SANOFI-AVENTIS
Form 20-F
April 03, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report . . . . . .

For the transition period from to

Commission File Number: 001-31368

Sanofi-Aventis

(Exact name of registrant as specified in its charter)

N/A

(Translation of registrant s name into English)

France

(Jurisdiction of incorporation or organization)

174, avenue de France, 75013 Paris, France

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class:	**Name of each exchange**

	on which registered:
American Depositary Shares, each	New York Stock Exchange
representing one half of one ordinary share, par value 2 per share	
Ordinary shares, par value 2 per share	New York Stock Exchange
	(for listing purposes only)

Securities registered pursuant to Section 12(g) of the Act:

American Depositary Shares, each representing one quarter of a Participating Share Series A, par value 70.89 per share (removed from listing and registration on the New York Stock Exchange effective July 31, 1995).

The number of outstanding shares of each of the issuer s classes of capital or

common stock as of December 31, 2006 was:

ordinary shares: 1,359,434,683

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405

of the Securities Act.

YES x NO ¨.

If this report is an annual or transition report, indicate by check mark if the registrant is not

required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

YES ¨ NO x.

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ¨ Item 18 x

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES ¨ NO x.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The consolidated financial statements contained in this annual report on Form 20-F have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union as of December 31, 2006 and with IFRS issued by the International Accounting Standards Board (IASB) as of the same date. IFRS differ in certain significant respects from U.S. generally accepted accounting principles (U.S. GAAP). For a description of the principal differences between IFRS and U.S. GAAP, as they relate to us and to our consolidated subsidiaries, and for a reconciliation of our shareholders equity and net income to U.S. GAAP, see Note F to our consolidated financial statements included at Item 18, of this annual report.

Our results of operations and financial condition as of and for the year ended December 31, 2004 have been significantly affected by our August 2004 acquisition of Aventis and certain subsequent transactions (including the merger of Aventis with and into our Company in December 2004). The results of operations of Aventis for the period between August 20, 2004 and December 31, 2004 have been included in our consolidated income statement and cash flow statement. This resulted in a significant increase in revenues and significant changes in other financial statement items in 2004 compared to 2003. The assets and liabilities of Aventis are also included in our consolidated balance sheet at December 31, 2004. See Item 5. Operating and Financial Review and Prospects.

We have prepared unaudited pro forma income statements for 2004 that present our results of operations as if the acquisition had taken place on January 1, 2004, described under Item 5. Operating and Financial Review and Prospects. Because of the significance of the Aventis acquisition, we present certain 2004 financial information in this annual report, such as sales of particular pharmaceutical products, as a percentage of our unaudited pro forma sales, rather than as a percentage of our consolidated sales.

Unless the context requires otherwise, the terms sanofi-aventis, the Company, the Group, we, our or us refer to sanofi-aventis and our consolidated subsidiaries. References to Aventis refer to Aventis and its consolidated subsidiaries for periods prior to August 20, 2004.

All references herein to United States or U.S. are to the United States of America, references to dollars or $ are to the currency of the United States, references to France are to the Republic of France, and references to euro and are to the currency of the European Union member states (including France) participating in the European Monetary Union.

Brand names appearing in this annual report are trademarks of sanofi-aventis and/or its affiliates, with the exception of:

- trademarks used or that may be or have been used under license by sanofi-aventis and /or its affiliates, such as Actonel®, Optinate® and Acrel®, trademarks of Procter & Gamble Pharmaceuticals, Alvesco®, a trademark of ALTANA Pharma AG, Campto®, a trademark of Kabushiki Kaisha Yakult Honsha, Copaxone®, a trademark of Teva Pharmaceutical Industries, Exubera®, a trademark of Pfizer Products Inc., Tavanic®, a trademark of Daiichi Pharmaceutical Co. Ltd., TroVax®, a trademark of Oxford BioMedica, Mutagrip®, a trademark of Institut Pasteur, Gardasil® and Rotateq®, trademarks of Merck & Co., Inc., NanoCrystal®, a trademark of Elan Pharmaceuticals, Uvidem®, a trademark of IDM Pharma, Inc. (IDM), Xyzal®, a trademark of UCB;

- trademarks sold by sanofi-aventis and/or its affiliates, such as Altace®, a trademark of King Pharmaceuticals in the United States, Arixta® and Fraxiparine®, trademarks of GlaxoSmithKline, StarLink®, Liberty Link® and Liberty® trademarks of Bayer AG, Sabril®,

a trademark of Ovation Pharmaceuticals in the United States;

Cipro® in the United States and Aspirin®, trademarks of Bayer AG, Ivomec®, Eprinex®, Frontline® and Heartgard®, trademarks of Merial and Hexavac®, a trademark of Sanofi Pasteur MSD.

The data relative to market shares and ranking information presented in Item 4. Information on the Company B. Business Overview Markets Competition is based on sales data from IMS Health MIDAS (IMS) and GERS (for France), retail and hospital, for calendar year 2006, in constant euros (unless otherwise indicated).

While we believe that the IMS/GERS sales data we present below are generally useful comparative indicators for our industry, they may not precisely match the sales figures published by the companies that sell the products (including our company and other pharmaceutical companies). In particular, the rules used by IMS to attribute the sales of a product covered by an alliance or license agreement do not always exactly match the rules of the agreement.

In order to allow a reconciliation with our basis of consolidation as defined in Item 5. Operating and Financial Review and Prospects Presentation of Net Sales, IMS data shown in the present document have been adjusted and include:

(i) sales as published by IMS excluding sales generated by the vaccines business, equating to the scope of our pharmaceutical operations;

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(ii) adjustments to data for Germany, to reflect the significant impact of parallel imports;

(iii) IMS sales of products sold under alliance or license agreements which we recognize in our consolidated net sales but which are not attributed to us in the reports published by IMS;

(iv) adjustments related to the exclusion of IMS sales for products which we do not recognize in our consolidated net sales but which are attributed to us by IMS.

Product indications described in this report are composite summaries of the major indications approved in the product s principal markets. Not all indications are necessarily available in each of the markets in which the products are approved. The summaries presented herein for the purpose of financial reporting do not substitute for careful consideration of the full labeling approved in each market.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements. We may also make written or oral forward-looking statements in our periodic reports to the Securities and Exchange Commission on Form 6-K, in our annual report to shareholders, in our proxy statements, in our offering circulars and prospectuses, in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Examples of such forward-looking statements include:

projections of operating revenues, net income, adjusted net income, earnings per share, adjusted earnings per share, capital expenditures, positive or negative synergies, dividends, capital structure or other financial items or ratios;

statements of our plans, objectives or goals, including those relating to products, clinical trials, regulatory approvals and competition;

statements about our future economic performance or that of France, the United States or any other countries in which we operate; and

statements of assumptions underlying such statements.

Words such as believe, anticipate, plan, expect, intend, target, estimate, project, predict, forecast, guideline, should and intended to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statements. Such factors, some of which are discussed under Risk Factors below, include but are not limited to:

our ability to continue to maintain and expand our presence profitably in the United States;

the success of our research and development programs;

our ability to protect our intellectual property rights;

the risks associated with reimbursement of healthcare costs and pricing reforms, particularly in the United States and Europe; and

trends in the exchange rate and interest rate environments.

We caution you that the foregoing list of factors is not exclusive and that other risks and uncertainties may cause actual results to differ materially from those in forward-looking statements.

Forward-looking statements speak only as of the date they are made. Other than required by law, we do not undertake any obligation to update them in light of new information or future developments.

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

N/A

Item 2. Offer Statistics and Expected Timetable

N/A

Item 3. Key Information

A. Selected Financial Data

SUMMARY SELECTED FINANCIAL DATA

The tables below set forth selected consolidated financial data for sanofi-aventis. These financial data are derived from the sanofi-aventis consolidated financial statements. Sanofi-aventis financial statements for the years ended December 31, 2006, 2005 and 2004 are included in Item 18 of this annual report.

The consolidated financial statements of sanofi-aventis for the years ended December 31, 2006 and 2005 have been prepared in compliance with IFRS adopted by the European Union and with the IFRS issued by the International Accounting Standards Board (IASB). The term IFRS refers collectively to International Accounting Standards (IAS), International Financial Reporting Standards (IFRS), Standing Interpretations Committee (SIC) interpretations and International Financial Reporting Interpretations Committee (IFRIC) Interpretations issued by the IASB. The opening balance sheet as of the IFRS transition date (January 1, 2004) and the comparative financial statements for the year ended December 31, 2004 have been prepared in accordance with the same principles.

Sanofi-aventis reports its financial results in euro and in conformity with IFRS, with a reconciliation to U.S. GAAP. Sanofi-aventis also publishes condensed U.S. GAAP information. A description of the principal differences between IFRS and U.S. GAAP as they relate to the sanofi-aventis consolidated financial statements is set forth in Note F to the sanofi-aventis audited consolidated financial statements included in this annual report.

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SELECTED CONDENSED FINANCIAL INFORMATION

	As of and for the year ended December 31,				
(million, except per share data)	2006	2005	2004	2003	2002
IFRS Income statement data					
Net sales	28,373	27,311	14,871		
Gross profit	21,902	20,947	11,294		
Operating income	4,828	2,888	2,426		
Net income attributable to equity holders of the Company	4,006	2,258	1,986		
Earnings per share: basic ( ) (a)	2.97	1.69	2.18		
Earnings per share: diluted ( ) (b)	2.95	1.68	2.17		
IFRS Balance sheet data (c)					
Intangible assets and goodwill	52,210	60,463	61,567		
Total assets	77,763	86,945	85,557		
Outstanding share capital	2,701	2,686	2,668		
Equity attributable to equity holders of the Company	45,600	46,128	40,810		
Long term debt	4,499	4,750	8,654		
U.S. GAAP Data (d)					
Revenues from sale of products	28,373	27,311	14,871	8,048	7,448
Net income (loss) attributable to equity holders of the Company	4,034	2,202	(3,665)	1,865	1,640
Earnings (loss) per share: basic ( ) (e)	3.00	1.65	(4.03)	2.71	2.30
Earnings (loss) per share: diluted ( ) (f)	2.97	1.64	(4.03)	2.70	2.28
Intangible assets and goodwill	52,251	60,451	61,056	9,321	9,924
Total assets	77,536	86,241	82,846	17,424	17,362
Long-term debt	4,483	4,734	8,638	53	65
Equity attributable to equity holders of the Company	46,023	46,403	41,632	12,736	12,599
Cash dividend paid per share ( ) (g)	1.75 (h)	1.52	1.20	1.02	0.84
Cash dividend paid per share ($) (g)	2.31 (h)	1.80	1.62	1.28	0.88

(a) Based on the weighted average number of shares outstanding in each period used to compute basic earnings per share, equal to 1,346.8 million shares in 2006, 1,336.5 million shares in 2005, and 910.3 million shares in 2004.

(b) Based on the weighted average number of shares outstanding in each period used to compute diluted earnings per share, equal to 1,358.8 million shares in 2006, 1,346.5 million shares in 2005, and 914.8 million shares in 2004.

(c) On January 1, 2006, sanofi-aventis adopted (with retrospective effect from January 1, 2004) the option offered by amendment to IAS 19 (Employee Benefits) to recognize all actuarial gains and losses under defined-benefit pension plans in the balance sheet, with the matching entry recorded as a component of shareholder s equity, net of deferred taxes. See Note A.4 of the consolidated financial statements in Item 18 of this annual report.

(d) Sanofi-aventis voluntarily adopted the fair value recognition provisions of Financial Accounting Standard 123, Accounting for Stock-Based Compensation, as of January 1, 2003.

Certain data as of and for the year ended December 31, 2004 have been reclassified to conform to the presentation adopted under IFRS with respect to joint ventures that are no longer accounted for under the proportionate consolidation method.

(e) Based on the weighted average number of shares outstanding in each period used to compute basic earnings (loss) per share, equal to 1,346.8 million shares in 2006, 1,336.5 million shares in 2005, 910.3 million shares in 2004, 689.0 million shares in 2003, and 714.3 million shares in 2002.

(f) Based on the weighted average number of shares outstanding in each period used to compute diluted earnings (loss) per share, equal to 1,357.6 million shares in 2006, 1,346.5 million shares in 2005, 914.9 million shares in 2004, 691.1 million shares in 2003, and 718.0 million shares in 2002.

(g) Each American Depositary Share, or ADS, represents one half of one share.

(h) Dividends for 2006 will be proposed to the annual general meeting for approval.

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EXCHANGE RATE INFORMATION

Exchange Rates

The following table sets forth, for the periods and dates indicated, certain information concerning the exchange rates for the euro from 2002 through March 2007 expressed in U.S. dollar per euro. The information concerning the U.S. dollar exchange rate is based on the noon buying rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York (the Noon Buying Rate). We provide the exchange rates below solely for your convenience. We do not represent that euros were, could have been, or could be, converted into U.S. dollars at these rates or at any other rate. For information regarding the effect of currency fluctuations on our results of operations, see Item 5. Operating and Financial Review and Prospects.

Selected Exchange Rate Information

	Period-end Rate	Average Rate [1]	High	Low
	(U.S. dollar per euro)			
2002	1.05	0.95	1.05	0.86
2003	1.26	1.14	1.26	1.04
2004	1.35	1.25	1.36	1.18
2005	1.18	1.24	1.35	1.17
2006	1.32	1.27	1.33	1.19
Last 6 months				
2006				
October	1.28	1.26	1.28	1.25
November	1.33	1.29	1.33	1.27
December	1.32	1.32	1.33	1.31
2007				
January	1.30	1.30	1.33	1.29
February	1.32	1.31	1.32	1.29
March	1.34	1.32	1.34	1.31

[1] The average of the Noon Buying Rates on the last business day of each month during the relevant period for year average, on each business day of the month for monthly average.

On March 30, 2007 the Noon Buying Rate was 1.3374 per euro.

B. Capitalization and Indebtedness

N/A

C. Reasons for Offer and Use of Proceeds

N/A

D. Risk Factors

Important factors that could cause actual financial or operating results to differ materially from expectations are disclosed in this annual report, including without limitation the following risk factors and the factors described under Cautionary Statement Regarding Forward-Looking Statements. In addition to the risks listed below, we may be subject to other material risks that are not currently known to us or that we deem immaterial at this time.

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Risks Relating to Our Company

We incurred substantial debt in connection with the acquisition of Aventis, which limits our business flexibility and requires us to devote cash resources to debt service payments.

In connection with our acquisition of Aventis, our consolidated debt increased substantially, because we incurred debt to finance the cash portion of the acquisition consideration, and because our consolidated debt includes the debt incurred by Aventis prior to the acquisition. As of December 31, 2006, our debt, net of cash and cash equivalents was 5.8 billion. We make significant debt service payments to our lenders and our current debt level could limit our ability to engage in additional transactions or incur additional indebtedness. For more information on our debt, see Item 5. Operating and Financial Review and Prospectus Liquidity and Capital Resources in this annual report.

We depend on the United States market for a significant part of our current and future operating results. A failure to continue our strategy of profitable operations in that market could adversely affect our business, results of operations, financial condition or prospects.

We may not achieve our growth strategy if we do not maintain and continue to expand profitably our presence in the United States, the world s largest pharmaceuticals market. We have identified the United States, which accounted for approximately 35.1% of our net sales in 2006, as a potential major source of continued future growth and plan to capitalize on our direct presence in the United States in the coming years to build a strong position in this market. We face a number of challenges in maintaining profitable growth in the United States, including:

- the success of the management organization that we have established in the United States;
- the targeting of new products and customer markets;
- the fact that the United States market is dominated by major U.S. pharmaceutical companies;
- slower growth of the U.S. pharmaceutical market than in recent years;
- aggressive generic competition reinforced by legislative initiatives to further facilitate the introduction of generic drug or comparable biologic products through accelerated approval procedures;
- potential changes in health care reimbursement policies and possible cost control regulations in the United States, including possible unfavorable developments in coverage of prescription drugs by Medicare;
- increased FDA demands, leading to a potentially longer, more costly and more restrictive approval process for innovative products;
- heightened scrutiny of the pharmaceutical industry by the public and the media; and

exposure to the euro-dollar exchange rate.

We depend on third parties for the marketing of some of our products. These third parties may act in ways that could harm our business.

We market some of our products in collaboration with other pharmaceutical companies. For example, we currently have major collaborative arrangements with Bristol-Myers Squibb (BMS) for the marketing of Plavix® and Aprovel® in the United States and several other countries, with Procter & Gamble Pharmaceuticals for the osteoporosis treatment Actonel®, with Teva for Copaxone®, and with Merck & Co., Inc. for the distribution of vaccines in Europe. We also have alliances with several Japanese companies for the marketing of some of our products in Japan. See Item 4. Information on the Company B. Business Overview Markets Marketing and Distribution. When we market our products through collaboration arrangements, we are subject to the risk that certain decisions, such as the establishment of budgets and promotion strategies, are subject to the control of our collaboration partners, and that deadlocks may adversely affect the activities conducted through the collaboration arrangements. For example, our alliances with BMS are subject to the operational management of BMS in some countries, including the United States. We cannot be certain that our partners will perform their obligations as expected. Further, our partners might pursue their own existing or alternative technologies or product candidates in preference to those being developed or marketed in collaboration with us.

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The manufacture of our products is technically complex, and supply interruptions, product recalls or inventory losses caused by unforeseen events may reduce sales, delay the launch of new products and adversely affect our operating results and financial condition.

Many of our products are manufactured using technically complex processes requiring specialized facilities, highly specific raw materials and other production constraints. Our vaccine products in particular are subject to the risk of manufacturing stoppages or the risk of loss of inventory because of the difficulties inherent to the sterile processing of biological materials and the potential for the unavailability of adequate amounts of raw materials meeting our standards. Additionally, specific conditions must be respected both by the Group and its customers for the storage and distribution of many of our products, e.g., cold storage for certain vaccines. The complexity of these processes as well as strict company and government standards for the manufacture of our products subject us to risks. The occurrence or suspected occurrence of out-of-specification production or storage can lead to lost inventories, and in some cases product recalls, with consequential reputational damage and the risk of product liability (See Risks Relating to Our Industry Product liability claims could adversely affect our business, results of operations and financial condition, below). The investigation and remediation of any identified problems can cause production delays, substantial expense, lost sales and the delay of new product launches.

We depend on third parties for the manufacture and supply of a substantial portion of our raw materials, specialized components, active ingredients and medical devices.

Availability of Raw Materials and Specialized Components. Third parties supply us with a substantial portion of our raw materials and specialized components. Some raw materials and specialized components essential to the manufacture of our products are not widely available from sources we consider reliable for example, there is a limited number of approved suppliers of heparins, which are used in the manufacture of Lovenox®. See Item 4. Information on the Company B. Business Overview Production and Raw Materials for a description of these outsourcing arrangements.

Third-Party Manufacturing of Active Ingredients. Although our general policy is to manufacture the active ingredients for our products ourselves, we subcontract the manufacture of some of our active ingredients to third parties, which exposes us to the risk of a supply interruption in the event that our suppliers experience financial difficulties or are unable to manufacture a sufficient supply of our products. The manufacture of the active ingredients for Eloxatine® and Xatral® and part of the manufacture of the active ingredient for Stilnox® are currently carried out by third parties, as are some of the manufacturing steps in the production of Lovenox®. Additionally, under our collaborative arrangement with BMS, pharmaceutical production of Plavix® and Aprovel® is conducted partly in sanofi-aventis plants and partly in BMS plants.

Third-Party Supply of Medical Devices. Medical devices related to some of our products, such as certain pens used to dispense insulin, are manufactured by third parties. Reliance on third parties exposes us to the risk of supply interruptions, including as a result of third-party manufacturing problems, as well as the risk of product liability for materials not produced by the Group. See Product liability claims could adversely affect our business, results of operations and financial condition, below.

If disruptions or quality concerns were to arise in the third-party supply of raw materials, specialized components, active ingredients or medical devices, this could affect our ability to sell our products in the quantities demanded by the market and could damage our reputation and relationships with our customers. See also The manufacture of our products is technically complex, and supply interruptions, product recalls or inventory losses caused by unforeseen events may reduce sales, delay the launch of new products and adversely affect our operating results and financial condition, above. Even though we aim to have backup sources of supply whenever possible, including by manufacturing backup supplies of our principal active ingredients at a second or third facility when practicable, we cannot be certain they will be sufficient if our principal sources become unavailable. Any of these factors could adversely affect our business, operating results or financial condition.

Our collaborations with third parties expose us to risks that they will claim intellectual property rights on our inventions or fail to keep our unpatented technology confidential.

We occasionally provide information and materials to research collaborators in academic institutions or other public or private entities, or request them to conduct tests to investigate certain materials. In all cases we enter into appropriate confidentiality and intellectual property rights agreements with such entities. However,

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those entities might claim intellectual property rights with respect to the results of the tests conducted by their collaborators, and might not grant licenses to us regarding their intellectual property rights on acceptable terms.

We also rely upon unpatented proprietary technology, processes, know-how and data that we regard as trade secrets and protect them in part by entering into confidentiality agreements with our employees, consultants and certain contractors. We cannot be sure that these agreements or other trade secret protections will provide meaningful protection, or, if they are breached, that we will have adequate remedies. You should read Item 4. Information on the Company B. Business Overview Patents, Intellectual Property and Other Rights for more information about our patents and licenses.

Claims and investigations relating to marketing practices and competition law could adversely affect our business, results of operations and financial condition.

The marketing of our products is heavily regulated, and alleged failures to comply fully with applicable regulations could result in civil or criminal actions against us, and in some circumstances potential disqualification from participation in government health programs. Sanofi-aventis and certain of its subsidiaries are under investigation by various federal government entities in the United States, and are defendants in a number of lawsuits, relating to antitrust and/or pricing and marketing practices, including, for example, class action lawsuits and qui tam litigation. See Note D.22.c) to our consolidated financial statements included at Item 18 of this annual report.

Following judgments holding the U.S. patent protection of Lovenox® and of DDAVP® tablets to be unenforceable, a number of civil antitrust and fair trade claims have been filed against sanofi-aventis as putative class actions alleging that the Group has prevented competition and generated excess profits. Similar claims have followed an attempt to settle our U.S. Plavix® patent litigation. The proposed settlement of the U.S. Plavix® patent litigation against Apotex by the parties thereto is also the subject of a criminal investigation by the Antitrust Division of the U.S. Department of Justice, of which the outcome and impact on sanofi-aventis cannot reasonably be assessed at this time. See Item 8. Financial Information A. Consolidated Financial Statements and other Financial Information Information on Legal or Arbitration Proceedings and Note D.22.c) to our consolidated financial statements included at Item 18 of this annual report.

Because many of these cases allege substantial unquantified damages, may be subject to treble damages, and frequently seek significant punitive damages and penalties, it is possible that any final determination of liability or settlement of these claims or investigations could have a material adverse effect on our business, results of operations or financial condition.

Fluctuations in currency exchange rates could adversely affect our results of operations and financial condition.

Because we sell our products in numerous countries, our results of operations and financial condition could be adversely affected by fluctuations in currency exchange rates. We are particularly sensitive to movements in exchange rates between the euro and the U.S. dollar, the British pound, the Japanese yen, and to a lesser extent to currencies in emerging countries. In 2006, approximately 35.1% of our net sales were realized in the United States. While we incur expenses in those currencies, the impact of currency exchange rates on these expenses does not fully offset the impact of currency exchange rates on our revenues. As a result, currency exchange rate movements can have a considerable impact on our earnings. When deemed appropriate, we enter into transactions to hedge our exposure to foreign exchange risks. These efforts, when undertaken, may fail to offset the effect of adverse currency exchange rate fluctuations on our results of operations or financial condition. For more information concerning our exchange rate exposure, see Item 11. Quantitative and Qualitative Disclosures About Market Risk.

Risks Relating to Our Industry

We must invest substantial sums in research and development in order to remain competitive, and we may not fully recover these investments if our products are unsuccessful in clinical trials or fail to receive and maintain regulatory approval.

To be successful in the highly competitive pharmaceutical industry, we must commit substantial resources each year to research and development in order to develop new products. In 2006, we spent 4,430 million on

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research and development, amounting to approximately 15.6 % of our net sales. Our ongoing investments in new product launches and research and development for future products could result in higher costs without a proportionate increase in revenues.

The research and development process is lengthy and carries a substantial risk of product failure. If our research and development does not yield sufficient new products that achieve commercial success, our future operating results may be adversely affected.

The research and development process typically takes from 10 to 15 years from discovery to commercial product launch. This process is conducted in various stages, and during each stage there is a substantial risk that we will not achieve our goals and will have to abandon a product in which we have invested substantial amounts.

For example, in order to develop a commercially viable product, we must demonstrate, through extensive pre-clinical and human clinical trials, that the pharmacological compounds have an acceptable benefit/risk profile for human use in the proposed indications. There is also no assurance that favorable results obtained in pre-clinical trials will be confirmed by later clinical trials, or that the clinical trials will establish safety and efficacy data sufficient for regulatory approval. In the first quarter of 2007, we had 125 compounds in pre-clinical and clinical development in our targeted therapeutic areas, of which 58 were in Phase II or Phase III clinical trials. For additional information regarding clinical trials and the definition of the phases of clinical trials, see Item 4. Information on the Company B. Business Overview Research & Development. There can be no assurance that any of these compounds will be proven safe or effective, or that they will produce commercially successful products.

After completing the research and development process, we must invest substantial additional resources with a view to obtaining government approval in multiple jurisdictions, with no assurance that approval will be obtained. We must obtain and maintain regulatory approval for our pharmaceutical products from the European Union, the United States and other regulatory authorities before a given product may be sold in these markets. The submission of an application to a regulatory authority provides no assurance that the regulatory authority will grant a license to market the product. Each authority may impose its own requirements, including requiring local clinical studies, and may delay or refuse to grant approval, even though a product has already been approved in another country.

In our principal markets, the approval process for one or more indications of a new product is complex and lengthy, and typically takes from six months to two years from the date of application depending on the country. Moreover, if regulatory approval of a product is granted, the approval may place limitations on the indicated uses for which it may be marketed. A marketed product is also subject to continual review even after regulatory approval. Later discovery of previously unknown problems may result in marketing restrictions or withdrawal of the product, as well as an increased risk of litigation. See also Product liability claims could adversely affect our business, results of operations and financial condition, below. In addition, we are subject to strict government controls on the manufacture, labeling, distribution and marketing of our products. Each of these factors may increase our costs of developing new products and the risk that we may not succeed in selling them successfully.

Obtaining regulatory marketing approval is not a guarantee that the product will achieve commercial success. Commercial success is dependent on a number of factors beyond our control, notably the level of reimbursement which is accorded to the product by public health entities and third-party payers in each country, the acceptance of the product by the medical establishment and patients, and the existence and price of competing products and alternative therapies.

If we are unable to protect our proprietary rights, we may fail to compete effectively or operate profitably.

It is important for our success that we be able to effectively obtain and enforce our patents and other proprietary rights. We hold a broad portfolio of patents, patent licenses and patent applications worldwide. To the extent effective patent protection of our products is not maintained, these products will become exposed to competition from generic products. The entry of a generic product into the market typically is followed by a substantial decline in the brand-name product s sales volume and revenues.

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Obtaining Patent Rights. Patent law relating to the scope of claims in the pharmaceutical field in which we operate is continually evolving and can be the subject of some uncertainty. Accordingly, we cannot be sure that:

- new, additional inventions will be patentable;
- patents for which applications are now pending will be issued or reissued to us; or
- the scope of any patent protection will be sufficiently broad to exclude competitors.

Patent protection once obtained is limited in time (typically 20 years), after which competitors may use the covered technology without obtaining a license from us. Because of the time required to obtain regulatory marketing approval, the period of effective patent protection for a marketed product is frequently substantially shorter.

Enforcing Patent Rights. Our competitors may infringe our patents or successfully avoid them through design innovation. To prevent infringement, we may file infringement claims, which are expensive and time consuming and which may result in decisions unfavorable to us. Policing unauthorized use of our intellectual property is difficult, and we may not be able to prevent misappropriation of our proprietary rights. We may also be accused of infringing the rights of others who then seek substantial damages from us. This risk is increased by the growth in the number of patent applications filed and patents granted in the pharmaceutical industry.

Even prior to the scheduled expiration of a patent, third parties may challenge the validity of the patents issued or licensed to us, which may result in the invalidation of these rights and the loss of sales derived from the related products. Such challenges have become increasingly common in recent years. Typical assertions in suits challenging a patent are that (i) the competing product does not fall within the scope of the patent, (ii) that the patent claims matters that are not in fact patentable, for example because they are not a true innovation; or (iii) that there were procedural flaws that invalidate the patent office s decision to issue the patent. Patent litigation is subject to substantial uncertainty, and we cannot be sure how much protection, if any, will be provided by our patents if we attempt to enforce them and they are challenged in court or in other proceedings.

Additionally, if a competitor chooses to take the risk of launching an infringing product prior to a court s determination that our patent rights are valid, enforceable and infringed, there can be no assurance that we will (i) be successful in obtaining a preliminary injunction to halt further sales and remove the infringing product from the market prior to obtaining a final injunction at trial, and even if we are successful, (ii) be able to obtain an award of sufficient damages from the competitor to repair all harm caused to us and (iii) effectively collect this award. By way of example, following the Group s failure to obtain a preliminary injunction halting the launch at risk of a generic version of Allegra® in October 2005, the Allegra® franchise in the United States has been substantially eroded and the asserted patent claims have still not gone to trial. While we were successful in obtaining a preliminary injunction halting further sales of a generic Plavix® in August 2006, the significant quantities of generic product already distributed prior to the injunction have had a significant negative effect on 2006 earnings and caused us substantial and persistent commercial harm.

Our patent rights are material to our business, and if we were unsuccessful in asserting them or they were deemed invalid, any resulting introduction of generic versions of our products in the United States, in Europe or in other markets would reduce the price that we receive for these products and the volume of the product that we would be able to sell, and could materially adversely affect our business, results of operations and financial condition. Additionally, a number of our products acquired through business combinations have substantial balance sheet carrying values, as disclosed at Note D.4 to our consolidated financial statements, which could be substantially impaired by the introduction of a generic competitor, with adverse effects on our financial results and assets.

Significant challenges to our proprietary rights concern such leading Group products as Plavix®, Lovenox®, Eloxatine® and Allegra®. We are also involved in litigation challenging the validity or enforceability of patents related to a number of other products in the United States, the European Union and elsewhere, and challenges to other products may be expected in the future. We can give no assurance that as a result of these challenges we will not face generic competition for additional group products. See Item 8. Financial Information A. Consolidated Financial Statements and Other Financial Information Information on Legal or Arbitration Proceedings and Note D.22.b) to our consolidated financial statements included in this annual report at Item 18 for additional information.

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Product liability claims could adversely affect our business, results of operations and financial condition.

Product liability is a significant commercial risk for us, and has become a more significant risk as we expand in the United States (where product liability claims can be particularly costly). Substantial damage awards have been made in certain jurisdictions against pharmaceutical companies based upon claims for injuries allegedly caused by the use of their products. Not all possible side effects of a drug can be anticipated based on preapproval clinical studies involving only several hundred to several thousand patients. Routine review and analysis of the continually growing body of post-marketing safety surveillance and clinical trials provide additional information for example potential evidence of rare, population-specific or long-term adverse reactions or of drug interactions that were not observed in preapproval clinical studies and may cause product labeling to evolve. Several pharmaceutical companies have recently recalled or withdrawn products from the market based on actual or suspected adverse reactions to their products, and currently face significant product liability claims. We are currently defending a number of product liability claims (see Note D.22 to the consolidated financial statements included at Item 18 of this annual report and Item 8. Financial Information A. Consolidated Financial Statements and Other Financial Information Information on Legal or Arbitration Proceedings), and there can be no assurance that the Group will not face additional claims in the future. Although we maintain insurance to cover the risk of product liability, available insurance may not be sufficient to cover all potential liabilities. Further, we face a general trend in the insurance industry to reduce product liability coverage, by excluding products or by imposing limits for liabilities, causing companies to rely increasingly on self-insurance. Substantial product liability claims, if successful, could adversely affect our business, results of operations and financial condition.

Counterfeit products could harm the business of sanofi-aventis.

The prescription drug supply has been increasingly challenged by vulnerability of distribution channels to illegal counterfeiting and the presence of counterfeit products in a growing number of markets and over the internet. Counterfeit products are frequently unsafe or ineffective, and can be potentially life-threatening. To distributors and users counterfeits may be visually indistinguishable from the authentic version. Reports of adverse reactions to counterfeit drugs or increased levels of counterfeiting could materially affect patient confidence in the authentic product, and could harm the business of companies such as sanofi-aventis. Additionally, it is possible that adverse events caused by unsafe counterfeit products will mistakenly be attributed to the authentic product, entailing substantial reputational and financial harm to the manufacturer of the authentic product.

Use of biologically derived ingredients may face consumer resistance, which could adversely affect sales and cause us to incur substantial costs.

In line with industry practice, we manufacture our vaccines and many of our prescription pharmaceutical products with ingredients derived from animal or plant tissue. Most of these products cannot be made economically, if at all, with synthetic ingredients. We subject our products incorporating these ingredients to extensive tests and believe them to be safe. There have been instances in the past where the use of biologically derived ingredients by sanofi-aventis or its competitors has been alleged to be an actual or theoretical source of harm, including infection or allergic reaction, or instances where production facilities have been subject to prolonged periods of closure because of possible contamination. Such allegations have on occasion led to damage claims and increased consumer resistance to such ingredients. A substantial claim of harm caused by a product incorporating biologically derived ingredients or a contamination event could lead us to incur potentially substantial costs as a result of, among other things, litigation of claims, product recalls, adoption of additional safety measures, manufacturing delays, investment in consumer education, and development of synthetic substitutes for ingredients of biological origin. Such claims could also generate consumer resistance, with a corresponding adverse effect on sales and results of operations.

We face uncertainties over the pricing of pharmaceutical products.

The commercial success of our products depends in part on the conditions under which our products are reimbursed. Price pressure is strong due to:

price controls imposed by governments in many countries;

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removal of a number of drugs from government reimbursement schemes;

increased difficulty in obtaining and maintaining satisfactory drug reimbursement rates; and

the tendency of governments and private health care providers to favor generic pharmaceuticals.

Price pressure is considerable in our two largest markets, Europe and the United States, which represented approximately 43.1% and 35.1%, respectively, of our net sales in 2006. Pricing in the German market posed significant challenges for the Group in 2006, including a decision to classify Acomplia® as a non-reimbursed quality-of-life drug; substantial restrictions on the reimbursement of fast-acting analog insulin; and the announcement that the government was evaluating restrictions on additional products. Changes in the pricing environments in the United States or European markets could have a significant impact on our sales and results of operations. See Item 4. Information on the Company B. Business Overview Markets Pricing for a description of certain regulatory pricing systems that affect our Group.

Our results may also be adversely affected by parallel imports, a practice by which traders exploit price differentials among markets by purchasing in lower-priced markets for resale in higher-priced markets.

Changes in the marketing status or competitive environment of our major products could adversely affect our results of operations.

In some cases, pharmaceutical products face the risk of being switched from prescription drug status to over-the-counter (OTC) drug status by national regulatory authorities. OTC drugs may not benefit from the same reimbursement schemes and are generally priced significantly lower than brand-name prescription drugs. The competitive environment for our products could also be adversely affected if generic or OTC versions of competitors products were to become available.

Risks from the handling of hazardous materials could adversely affect our results of operations.

Pharmaceutical manufacturing activities, such as the chemical manufacturing of the active ingredients in our products and the related storage and transportation of raw materials, products and wastes expose us to various risks, including:

fires and/or explosions from inflammable substances;

storage tank leaks and ruptures; and

discharges or releases of toxic or hazardous substances.

These operating risks can cause personal injury, property damage and environmental contamination, and may result in:

the shutdown of affected facilities; and

the imposition of civil or criminal penalties.

The occurrence of any of these events may significantly reduce the productivity and profitability of a particular manufacturing facility and adversely affect our operating results.

Although we maintain property, business interruption and casualty insurance that we believe is in accordance with customary industry practices, we cannot assure you that this insurance will be adequate to cover fully all potential hazards incidental to our business. For more detailed information on environmental issues, see Item 4. Information on the Company B. Business Overview Health, Safety and Environment.

Environmental liabilities and compliance costs may have a significant adverse effect on our results of operations.

The environmental laws of various jurisdictions impose actual and potential obligations on our Group to remediate contaminated sites. These obligations may relate to sites:

that we currently own or operate;

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that we formerly owned or operated; or

where waste from our operations was disposed.

These environmental remediation obligations could significantly reduce our operating results. In particular, our accruals for these obligations may be insufficient if the assumptions underlying these accruals prove incorrect or if we are held responsible for additional, currently undiscovered contamination. Sanofi-aventis accrues reserves for remediation when our management believes the need is probable and that it is reasonably possible to estimate the cost. These judgments and estimates may later prove inaccurate, and any shortfalls could have a material adverse effect on our results of operations. See Item 4. Information on the Company B. Business Overview Health, Safety and Environment for additional information regarding our environmental policies.

Furthermore, we are or may become involved in claims, lawsuits and administrative proceedings relating to environmental matters. Some current and former sanofi-aventis subsidiaries have been named as potentially responsible parties or the equivalent under the U.S. Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (also known as Superfund), and similar statutes in the United States, France, Germany, Brazil and elsewhere. As a matter of statutory or contractual obligation, we and/or our subsidiaries may retain responsibility for environmental liabilities at some of the sites our predecessor companies, or our subsidiaries that we demerged, divested or may divest. We have disputes outstanding, for example, with Albemarle and Rhodia over environmental remediation at several sites no longer owned by the Group. An adverse outcome in such disputes might have a significant adverse effect on our operating results. See Note D.22.e) to the consolidated financial statements included at Item 18 of this annual report.

Finally, stricter environmental, safety and health laws and enforcement policies could result in substantial costs and liabilities to our Group and could subject our handling, manufacture, use, reuse or disposal of substances or pollutants to more rigorous scrutiny than is currently the case. Consequently, compliance with these laws could result in significant capital expenditures as well as other costs and liabilities, thereby adversely affecting our business, results of operations or financial condition.

Risks Relating to an Investment in our Shares or ADSs

Foreign exchange fluctuations may adversely affect the U.S. dollar value of our ADSs and dividends (if any).

As a holder of ADSs, you may face exchange rate risk. Our ADSs trade in U.S. dollars and our shares trade in euro. The value of the ADSs and our shares could fluctuate as the exchange rates between these currencies fluctuate. If and when we do pay dividends, they would be denominated in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar amounts received by owners of ADSs upon conversion by the depositary of cash dividends, if any. Moreover, these fluctuations may affect the U.S. dollar price of the ADSs on the New York Stock Exchange (NYSE), whether or not we pay dividends in addition to the amounts, if any, that you would receive upon our liquidation or upon the sale of assets, merger, tender offer or similar transactions denominated in euro or any foreign currency other than U.S. dollars.

If you hold ADSs rather than shares it may be difficult for you to exercise some of your rights as a shareholder.

As a holder of ADSs, it may be more difficult for you to exercise your rights as a shareholder than it would be if you directly held shares. For example, if we offer new shares and you have the right to subscribe for a portion of them, the depositary is allowed, at its own discretion, to sell for your benefit that right to subscribe for new shares instead of making it available to you. Also, to exercise your voting rights, as a holder of ADSs, you must instruct the depositary how to vote your shares. Because of this extra procedural step involving the depositary, the process for exercising voting rights will take longer for you, as a holder of ADSs, than for holders of shares. ADSs for which the depositary does not receive timely voting instructions will not be voted at any meeting.

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Our two largest shareholders own a significant percentage of the share capital and voting rights of sanofi-aventis.

At December 31, 2006, Total and L Oréal, our two largest shareholders, held approximately 13.1% and 10.5% of our issued share capital, respectively, accounting for approximately 19.3% and approximately 17.3%, respectively, of the voting rights (excluding treasury shares) of sanofi-aventis. See Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders.

To the extent these shareholders continue to hold a large percentage of our share capital and voting rights, Total and L Oréal will remain in a position to exert heightened influence in the election of the directors and officers of sanofi-aventis and in other corporate actions that require shareholders approval. Continued ownership of a large percentage of the share capital and voting rights of sanofi-aventis by these two principal shareholders, affiliates of whom may also continue to be members of the sanofi-aventis board of directors, may have the effect of delaying, deferring or preventing a future change in the control of sanofi-aventis and may discourage future bids for sanofi-aventis other than with the support of these shareholders.

Sales of our shares may cause the market price of our shares or ADSs to decline.

Neither Total nor L Oréal are, to our knowledge, subject to any contractual restrictions on the sale of the shares each holds in our Company. Sales of a substantial number of our shares, or a perception that such sales may occur, could adversely affect the market price for our shares and ADSs.

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Item 4. Information on the Company

Introduction

We are a global pharmaceutical group engaged in the research, development, manufacture and marketing of healthcare products. In 2006, our net sales amounted to 28,373 million. Based on 2006 sales, we are the fourth largest pharmaceutical group in the world and the largest pharmaceutical group in Europe (source: IMS/GERS consolidated sales year end 2006; all available channels). Sanofi-aventis is the parent of a consolidated group of companies. A list of the principal subsidiaries included in this consolidation is shown at Note E to the consolidated financial statements included under Item 18 of this annual report.

Our business includes two main activities: pharmaceuticals and human vaccines (Vaccines).

In our pharmaceutical activity, which generated net sales of 25,840 million in 2006, we specialize in six therapeutic areas:

Thrombosis: Our thrombosis medicines include two leading drugs in their categories: Plavix®, an anti-platelet agent indicated for a number of atherothrombotic conditions, and Lovenox®, a low molecular weight heparin indicated for deep vein thrombosis and for unstable angina and non-Q-wave myocardial infarction;

Cardiovascular: Our cardiovascular medicines include two major hypertension treatments: Aprovel® and Tritace®;

Metabolic Disorders: Our leading medicines for metabolic disorders include Lantus®, a long acting analog insulin which is a leading brand in the insulin market, and Amaryl®, a once-daily sulfonylurea. In 2006, we started to market Acomplia®, the first medicine of a new class of a selective CB1 receptor blocker indicated in Europe in the treatment of obese or overweight patients with associated type 2 diabetes or dyslipidemia risk factors;

Oncology: Our lead products in the strategic oncology market are Taxotere®, a taxane derivative representing a cornerstone therapy in several cancer types, and Eloxatine®, an innovative platinum agent, which is a leading treatment of metastatic colorectal cancer;

Central Nervous System (CNS): Our major CNS medicines include Stilnox® /Ambien CR, the world s leading insomnia prescription medication; Copaxone®, an immunomodulating agent indicated in multiple sclerosis; and Depakine®, a leading epilepsy treatment;

Internal Medicine: In internal medicine, we are present in several fields. In respiratory/allergy, our products include Allegra®, a non-sedating prescription antihistamine, and Nasacort®, a local corticosteroid indicated in allergic rhinitis. In urology, we are present with Xatral®, a leading treatment for benign prostatic hypertrophy. In osteoporosis, we are present with Actonel®.

Our top fifteen products in terms of net sales generated in 2006 are Lovenox®, Plavix®, Stilnox®, Taxotere®, Eloxatine®, Lantus®, Copaxone®, Aprovel®, Tritace®, Allegra®, Amaryl®, Xatral®, Actonel®, Depakine® and Nasacort® which together accounted for 66.9% of our 2006 net sales for the pharmaceutical activity, or 17,289 million.

We are a major player in the vaccines industry, with net sales of 2,533 million in 2006; and with leading vaccines in five areas:

Pediatric combination vaccines providing protection against diseases such as pertussis, diphtheria, tetanus, and *Haemophilus influenzae* type b infections. Our main products are Daptacel®, Tripedia®, Act-HIB®, Pentacel®, Pediacel® and Pentaxim®. We are also a leading producer of poliomyelitis (polio) vaccines, such as Ipol® and Imovax® Polio, as well as oral polio formulations, all of which contribute to polio eradication and disease control strategies in both developed and developing countries;

Influenza vaccines such as Fluzone® and Vaxigrip®, used for seasonal campaigns in both hemispheres. Additionally, we manufacture pre-pandemic avian influenza vaccines (including H5N1 vaccines) as part of the global pandemic preparedness efforts in both our French and U.S. facilities;

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Adult and adolescent booster vaccines protecting against pertussis, tetanus, diphtheria and polio. Our main products include: Adacel® (the first trivalent booster against pertussis, tetanus and diphtheria for adolescents and adults), Decavac®, Repevax® and Revaxis®;

Meningitis vaccines, with Menomune®, a bivalent Meningococcal A and C vaccine, and our main quadrivalent product Menactra® which was launched in the United States in 2005 and in Canada in 2006. Menactra® is a conjugate vaccine that is expected to provide a longer-lasting immune response;

Travel, Endemic and Measles, Mumps and Rubella (MMR) vaccines, which include a wide range of products against hepatitis A, typhoid, rabies, yellow fever, Japanese encephalitis, cholera, MMR and anti-venoms. Key products include Imovax® Rabies, Verorab®, Typhim Vi®, Avaxim® and Vivaxim®.

In 2006, our Vaccines activity was favorably impacted by the success of three products launched in 2005 in the United States (Decavac®, Menactra® and Adacel®) and by a favorable influenza season.

We have a strong commitment to research and development. We have 29 research centers and over 19,000 employees (including Vaccines, Industrial Development and Medical/Regulatory staff in subsidiaries) devoted to research and development.

In the description below, the following should be kept in mind:

A drug can be referred to either by its international non-proprietary name (INN), or by its brand name, which is normally exclusive to the company that markets it. In most cases, our brand names, which may vary from country to country, are protected by trademark registrations. In general, we have chosen in this annual report to refer to our products by the brand names that we use in France, except for Allegra® (sold in France as Telfast®), Tritace® (sold in France as Triatec®), and Amaryl® (sold in France as Amarel®).

For our pharmaceutical activity, except where otherwise stated, all market share percentages and rankings are based on full-year 2006 sales figures from IMS Health MIDAS IMS for all countries, except for France, for which they are based on full-year 2006 sales data from GERS.

For our vaccines activity, market shares and rankings are based on our own estimates. We have assembled information based on various sources, including industry contacts, statistical information we have collected and information published by competitors or otherwise.

We present our consolidated net sales from our leading products sold directly and through alliances. As regards the products sold through our alliance with BMS, we also present the worldwide sales of Plavix® and Aprovel® whether consolidated by sanofi-aventis or by BMS, as defined in Item 5. Operating and Financial Review and Prospects Results of Operations .

A. History and Development of the Company

Sanofi-aventis was incorporated under the laws of France in 1994 as a *société anonyme*, a form of limited liability company, for a term of 99 years. We operate under the commercial name sanofi-aventis. Our registered office is located at 174, avenue de France, 75013 Paris, France, and our main telephone number is +33 1 53 77 40 00. Our principal U.S. subsidiary s office is located at 55 Corporate Drive, Bridgewater, NJ

908.981.5000.

We are present in more than 100 countries on five continents with around 100,000 employees worldwide at year end 2006. Sanofi-Synthélabo and Aventis, our legacy companies, bring to the Group more than a century of experience in the pharmaceutical industry.

Sanofi was founded in 1973 by Elf Aquitaine, a French oil company, when it took control of the Labaz group (a pharmaceutical company) for diversification purposes. Sanofi launched its first major product on the market, Ticlid®, in 1978. Its first significant venture into the United States market was the acquisition of the prescription pharmaceuticals business of Sterling Winthrop an affiliate of Eastman Kodak in 1994, followed by the launch of its first major products: Aprovel® in 1997 and Plavix® in 1998.

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Synthélabo was founded in 1970 through the merger of two French pharmaceutical laboratories, Laboratoires Dausse (founded in 1834) and Laboratoires Robert & Carrière (founded in 1899). In 1973, the French cosmetics group L Oréal acquired the majority of its share capital, and in 1988 Synthélabo launched two major products on the French market: Stilnox® and Xatral®. By 1994, Stilnox® had become the leading insomnia prescription medication worldwide (IMS Health).

Sanofi and Synthélabo merged in 1999.

The formation of Aventis on December 1999 was the result of the combination of Rhône-Poulenc and Hoechst bringing together a broad portfolio of activities including prescription drugs and vaccines, which became the core business of Aventis.

Hoechst traces its origins to the second half of the 19th century, with the German industrial revolution and the emergence of the chemical industry. Traditionally active in pharmaceuticals (notably penicillin), Hoechst strengthened its position in that industry by taking a controlling interest in Roussel-Uclaf in 1974 and the U.S. pharmaceutical company Marion Merrell in 1995. Hoechst was especially strong in metabolic disorders with Amaryl® and several insulin products, and cardiovascular diseases with Tritace®.

Rhône-Poulenc was formed in 1928 from the merger of two French companies: a chemical company created by the Poulenc brothers and the Société Chimique des Usines du Rhône, which was founded in 1895. The company s activities in the first half of the 20th century focused on producing chemicals, textiles and pharmaceuticals (acetylsalicylic acid and penicillin). Rhône-Poulenc began to focus its activities on life sciences in the 1990s, which led to the successive purchases of Rorer, a U.S. pharmaceutical company acquired in two stages in 1990 and 1997, Institut Mérieux in the area of vaccines in 1994 and the U.K.-based pharmaceuticals company Fisons in 1995. Rhône-Poulenc s main therapeutic fields were thrombosis with Lovenox®, oncology with Taxotere® and respiratory diseases with Nasacort®, and vaccines.

Subsequent to a bid to acquire all of the shares of Aventis announced in April 2004, Sanofi-Synthélabo took control of Aventis in August 2004 and changed its registered name to sanofi-aventis . On December 31, 2004, Aventis merged with and into sanofi-aventis, with sanofi-aventis as the surviving company.

For a description of our main divestitures since 2004, see Note D.2 to our consolidated financial statements included in Item 18 of this annual report.

Mandatory Offers Subsequent to the Acquisition of Aventis

Hoechst

The outstanding shares of Hoechst AG not already indirectly acquired through the acquisition of Aventis were first tendered into a mandatory offer during 2004. The mandatory offer was then followed by a squeeze-out taking legal effect in July 2005.

Following the squeeze-out, a number of former minority shareholders commenced litigation contesting the adequacy of the price paid by sanofi-aventis. These suits, which do not contest sanofi-aventis ownership of the shares acquired through the squeeze-out, are still ongoing. See Note D.2 to our consolidated financial statements included under Item 18 of this annual report.

Aventis Pharma Limited India

Following the acquisition of Aventis and in execution of its legal obligations under the Securities and Exchange Board of India takeover regulations, on August 11, 2004, sanofi-aventis announced an offer to acquire up to 4,606,125 equity shares of Aventis Pharma Limited India, for a cash offer price of Rupee 792.20 (13.96) per equity share. As a result of this offer, which closed in August 2006, the Group s total interest in Aventis Pharma Limited India is now 50.12% of that company s share capital.

B. Business Overview

Strategy

As a leading player in the pharmaceutical industry (no.1 in Europe and no.4 in the world based on 2006 sales), sanofi-aventis continues to be dedicated to serving patients worldwide.

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Focused on our core business the discovery, development and marketing of innovative molecules and vaccines that drive medical progress and are effective to combat disease we seek to ensure the development of our Group through our strategy of strong, sustainable and profitable growth. In addition, we continue to be actively engaged to making our drugs accessible to as many people as possible thanks to a well-adapted mix of products in terms of price and therapeutic indications.

In a tough, fast-changing business environment, we remain highly adaptive and responsive in pursuing our major objectives:

Capitalizing on the substantial potential of the pharmaceuticals market by providing a total response to stakeholders. In an increasingly tight regulatory context, with mounting pressure on healthcare spending, we can rely on our global presence in fast-growing therapeutic fields serving major healthcare needs, especially thrombosis, cardiovascular, metabolic disorders, oncology, central nervous system, internal medicine and vaccines. We offer highly innovative drugs, mature products of excellent quality and, more selectively, generics which play an essential role in the financial balance of healthcare systems. We also propose a large range of vaccines;

Continuing to develop major products while preserving growth and profitability. Sanofi-aventis now has eight blockbusters (versus seven in 2005), each with annual sales in 2006 of over one billion euros (Lovenox®, Plavix®, Stilnox®/Ambien®, Taxotere®, Eloxatine®, Lantus®, Copaxone® and Aprovel®). We plan to continue to optimize the performance of our high-potential products while maintaining earnings growth, despite the end of protection for Ambien® immediate release formulation in the United States and early generic challenges to Eloxatine® in Europe. We rely on our ability to react appropriately to changes in our business environment, to respond to market trends and to propose innovative solutions to changing healthcare systems;

Consolidating our base business. True to our principle that there is no such thing as a small country or a small product, we intend to capitalize on our mature product offering through selective investment and a tailored regional strategy;

Seizing market opportunities through a differentiated geographical approach. We aim to generate sustained growth in the United States and preserve our strong base in France and Germany. At the same time we seek to optimize investment levels and continue to develop solid positions by investing heavily in markets with high growth potential in Asia, Eastern Europe and Latin America. We are also looking to strengthen our position in Japan;

Continuing to be a key player in innovation in R&D by sustained, targeted investment in innovative fields and molecules. We intend to reinforce our presence and activities in fields with major unsatisfied medical needs, especially diabetes, thrombosis, atherothrombosis, obesity with comorbidity factors like type 2 diabetes or dyslipidemia, oncology, depression, insomnia and Alzheimer s disease;

Promoting access to medicine by focusing on six areas where the Group s pharmaceutical expertise converges with major public health needs: malaria, tuberculosis, sleeping sickness, leishmaniosis, epilepsy and vaccination.

Principal Pharmaceutical Products

Within our pharmaceuticals business, we focus on six main therapeutic areas: thrombosis, cardiovascular, metabolic disorders, oncology, central nervous system and internal medicine.

Top 15 products

The following table sets forth the net sales of our top 15 pharmaceutical products for the year ended December 31, 2006.

The sections that follow provide additional information on the indications and market position of our top 15 products in their principal markets. The Group s intellectual property relating to our top 15 products is material to our operations and is described at Patents, Intellectual Property and Other Rights Product Overview, below. As disclosed in Note D.22.b) to our consolidated financial statements included at Item 18 of this annual report, we are involved in significant litigation concerning the patent protection of a number of our top 15 products including notably Lovenox® (the U.S. patent has been ruled unenforceable; we intend to appeal), Plavix®, Tritace®, Eloxatine®, Ambien CR, Allegra®, Nasacort®, and Actonel®.

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Top 15 products

Therapeutic Area / Product Name	2006 Net Sales (million)	Drug Category /Main Areas of Use
Thrombosis		
Lovenox® (enoxaparin sodium)	2,435	Low molecular weight heparin Deep vein thrombosis Unstable angina / non-Q-Wave myocardial infarction
Plavix® (clopidogrel)	2,229	Platelet adenosine disphosphate receptor antagonist Atherothrombosis
Cardiovascular		
Aprovel® (irbesartan)	1,015	Angiotensin II receptor antagonist Hypertension
Tritace® (ramipril)	977	Angiotensin Converting Enzyme Inhibitor Hypertension Congestive heart failure after myocardial infarction
Metabolic disorders		
Lantus® (insulin glargine)	1,666	Long-acting analog insulin Type 1 and 2 diabetes mellitus
Amaryl® (glimepiride)	451	Sulfonylurea Type 2 diabetes mellitus
Oncology		
Taxotere® (docetaxel)	1,752	Cytotoxic agent Breast cancer Non small cell lung cancer Prostate cancer
Eloxatine® (oxaliplatin)	1,693	Cytotoxic agent Colorectal cancer
Central Nervous System		
Stilnox®/Ambien®/Ambien CR (zolpidem)	2,026	Hypnotic Sleep disorders
Copaxone® (glatiramer acetate)	1,069	Non-interferon immunomodulating agent Multiple sclerosis
Depakine® (sodium valproate)	301	Anti-epileptic