregate, the various plaintiffs counsel represent approximately 3,000 putative class members. On March 3, 2005, the U.S. District Court for the Northern District of Illinois denied plaintiffs requests to certify class actions with respect to the cases before it. However, to the extent plaintiffs chose to proceed with individual claims, most of the approximately 3,000 plaintiffs cases are expected to remain before the U.S. District Court for the Nothern District of Illinois because of shared questions of fact.

In June 2005, defendants filed a motion to dismiss claims brought by UK plaintiffs arguing that the United States is not the proper forum. On January 5, 2006, the U.S. District Court granted the defendants motion in the lead case, dismissing certain UK plaintiffs and indicating that the decision would apply to some 300 additional UK plaintiffs. Plaintiffs have appealed this decision and oral argument was heard on September 13, 2006.

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In November 2002, Canadian authorities filed criminal charges against Armour Pharmaceutical Company and a former Armour employee alleging that Armour distributed AHF infected with HIV. A trial in this case began in February 2006.

Stilnox® (zolpidem) Product Litigation

Since March 2006, a lawsuit seeking class action treatment has been filed with the U.S. District Court for the Southern District of New York naming sanofi-aventis U.S. subsidiary Sanofi-Synthélabo Inc. as defendant and seeking unspecified damages for harm allegedly caused by claimed product side effects. The proposed class action lawsuit seeks to represent persons using Ambien® nationwide since 2000 and who claim injuries as a result of that use. Three of the four putative class representatives withdrew as class representatives and voluntarily dismissed their claims.

Agreal Product Litigation

The group faces civil, criminal or administrative claims chiefly in Spain from people alleging that the menopause treatment Agreal® (veralipride) has caused a range of neurological and psychological harm. A first test case combining a number of civil claims was tried in 2006 in Spain, resulting in dismissal of most of the test claims and holding the company responsible for 3 of them for an aggregate award of 18 000. This decision has been appealed.

b) Patents

Plavix® Patent Litigation

United States. In February 2002, sanofi-aventis learned that Apotex, a Canadian generic drug manufacturer, had filed an Abbreviated New Drug Application, or ANDA(1), with the FDA challenging two of its U.S. patents relating to Plavix®. The challenged patents include U.S. Patent No. 4,847,265 (the 265 patent), expiring in 2011, which discloses and claims the compound clopidogrel bisulfate, the active ingredient in Plavix®.

On March 21, 2002, sanofi-aventis, Sanofi-Synthélabo Inc. and Bristol-Myers Squibb Sanofi Pharmaceuticals Holding Partnership (or BMS Sanofi Holding , sanofi-aventis partnership with Bristol-Myers Squibb) filed suit in the U.S. District Court for the Southern District of New York against Apotex Inc. and Apotex Corp. (Apotex) for the infringement of U.S. patent rights relating to Plavix®. Apotex has asserted antitrust counterclaims. The lawsuit is captioned *Sanofi-Aventis, Sanofi-Synthélabo Inc. and Bristol-Myers Squibb Sanofi Pharmaceuticals Holding Partnership* v. *Apotex Inc. and Apotex Corp.*, 02-CV-2255 (SHS).

In April 2002, sanofi-aventis learned of a similar ANDA filing by Dr. Reddy s Laboratories, an Indian generic drug manufacturer. On May 14, 2002, sanofi-aventis, Sanofi-Synthélabo Inc. and BMS Sanofi Holding filed suit in the U.S. District Court for the Southern District of New York against Dr. Reddy s Laboratories for infringement of these same patent rights. That lawsuit is captioned *Sanofi-Aventis, Sanofi-Synthélabo Inc. and Bristol-Myers Squibb Sanofi Pharmaceuticals Holding Partnership* v. *Dr. Reddy s Laboratories, LTD, and Dr. Reddy s Laboratories, Inc.*, 02-CV-3672 (SHS).

In August 2004, sanofi-aventis was notified that Teva, an Israeli generic drug manufacturer, had amended an earlier filed ANDA and was challenging the validity of the 265 patent. On September 23, 2004, sanofi-aventis, Sanofi-Synthélabo Inc. and BMS Sanofi Holding filed suit in the U.S. District Court for the Southern District of New York against Teva for infringement of the 265 patent, and in a stipulation approved by the U.S. District Court for the Southern District of New York on April 15, 2005, all parties to the patent infringement litigation against Teva agreed that the Teva litigation will be stayed, pending resolution of the Apotex and Dr. Reddy litigation, and that the parties to the Teva litigation will be bound by the outcome of the litigation in the District Court against Apotex or Dr. Reddy.

If any of the challenges to the 265 patent were successful, one or more of the generic drug manufacturers would have the right (to the extent FDA approval has been obtained) to produce a generic clopidogrel product

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(1) Refer to the end of this chapter for a definition of ANDA .

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and market it in the United States in competition with sanofi-aventis and its alliance partner, BMS. On January 24, 2006, sanofi-aventis learned that the FDA had granted final approval to the Apotex ANDA. This FDA approval did not resolve the outstanding patent claims.

On March 21, 2006, sanofi-aventis and BMS announced that they had reached an agreement subject to certain conditions with Apotex Inc. and Apotex Corp. (Apotex) to settle the patent infringement lawsuit pending between the parties. Under the terms of the settlement as initially proposed, sanofi-aventis was to grant Apotex a royalty-bearing license under the 265 patent to manufacture and sell its FDA-approved clopidogrel bisulfate product in the United States, and Apotex was to agree not to sell a clopidogrel product in the United States until the effective date of the license. The license was to be effective on September 17, 2011, with the possibility of an effective date earlier in 2011 if sanofi-aventis did not receive an extension of exclusivity for pediatric use under the 265 patent. If a third party obtained a final decision that the 265 patent is invalid or unenforceable, under certain circumstances, the license to Apotex was to become effective earlier. The agreement included other provisions and was subject to conditions, including antitrust review and clearance by the Federal Trade Commission (FTC) and state attorneys general.

On June 25, 2006 sanofi-aventis, BMS and Apotex announced that, in response to concerns raised by the FTC and state attorneys general to the settlement as initially proposed, the companies had entered into a revised agreement. Among other revisions, under the terms of the modified agreement, Apotex s license to manufacture and sell its FDA approved clopidogrel bisulfate product in the United States was to be effective on June 1, 2011, rather than September 17, 2011.

On July 28, 2006, sanofi-aventis learned that the revised agreement had failed to receive required antitrust clearance from the state attorneys general. On August 8, 2006, Apotex announced the launch at risk of its generic product in the United States. On August 31, 2006, the U.S. District Court for the Southern District of New York granted sanofi-aventis motion for a preliminary injunction ordering Apotex to halt its sales of a generic version of clopidogrel bisulfate product that competes with Plavix® until the pending patent infringement lawsuit is resolved. The Court, however, did not order Apotex to recall products already shipped, leaving a significant volume of generic stock in the U.S. distribution channels.

Apotex sought a stay of the preliminary injunction pending its appeal to the U.S. Court of Appeals for the Federal Circuit. On September 15, 2006, the Court of Appeals declined to issue a stay and on December 8, 2006 the Court of Appeals issued an opinion upholding the August 31, 2006 decision of U.S. District Court for the Southern District of New York ordering the preliminary injunction.

As part of its preliminary injunction order, the U.S. District Court ordered sanofi-aventis and BMS to post a bond in the amount of $400 million to provide security to Apotex should the Court conclude at the end of the patent litigation that the injunction was wrongly imposed. Sanofi-aventis and BMS have each posted a bond for half of this amount. On January 2, 2007 Apotex filed a motion seeking to increase the bond amount to $2 billion. The Court has not yet decided Apotex s motion.

Trial on the merits of the litigation between sanofi-aventis, BMS and Apotex commenced January 22, 2007.

In September 2002 and in January 2003, sanofi-aventis obtained two additional U.S. patents: U.S. Patent No. 6,504,030 and U.S. Patent No. 6,429,210, related to a second crystalline form of clopidogrel known as form 2 .

In August 2004, sanofi-aventis learned that Watson Laboratories Inc., a U.S. generic company, filed an ANDA with the FDA challenging the validity of the form 2 patents and alleging non-infringement of U.S. Patent No. 6,504,030. On October 7, 2004, sanofi-aventis, Sanofi-Synthélabo Inc. and BMS Sanofi Holding filed suit in the U.S. District Court for New Jersey against Watson Laboratories for infringement of this U.S. patent. Watson has asserted counterclaims of invalidity and non-infringement with respect to U.S. Patent Nos. 6,504,030 and 6,429,210,. On January 20, 2006, at the request of all parties to the Watson litigation the judge ordered that this litigation be stayed, pending resolution of the Apotex litigation.

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Since the second quarter of 2005 each of Cobalt, Ivax, Mylan, Roxane Laboratories and Sandoz notified sanofi-aventis that it had filed an ANDA with the FDA with regard to purported generic versions of form 1 of clopidogrel in the United States. Only the Cobalt ANDA contains a paragraph IV certification contesting the 265 patent claiming form 1. In each case, these companies respective ANDAs claim the purported form 1 generics do not infringe patents related to form 2. Sanofi-aventis has filed suit against Cobalt for infringement of the 265 patent, and a stipulation similar to that signed with Teva (*discussed above*) was approved by the Court on October 28, 2005. Because none of Ivax, Mylan, Roxane or Sandoz have notified sanofi-aventis of paragraph IV certifications[(1)] against the 265 patent in their respective ANDAs, sanofi-aventis has not filed suit against any of them for infringement of that patent. Additionally, based on information currently known to it, sanofi-aventis is not aware of any basis at the present time to assert the form 2 patents against Apotex, Dr. Reddy s Laboratories, Teva, Cobalt, Ivax, Mylan, Roxane Laboratories or Sandoz with respect to their ANDA filings for purported form 1 generics.

It is not reasonably possible to estimate the impact of the Plavix® litigation on sanofi-aventis. However, a loss of market exclusivity of Plavix® and the subsequent development of generic competition would be material to sales of Plavix® and sanofi-aventis results of operations and cash flows, and could be material to sanofi-aventis financial condition and liquidity.

Sanofi-aventis is vigorously pursuing enforcement of its patent rights in Plavix®.

Korea. A number of companies have received marketing authorisations in Korea for generic forms of clopidogrel. In late August 2006, sanofi-aventis asserted the Korean patent for Plavix® (Korean Patent No. 103094) in patent infringement actions against Cham and other companies based on pre-marketing activities, seeking to prohibit its sales and marketing of a generic product in Korea. In December 2006, sanofi-aventis commenced another patent infringement action against Jin-Yang. In October 2006 Cham became the first to launch at risk in Korea. The patent infringement procedure remains pending. On June 28, 2006, in a nullity action filed by several companies against Korean Patent No. 103094, the Korean Intellectual Property Tribunal issued a decision holding that the patent s claims were not patentable under Korean law and therefore the patent was issued in error. Sanofi-aventis believes its patent rights are valid, and filed an appeal of the decision of the IPT. The Korean Patent No. 103094 remains in force, pending a decision in the appeal.

Canada. In March 2003, sanofi-aventis learned that Apotex had filed an application with Canadian authorities for a marketing authorization for a proposed generic clopidogrel product, alleging that sanofi-aventis s Canadian Patent No. 1,336,777 (the 777 patent) for clopidogrel bisulfate was invalid and not infringed. The 777 patent is the Canadian counterpart to sanofi-aventis U.S. Patent No. 4,847,265 which is being asserted in the U.S. against Apotex, Dr. Reddy s, Teva and Cobalt. On April 28, 2003, sanofi-aventis Canadian subsidiary and sanofi-aventis commenced an application for judicial review in the Federal Court of Canada and in March 2005 the Canadian Federal Court of Ottawa granted sanofi-aventis application for an order of prohibition against the Minister of Health and Apotex Inc. in relation to Apotex s 2003 application in Canada for a marketing authorization for a generic version of clopidogrel bisulfate tablets. The Canadian Federal Court held that the asserted claims of the 777 patent are novel, not obvious and infringed. Apotex has appealed, and on December 22, 2006 the Canadian Federal Court of Appeals dismissed the Apotex appeal.

No further appeal to the Supreme Court of Canada has been filed by Apotex, however the time for filing a request for leave to appeal to the Supreme Court of Canada has not yet expired, and therefore a further appeal is possible.

In similar litigation relating to their respective Canadian applications for a proposed generic clopidogrel product, each of Novopharm and Cobalt have agreed with sanofi-aventis that they will be bound by the final outcome of the Apotex case described above.

(1) Refer to the end of this chapter for a definition of paragraph IV certification .

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Allegra® Patent Litigation

United States. In June 2001 Aventis Pharmaceuticals Inc. (API), a sanofi-aventis subsidiary, was notified that Barr Laboratories Inc. (Barr) filed an Abbreviated New Drug Application (ANDA) with the FDA seeking approval to market a generic version of Allegra® 60 mg capsules in the United States and challenging certain of API s patents. In August 2001, API filed a patent infringement lawsuit against Barr in U.S. District Court claiming that marketing of Allegra® by Barr prior to the expiration of certain API patents would constitute infringement of those patents. API subsequently received similar ANDA notifications from Barr and six additional generic companies relating variously to Allegra® 30 mg, 60 mg and 180 mg tablets and Allegra®-D as well as notice of a Section 505(b)(2)[(1)] application by Dr. Reddy s Pharmaceuticals. In each case, API has filed additional patent infringement lawsuits against the generic companies. These Allegra® patent infringement suits are pending in the U.S. District Court for New Jersey. There is no date currently set for trial.

On September 6, 2005, Barr and Teva announced that they were collaborating to launch a generic version of Allegra® despite the pending litigation. As a result sanofi-aventis submitted a motion for a preliminary injunction to halt Barr and Teva s marketing of generic Allegra®, which the district court denied. On November 8, 2006 the Appeals Court affirmed the District Court s denial of the preliminary injunction motion.

On November 14, 2006 a new patent covering a crystalline form of the active ingredient of Allegra® (fexofenadine hydrochloride) was granted and API brought suit against Teva and Barr for infringement of this patent in the U.S. District Court for the Eastern District of Texas. On November 15, 2006, Barr and Teva filed an action against API in the U.S. District Court for the District of New Jersey seeking a declaratory judgment that the patent subject to the Texas action is invalid, unenforceable or not infringed. On November 21, 2006, a new patent covering an additional crystalline form of the active ingredient of Allegra® (fexofenadine hydrochloride) was granted and API amended its action in the Eastern District of Texas to assert infringement of that second patent by Barr.

Israel. On January 22, 2006, sanofi-aventis filed a patent infringement lawsuit in Israel against Teva Pharmaceuticals relating to a crystalline form of the active ingredient of Allegra® (fexofenadine HCl). Sanofi-aventis is seeking a court order prohibiting Teva s manufacture, export and marketing of fexofenadine HCl in infringement of sanofi-aventis Israeli patent rights.

Actonel® Patent Litigation

The Procter & Gamble Company and Merck & Co. Inc., acting separately, filed patent infringement litigation in 2004 against Teva Pharmaceuticals USA in the U.S. District Court for the District of Delaware in response to Teva s application to market a generic version of Actonel® (risedronate sodium tablets) in the United States. Sanofi-aventis is not a party to either suit. Actonel® is marketed by the Alliance for Better Bone Health, an alliance between P&G Pharmaceuticals and API. On August 15, 2006, the action by Merck was dismissed with prejudice pursuant to stipulation. The action brought by Procter & Gamble was tried before a judge in November 2006; no judgment in that case has been entered yet.

Lovenox® Patent Litigation

United States In June 2003, API received notice that both Amphastar Pharmaceuticals and Teva Pharmaceuticals were seeking approval from the FDA for purportedly generic versions of Lovenox® and were challenging U.S. Patent No. 5,389,618 (the 618 patent) listed in the Orange Book for Lovenox®. API brought a patent infringement suit against both Amphastar and Teva in U.S. District Court (Central District of California) on the 618 patent.

On June 14, 2005, in a separate administrative procedure the U.S. Patent & Trademark Office reissued the 618 patent, as reissue patent number RE 38,743 (the 743 patent). The 743 patent is listed in the Orange Book and will expire on February 14, 2012. As a result of the reissuance, the 618 patent has been surrendered in favor of the 743 patent by operation of law.

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(1) Refer to the end of this chapter for a definition of Section 505(b)(2) application .

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On June 15, 2005, the Court granted Amphastar s motion for summary judgment of inequitable conduct. The District Court subsequently ruled that the 743 patent was substituted for the 618 patent in the proceedings and entered final judgment.

On August 1, 2005, API lodged an appeal of the District Court s summary judgment ruling. On April 10, 2006, the Court of Appeals for the Federal Circuit reversed the prior decision of the U.S. District Court for the Central District of California. The case has been remanded to the District Court.

In July 2006, sanofi-aventis was notified that prior to trial on the other issues the District Court would first hold a separate trial on the issue of intent, an element of inequitable conduct which had been left outstanding in the favorable ruling of the Court of Appeals for the Federal Circuit. The trial on the intent issue was held in December 2006 and a ruling is awaited. In a ruling dated February 8, 2007, the District Court issued a decision against sanofi-aventis, holding the patent unenforceable on the grounds of inequitable conduct. Sanofi-aventis is evaluating further legal recourse.

In June 2006, sanofi-aventis was notified that Sandoz Inc. had submitted an Abbreviated New Drug Application (ANDA)[(1)] to the FDA containing a paragraph IV patent certification[(1)] relating to Lovenox®. Sanofi-aventis filed a patent infringement suit against Sandoz on August 4, 2006 in both California and New Jersey.

Canada. On February 25, 2005, Novopharm received a Notice of Compliance (NOC)[(1)] in Canada to market a purportedly generic form of Lovenox®. Aventis Pharma S.A. (France) and sanofi-aventis Canada, Inc s predecessor, Aventis Pharma Inc. (Canada), both subsidiaries of sanofi-aventis, filed a patent infringement suit against Novopharm Limited in the Federal Court of Canada for infringement of Canadian patent number 2,045,433.

On April 1, 2005, Sanofi-aventis Canada, Inc s predecessor, Aventis Pharma, Inc. (Canada) initiated a judicial review proceeding before the Federal Court of Canada against the Minister of Health, Attorney General of Canada and Novopharm Limited seeking to obtain an order quashing the Notice of Compliance issued to Novopharm. The government filed a motion to strike which was granted-in-part and denied-in-part. The court s decision to grant part of the government s motion was appealed. In 2006, the parties agreed to discontinue their suits without prejudice. Novopharm s Drug Identification Numbers (DINS) for enoxaparin sodium product were cancelled on January 30, 2006 and Novopharm s NOC was suspended as of May 16, 2006.

Italy. The company Opocrin has filed suit in Italy before the Tribunale di Milano (civil section) seeking a declaratory judgment of invalidity and of non-infringement with respect to the Italian patent covering Clexane®, which is the Italian counterpart to the U.S. patent number 5,389,618 (now RE 38,743). The suit remains pending. Previously, Biofer and Chemi had also filed the same type of suit in 2001. A ruling against these companies upholding the validity of the patent, within certain limitations, is being appealed.

Ramipril Canada Patent Litigation

As of today, five patents are listed under ramipril on the Patent Register in Canada. Six generic manufacturers have submitted Notices of Allegation[1] seeking marketing authorization and citing each listed patent. Before the Minister of Health can issue a Notice of Compliance (NOC)[1] to authorize marketing for a proposed generic product, the generic manufacturer must successfully address relevant patents in proceedings initiated by the innovator company in response to the Notices of Allegation under the Patented Medicines (Notice of Compliance) Regulations. Sanofi-aventis has initiated proceedings under the Regulations seeking to prevent the issuance of the NOCs. The status of the proceedings with each generic manufacturer is described below:

The Minister of Health has issued an NOC to Apotex, deciding in light of an unrelated November 2006 court ruling, that Apotex did not need to address two patents (387 and 549, known as the HOPE Patents) for

(1) Refer to the end of this chapter for a definition.

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which NOC proceedings were already pending. Although sanofi-aventis initially obtained a stay of this decision, on January 8, 2007, this stay was itself stayed by the Federal Court of Appeal pending Apotex s appeal of the initial stay, which the Court heard on February 12, 2007. Sanofi-aventis has sought leave to appeal to the Supreme Court of Canada. Sanofi-aventis has also commenced two judicial review applications against the Minister of Health arising (i) from the Minister s decision that Apotex need not address the HOPE patents and (ii) from the Minister s decision to issue an NOC despite the pendency of a statutory stay prohibiting the issuance of an NOC. These proceedings are ongoing. Subsequent to Apotex s launch of a generic ramipril in Canada, sanofi-aventis brought suit against Apotex in January 2007 before the Federal Court of Canada for infringement of the 206 patent.

In 2006 Pharmascience prevailed in Federal Court in respect of two patents (948 and 089) but was unsuccessful in respect of another patent (206). It is seeking leave to appeal the ruling on the 206 patent. In November 2006 it also filed a Notice of Allegation alleging non-infringement and invalidity of the HOPE patents, as well as a second Notice of Allegation alleging invalidity of the 206 patent. Sanofi-aventis has commenced proceedings under the Regulations in response to these Notices.

Novopharm has successfully obtained dismissal of a claim by sanofi-aventis that its product would violate the 206 patent. Sanofi-aventis appeal regarding the 206 patent was heard on January 9, 2007 and the Court reserved judgment. Novopharm has also served a motion to dismiss sanofi-aventis application for a prohibition order with respect to the 948 patent, the 089 patent and the HOPE patents. Its motion was dismissed on December 21, 2006, and it has appealed the dismissal. Novopharm has also commenced a judicial review application seeking to reverse a decision of the Minister that it is required to address the 948 and 089 patents. In addition, sanofi-aventis has commenced a Judicial Review proceeding in response to the Minister s decision that Novopharm need not address the HOPE Patents.

Laboratoire Riva has served allegations with respect to the 206, 089 and 948 patents, in respect of which a hearing is scheduled in April 2007. It also served allegations with respect to the HOPE patents in December 2006 and sanofi-aventis commenced NOC proceedings to challenge those allegations under the Regulations in January 2007.

Furthermore, sanofi-aventis has commenced proceedings under the Regulations against Cobalt in relation to all five ramipril patents.

Finally, sanofi-aventis currently plans to file proceedings under the Regulations against Sandoz in response to Notices of Allegation Sandoz served on sanofi-aventis.

Eloxatine® European Patent Litigation

Concurrently with the expiration of the Eloxatine® data exclusivity rights in most of Europe in 2006, sanofi-aventis has been involved in patent litigation against a number of generic drug manufacturers and their suppliers. Patents related to Eloxatine® (oxaliplatin) are either owned by sanofi-aventis or licensed to it by Debiopharm S.A.; the patent claiming the chemical entity oxaliplatin in Europe has expired. In an action against Mayne Pharma Pty Ltd (Mayne) before the Patents Court in the United Kingdom concerning hypothetical oxaliplatin products that Mayne proposed to sell, the Patents Court ruled on May 19, 2006 that EP 454 patent and EP 331 patent were invalid and not infringed by Mayne s

proposed products. There is no appeal of this UK decision, and sanofi-aventis has learned that Mayne has commenced marketing of its lyophilized product in the United Kingdom.

In an action against the precious metals company Heraeus in Germany, the German court ruled on June 2, 2006, that Heraeus process for manufacturing oxaliplatin did not infringe the EP 454 patent. Sanofi-aventis appealed this decision, and on December 5, 2006, brought a second patent suit in Germany for infringement of the EP 438 patent. In December 2006, sanofi-aventis brought additional patent infringement suits in Germany against the pharmaceutical companies Medac and Mayne for their manufacture and sale, respectively, of oxaliplatin products.

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Ambien CR Patent Litigation

In 2006, sanofi-aventis was notified that each of Anchen, Abrika, Watson and Synthon had submitted an Abbreviated New Drug Application (ANDA)[(1)] to the FDA containing a paragraph IV patent certification[(1)] relating to Ambien CR. On January 26, sanofi-aventis filed a suit for infringement of U.S. patent 6 514 531 against Watson in the U.S. District Court for the District of New Jersey. A similar patent infringement suit was filed against Synthon on February 5, 2007 in the U.S. District Court for the District of North Carolina. Sanofi-aventis has not brought suit against Anchen, which was the first to notify sanofi-aventis of its paragraph-IV ANDA, or against Abrika. In addition to its Orange-Book listed patent 6 514 531 expiring in 2019, Ambien CR benefits from an FDA marketing exclusivity in the United States expiring in March 2009.

Eligard® Patent Litigation

In November 2003, TAP (Takeda Abbott Partnership) filed suit against Sanofi-Synthelabo Inc., a sanofi-aventis subsidiary, and Atrix (now part of the QLT group) in the Northern District of Illinois, alleging that the Eligard® products, which employ technology licensed from Atrix, infringe a TAP patent. The Court rejected sanofi-aventis and Atrix s defenses of invalidity and inequitable conduct, and on January 20, 2006, entered a judgment in favor of TAP. On February 27, 2006, the U.S. District Court also granted an injunction enjoining sanofi-aventis, QLT, and their subsidiaries from promoting, manufacturing, selling and offering Eligard® for sale in the United States until the expiry of TAP s patent on May 1, 2006. The Court of Appeals for the Federal Circuit subsequently stayed the injunction.

The defendants have appealed the District Court s judgment of liability. The Federal Circuit heard oral argument on September 8, 2006. While an appeal of the District Court s judgment of liability was pending before the Federal Circuit, all parties agreed to settle this litigation in an agreement signed on February 9, 2007, providing for a total payment of $157.5 million to TAP. Sanofi-aventis has agreed to contribute $45 million of this amount. This settlement must be authorized by the competent courts in order to take effect.

Nasacort® AQ

In March 2006, sanofi-aventis was notified that Barr Laboratories had submitted an ANDA to the FDA containing a paragraph IV patent certification relating to triamcinolone acetonide 55 microgram nasal spray (Nasacort® AQ). Further to this notification, Sanofi-aventis has filed a patent infringement lawsuit in the US District Court of Delaware against Barr Laboratories, Inc. regarding two Nasacort® AQ patents (U.S. Patent nos. 5,976,573 and 6,143,329). The US District Court of Delaware has set trial for May 2008.

OptiClik® Patent Litigation

On September 2, 2005, Novo Nordisk filed a Complaint in the U.S. District Court of Delaware against sanofi-aventis, Aventis Pharmaceuticals Inc. and Aventis Pharma Deutschland GmbH (collectively, sanofi-aventis) alleging infringement of Novo Nordisk s U.S. Patent No. 6,582,408 in connection with the sanofi aventis Group s OptiClik® pen device for use with Lantus® (insulin glargine [rDNA origin]) injection, a long-acting insulin for the treatment of type 1 and type 2 diabetes, and Apidra® (quick acting insulin). Novo Nordisk has not yet asserted a specific amount of damages. The litigation is currently in the discovery phase. A bench trial is scheduled for August 2007.

Glossary of Patent Terminology

A number of technical terms used above in Note D.22.b) are defined below for the convenience of the reader.

ANDA or Abbreviated New Drug Application (United States): An application by a drug manufacturer to receive authority from the U.S. FDA to market a generic version of another company s approved product, by demonstrating that the purportedly generic version has the same properties (bioequivalence) as the original

(1) Refer to the end of this chapter for a definition.

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approved product. As a result of data exclusivity, the ANDA may be filed only several years after the initial market authorization of the original product.

Notice of Allegation: (NOA) (Canada): A notice issued under the *Patented Medicines* (Notice of Compliance) *Regulations*. Such notices set out the nature of the generic manufacturer s challenge to a patent listed on the Patent Register.

Notice of Compliance (NOC)(Canada): A notification, indicating that a manufacturer has complied with the Food and Drug Regulations for the safety, efficacy and quality of a product. It is issued to a manufacturer following the satisfactory review of a submission. Obtention of a NOC is mandatory prior to marketing of a generic product in Canada. Before the Minister of Health can issue an NOC, the manufacturer of a proposed generic product must prevail in any litigation initiated in response to the notices of allegations relating to each patent listed on the Patent Register for the reference product.

Paragraph III and Paragraph IV Certifications: ANDAs relating to approved products for which a patent has been listed in the FDA s list of Approved Drug Products with Therapeutic Equivalence Evaluations, also known as the Orange Book , must specify whether final FDA approval of the ANDA is sought only *after* expiration of the listed patent(s) (this is known as a paragraph III certification under the Hatch-Waxman Act) or whether final FDA approval is sought *prior* to expiration of one or more listed patents (a paragraph IV certification). ANDAs including a paragraph IV certification may be subject to the 30-Month Stay defined below.

Section 505(b)(2) application: A section 505(b)(2) application may be used to seek FDA approval for, among other things, combination products, different salts of listed drugs, products that do not demonstrate bioequivalence to a listed drug and over-the-counter versions of prescription drugs.

30-Month Stay (United States): If patent claims cover a product listed in the FDA s list of Approved Drug Products with Therapeutic Equivalence Evaluations, also known as the Orange Book , and are owned by or licensed to the manufacturer of the original version, the FDA is barred from granting a final approval to an ANDA during the 30 months following the patent challenge, unless, before the end of the 30 months, a court decision or settlement has determined either that the ANDA does not infringe the listed patent or that the listed patent is invalid and/or unenforceable. FDA approval of an ANDA after this 30 month period does not resolve outstanding patent disputes, which may continue to be litigated in the courts.

c) Government Investigations, Competition Law and Regulatory Claims

Government Investigations Plavix® Settlement

Sanofi-aventis learned in late July 2006 that the Antitrust Division of the United States Department of Justice is conducting a criminal investigation regarding the proposed settlement described at Patents Plavix® Patent Litigation United States , above, and has received grand jury subpoenas seeking the production of documents. Sanofi-aventis is providing all information required in response to this investigation. It is not possible at this time reasonably to assess the outcome of the investigation or its impact on sanofi-aventis.

Government Investigations Pricing and Marketing Practices

Private Label. The U.S. Attorney s Office in Boston is conducting a civil and criminal investigation into whether sales by Aventis Pharmaceuticals Inc. (API) of certain products to a managed care organization for resale under that organization s own label should have been included in the best price calculations that are used to compute the Medicaid rebates for API products. Medicaid is a public medical insurance program jointly financed by the U.S. state and federal governments. It is alleged that not including these sales in the calculation resulted in incorrect Medicaid rebates. API has responded to all requests for information in this matter.

Massachusetts Physician. The U.S. Attorney s Office in Boston is also conducting a civil and criminal investigation with regard to interactions API had with a Massachusetts physician, and affiliated managed care

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entities. In the course of that investigation one current and one former employee of API received letters from the government indicating they are targets of that investigation. Sanofi-aventis has responded to all subpoenas related to this investigation.

Managed Care Investigation. The U.S. Attorney s Office in Boston is conducting an investigation related to managed care entities which includes allegations that API directly or indirectly made payments to customers or to those in a position to influence sales of API pharmaceuticals in order to obtain or keep drug business and to evade Medicaid best price reporting requirements. As part of the investigation the government served API with a subpoena investigating criminal federal health care violations related to health care benefit programs. The subpoena asked for documents related to API interactions with, and payments to, managed care customers, formulary placement, sales and marketing of specific products to those managed care customers, as well as contracts with wholesalers and distributors and payments to non-Aventis employees. Sanofi-aventis has responded to this subpoena.

Lahey Clinic. In 2004, API and Aventis Behring received subpoenas issued by the U.S. Attorney s office in Boston requesting documents concerning payments and contacts between these companies and the Lahey Clinic, a Massachusetts healthcare facility, or certain of its employees, relating to various periods between January 1995 and October 2004. API and Aventis Behring have provided documents in response to these subpoenas.

Lovenox® Marketing. The U.S. Attorney s Office in Chicago, Illinois has conducted a civil and criminal investigation with regard to Lovenox® sales and marketing practices from January 1, 1999 to the present. Without prejudice to its right to pursue any further investigation in the future, the government has declined to intervene in a Federal False Claims Act case related to the facts under investigation brought by two former employees, and that matter will proceed against the Company as civil litigation in Illinois federal court under federal and Illinois whistleblower statutes.

Average Wholesale Prices. Since July 2005, the Department of Justice has been reviewing the merits of an action under the False Claims Act filed by a private plaintiff on behalf of the U.S. federal government in 1995 in a U.S. federal court in Florida. This action alleges that the Average Wholesale Prices (AWP) of certain pharmaceutical products, which were used to set Medicare and Medicaid reimbursement levels, were improperly established and used by API, Aventis Behring, and Armour Pharmaceutical Company in the marketing of their products. Medicare is a federally-funded health insurance program, principally available to persons aged 65 and over. Medicaid is a public medical insurance program jointly financed by the U.S. state and federal governments. API and Aventis Behring also received subpoenas from the states of California and Texas with respect to such issues in 2000. API received a similar subpoena from the state of Massachusetts in April 2001.

Civil Suits Pricing and Marketing Practices

AWP Class Actions. API is a defendant in several U.S. lawsuits seeking damages on behalf of multiple putative classes of individuals and entities that allegedly overpaid for certain pharmaceuticals as a result of the AWP pricing issue described under Government Investigations Pricing and Marketing Practices above. Aventis Behring and Sanofi-Synthelabo, Inc. are also defendants in some of these cases. Cases filed in state and federal courts have been or are in the process of being consolidated in the U.S. District Court in Boston along with similar cases pending against other pharmaceutical companies. These suits allege violations of federal anti-racketeering (RICO) and state unfair trade, unfair competition, consumer protection and false claim statutes. Plaintiffs initially also sued Together Rx, the discount drug program in which API

and several other pharmaceutical companies participate that is designed to provide needy senior citizens with lower cost pharmaceuticals. Plaintiffs alleged the Together Rx program violated federal antitrust laws and RICO, and constituted a conspiracy under civil laws.

In June 2005, following discovery, plaintiffs agreed to drop their claims against Together Rx and the member companies, and have filed an amended complaint reflecting this agreement.

By order entered on January 30, 2006, the court granted in part plaintiffs motion for class certification against five designated manufacturer defendants (not including API or Aventis Behring) in a ruling certifying a class action

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of Medicare beneficiaries in approximately 41 states and class actions of Medicare beneficiaries insurers and of non-Medicare third-party payers and consumers geographically limited to Massachusetts. A similar motion for class certification against defendants including API and Aventis Behring was filed, briefed and argued.

AWP Public Entity Suits. U.S. subsidiaries of the Group together with several dozen other pharmaceutical companies are defendants in lawsuits brought starting in 2002 by the states of Alabama, Alaska, Arizona, California, Connecticut, Hawaii, Illinois, Kentucky, Mississippi, Montana, Nevada, New York, Pennsylvania and Wisconsin for AWP pricing issues described under Government Investigations Pricing and Marketing Practices above. These suits allege violations of state unfair trade, consumer protection and false claims statutes, breach of contract, and Medicaid fraud. The Arizona, California, Illinois, Kentucky, Mississippi, Montana, Nevada and Pennsylvania cases are before the federal district court in Boston. All of the other state suits are pending before other federal courts or in the state courts in which they were filed.

API, Sanofi-Synthelabo Inc. and other pharmaceutical companies have also been sued by several individual New York State counties and the City of New York, in suits alleging similar violations of state laws concerning pricing and marketing practices.

§ 340B Suits. In July 2004 Central Alabama Comprehensive Healthcare Inc. filed suit in federal court against API, Aventis Behring, and seven other pharmaceutical companies alleging that the defendants had overcharged Public Health Service entities for their pharmaceutical products. The plaintiff seeks to represent a nationwide class of all such entities that purchase under the Public Health Service program. Plaintiffs base their complaint on a report of the U.S. Department of Health and Human Services Office of the Inspector General. Subsequent to a reissued Office of the Inspector General report with substantial revisions concerning the pharmaceutical industry, plaintiffs have withdrawn their suit without prejudice.

On August 18, 2005, the County of Santa Clara, California filed a similar suit against API and fourteen other pharmaceutical companies in the Superior Court of the State of California, County of Alameda. Plaintiff seeks to proceed on behalf of a California-wide class of similarly situated cities and counties in California. On September 15, 2005, the case was removed from Alameda Superior Court to the U.S. District Court. On July 28, 2006 the defendants were successful in dismissing plaintiffs complaint in its entirety, with prejudice, for failure to state a claim. The plaintiffs have appealed this ruling.

Pharmaceutical Industry Antitrust Litigation. Approximately 135 cases remain pending of the numerous complaints that were filed in the mid-1990 s by retail pharmacies in both federal and state court. These complaints shared the same basic allegations: that the defendant pharmaceutical manufacturers and wholesale distributors, including sanofi-aventis predecessor companies, violated the Sherman Act, the Robinson Patman Act, and various state antitrust and unfair competition laws by conspiring to deny all pharmacies, including chains and buying groups, discounts off the list prices of brand-name drugs. Shortly before a November 2004 trial in the U.S. District Court for the Eastern District of New York, sanofi-aventis and the remaining manufacturer defendants settled the Sherman Act claims of the majority of the remaining plaintiffs. These settlements did not dispose of the remaining plaintiffs Robinson Patman Act claims.

Vitamin Antitrust Litigation

Since 1999, sanofi-aventis, some of its subsidiaries in its former animal nutrition business, and other vitamin manufacturers have been defendants in a number of class actions and individual lawsuits in U.S. courts relating to alleged anticompetitive practices in the market for bulk vitamins. Sanofi-aventis has settled all claims brought by direct purchasers of the relevant vitamin products and the majority of actions brought on behalf of indirect purchasers.

A lawsuit filed on behalf of a putative class of non-U.S. direct purchasers was dismissed by the District Court, which concluded that the non-U.S. plaintiffs were unable to sustain their case in the U.S. Courts. Review by the Court of Appeals for the District of Columbia and by the U.S. Supreme Court upheld the district Court s conclusion that plaintiffs are unable to sustain their case in the U.S. Courts. Plaintiffs sought yet another review by the U.S. Supreme Court, which was refused in January 2006, ending the non-U.S. direct purchaser suit.

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In February 2006, sanofi-aventis and API learned that they had been named together with several other companies in a complaint filed by the Attorney General of Mississippi on the grounds of state antitrust law.

Aventis Animal Nutrition and five of the other major settling defendants entered into a judgment-sharing agreement, pursuant to which they agreed to allocate any judgment at trial among themselves according to the actual sales made by each of them. Regarding the same matter, civil litigation against sanofi-aventis and some of its subsidiaries is pending in the U.K. claiming damages; similar litigation in Canada and Australia has been settled. Investigations by antitrust authorities are pending in Brazil. In connection with the sale of its animal nutrition business to CVC Capital Partners, sanofi-aventis retains liability arising out of these antitrust issues.

Methionine Antitrust Litigation

Sanofi-aventis has settled all direct purchaser civil claims brought in the U.S. against sanofi-aventis and its subsidiaries relating to methionine sales and has settled the majority of claims brought by indirect purchasers starting in 2002. Settlement negotiations are ongoing with most of the remaining U.S. indirect purchasers. In connection with the sale of its animal nutrition business to CVC Capital Partners, sanofi-aventis retains liability arising out of these antitrust issues.

European Commission Fines

Hoechst is currently appealing fines assessed against it by the European Commission in 2001 and 2002 with respect to arrangements alleged to have affected competition in the sorbates market (a fine of 99 million) and in the MCAA market (a fine of 74 million). Pursuant to the October 1999 demerger agreement between Hoechst and Celanese AG, Hoechst and Celanese will split the sorbate fine and any further costs and expenses from this matter in a ratio of 80/20 between them. Pending the results of the appeals, the Group has posted bonds with the European Commission and taken the corresponding reserves.

Cipro® Antitrust Litigation

Since August 2000, API has been a defendant in several related cases in U.S. state and federal courts alleging that API and certain other pharmaceutical manufacturers violated U.S. antitrust laws and various state laws by settling a patent dispute regarding the brand-name prescription drug Cipro® in a manner which allegedly delayed the arrival of generic competition. In March 2005, the U.S. District Court for the Eastern District of New York granted sanofi-aventis summary judgment motions, and issued a judgment in favor of sanofi-aventis and the other defendants in this litigation. Plaintiffs have appealed this decision.

Lovenox® Antitrust Litigation

Subsequent to the decision of the U.S. District Court for the Central District of California holding the patent rights in the Lovenox® patent litigation to be unenforceable (*see Patents-Lovenox® Litigation, above*), on August 4, 2005, the Steamfitters Industry Welfare Fund and additional plaintiffs claiming to represent a purported class of indirect purchasers of Lovenox® filed a complaint alleging that Aventis Pharma S.A. and API had engaged in a scheme to monopolize the market for Lovenox® in violation of the Sherman Act and state consumer protection statutes. Plaintiffs seek to represent a class of persons having purchased Lovenox® since June 2003 and assert claims for triple damages based on alleged excess profits. Defendants had reached an agreement with plaintiffs to stay the antitrust litigation pending the outcome of the appeal of the patent case. Further to the Federal Circuit decision on April 10, 2006 (see *Patents-Lovenox® Litigation,* above), defendants approached the plaintiffs about continuing the stay of the antitrust litigation while the underlying patent litigation remains active and await a response.

DDAVP® Antitrust Litigation

Subsequent to the decision of the U.S. District Court for the Southern District of New York in February 2005 holding the patent rights at issue in the DDAVP® tablet litigation to be unenforceable as a result of inequitable conduct, eight putative class actions have been filed claiming injury as a result of Ferring B.V. and

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Aventis Pharmaceuticals Inc. s alleged scheme to monopolize the market for DDAVP® tablets in violation of the Sherman Act and the antitrust and deceptive trade practices statutes of several states. On November 6, 2006, the District Court dismissed these claims for (i) failure to support the requisite finding of fraud, noting the difference between inequitable conduct and fraud, (ii) lack of standing, and (iii) absence of detailed allegations against API. Plaintiffs are seeking further recourse against the decision to dismiss.

Brazilian Antitrust Claims

On October 13, 2005, the Brazilian CADE (Conselho Administrativo de Defesa Economica) concluded that certain sales managers from 21 pharmaceutical companies (including representatives from sanofi-aventis, Aventis Behring Ltda., and Sanofi-Synthélabo) attended a sales meeting in 1999, during which they engaged in anti-competitive acts allegedly intended to prevent competition from certain generic products. As a result of the CADE s ruling, which is being appealed, the named companies will be assessed fines.

Plavix® Antitrust Claim

On March 23, 2006, the U.S. retailer The Kroger Co. filed an antitrust complaint in the District Court for the Southern District of Ohio against sanofi-aventis, Bristol-Myers Squibb Co. and Apotex Corp alleging antitrust violations by the defendants in relation to their tentative (and now terminated) agreement to settle the U.S. Plavix® patent litigation (see *Plavix® Patent Litigation United States*, above, for a description of the transaction). Seventeen other complaints have since been filed by direct and indirect purchasers of Plavix® on the same or similar grounds. Plaintiffs seek relief including injunctive relief and monetary damages. Defendants have moved to transfer the antitrust litigation from Ohio to the U.S. District Court for the Southern District of New York, where the patent litigation is pending or in the alternative to stay the antitrust litigation until after the conclusion of the trial of the patent case, which commenced on January 22, 2007.

Plavix® Consumer Fraud Claims

Sanofi-Synthelabo, Inc., sanofi-aventis U.S. and BMS are defendants in a putative class action filed in the U.S. District Court for the District of New Jersey for alleged violations, inter alia, of the New Jersey Consumer Fraud Act. The plaintiff claims that as a result of defendants conduct, it and other similarly situated entities were forced to provide prescription reimbursement benefits for Plavix®, which they assert has little excess benefit in some class of patients and has excessive risk in others. The proposed class action seeks unspecified statutory, compensatory, and punitive damages.

d) Other litigation and arbitration

Hoechst Shareholder Litigation

On December 21, 2004 the extraordinary General Meeting of sanofi-aventis German subsidiary Hoechst AG (now Hoechst GmbH) approved a resolution transferring the shares held by minority shareholders to sanofi-aventis for compensation of 56.50 per share. Certain minority shareholders filed claims contesting the validity of the resolution, preventing its registration with the commercial register of Frankfurt and entry into effect.

On July 12, 2005, this litigation was settled. As a consequence, the squeeze out has been registered in the commercial register making sanofi-aventis the sole shareholder of Hoechst AG.

According to the settlement agreement the cash compensation has been increased to 63.80 per share. The cash compensation was further increased by another 1.20 per share for those outstanding shareholders who inter alia waived in advance any increase of the cash compensation obtained through a judicial appraisal proceeding (*Spruchverfahren*) brought by former minority shareholders. Subsequently, a number of former minority shareholders of Hoechst initiated a judicial appraisal proceeding with the local Frankfurt court *Landgericht Frankfurt am Main* contesting the amount of the cash compensation paid in the squeeze out. The amount sought has not been specified. The proceedings are ongoing.

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e) Contingencies Arising from Certain Business Divestitures

Sanofi-aventis and its subsidiaries, Hoechst and Aventis Agriculture, divested a variety of mostly chemical, including agro-chemical, businesses as well as certain health product businesses in previous years. As a result of these divestitures, the Group is subject to a number of ongoing contractual and legal obligations regarding the state of the sold businesses, their assets, and their liabilities.

Aventis Behring

The divestment of Aventis Behring and related protein therapies assets became effective on March 31, 2004. The purchase agreement contained customary representations and warranties running from sanofi-aventis as seller to CSL Limited as purchaser. Sanofi-aventis has indemnification obligations that generally expired on March 31, 2006 (the second anniversary of the Closing Date). However, some indemnification obligations having a longer duration, remain in effect, for example: indemnification obligations relating to the due organization, capital stock and ownership of Aventis Behring Companies runs through March 31, 2014, environmental indemnification through March 31, 2009, and product liability indemnification through March 31, 2019, subject to extension for claims related to types of product liability notified before such date. Furthermore, for tax related issues, sanofi-aventis indemnification obligation covers all taxable periods that end on or before the Closing Date and expires thirty days after the expiration of the applicable statute of limitations. In addition, the indemnification obligations relating to certain specified liabilities, including HIV liability, survive indefinitely.

Under the indemnification agreement, sanofi-aventis is generally obligated to indemnify, only to the extent indemnifiable, losses exceeding U.S.$10 million and up to a maximum aggregate amount of U.S.$300 million. For environmental claims, the indemnification due by sanofi-aventis equals 90% of the indemnifiable losses. Product liability claims are generally treated separately, and the aggregate indemnification is capped at U.S.$500 million. Certain indemnification obligations, including those related to HIV liability, as well as tax claims, are not capped in amount.

Aventis CropScience

The sale by Aventis Agriculture and Hoechst (both predecessor companies of sanofi-aventis) of their aggregate 76% participation in Aventis CropScience Holding (ACS) to Bayer and Bayer CropScience AG, the wholly owned subsidiary of Bayer which holds the ACS shares, was effective on June 3, 2002. The Stock Purchase Agreement dated October 2, 2001 contained customary representations and warranties with respect to the sold business as well as a number of indemnifications, in particular with respect to: environmental liabilities (the representations and warranties and the environmental indemnification are subject to a cap of 836 million, except for certain legal representations and warranties and specific environmental liabilities); taxes; certain legal proceedings; claims related to StarLink® corn; and certain pre-closing liabilities, in particular, product liability cases (which are subject to a cap of 418 million). There are various periods of limitation depending upon the nature or subject of the indemnification claim. Further, Bayer and Bayer CropScience are subject to a number of obligations regarding mitigation and cooperation.

Settlement Agreement: On December 9, 2005 Aventis Agriculture and Hoechst signed a settlement agreement with Bayer and Bayer CropScience AG. The settlement agreement terminates arbitration proceedings for an alleged breach of a financial statement-related representation contained in the Stock Purchase Agreement, which were initiated by Bayer CropScience AG in August 2003. The settlement agreement also resolves numerous other warranty and indemnification claims asserted under the Stock Purchase Agreement, including claims relating to certain environmental liabilities. A number of other outstanding claims remain unresolved.

LLRICE601 US Litigation: Bayer CropScience has sent sanofi-aventis notice of potential claims for indemnification under various provisions of the Stock Purchase Agreement. These potential claims relate to several class-action and individual complaints that have been filed since August 2006 by rice growers, millers, and distributors in U.S. state and federal courts against a number of current and former subsidiaries (collectively the CropScience Companies) which were part of the Aventis CropScience group prior to Bayer s acquisition of the ACS shares. Plaintiffs in these cases seek to recover damages, of an unspecified amount, in connection with

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the detection of trace amounts of the genetically modified rice called Liberty Link® Rice 601 (also known as LLRICE601) in samples of commercial long-grain rice. LLRICE601, a variety of long grain rice genetically altered to resist the Liberty® Herbicide, was grown in field tests in the United States from the years 1998 to 2001. Plaintiffs assert a number of causes of action, alleging that the CropScience Companies failed to take adequate measures to prevent cross-pollination or commingling of LLRICE601 with conventional rice.

An investigation to determine the circumstances surrounding the release and compliance with USDA regulations is on-going. Sanofi-aventis denies direct or indirect liability for these cases, and has so notified Bayer CropScience.

In a related development, the FDA has concluded that the presence of LLRICE601 in the food and feed supply poses no safety concerns and on November 24, 2006, the United States Department of Agriculture (USDA) announced it would deregulate LLRICE601.

Aventis Animal Nutrition

Share and Asset Purchase Agreement *Representations and Warranties, Indemnification*:

Aventis Animal Nutrition S.A. and Aventis (both predecessor companies of sanofi-aventis) and Drakkar Holdings SA signed an agreement for the sale to Drakkar Holdings SA of the Aventis Animal Nutrition business effective in April 2002. The sale agreement contained customary representations and warranties. Sanofi-Aventis indemnification obligations ran through April 2004, except for environmental indemnification obligations (which run through April 2012), tax indemnification obligations (which run through the expiration of the applicable statutory limitation period), and antitrust indemnification obligations (which extend indefinitely). The indemnification undertakings are subject to an overall cap of 223 million, with a lower cap for certain environmental claims. Indemnification obligations for antitrust and tax claims are not capped. On December 13, 2005, sanofi-aventis and Drakkar Holding SA signed a settlement covering certain disputed environmental claims.

Messer Griesheim GmbH

Pursuant to an agreement dated December 30/31, 2000, Hoechst sold its 66.7% participation in the industrial gasses company Messer Griesheim GmbH. All purchaser claims under the representations and warranties of the agreement except those relating to tax and environmental matters were settled under an agreement entered into in July 2003. Several environmental claims are pending.

Celanese AG

The demerger of the specialty chemicals business Celanese AG became effective on October 22, 1999. Under the demerger agreement between Hoechst and Celanese, Hoechst expressly excluded any representations and warranties regarding the shares and assets demerged to Celanese. However, the following obligations of Hoechst are ongoing:

While all obligations of Hoechst (i) resulting from public law or (ii) pursuant to current or future environmental laws or (iii) vis-à-vis third parties pursuant to private or public law related to contamination (as defined) have been transferred to Celanese in full, Hoechst split with Celanese any such cost incurred under these obligations applying a 2:1 ratio.

To the extent Hoechst is liable to purchasers of certain of its divested businesses (as listed in the demerger agreement), Celanese must indemnify Hoechst, as far as environmental damages are concerned, for aggregate liabilities up to 250 million, liabilities exceeding such amount will be borne by Hoechst alone up to 750 million, and amounts exceeding 750 million will be borne 2/3 by Hoechst and 1/3 by Celanese without any further caps.

Compensation paid to third parties by Celanese under the aforementioned clause, through December 31, 2006 was significantly below the first threshold of 250 million.

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Rhodia

In connection with the initial public offering of Rhodia in 1998, Rhône-Poulenc (later named Aventis, to which sanofi-aventis is the legal successor in interest) entered into an Environmental Indemnification Agreement with Rhodia on May 26, 1998 under which, subject to certain conditions, Rhodia was entitled to claim indemnification from Aventis with respect to direct losses resulting from third party claims or public authority injunctions for environmental damages. Further to the negotiations that took place in 2002, and after authorization by the Management Board and Supervisory Board of Aventis on the one hand and the Board of Directors of Rhodia on the other hand, Aventis and Rhodia entered into a settlement agreement on March 27, 2003 under the terms of which the parties settled all environmental claims in connection with the Environmental Indemnification Agreement.

On December 29, 2004, Rhodia Inc., a U.S. subsidiary of Rhodia, filed a complaint against sanofi-aventis and Bayer CropScience Inc. (formerly Aventis CropScience Inc. prior to its acquisition by Bayer AG in 2002 for additional information, see Aventis CropScience, above) before the U.S. District Court for the District of New Jersey under the U.S. Comprehensive Environmental Response, Compensation and Liability Act, federal common law and New Jersey state law. Rhodia Inc. sought to recover costs of an unspecified amount relating to a Rhodia Inc. site in Silver Bow, Montana, owned and managed by Rhodia Inc. alone since its carve out from the Rhône-Poulenc Group in 1998. Rhodia Inc. withdrew its complaint without prejudice in October 2006.

On August 19, 2005, Rhodia-Brasil Ltda and Rhodia notifed sanofi-aventis of a summons before the civil court of São Paolo, Brazil on the basis of alleged extra-contractual liability as former owner or operator of Rhodia s Cubatao site in Brazil. The plaintiffs sought indemnification for alleged harm related to the Cubatao site amounting to approximately 120 million reals (about 44 million). On March 28, 2006, the Central District Court of Sao Paulo ruled inadmissible Rhodia s claims regarding the alleged extra contractual liability of sanofi-aventis as former owner or operator of Rhodia s Cubatao site in Brazil. Rhodia has appealed this ruling.

Sanofi-aventis contests both the substance and the admissibility of Rhodia s claims and *inter alia* considers that the above-mentioned Environmental Indemnification Agreement entered into on March 27, 2003 precludes any claim on the part of Rhodia, Rhodia Inc. and Rhodia Brasil Ltda.

On April 13, 2005 Rhodia initiated an *ad hoc* arbitration procedure seeking indemnification from sanofi-aventis for the financial consequences of the environmental liabilities and pension obligations that were allocated to Rhodia through the various operations leading to the formation of Rhodia in 1997, amounting respectively to 125 million and 531 million. Rhodia additionally sought indemnification for future costs related to transferred environmental liabilities and coverage of all costs necessary to fully fund the transfer of pension liabilities out of Rhodia s accounts. The arbitral tribunal has issued its award on September 12, 2006. Rhodia s claims have been rejected. The arbitral tribunal has determined that it has no jurisdiction to rule on pension claims and that Rhodia s environmental claims are without merit. On October 17, 2006, Rhodia initiated a nullification procedure against this award before the Paris Court of Appeals. This procedure is pending.

Rhodia Shareholder Litigation

In January 2004, two minority shareholders of Rhodia and their respective investment vehicles filed two claims before the Commercial Court of Paris (*Tribunal de Commerce de Paris*) against Aventis, to which sanofi-aventis is successor in interest, together with other defendants including former directors and statutory auditors of Rhodia from the time of the alleged events. The claimants seek a judgment holding the defendants collectively liable for alleged management errors and for alleged publication of misstatements between 1999 and 2002 and *inter alia* regarding Rhodia s acquisition of the companies Albright & Wilson and ChiRex. These shareholders seek a finding of joint and several liability for damages to be awarded to Rhodia in an amount of 925 million for alleged harm to the Company (a derivative action), as well as personal claims of 4.3 million and 125.4 million for their own alleged individual losses. Sanofi-aventis contests both the substance and the admissibility of these claims.

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Sanofi-aventis is also aware of three criminal complaints filed in France by the same plaintiffs and of a criminal investigation order issued by the Paris public prosecutor following the submission of the report issued by the *Autorité des marchés financiers* regarding Rhodia s financial communications. Under French law, civil litigation may be stayed pending resolution of related criminal complaints. Therefore Sanofi-aventis and most of the defendants petitioned the Commercial Court of Paris in order to stay the procedure. After hearing the parties only on the procedural issues relating to the court s jurisdiction and the stay of the procedure, the Commercial Court of Paris sustained its jurisdiction over the cases but accepted sanofi-aventis and the other defendants motion to stay the civil litigation in decisions issued on January 27 and on February 10, 2006. After an unsuccessful recourse against this decision to the Court of Appeals, the plaintiffs have further appealed to the *Cour de cassation* (the French Supreme Court).

On June 29, 2004, claims similar to the Rhodia shareholders claims pending before the Commercial Court of Paris were filed in the Supreme Court of the State of New York (United States) on behalf of two Rhodia shareholders claiming damages of at least 60 million, in addition to unspecified punitive damages.

On December 29, 2004, plaintiffs amended their original claims to encompass the formation of Rhodia in 1998 as well as environmental and pension liabilities assumed by Rhodia. In April 2005, the court dismissed the case on the ground of the inconvenience of trying the case in New York (*forum non conveniens*). Plaintiffs appealed this dismissal. On April 20, 2006, the State of New York Supreme Court Appellate Division confirmed the previously disclosed decision to dismiss this case on forum non conveniens grounds and the New York Court of Appeal subsequently declined to review the Appellate Division s decision.

A number of Rhodia shareholders have filed suit in the United States against Rhodia and certain of its directors and officers alleging violations of the U.S. securities laws in the years following the spin-off of Rhodia from the Rhône-Poulenc group. Sanofi-aventis has learned that one such suit, seeking certification as a class action, has reportedly been amended to join Aventis as a defendant on theories of control person liability, although no Group company has been formally served with process.

Clariant Specialty Chemicals Business

Hoechst conveyed its specialty chemicals business to Clariant AG pursuant to a 1997 agreement. While Clariant has undertaken to indemnify Hoechst for all costs incurred for environmental matters relating to purchased sites, certain ongoing indemnification obligations of Hoechst for environmental matters in favor of Clariant can be summarized as follows:

Costs for environmental matters at the sites taken over directly or indirectly by Clariant and attributable to a specific activity of Hoechst or of a third party not related to the business transferred to Clariant are to be borne by Hoechst to the extent the accumulated costs since the closing in any year exceed a threshold amount for the then current year. The threshold increases annually from approximately 102 million in 1997/98 to approximately 816 million in the fifteenth year after the closing. Only the amount by which Clariant s accumulated costs exceed the then-current year s threshold must be compensated by Hoechst. No payments have yet become due under this rule.

Hoechst must indemnify Clariant indefinitely (i) for costs attributable to four defined waste deposit sites in Germany which are located outside the sites taken over by Clariant (to the extent exceeding an indexed amount of approximately 20.5 million), (ii) for costs from certain locally concentrated pollutions in the sites taken over by Clariant but not caused by specialty chemicals activities in the past, and (iii) for 75% of the costs relating to a specific waste deposit site in Frankfurt, Germany.

InfraServ Höchst

By the Asset Contribution Agreement dated December 19/20, 1996 as amended on May 5, 1997, Hoechst contributed all land, buildings, and related assets of the Hoechst site at Frankfurt-Höchst to InfraServ Höchst GmbH & Co KG. InfraServ Höchst undertook to indemnify Hoechst against environmental liabilities at the Höchst site and with respect to certain landfills. As consideration for the indemnification undertaking, Hoechst

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transferred to InfraServ approximately 57 million to fund reserves. In 1997, Hoechst also agreed it would reimburse current and future InfraServ Höchst environmental investments totaling 143 million. As a limited partner in InfraServ, as a former owner of the land and as a former user of the landfills Hoechst may ultimately be liable for costs of remedial action in excess of this amount.

DyStar

Hoechst held a 35% interest in the DyStar group of companies, whose business is the manufacturing and marketing of textile dyestuffs. The other shareholders were Bayer Chemicals AG (35%) and BASF AG (30%). Hoechst, as well as Bayer and BASF, sold their interests to an investment vehicle of Platinum Equities LLP in August 2004. In addition to customary representations and warranties, the selling shareholders agreed to a guarantee on certain minimum purchases by the sellers from the DyStar group (including a certain minimum return to DyStar) within a period of four years following the closing. Purchasers have submitted claims related to environmental and tax matters, as well as under the minimum purchase guarantee.

Albemarle Arbitration

In 1992, Rhône-Poulenc S.A. (a predecessor company of sanofi-aventis) signed with Ethyl Overseas Development, now known as Albemarle, a Stock Purchase Agreement by which Rhône-Poulenc sold 100% of the share capital of Potasse et Produits Chimiques S.A. (PPC) to Ethyl. Under the terms of the Stock Purchase Agreement, Rhône-Poulenc agreed to indemnify Albemarle for and to hold it harmless from any claims, losses, damages, costs or any other present and prospective liabilities arising out of soil and/or groundwater contamination at the site of the Thann facility. Following a study demonstrating such soil and groundwater contamination, the French Government ordered Albemarle to undertake certain remedial actions. Having incurred costs in connection with the environmental claims of the French Government, Albemarle sought recovery from sanofi-aventis pursuant to the warranty stated in the Stock Purchase Agreement. The warranty stated in the Stock Purchase Agreement has no specified duration; therefore, sanofi-aventis has taken the position that it is time-barred in accordance with the French commercial statute of limitations of ten years. On April 2, 2004, Albemarle initiated arbitration proceedings in the International Chamber of Commerce in Paris against sanofi-aventis. Albemarle seeks to recover from sanofi-aventis of all costs incurred so far in connection with the environmental claims of the French Government as well as a declaratory judgment against sanofi-aventis to hold it liable for all costs prospectively to be incurred by Albemarle in connection with such claims. In June 2004, the two parties appointed the arbitral tribunal.

On March 11, 2006, the arbitral tribunal handed down a partial award holding that the claims of Albemarle under the arbitration were not time barred. This partial award did not consider the final liability of sanofi-aventis with regards to the facts and technical elements involved in the case. Further to this partial award, the parties having failed to reach a settlement with respect to the allocation of liability, an expert procedure has begun under the aegis of the arbitral tribunal and Albemarle has asserted damages amounting to 73.6 million.

In August 2006, Albemarle Corporation announced the sale of Albemarle France (the party to the above mentioned arbitration) to the German company, International Chemical Investors.

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D.23. Provisions for discounts, rebates and sales returns

The adjustments between gross sales and net sales, as described in Note B.14, are recognized either as current liabilities or as reductions in accounts receivable, depending on their nature.

The table below shows movements in these items:

(million)	Government and State programs (1)	Managed Care and GPO programs (2)	Charge-back incentives	Rebates and discounts	Sales returns	Other deductions	Total
December 31, 2004	**208**	**125**	**23**	**135**	**132**	**18**	**641**
Current provision related to current period sales	462	390	608	689	173	126	2,448
Net change in provision related to prior period sales	(9)		(2)		(2)		(13)
Payments made	(432)	(371)	(580)	(684)	(160)	(87)	(2,314)
Translation differences	31	21	9	7	21	6	95
December 31, 2005	**260**	**165**	**58**	**147**	**164**	**63**	**857**
Current provision related to current period sales	438	304	647	727	201	108	2,425
Net change in provision related to prior period sales	2	(14)	6		10	(34)	(30)
Payments made	(355)	(302)	(644)	(722)	(167)	(84)	(2,274)
Translation differences	(27)	(17)	(6)	(8)	(18)	(6)	(82)
December 31, 2006	**318**	**136**	**61**	**144**	**190**	**47**	**896**

(1) Primarily the U.S. government s Medicare and Medicaid programs.
(2) Rebates and other price reductions, primarily granted to healthcare authorities in the United States of America.

D.24. Personnel costs

Total personnel costs break down as follows:

(*million)*	Year ended December 31, 2006	Year ended December 31, 2005
Salaries	(4,832)	(4,551)
Social security charges (including defined-contribution pension plans)	(1,253)	(1,214)
Agency staff	(192)	(177)
Share-based payment	(149)	(199)
Employee share ownership plan		(31)
Defined-benefit pension plans	(348)	(347)
Other employee benefits	(370)	(344)
Total	**(7,144)**	**(6,863)**

The total number of employees at December 31, 2006 was 100,289, compared with 97,181 at December 31, 2005 and 96,439 at December 31, 2004.

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Employee numbers by function were as follows:

	December 31, 2006	December 31, 2005	December 31, 2004
Production	31,735	30,909	30,735
Research and development	18,981	17,636	17,191
Sales force	35,902	35,030	32,888
Marketing and support functions	13,671	13,606	15,625
Total	**100,289**	**97,181**	**96,439**

D.25. Other operating income

This item comprises:

(million)	Year ended December 31, 2006	Year ended December 31, 2005
Share of profits received from alliance partners	382	308
Net foreign exchange gain/(loss) on operating items	(13)	(79)
Other	22	32
Total	**391**	**261**

The share of profits received from alliance partners relates primarily to the alliance with Procter & Gamble Pharmaceuticals for the development and marketing of Actonel® on a worldwide basis excluding Japan (see Note C.2), and to a portion of the profits paid over by alliance partners on the sale of authorized generics in the United States of America.

D.26. Other operating expenses

Other operating expenses (116 million in 2006, 124 million in 2005) mainly comprise shares of profits due to alliance partners under the agreements with Teva, Almirall and Merck & Co. Inc and for the product Tavanic®.

D.27. Restructuring costs

Restructuring costs recognized in 2006 totaled 274 million (2005: 972 million; 2004: 679 million), and break down as follows:

(*million)*	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Employee-related expenses	219	696	289
Compensation for early termination of contracts	16	92	76
Abandonment of software	3	22	139
Other restructuring costs	36	162	175
Total	**274**	**972**	**679**

Restructuring costs relate to a limited number of non-recurring plans involving significant amounts. In 2006, the principal item recorded on this line was the cost of measures taken by sanofi-aventis in response to the changing economic environment in Europe, mainly France and Germany (176 million). In addition, 98 million of restructuring costs associated with the acquisition of Aventis were recognized in 2006.

Of the restructuring costs recognized in 2005, 947 million related to the reorganization of the Group following the acquisition of Aventis, and 25 million to industrial restructuring programs initiated by Aventis prior to the acquisition date (August 20, 2004).

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D.28. Gains and losses on disposals and litigation

This item comprises:

(*million)*	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Net gains on disposals	550	102	206
Other	(14)	(23)	(1)
Total	**536**	**79**	**205**

In 2006, net gains on disposals mainly comprised the 460 million gain on the sale of the Exubera® brand, and a 45 million gain on the sale of the residual interest in the Drakkar animal nutrition business.

In 2005, net gains on disposals included a gain of 70 million arising on the sale of the oral hygiene product ranges (represented by the Fluocaril® and Parogencyl® brands) to Procter & Gamble Pharmaceuticals, under the put option agreement signed on October 8, 2004.

In 2004, net gains on disposals included the gain on the divestment of Arixtra®, Fraxiparine® and related assets.

The Other line mainly comprises movements in provisions for litigation.

D.29. Financial income and expenses

The tables below show the main components of financial income and expenses:

D.29.1. Financial expenses

(*million*)	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Interest expense on debt	(370)	(444)	(165)
Unwinding of discount on provisions	(35)	(47)	(1)
Fair value losses on financial assets	(12)	(24)	(4)
Impairment of financial assets	(38)	(17)	(10)
Other			(59)
Total financial expenses	**(455)**	**(532)**	**(239)**

D.29.2. Financial income

(*million*)	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Interest income	81	76	59
Foreign exchange gains (non-operating)	59	64	2
Fair value gains on financial instruments	115	49	11
Net gain on disposals of financial assets *(1)*	108	94	
Other	12	4	52
Total financial income	**375**	**287**	**124**

(1) Includes 101 million on the disposal of the investment in Rhodia in 2006 (see Note D.7).

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D.30. Income tax expense

The Group has opted for tax consolidations in a number of countries, principally France, Germany, the United Kingdom and the United States of America.

The table below shows income before tax and the corresponding tax charge:

	2006				2005				2004
		Rest of	Impact of Aventis			Rest of	Impact of Aventis		
(million)	France	the world	acquisition [1]	Total	France	the world	acquisition [1]	Total	Total
Income before tax	2,789	7,349	(5,390)	**4,748**	1,784	6,144	(5,285)	**2,643**	**2,311**
Income tax	(574)	(2,217)	1,991	**(800)**	(362)	(2,080)	1,965	**(477)**	**(479)**

(1) These amounts represent the impact on income before tax and on deferred taxes recognized in the income statement of (i) amortization and impairment charged on the remeasurement of intangible assets and (ii) the effect of the workdown on inventories remeasured at fair value, related to the acquisition of Aventis.

The table below shows the split of income tax expense between current and deferred taxes:

	Year ended December 31,	Year ended December 31,	Year ended December 31,
(million)	2006	2005	2004
Current taxes	(3,276)	(2,724)	(1,535)
Deferred taxes	2,476	2,247	1,056
Total	**(800)**	**(477)**	**(479)**

The difference between the effective tax rate and the standard corporate income tax rate applicable in France is explained as follows:

(as %)	Year ended	Year ended	Year ended

	December 31, 2006	December 31, 2005	December 31, 2004
Tax rate applicable in France	34	35	35
Impact of reduced-rate income tax on royalties in France	(10)	(14)	(7)
Impact of changes in tax rates in France (including reduced rate on capital gains)	(2)	(4)	(3)
Other	(5)	1	(4)
Effective tax rate	**17**	**18**	**21**

The change in the impact of reduced-rate taxes on royalties in France between 2005 and 2006 (10% in 2006, 14% in 2005) was due to the fact that a lower proportion of the Group s income before tax came from royalties taxed at the reduced rate (income before tax rose by 80%, while royalties taxed at the reduced rate rose by 22%).

The change in the impact of reduced-rate taxes on royalties in France between 2004 and 2005 (14% in 2005, 7% in 2004) was due to a cut in the reduced tax rate from 19% to 15% (before social contributions) and to the fact that the operations of Aventis were included over 12 months in 2005 against 4 months in 2004.

The Other line includes (i) the difference between the tax rate applicable in France and tax rates applicable in other countries, (ii) the impact of reassessing certain of the Group s tax exposures and (iii) the impact on the effective tax rate of amortization and impairment charged against intangibles (deferred taxes arising from these charges are computed at an average rate higher than the tax rate applicable in France).

Income taxes actually paid by sanofi-aventis amounted to 3,223 million in the year ended December 31, 2006, compared with 2,669 million in the year ended December 31, 2005 and 1,725 million in the year ended December 31, 2004.

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D.31. Share of profit/loss of associates

This caption mainly comprises the share of co-promotion profits attributable to sanofi-aventis for territories covered by entities majority-owned by BMS (see Note C.1). The impact of the BMS alliance in 2006 was 498 million, before deducting the tax effect of 178 million (2005: 647 million, tax effect 243 million; 2004: 581 million, tax effect 220 million). The reduction in the share of profits recognized in 2006 was directly related to the at risk launch by Apotex of a generic of Plavix® in the United States of America (see Note D.22.b).

It also includes the share of profits from other associates (131 million in 2006, 23 million in 2005, 48 million in 2004). These figures incorporate the effect of the Aventis acquisition (workdown of acquired inventories, amortization and impairment of intangible assets).

D.32. Net income attributable to minority interests

This line includes the share of co-promotion profits attributable to BMS for territories covered by entities majority-owned by sanofi-aventis (see Note C.1). The amount involved in 2006 was 375 million (2005: 300 million; 2004: 257 million). There is no tax effect, because BMS receives its share before tax.

It also includes the share of net income attributable to the other minority shareholders (18 million in 2006, 49 million in 2005, 13 million in 2004). As a result of the buyout of the Hoechst minority shareholders in 2005, with effect from 2006 minority shareholders are no longer attributed a portion of the depreciation and amortization charged on the remeasurement of the acquired assets and liabilities of Aventis at fair value. The portion of these charges attributable to minority shareholders was 14 million in 2005 and 15 million in 2004.

In 2004, this line included the loss of 4 million attributable to the minority shareholders of Hoechst, due mainly to their share in the depreciation and amortization charged on the remeasurement of the acquired assets and liabilities of Aventis at fair value.

D.33. Related party transactions

Sanofi-aventis has not entered into any transaction with any member of the Board of Directors or Senior Management, or with any shareholder holding more than 5% of the share capital, other than in the ordinary course of business. In particular, financial relations with the Total group were immaterial as of December 31, 2006, 2005 and 2004.

For details of transactions with related companies, refer to Note D.6.

The table below shows, by type, compensation paid to the Group s principal executives, i.e. the 23 members of the Executive Committee during 2006 (2005: 19 members) plus, for post-employment benefits, certain members of the Board of Directors.

(*million)*	Year ended December 31, 2006	Year ended December 31, 2005
Short-term benefits *(1)*	27	25
Post-employment benefits *(2)*	13	12
Share-based payment *(3)*	12	11
Total	**52**	**48**

(1) Compensation and employer s social security charges.
(2) Estimated pension cost, calculated in accordance with IAS 19.
(3) Stock option expense (computed using the Black & Scholes model), and expense relating to the discount offered under the employee share ownership plan in 2005.

D.34. Split of net sales

The Group is not dependent on any single customer or group of customers for its sales.

Products are sold throughout the world to a wide range of customers including pharmacies, hospitals, chain warehouses, governments, physicians, wholesalers and other distributors.

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D.35. Segment information

D.35.1 Business segments

The Group has two business segments: Pharmaceuticals and Vaccines. Net income from and investments in all associates and joint ventures are included in the Pharmaceuticals segment with one principal exception, the Sanofi Pasteur MSD joint venture, which is included in the Vaccines segment.

Adjusted net income

Adjusted net income , reported in segment information, is an internal performance indicator, defined as net income attributable to equity holders of the company, adjusted for the material impacts of the application of purchase accounting to acquisitions (primarily the acquisition of Aventis) and for certain restructuring costs associated with acquisitions.

Management uses adjusted net income as an internal performance indicator, as a significant factor in determining variable compensation, and as a basis for determining dividend policy.

The main adjustments between net income attributable to equity holders of the company and adjusted net income are as follows:

- elimination of expenses arising on the workdown of acquired inventories remeasured at fair value, net of tax;
- elimination of expenses arising on amortization and impairment of intangible assets acquired in business combinations (acquired in-process R&D and acquired product rights), net of tax and minority interests;
- elimination of expenses arising from the impact of acquisitions on equity investees (workdown of acquired inventories, amortization and impairment of intangible assets, and impairment of goodwill);
- elimination of any impairment of goodwill.

Sanofi-aventis also excludes from adjusted net income integration and restructuring costs (net of tax) incurred specifically in connection with acquisitions.

Adjusted net income breaks down as follows:

(million)	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Net income attributable to equity holders of the company	**4,006**	**2,258**	**1,986**
Material accounting adjustments related to business combinations:	**2,969**	**3,462**	**1,135**
elimination of expense arising on the workdown of acquired inventories remeasured at fair value, net of tax	21	248	342
elimination of expense arising on amortization and impairment of intangible assets, net of tax and minority interests	2,935	3,156	795
elimination of expenses arising from the impact of acquisitions on equity investees (workdown of acquired inventories, amortization and impairment of intangible assets, and impairment of goodwill)	13(1)	58	(2)
elimination of impairment of goodwill			
Elimination of acquisition-related integration/restructuring costs, net of tax	**65**	**615**	**406**
Adjusted net income	**7,040**	**6,335**	**3,527**
of which Pharmaceuticals	6,479	5,903	3,416
of which Vaccines	561	432	111

(1) Includes the impact of the acquisition of Zentiva (11 million); amortization and impairment, net of tax, associated with the acquisition of Aventis (97 million); and reversal of a deferred tax liability relating to the investment in Merial (95 million).

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Year ended December 31, 2006

Income statement information by business segment

Net sales reported by sanofi-aventis comprise net sales generated by the Pharmaceuticals segment and net sales generated by the Vaccines segment. The table below shows net sales of the top 15 products of the Pharmaceuticals segment during 2006 and 2005:

(*million)*			
Product	**Indication**	**2006**	**2005**
Lovenox®	Thrombosis	2,435	2,143
Plavix®	Atherothrombosis	2,229	2,026
Stilnox®/Ambien®/Ambien CR	Insomnia	2,026	1,519
Taxotere®	Breast cancer, lung cancer, prostate cancer	1,752	1,609
Eloxatine®	Colorectal cancer	1,693	1,564
Lantus®	Diabetes	1,666	1,214
Copaxone®	Multiple sclerosis	1,069	902
Aprovel®	Hypertension	1,015	892
Delix®/Tritace®	Hypertension	977	1,009
Allegra®	Allergic rhinitis	688	1,345
Amaryl®	Diabetes	451	677
Xatral®	Benign prostatic hyperplasia	353	328
Actonel®	Osteoporosis, Paget s disease	351	364
Depakine®	Epilepsy	301	318
Nasacort®	Allergic rhinitis	283	278
Sub-total: top 15 products		**17,289**	**16,188**
Other products		**8,551**	**9,061**
Total: Pharmaceuticals segment		**25,840**	**25,249**

As regards the Vaccines segment, net sales of the principal types of vaccine are shown below:

(million)	2006	2005
Influenza Vaccines	835	671
Polio/Whooping Cough/Hib Vaccines	633	522
Adult Booster Vaccines	337	270
Meningitis/Pneumonia Vaccines	310	256
Travel Vaccines	239	176
Other Vaccines	179	167
Total: Vaccines segment	**2,533**	**2,062**

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Year ended December 31, 2006

The table below shows the principal income statement indicators by business segment:

	Year ended December 31, 2006			Year ended December 31, 2005			Year ended December 31, 2004		
(million)	Pharma-ceuticals	Vaccines	Sanofi-aventis consolidated	Pharma-ceuticals	Vaccines	Sanofi-aventis consolidated	Pharma-ceuticals	Vaccines	Sanofi-aventis consolidated
Net sales	25,840	2,533	28,373	25,249	2,062	27,311	14,188	683	14,871
Other revenues	1,045	71	1,116	1,143	59	1,202	849	13	862
Research and development expenses	(4,035)	(395)	(4,430)	(3,725)	(319)	(4,044)	(2,271)	(118)	(2,389)
Selling and general expenses	(7,515)	(505)	(8,020)	(7,832)	(418)	(8,250)	(4,485)	(115)	(4,600)
Amortization of intangibles	(3,707)	(291)	(3,998)	(3,756)	(281)	(4,037)	(1,441)	(140)	(1,581)
Operating income before restructuring, impairment of property, plant and equipment and intangibles, gains and losses on disposals, and litigation	5,217	512	5,729	4,565	188	4,753	2,928	(28)	2,900
Impairment of property, plant & equipment and intangibles	(1,162)	(1)	(1,163)	(970)	(2)	(972)			
Operating income	4,318	510	4,828	2,702	186	2,888	2,454	(28)	2,426
Financial expenses	(450)	(5)	(455)	(498)	(34)	(532)	(219)	(20)	(239)
Financial income	374	1	375	283	4	287	124		124
Income tax expense	(660)	(140)	(800)	(427)	(50)	(477)	(494)	15	(479)
Share of profit/loss of associates *(1)*	459	(8)	451	482	(55)	427	410	(1)	409
Net income	**4,041**	**358**	**4,399**	**2,542**	**51**	**2,593**	**2,275**	**(34)**	**2,241**
Attributable to minority interests	392	1	393	335		335	254	1	255
Attributable to equity holders of the company	**3,649**	**357**	**4,006**	**2,207**	**51**	**2,258**	**2,021**	**(35)**	**1,986**

(1) Financial information for associates is included under Pharmaceuticals, except for associates specifically involved in the Vaccines business.

Inter-segment transactions are not material. Transfer prices between segments are determined on an arm s length basis.

Assets and liabilities by segment

Assets and liabilities by segment are as follows:

(million)	December 31, 2006 Pharma-ceuticals	Vaccines	Sanofi-aventis consolidated	December 31, 2005 (2) Pharma-ceuticals	Vaccines	Sanofi-aventis consolidated	December 31, 2004 (2) Pharma-ceuticals	Vaccines	Sanofi-aventis consolidated
Investments in associates *(1)*	2,132	505	**2,637**	1,928	549	**2,477**	2,322	609	**2,931**
Segmental assets	64,072	5,999	**70,071**	72,381	6,314	**78,695**	72,090	5,930	**78,020**
Unallocated assets			**5,055**			**5,773**			**4,606**
Total assets	**66,204**	**6,504**	**77,763**	**74,309**	**6,863**	**86,945**	**74,412**	**6,539**	**85,557**
Acquisitions of property, plant & equipment and intangible assets	1,185	269	**1,454**	974	169	**1,143**	711	43	**754**
Segmental liabilities	14,421	994	**15,415**	15,664	838	**16,502**	14,330	679	**15,009**
Unallocated liabilities			**16,528**			**24,126**			**29,276**
Total liabilities (excluding shareholders equity)	**14,421**	**994**	**31,943**	**15,664**	**838**	**40,628**	**14,330**	**679**	**44,285**

(1) Financial information for associates is included under Pharmaceuticals, except for associates specifically involved in the Vaccines business.

(2) After adjusting for the change in accounting method for employee benefits (see Note A.4)

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Year ended December 31, 2006

D.35.2. Information by geographical segment

Information by geographical segment for the year ended December 31, 2006 is as follows:

(*million*)	Total	Europe	United States of America	Other countries	Unallocated costs [1]
Net sales	**28,373**	12,219	9,966	6,188	
Operating income before restructuring, impairment of property, plant and equipment and intangibles, gains and losses on disposals, and litigation *(2)*	**5,729**	4,603	4,560	2,082	(5,516)
Acquisitions of property, plant & equipment and intangible assets	**1,454**	1,072	246	136	
Total assets	**77,763**	35,742	28,808	13,213	
of which non-current assets (3)	***62,111***	*26,734*	*25,436*	*9,941*	

(1) Unallocated costs consist mainly of fundamental research and worldwide development of pharmaceutical molecules, and part of the cost of support functions.
(2) After amortization of intangible assets (3,998 million).
(3) Includes goodwill of 28,472 million and intangible assets of 23,738 million.

Information by geographical segment for the year ended December 31, 2005 is as follows:

(*million*)	Total	Europe	United States of America	Other countries	Unallocated costs [1]
Net sales	**27,311**	12,134	9,566	5,611	
Operating income before restructuring, impairment of property, plant and equipment and intangibles, gains and losses on disposals, and litigation *(2)*	**4,753**	4,360	3,900	1,804	(5,311)
Acquisitions of property, plant & equipment and intangible assets	**1,143**	896	162	85	
Total assets *(3)*	**86,945**	37,092	35,028	14,825	
of which non-current assets (4)	***70,442***	*27,592*	*31,201*	*11,649*	

(1) Unallocated costs consist mainly of fundamental research and worldwide development of pharmaceutical molecules, and part of the cost of support functions.
(2) After amortization of intangible assets (4,037 million).
(3) After adjusting for the change in accounting method for employee benefits (see Note A.4).
(4) Includes goodwill of 30,234 million and intangible assets of 30,229 million.

Information by geographical segment for the year ended December 31, 2004 is as follows:

(*million*)	**Total**	**Europe**	**United States of America**	**Other countries**
Net sales	**14,871**	7,266	4,658	2,947
Acquisitions of property, plant & equipment and intangible assets	**754**	695	32	27
Total assets *(1)*	**85,557**	38,070	33,190	14,297
of which non-current assets	***71,360***	*29,478*	*29,926*	*11,956*

(1) After adjusting for the change in accounting method for employee benefits (see Note A.4).

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Year ended December 31, 2006

E. LIST OF PRINCIPAL COMPANIES INCLUDED IN THE CONSOLIDATION FOR THE YEAR ENDED DECEMBER 31, 2006

E.1. Principal fully-consolidated companies

The principal companies in the Group s areas of operations and business segments are:

		Financial interest
Europe		*%*
Sanofi-Aventis Deutschland GmbH	Germany	100
Hoechst GmbH	Germany	100
Winthrop Arzneimittel GmbH	Germany	100
Sanofi-Synthélabo GmbH	Germany	100
Sanofi-Synthélabo Holding GmbH	Germany	100
Sanofi-Aventis Gesmbh / Bristol-Myers Squibb GesmbH OHG [(1)]	Austria	51
Sanofi-Aventis GmbH	Austria	100
Sanofi-Aventis Belgium	Belgium	100
Sanofi-Aventis Denmark A/S	Denmark	100
Sanofi Synthélabo BMS partnership [(1)]	Denmark	51
Sanofi-Aventis SA	Spain	100
Sanofi Winthrop BMS partnership [(1)]	Finland	51
Sanofi-Aventis Finland OY	Finland	100
Sanofi-Aventis Europe S.A.S.	France	100
Sanofi-Aventis Participations S.A.S.	France	100
Sanofi-Aventis Amérique du Nord S.N.C.	France	100
Sanofi Pasteur Holding S.A.	France	100
Aventis Pharma S.A.	France	100
Aventis Intercontinental S.A.S.	France	100
Sanofi Pasteur S.A.	France	100
Aventis Agriculture S.A.	France	100
Dakota Pharm S.A.S.	France	100
Francopia S.A.R.L.	France	100
Winthrop Médicaments S.A.	France	100
Sanofi Chimie S.A.	France	100
Sanofi Participations S.A.S.	France	100
Sanofi Pharma Bristol-Myers Squibb S.N.C. [(1)]	France	51
Sanofi-Aventis S.A.	France	100
Sanofi-Aventis France S.A.	France	100
Sanofi-Aventis Groupe S.A.	France	100
Sanofi-Aventis OTC S.A.	France	100
Sanofi-Aventis Recherche et Développement S.A.	France	100
Sanofi Winthrop Industrie S.A.	France	100

Sanofi-Aventis AEBE	Greece	100
Chinoin Pharmaceutical and Chemical Works Co Ltd	Hungary	100
Sanofi-Aventis ZRT	Hungary	100
Cahir Insurance Ltd	Ireland	100
Carraig Insurance Ltd	Ireland	100
Sanofi-Synthélabo Ireland Ltd	Ireland	100
Sanofi-Aventis Spa	Italy	100
Sanofi-Aventis AS	Norway	100
Sanofi Winthrop BMS partnership ANS [(1)]	Norway	51
Sanofi-Aventis Netherland BV	Netherlands	100
Sanofi Winthrop BMS VOF [(1)]	Netherlands	51

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Year ended December 31, 2006

		Financial interest
Europe		*%*
Sanofi-Aventis Sp Zoo	Poland	100
Winthrop Farmaceutica Portugal Lda	Portugal	100
Sanofi-Aventis Produtos Farmaceuticos SA	Portugal	100
Sanofi Winthrop BMS AEIE (1)	Portugal	51
Sanofi-Aventis sro	Czech Republic	100
Aventis Pharma UK Ltd	United Kingdom	100
Sanofi-Synthélabo Ltd	United Kingdom	100
Sanofi-Synthélabo UK Ltd	United Kingdom	100
Winthrop Pharmaceuticals UK Ltd	United Kingdom	100
Fisons Limited	United Kingdom	100
May and Baker Limited	United Kingdom	100
Aventis Pharma ZAO	Russia	100
Sanofi Winthrop BMS partnership (1)	Sweden	51
Sanofi-Aventis AB	Sweden	100
Sanofi SA-AG	Switzerland	100
Sanofi-Aventis (Suisse) SA	Switzerland	100
Sanofi-Synthélabo CIS & Eastern countries SA	Switzerland	100
Sanofi-Aventis Ilaclari Ltd Sirketi	Turkey	100
Winthrop Ilac AS	Turkey	100
Sanofi-Synthélabo Ilac AS	Turkey	100
Sanofi-Synthélabo BMS ADI Ortakligi partnership (1)	Turkey	51

(1) Partnership with Bristol-Myers Squibb (see Note C.1).

		Financial interest
United States of America		*%*
Armour Pharmaceuticals C.	United States of America	100
Aventis Inc	United States of America	100
Aventisub Inc	United States of America	100
Aventis Holdings Inc	United States of America	100
Aventis Pharmaceuticals Inc	United States of America	100
Carderm Capital L.P.	United States of America	63
Sanofi-Aventis US Inc	United States of America	100
Sanofi-Aventis US LLC.	United States of America	100
Sanofi Pasteur Inc	United States of America	100
Sanofi-Synthélabo Inc	United States of America	100
Vaxserve Inc	United States of America	100

Other Countries		Financial interest

		%
Sanofi-Synthélabo (Pty) Ltd	South Africa	100
Aventis Pharma (South Africa) Ltd	South Africa	100
Institut Médical Algérien (IMA)	Algeria	100
Winthrop Pharma Saïdal	Algeria	70
Aventis Pharma SPA (Algeria)	Algeria	100
Aventis Pharma (Argentina) S.A.	Argentina	100
Sanofi-Synthélabo Australia Pty Ltd	Australia	100
Sanofi-Aventis Australia PTY Limited	Australia	100
Sanofi-Aventis Farmaceutica Ltda	Brazil	100
Sanofi Pasteur Ltd	Canada	100

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Year ended December 31, 2006

		Financial interest
Other Countries		*%*
Sanofi-Aventis Canada Inc	Canada	100
Sanofi-Aventis de Chili SA	Chile	100
Aventis Pharma Beijing (China)	China	100
Hangzhou Sanofi-aventis Minsheng Pharmaceuticals Co Ltd	China	98
Shenzhen Sanofi pasteur Biological Products Co Ltd	China	89
Winthrop Pharmaceuticals de Colombie SA	Colombia	100
Sanofi-Aventis de Colombia SA	Colombia	100
Sanofi-Aventis Korea Co Ltd	Korea	91
Sanofi-Aventis SAE Egypt	Egypt	99
Sanofi-Aventis del Ecuador SA	Ecuador	100
Sanofi-Aventis Hong Kong Limited	Hong Kong	100
Sanofi-Synthélabo (India) Ltd	India	100
Aventis Pharma Limited (India)	India	50,1
PT Sanofi-aventis Indonesia	Indonesia	100
PT Aventis Pharma (Indonesia)	Indonesia	75
Sanofi-Aventis KK	Japan	100
Sanofi-Aventis Meiji Pharma. Co Ltd	Japan	51
Winthrop Pharmaceutical Japan Co Ltd	Japan	100
Sanofi-Aventis Yamanouchi Pharma. KK	Japan	51
Sanofi-Synthélabo SDN-BHD	Malaysia	100
Sanofi-Aventis SDN-BHD	Malaysia	100
Maphar	Morocco	81
Sanofi-Aventis (Morocco)	Morocco	100
Sanofi-Aventis de Mexico SA de CV	Mexico	100
Distriphar SA de CV (Mexico)	Mexico	100
Winthrop Pharmaceuticals de Mexico SA de CV	Mexico	100
Sanofi-Aventis de Panama SA.	Panama	100
Sanofi-Aventis del Peru SA	Peru	100
Sanofi-Aventis Philippines Inc	Philippines	100
Sanofi-Aventis de la Rep Dominicana	Dominican Republic	100
Aventis Pharma Manufacturing	Singapore	100
Sanofi-Aventis Singapore Pte Ltd	Singapore	100
Sanofi-Aventis Taiwan Co Ltd	Taiwan	100
Sanofi-Synthélabo (Thailand) Ltd	Thailand	100
Sanofi-Aventis Thailand Ltd	Thailand	100
Sanofi Aventis Pharma Tunisie	Tunisia	100
Aventis Pharma (Tunisia)	Tunisia	100
Sanofi-Aventis de Venezuela SA	Venezuela	100
Sanofi-Synthélabo Vietnam	Vietnam	70
Sanofi-Aventis Vietnam Srl	Vietnam	100

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2006

E.2. Associates

		Financial interest %
InfraServ Höchst	Germany	30
Bristol-Myers Squibb / Sanofi Canada Partnership	Canada	49.9
Bristol-Myers Squibb / Sanofi Pharmaceuticals Holding Partnership	United States of America	49.9
Bristol-Myers Squibb / Sanofi Pharmaceuticals Partnership	United States of America	49.9
Bristol-Myers Squibb / Sanofi Pharmaceuticals Partnership Puerto Rico	United States of America	49.9
Bristol-Myers Squibb / Sanofi Synthélabo Partnership	United States of America	49.9
Bristol-Myers Squibb / Sanofi Synthélabo Puerto Rico Partnership	United States of America	49.9
Sanofi Pasteur-MSD SNC	France	50
Société Financière des Laboratoires de Cosmétologie Yves Rocher	France	39
Zentiva	Czech Republic	24.9
Merial	United Kingdom	50

F. SIGNIFICANT DIFFERENCES BETWEEN IFRS AND U.S. GAAP

Reconciliation of net income and shareholders equity and condensed consolidated U.S. GAAP statements of income and balance sheets.

The Group s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union as of December 31, 2006 and IFRS issued by the International Accounting Standards Board (IASB) as of the same date which, as applied by the Group, differ in certain significant respects from accounting principles generally accepted in the United States of America (U.S. GAAP). There are no significant differences between IFRS adopted by the European Union as of December 31, 2006, as applied by the Group, and IFRS issued by the IASB as of the same date.

The effects of the application of U.S. GAAP on consolidated net income for each of the years ended December 31, 2006, 2005 and 2004 are set out in the table below:

(million)	December 31, 2006	December 31, 2005	December 31, 2004
Net income attributable to equity holders of the company, as reported under IFRS	**4,006**	**2,258**	**1,986**
U.S. GAAP adjustments:			
(1) Differences resulting from the application of IFRS 1:			

(a) Synthélabo business combination	(232)	(379)	(366)
(b) Other business combinations	(9)	(13)	(30)
(c) Deferred income tax on above adjustments	92	141	112
(2) Aventis business combination:			
(a) Goodwill			(23)
(b) Acquired in-process research and development (R&D)	783	252	(5,262)
(c) Income taxes	(525)	(35)	(55)
(3) Other differences:			
(a) Restructuring provisions	173	10	28
(b) Pensions and post retirement benefits	(44)	(20)	(11)
(c) Research & development costs	(88)	(17)	(27)
(d) Reversal of impairment loss	(107)		
(e) Other	(44)	2	(10)
(f) Income taxes	29	3	(7)
Total U.S. GAAP adjustments	**28**	**(56)**	**(5,651)**
Net income attributable to equity holders of the company, as determined under U.S. GAAP	**4,034**	**2,202**	**(3,665)**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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The effects of the application of U.S. GAAP on shareholders equity are set out in the table below:

(*million)*	December 31, 2006	December 31, 2005	December 31, 2004
Equity attributable to equity holders of the Company, as reported under IFRS	**45,600**	**46,128** *(1)*	**40,810** *(1)*
U.S. GAAP adjustments:			
(1) Differences resulting from the application of IFRS 1:			
(a) Synthélabo business combination	7,194	7,426	7,805
(b) Other business combinations	46	52	70
(c) Deferred income tax on above adjustments	(884)	(975)	(1,117)
(2) Aventis business combination:			
(a) Goodwill	(1,115)	(1,284)	(1,214)
(b) Acquired in-process research and development (R&D)	(4,031)	(5,111)	(4,987)
(c) Income taxes	(733)	(104)	(55)
(3) Other differences			
(a) Restructuring provisions	210	40	28
(b) Pensions and post retirement benefits	(23)	458	462
(c) Research & development costs	(156)	(75)	(52)
(d) Reversal of impairment loss	(104)		
(e) Other	(26)	11	10
(f) Income taxes	45	(163)	(128)
Total U.S. GAAP adjustments	**423**	**275**	**822**
Equity attributable to equity holders of the Company, as determined under U.S. GAAP	**46,023**	**46,403**	**41,632**

(1) *After adjusting for the change in accounting method for employee benefits (see Note A.4).*

The following are the Group s condensed consolidated statements of income prepared in accordance with U.S. GAAP:

(*million)*	December 31, 2006	December 31, 2005	December 31, 2004
Revenues from sale of products	28,373	27,311	14,871
Revenues from licensing agreements	1,116	1,202	862
Revenues	**29,489**	**28,513**	**15,733**
Cost of goods sold	(7,584)	(7,567)	(4,440)
Research and development	(4,528)	(4,017)	(7,467)
Selling and general	(8,060)	(8,246)	(4,605)
Intangibles amortization and impairment	(5,038)	(5,112)	(1,952)
Other income and expense, income from equity investees and minority interests	1,137	(755)	(268)

	5,416	**2,816**	**(2,999)**
Income taxes	(1,382)	(614)	(666)
Net income attributable to equity holders of the Company	**4,034**	**2,202**	**(3,665)**
Earnings per share (in euros)			
Basic earnings per share	3.00	1.65	(4.03)
Diluted earnings per share	2.97	1.64	(4.03)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2006

The following are the Group s condensed consolidated balance sheets prepared in accordance with U.S. GAAP:

(million)	December 31, 2006	December 31, 2005	December 31, 2004
Assets			
Cash, cash equivalents and financial assets	1,261	1,560	2,488
Accounts receivable	5,032	5,021	4,454
Inventories	3,647	3,426	3,057
Other current assets and deferred tax	3,774	4,140	2,284
Total current assets	13,714	14,147	12,283
Property, plant and equipment	6,211	6,171	5,869
Goodwill	29,961	31,752	28,198
Other intangible assets	22,290	28,699	32,858
Other non-current assets and deferred tax	5,360	5,472	3,638
Total assets	**77,536**	**86,241**	**82,846**
Liabilities and equity			
Accounts payable	3,008	3,193	2,749
Current portion of long-term debt	2,445	6,425	7,388
Other current liabilities and deferred tax	4,789	5,719	4,958
Total current liabilities	10,242	15,337	15,095
Long-term debt	4,483	4,734	8,638
Other non-current liabilities and deferred tax	16,568	19,580	17,052
Total non current liabilities	21,051	24,314	25,690
Minority interests	220	187	429
Equity attributable to equity holders of the company	46,023	46,403	41,632
Total liabilities and equity	**77,536**	**86,241**	**82,846**

(1) Differences resulting from the application of IFRS 1

IFRS 1 (First-Time Adoption of International Financial Reporting Standards) has been applied by the Group in preparing its consolidated financial statements. IFRS 1 requires retrospective application of all IFRS that are effective at the reporting date. However, IFRS 1 permits certain exemptions and exceptions to this requirement. The exemptions and exceptions applied by sanofi-aventis in reliance upon the provisions of IFRS 1 are described in Note A Basis of preparation. The most significant differences from U.S. GAAP resulting from exemptions and exceptions permitted by IFRS 1 are the following:

Business combinations: Business combinations that were consummated prior to the date of transition to IFRS (January 1, 2004) have not been restated, in accordance with IFRS 3 (Business Combinations). Instead, the historical accounting applied by sanofi-aventis has been retained for purposes of its IFRS financial statements.

Employee benefits: As part of the transition to IFRS (January 1, 2004) unrecognized actuarial gains and losses were recognized in retained earnings at that date in accordance with IFRS 1. However, on January 1, 2006, the Group adopted with retrospective effect from January 1, 2004, the option offered by the amendment to IAS 19 to recognize all actuarial gains and losses under defined benefit pension plans in the statement of recognized income and expense (equity). This retrospective application modifies the differences between IFRS and U.S. GAAP related to employee benefits which are presented in Note 3-b.

Cumulative translation differences: All cumulative translation differences for foreign subsidiaries with a functional currency other than the euro were included in retained earnings as of January 1, 2004.

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Year ended December 31, 2006

1-a Merger of Sanofi Group and Synthélabo Group

Sanofi-Synthélabo was formed following the merger of the Sanofi Group and the Synthélabo Group in 1999. Under historical accounting, the transaction between the Sanofi Group and the Synthélabo Group was accounted for as a merger, effective July 1, 1999, which resulted in the harmonization of accounting policies and the revaluation of assets and liabilities of both the Sanofi Group and the Synthélabo Group to adjust them to their value to the Group.

Under U.S. GAAP, the merger was accounted for as a purchase in accordance with APB Opinion No. 16, Business Combinations . The Sanofi Group is deemed to be the accounting acquirer with the assets and liabilities of the Synthélabo Group being recorded at their estimated fair values. The effective date of the acquisition for accounting purposes was July 1, 1999.

The aggregate adjustment related to the merger included in the reconciliations of net income and shareholders equity includes adjustments related to both (i) the application of U.S. GAAP purchase accounting to the assets and liabilities of the Synthélabo Group as well as (ii) the effects of U.S. GAAP adjustments related to the reversal of revaluations recorded in connection with the merger related to the assets and liabilities of the Sanofi Group.

The components of the aggregate shareholders equity and net income adjustments before tax are summarized below:

	2006		2005		2004	
(*million)*	Net Income	Equity	Net Income	Equity	Net Income	Equity
Goodwill		4,692		4,692		4,692
Identified intangible assets	(238)	2,507	(379)	2,745	(370)	3,124
Provisions and other	6	(5)		(11)	4	(11)
Total adjustment	**(232)**	**7,194**	**(379)**	**7,426**	**(366)**	**7,805**

Under SFAS 142, Goodwill and Other Intangible Assets and SFAS 144 Accounting for the Impairment or Disposal of Long-Lived Assets , identified intangible assets with a finite useful life are amortized over their estimated useful lives. Goodwill and intangible assets are subject to periodic impairment tests using the specific methods required by these standards (at least annually for goodwill and indefinite-lived intangible assets).

These annual tests identified no impairment related to goodwill for each of the years ended December 31, 2006, 2005 and 2004.

The tests performed on identified intangible assets during 2006 resulted in the recognition of an impairment loss of 10 million (2005: 65 million and 2004: 73 million).

In addition, following the change of the name of the Group from Sanofi-Synthélabo to sanofi-aventis, the brand Synthélabo , previously recognized under U.S. GAAP, was written-off in 2004 (58 million).

1-b Other business combinations

Under historical accounting, no goodwill or intangible assets associated with certain other acquisitions made by the Sanofi Group before June 30, 1999 are reflected in the sanofi-aventis consolidated financial statements. Under U.S. GAAP, certain intangible assets were initially recorded at fair value, and are being amortized over their estimated useful lives.

Goodwill is subject to periodic impairment tests using the specific methods required under U.S. GAAP (at least annually).

These annual tests identified no impairment related to goodwill for each of the years ended December 31, 2006, 2005 and 2004.

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Year ended December 31, 2006

1-c Deferred income tax on above adjustments

The aggregate adjustment represents the impact of deferred taxes related to the pre-tax differences detailed in the above captions (1-a and 1-b).

(2) Business combination between sanofi-aventis and Aventis

The acquisition of Aventis by Sanofi-Synthélabo on August 20, 2004 occurred after the transition date to IFRS (January 1, 2004), and accordingly was accounted for in accordance with IFRS 3 (Business Combinations) as described in Note B.3 to these consolidated financial statements. Under U.S. GAAP, the acquisition was accounted for as a purchase in accordance with SFAS 141, Business Combinations .

2-a Goodwill

Finalization of preliminary purchase price allocation

Under U.S. GAAP and IFRS, the period that is allowed for finalizing the identification and measurement of the fair value of the assets acquired and the liabilities assumed in a business combination ends when the acquiring entity is no longer waiting for information that it has arranged to obtain and that is known to be available or obtainable. That allocation period should usually not exceed one year from the consummation of a business combination. Accordingly, the measurement and recognition of certain items that were recorded on a provisional basis at December 31, 2004 were subsequently adjusted to take into account the new information obtained in 2005 about facts and circumstances that existed as of the acquisition date and that, if known, would have affected the measurement or recognition of the amounts as of that date. Under U.S. GAAP, the December 31, 2004 financial statements were not modified to reflect these adjustments. Under IFRS, the December 31, 2004 financial statements were modified to reflect the effect of these adjustments from the date of acquisition, as disclosed in Note D.1.2.

Differences affecting the determination of goodwill between IFRS and U.S. GAAP at the end of the purchase price allocation period were as follows:

(*million)*	
Goodwill as determined under IFRS	**29,490**
Measurement date for securities issued	(1,226)
Deferred tax liability on acquired in-process R&D capitalized under IFRS	(1,862)
Other	(71)

Goodwill as determined under U.S. GAAP	**26,331**

Measurement date of securities issued

Under IFRS, the determination of the purchase price is obtained by multiplying the number of shares issued by the sanofi-aventis stock price at the various closing dates which were equal to:

55.55 on August 12, 2004 in respect of the Aventis ordinary shares purchased in the initial offering period ended July 30, 2004;

57.30 in respect of the Aventis ordinary shares purchased in the subsequent offering period ended September 6, 2004; and

58.80 in respect of the Aventis ordinary shares exchanged at the merger which was effected on December 23, 2004.

Under U.S. GAAP, this same element is obtained by multiplying the number of shares issued by the average sanofi-aventis stock price for the period beginning two days before and ending two days after April 25, 2004 (the measurement date under U.S. GAAP), the date when the revised terms of the transaction were agreed to and

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announced, in accordance with EITF 99-12, Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Combination , resulting in an amount of 53.81 per share.

Deferred tax liability on acquired in-process research and development

Under IFRS the acquired in-process research and development identified in the business combination was recognized in the balance sheet as an intangible asset together with the related deferred tax liability whereas, under U.S. GAAP, it was expensed at the date of acquisition on a gross basis in accordance with EITF 96-7 Accounting for Deferred Taxes on In-Process Research and Development activities acquired in a Business Combination . The corresponding deferred tax liability recorded under IFRS is offset against goodwill resulting in an increase of goodwill under IFRS.

Although this difference does not affect consolidated shareholders equity at inception, a reclassification adjustment is necessary under U.S. GAAP to reduce goodwill by the amount of the deferred tax liability recorded under IFRS in relation to acquired in-process research and development and to reduce deferred tax liabilities by a corresponding amount (1,862 million). The impact on income tax expense of this difference when the acquired in-process R&D is amortized or impaired for IFRS purposes is reversed under U.S. GAAP and such reversal is reflected in the caption Income taxes (Note 2-c).

2-b Acquired in-process research and development (R&D)

Under IFRS, separately acquired in-process R&D is considered to meet the recognition criteria for intangible assets under IAS 38 and accordingly, the in-process R&D acquired in connection with the acquisition of Aventis was capitalized under IFRS. Under U.S. GAAP, acquired in-process R&D is expensed as of the acquisition date.

This adjustment resulted in a decrease in shareholders equity under U.S. GAAP of 5,046 million on a provisional basis and of 5,007 million at the end of the allocation period. The difference was recorded through the income statement for the period ended December 31, 2005.

During 2006 the portion of acquired in-process R&D that related to projects for which regulatory approval had been obtained amounted to 152 million (2005: 852 million; 2004: 271 million). Under IFRS such acquired in-process R&D is subsequently amortized over its useful life (2006: 123 million; 2005: 96 million; 2004: 14 million). In addition, in accordance with IAS 36, an impairment loss amounting to 128 million was recognized through the income statement for the period ending December 31, 2006 (2005: 112 million; 2004: 71 million), due to either the termination of R&D projects or a decrease in their estimated fair value. Both the amortization expense and the impairment loss associated with acquired in-process R&D were reversed under U.S. GAAP given that the amounts were not initially capitalized.

Under the terms of an agreement signed on January 13, 2006, sanofi-aventis sold to Pfizer its share in the worldwide rights for the development, manufacturing and marketing of Exubera®. Under IFRS the pre-tax gain related to the transaction (460 million) was impacted by the reversal of the acquired in-process R&D initially recognized as an intangible asset (506 million). Under U.S. GAAP this amount was written-off as of the acquisition date resulting in a positive adjustment to the pre-tax gain in the income statement of the year ended December 31, 2006. The pre-tax gain related to this transaction (966 million) is included in the income statement caption Other income and expense, income from equity investees and minority interests .

The remaining change in the amount of the adjustment to shareholders equity results principally from translation differences (primarily attributable to movements in the exchange rate between the U.S. dollar and the euro) as these intangible assets are recorded in the functional currencies of the subsidiaries to which the intangible assets relate.

Acquired in-process R&D assets were also recognized in relation to sanofi-aventis equity investments in Merial and Sanofi Pasteur MSD (both acquired in connection with the acquisition of Aventis) under IFRS. Under

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U.S. GAAP, acquired in-process research and development was expensed at the date of acquisition resulting in a reduction in equity of 264 million as of December 31, 2006 (2005: 301 million; 2004: 289 million). In 2006, amortization expense and impairment losses recorded under IFRS totaled 26 million net of tax (2005: 5 million). Under U.S. GAAP, the amortization expense is reversed, because the acquired in-process R&D was expensed as of the date of acquisition.

The following table summarizes the above mentioned income statement adjustments:

(*million)*	December 31, 2006	December 31, 2005	December 31, 2004
Acquired in-process R&D capitalized		39	(5,046)
Amortization expense on acquired in-process R&D	123	96	14
Impairment loss on acquired in-process R&D	128	112	71
Acquired in-process R&D related to equity method investees	26	5	(301)
Gain on disposal (Exubera® transaction)	506		
Total income statement adjustments	**783**	**252**	**(5,262)**

2-c Income taxes

The aggregate adjustment included as Income taxes under the caption Aventis business combination in the reconciliations of consolidated net income and shareholders equity consists of:

	2006		2005		2004	
(*million)*	Net Income	Equity	Net Income	Equity	Net Income	Equity
Pre-acquisition tax contingencies	(197)	(161)	32	31		
Deferred tax liability on acquired in-process R&D	(328)	(554)	(67)	(123)	(55)	(55)
Deferred tax related to acquired stock options		(18)		(12)		
Total adjustments	**(525)**	**(733)**	**(35)**	**(104)**	**(55)**	**(55)**

Pre-acquisition tax contingencies

IFRS 3 requires provisions to be recognized in the income statement once the period allowed for adjustments to the goodwill allocation has ended.

Under U.S. GAAP (EITF 93-7), such adjustments related to pre-acquisition tax contingencies existing at the time of the purchase business combination are to be applied to increase or decrease the remaining balance of goodwill attributable to that business combination.

Deferred tax liability on acquired in-process research and development

The adjustment represents the tax effect related to the difference on amortization and impairment of acquired in process R&D as described in 2-b.

In 2006 this caption also includes a negative adjustment of 202 million resulting from the tax effect related to the transfer to Pfizer of rights to Exubera® (see 2-b).

Deferred tax related to acquired stock options

Under U.S. GAAP, the expected tax benefit from fully vested option awards granted to employees of an acquiree in a purchase business combination should not result in a deferred tax asset on the business combination date. Any future deduction resulting from the exercise of the options should be recognized as an adjustment to

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the purchase price of the acquired business when realized to the extent that this deduction does not exceed the fair value of the awards at the business combination date. The tax benefit associated with any excess deduction is recognized in additional paid in capital. Under IFRS, the expected tax benefit from vested option awards results in the recognition against goodwill of a deferred tax asset on the date the business combination is consummated. Any future deduction resulting from the exercise of the options should then be recognized directly in equity.

(3) Other differences between IFRS and U.S. GAAP

3-a Restructuring provisions

As of December 31, 2006, 2005 and 2004, this adjustment relates to the reversal of certain provisions for restructuring that did not meet at the balance sheet date the U.S. GAAP recognition criteria under SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities and under SFAS 88 Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits with respect to voluntary termination of employment.

The positive adjustment in 2006 mainly relates to voluntary termination benefits with regard to the reorganization plans in France and Germany recognized under IFRS, which will not be recognized under U.S. GAAP until formally accepted by the employees.

3-b Pensions and post retirement benefits

The following table presents the reconciliation of the net liability from IFRS to U.S. GAAP:

	Pensions & other long term benefits	**Other post-employment benefits**
(million)	**2006**	**2006**
Net liability under IFRS	3,552	284
Difference in unrecognized elements	(523)	(41)
Minimum liability adjustment	348	
Net obligation under U.S. GAAP before adoption of SFAS 158	3,377	243
Adjustments due to the adoption of SFAS 158	230	22

Net liability under U.S. GAAP after adoption of SFAS 158	3,607	265

Under U.S. GAAP, the Group accounts for its pension and post-employment benefit plans in accordance with SFAS 87, Employers Accounting for Pensions and SFAS 106, Employers Accounting for Postretirement Benefits and, as of December 31, 2006, SFAS 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans . Due to the adoption of SFAS 158, all actuarial gains and losses, past service costs and any remaining transition obligations for pensions were recognized as of December 31, 2006 in the balance sheet, against equity, net of deferred tax.

Under U.S. GAAP, an additional minimum pension liability was required when, as a result of unamortized actuarial losses, prior service costs and transition obligations, the accrued liability was lower than the excess of the accumulated benefit obligation over the fair value of the plan assets. The adoption of SFAS 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans removes this specific requirement as of December 31, 2006.

Under IFRS, the Group adopted in 2006, with retrospective application, the option in an amendment to IAS 19 to recognize the actuarial gains and losses on post-employment benefits in the balance sheet, through the Statement of Recognized Income and Expense, net of deferred tax. Actuarial losses recognized under IFRS as a liability, before tax, amounted to 796 million as of December 31, 2005, and to 401 million as of December 31, 2004.

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Year ended December 31, 2006

As of December 31, 2005 and 2004, the differences between IFRS and U.S. GAAP recorded in equity relate primarily to actuarial gains and losses in excess of the additional minimum liability, as determined under SFAS 87. As of December 31, 2006 after the adoption of SFAS 158, such difference relates primarily to the past service costs recognized in the balance sheet under U.S. GAAP but not under IFRS.

Under U.S. GAAP, actuarial gains and losses are still amortized using the corridor method. Under this method, actuarial gains and losses equal to less than 10% of the greater of the amount of the future obligation or the fair value of plan assets are not amortized. Actuarial gains and losses above this 10% threshold are recognized in the income statement over the expected remaining service period of the employees or over the life expectancy if all or almost of the plan s participants are inactive.

Under IFRS, because of the retrospective adoption of the above-mentioned amendment to IAS 19, no amortization of actuarial gains and losses for post-employment benefits is recognized in the income statement.

The income statement adjustment mainly relates to the amortization of actuarial gains and losses under U.S. GAAP, amounting to 34 million in 2006 (2005: 14 million; 2004: 11 million), which is not reflected in the income statement under IFRS. Also in 2006 a negative adjustment of 8 million was recorded in the income statement in connection with the recognition of the old-age part time provision (Altersteilzeit) which was already fully recognized under IFRS and which was accounted for following the guidance provided by EITF 05-05, Accounting for Early Retirement or Post-employment Programs with Specific Features (Such as Terms Specified in Altersteilzeit Early Retirement Arrangements) under U.S. GAAP.

3-c Research and development costs acquired separately

Under IFRS, research and development costs relating to rights to products acquired from third parties are recognized by the Group as intangible assets, in accordance with the recognition criteria set by IAS 38. Consequently, payments made under research and development arrangements to access technology and/or databases and payments made to purchase generic files are capitalized.

Under U.S. GAAP, these costs are expensed as incurred. Accordingly, an amount of 156 million was recorded as a reduction of shareholders equity as of December 31, 2006 (2005: 75 million; 2004: 52 million).

In 2006, separately acquired research and development costs capitalized under IFRS amounted to 97 million. This amount was recorded as expense under U.S. GAAP.

The income statement adjustment also includes the reversal of the impairment loss and amortization expense recorded under IFRS (9 million). The total adjustment in 2005 was an expense of 17 million.

3-d Reversal of impairment loss

IAS 36 requires an impairment loss to be reversed for an asset other than goodwill when there is an indication that an impairment loss recognized in prior periods may no longer exist or may have decreased. Under U.S. GAAP the reversal of an impairment loss is prohibited.

The adjustment in 2006 recorded through the income statement represents the cancellation of the reversal of the impairment loss on intangible assets initially recognized as part of the Aventis business combination. This adjustment also includes the impact of the amortization expense relating thereto.

3-e Other adjustments

The adjustment included as Other in the reconciliations of consolidated net income and shareholders equity as of and for the years ended December 31, 2006, 2005 and 2004 primarily relates to the impact of discounting long term provisions.

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3-f Income taxes

The aggregate adjustment included in Income taxes in the reconciliations of consolidated shareholders equity and net income consists of the following:

	2006		2005		2004	
	Net Income	Equity	Net Income	Equity	Net Income	Equity
Deferred tax on above adjustments (3a to 3e)	26	30	4	(142)	5	(154)
Deferred tax related to acquired stock options	15	12	10	(38)		
Deferred tax on equity investees	(10)	(25)	(11)	(14)	(5)	(5)
Deferred tax on intercompany margins	(4)	31	5	36	4	31
Other	2	(3)	(5)	(5)	(11)	
Total adjustments	**29**	**45**	**3**	**(163)**	**(7)**	**(128)**

Deferred tax related to acquired stock options

In some tax jurisdictions, the Group receives a tax deduction that relates to compensation paid in stock options. The amount of that tax deduction is based on the intrinsic value of the stock options at the date of exercise.

Under U.S. GAAP, the amount of income tax benefit recognized during the vesting period is equal to the amount of the related compensation cost recognized multiplied by the statutory tax rate. If the actual tax deduction reflected on the company s income tax return for an award (generally at option exercise) exceeds the cumulative amount of compensation cost recognized in the financial statements for that award, the excess tax benefit is recognized as an increase to additional paid-in capital.

Under IFRS, the measurement of the deductible temporary difference is based on the options intrinsic value at the end of the period. If the amount of the tax deduction (or estimated future tax deduction during the exercise period) exceeds the amount of the related cumulative compensation expense, the excess of the associated current or deferred tax is recognized directly in equity at each closing date.

Deferred tax on equity investees

Under both U.S. GAAP and IFRS, a deferred tax liability is recorded for the difference between the value used for financial reporting purposes and the tax basis of equity-method investments in certain circumstances.

The adjustment arises because the value for financial reporting purposes under U.S. GAAP differs from that used under IFRS.

In addition, in terms of presentation, under U.S. GAAP income tax expenses related to partnerships accounted for as equity investees are presented in the line Income taxes as such income tax expenses are paid by the Group. Under IFRS, income from equity investees is presented net of tax.

Deferred tax on intercompany margins

Under IFRS (IAS 12, Income taxes), the deferred tax effect of the elimination of intercompany margins is calculated using the purchaser s tax rate whereas under U.S. GAAP (SFAS 109, Accounting for Income Taxes) the deferred tax effect is recorded using the vendor s tax rate.

(4) Additional disclosures for the Group s U.S. GAAP financial statements

Additional financial disclosures are required under U.S. GAAP. The following disclosures relate to the Group s financial statements after reconciliation to U.S. GAAP.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2006

4-a Intangible assets

The Group s intangible assets as determined under U.S. GAAP consist of:

(*million)*	Estimated Useful Life (years)	December 31, 2006	December 31, 2005	December 31, 2004
Total goodwill		**29,961**	**31,752**	**28,198**
Other intangible assets				
Trademarks, patents, licenses and other rights	5 -23	2,339	2,016	2,144
Rights to marketed Synthélabo products	10 -23	4,114	4,136	4,432
Rights to marketed Aventis products	3 -16	27,429	29,505	29,828
Software	3 - 5	586	546	476
Sub-total gross value		**34,468**	**36,203**	**36,880**
Less: Accumulated amortization		(12,178)	(7,533)	(4,064)
Sub-total net value		**22,290**	**28,670**	**32,816**
Intangible asset related to pensions			**29**	**42**
Total other intangible assets		**22,290**	**28,699**	**32,858**

Amortization expense and impairment losses recognized during the year ended December 31, 2006, amounted to 5,038 million (2005: 5,112 million; 2004: 1,952 million).

Estimated amortization charges for the next five years are presented below:

	(*million)*
2007	3,951
2008	3,871
2009	3,647
2010	3,369
2011	2,523

Measurement of an impairment loss for intangible assets other than goodwill

If indicators of impairment are present, an impairment review must be carried out for the purposes of both IFRS and U.S. GAAP. However under the IAS 36 methodology for testing for an impairment, the value in use calculation involves discounting the expected future cash flows to be generated by the asset to their net present value. Under SFAS 144 a recoverability test must be performed by comparing the estimated sum of undiscounted cash flows attributable to the asset with its carrying amount. Only if the asset fails this recoverability test will the amount of impairment be calculated by comparing the asset s carrying amount to its fair value. This difference of principle did not create any material difference in the impairment charge in 2006, 2005 and in 2004.

The geographical allocation of goodwill by reportable segment is presented below:

(*million)*	**December 31, 2006**	**December 31, 2005**	**December 31, 2004**
Pharmaceuticals			
Europe	13,575	13,958	13,265
United States of America	11,711	13,093	10,670
Other countries	4,174	4,234	3,817
Sub-total Pharmaceuticals	**29,460**	**31,285**	**27,752**
Vaccines			
United States of America	339	379	322
Countries other than the United States of America	162	88	124
Sub-total Vaccines	**501**	**467**	**446**
Total	**29,961**	**31,752**	**28,198**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2006

4-b Pensions and post-retirement benefits

(*million*)	Pensions & other long-term benefits			Post-retirement benefits other than pensions		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Intangible assets		(29)	(42)			
Non-current assets	(20)	(3)	(52)			
Non-current liabilities	3,546	3,627	3,019	251	192	172
Current liabilities	81			14		
Net liability in the balance sheet	**3,607**	**3,595**	**2,925**	**265**	**192**	**172**

Amounts recognized in Accumulated Other Comprehensive Income consist of:

(*million*)	Pensions & other long-term benefits			Post-retirement benefits other than pensions		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Minimum liability adjustment		511	128			
Net loss (gain)	516			45		
Prior service cost (credit)	62			(23)		
	578	**511**	**128**	**22**		

The following table presents the components of the net periodic benefit cost and other amounts recognized in Other Comprehensive Income:

(*million*)	Pensions & other long-term benefits			Post-retirement benefits other than pensions		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
Net periodic benefit cost						
Service cost	264	238	99	14	7	3
Interest cost	407	393	143	17	11	6
Expected return on plan assets	(344)	(331)	(109)	(4)		
Amortization of prior service cost	(10)	24	7	(3)	(1)	(1)
Amortization of net (gain) loss	22	19	6	3	1	2
Curtailment / Settlement	1	(23)	6		(1)	

Net periodic benefit cost	340	320	152	27	17	10
Other changes in other comprehensive income						
Minimum liability adjustment	(189)	383	(12)			
Total recognized in net periodic benefit cost and other comprehensive income (before tax)	**151**	**703**	**140**	**27**	**17**	**10**

The adjustments in Accumulated Other Comprehensive Income (before tax) due to the adoption of SFAS 158 as of December 31, 2006 are as follows:

(*million*)	**Pensions & other long-term benefits**	**Post-retirement benefits other than pensions**	**Total**
Minimum liability adjustment [(1)]	(322)		(322)
Net loss (gain)	516	45	561
Prior service cost (credit)	62	(23)	39
Total	**256**	**22**	**278**

(1) *Reversal of the minimum liability adjustment as of December 31, 2006 (511 million as of December 31, 2005 minus the 189 million change in 2006).*

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In the year ending December 31, 2007, amortization of net actuarial gains/losses is expected to amount to 25 million and amortization of prior service cost to 7 million.

The funded status under U.S. GAAP as of December 31, 2006 is as follows:

	(*million*)
Projected benefit obligation	9,506
Fair value of plan assets	5,634
Funded status under U.S. GAAP	3,872

The aggregate benefit obligation for domestic plans with benefit obligations in excess of plan assets as of December 31, 2006 amounted to 1,855 million (2005: 1,849 million; 2004: 1,745 million) and the fair value of plan assets to 65 million (2005: 53 million; 2004: 57 million). For foreign plans, the benefit obligation amounted to 7,557 million as of December 31, 2006 (2005: 7,253 million; 2004: 6,213 million) and the fair value of assets to 5,456 million (2005: 5,218 million; 2004: 4,402 million). The aggregate accumulated benefit obligation for plans with accumulated benefit obligations in excess of plan assets amounted to 1,389 million as of December 31, 2006 for domestic plans and to 6,643 million as of December 31, 2006 for foreign plans (respectively 1,780 million and 6,952 million as of December 31, 2005) with a fair value of assets as of December 31, 2006 amounting to 65 million for domestic plans and 5,272 million for foreign plans (respectively 55 million and 5,077 million as of December 31, 2005).

The following table presents the incremental effect of applying SFAS 158 on individual line items in the Statement of Financial Position as of December 31, 2006:

(*million*)	**Before application of SFAS 158**	**Adjustments**	**After application of SFAS 158**
Assets			
Other intangible assets	22,316	(26)	22,290
Liabilities and equity			
Accrued benefit liability	3,620	252	3,872
Net deferred tax liability	5,348	(86)	5,262
Accumulated other comprehensive income	(2,275)	(192)	(2,467)
Equity attributable to equity holders of the company	46,215	(192)	46,023

4-c Accumulated other comprehensive income

Under U.S. GAAP year-end other comprehensive income breaks down as follows:

(*million*)	December 31, 2006	December 31, 2005	December 31, 2004
Cumulative translation difference	(2,164)	651	(3,156)
Unrealized gain (loss) on cash flow hedges	50	(7)	84
Deferred taxes on unrealized gain (loss) on cash flow hedges	(17)	3	(28)
Unrealized gain (loss) on available-for-sale securities	91	118	92
Deferred taxes on unrealized gain (loss) on available-for-sale securities	(27)	(20)	(13)
Unrealized gain (loss) from defined benefit plans [(1)]	(604)	(517)	(128)
Deferred taxes on unrealized gain (loss) from defined benefit plans	204	191	43
Total	**(2,467)**	**419**	**(3,106)**

[(1)] *Including equity method investees* (2006: (4) million; 2005: (6) million)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2006

4-d Recent accounting pronouncements

The U.S. Financial Accounting Standards Board (FASB) recently issued the following accounting pronouncements which are applicable to our Company.

SFAS 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 issued in February 2006 provides companies with the option to elect to measure at fair value the entire financial instruments containing embedded derivatives that would otherwise have to be accounted for separately. The Company has no such hybrid instruments, accordingly the adoption of SFAS 155 in 2007 will not have an impact on its financial statements.

SFAS 156, Accounting for Servicing of Financial Assets an amendment of SFAS No. 140 was issued in March 2006. SFAS 156 requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value if practicable and permits an entity to choose between the amortization method or the fair value measurement method for the subsequent measurement of each class of separately recognized servicing assets and liabilities. As the Company is not involved in this type of activity, the adoption of SFAS 156 in 2007 will not have an impact on its financial statements.

SFAS 157, Fair Value Measurements issued in September 2006 defines fair value and establishes a framework for measuring fair value in U.S. GAAP providing a fair value hierarchy and guidance on valuation techniques. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements except those related to share based payments or when the accounting pronouncement includes practicability exceptions to fair value measurement. Accordingly, SFAS 157 does not require any new fair value measurements. The Company plans to adopt this statement starting January 1, 2008.

SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities issued in February 2007 permits entities to choose to measure certain financial instruments and other items at fair value in order to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without applying hedge accounting provisions. The Company does not expect the adoption of SFAS 159 in 2008 to have a significant impact on its financial statements.

FIN 48, Accounting for Uncertain Tax Positions issued in June 2006 clarifies the accounting for uncertainty in income taxes recognized in accordance with FAS 109, Accounting for Income Taxes . This interpretation provides a two-step approach for the (i) recognition and (ii) measurement of tax positions until the uncertainty, about how tax positions taken or to be taken will be treated under tax law, is ultimately resolved: (i) benefits of tax positions are recognized if they are more likely than not to be sustained by the taxing authority and (ii) the tax position is measured at the largest amount of benefit that is greater that 50 percent likely of being realized. The Company will adopt FIN 48 in 2007 and the cumulative effect of FIN 48, if any, will be recorded in retained earnings as of January 1, 2007. The company is currently assessing the impact of this adoption.