D. Risk Factors

Risks Relating to Proposed Acquisition of Aventis

As of the date of this annual report, we have open three separate offers, on substantially similar terms, pursuant to which we are offering to acquire all the ordinary shares, nominal value €3.82 per share, of Aventis, including Aventis ordinary shares represented by American depositary shares, or ADSs. For further information on the terms and conditions of these offers, see Item 8 "Financial Information — Significant Changes" of this annual report. As of the date of this annual report, we do not know whether the offers will be successful. There are a number of risks to our shareholders associated with the offers, the most significant of which we describe in this section. Any of these risks could have an adverse effect on our business, financial condition, results of operations or prospects, which could in turn affect the price of our shares or our ADSs.

If the offers are not successful, the failure to complete the acquisition of Aventis could have an adverse effect on our share price, investor relations and employee morale.

Our offers for the Aventis securities are subject to the conditions that Aventis securities representing at least 50% of the total share capital and voting rights in Aventis, calculated on a fully diluted basis, plus one Aventis ordinary share have been tendered into the offer, that the applicable waiting period under the U.S. Hart-Scott-Rodino Act of 1976, or HSR Act, shall have expired or been terminated and no order has been entered prohibiting the transaction, and that our shareholders shall have approved the issuance of the additional shares to be issued on completion of the offer. In addition, because our offers are subject to an antitrust condition, under applicable French regulations, the French offer will lapse as soon as the U.S. Federal Trade Commission issues a second request for information before the expiration of the HSR Act waiting period. If the French offer lapses for this reason, we will withdraw the U.S. offer and the German offer. There is a risk that we may not be successful in completing the offers because of the failure to satisfy these conditions. If the offers are not successful, the failure to complete the acquisition of Aventis could have an adverse effect on our share price, investor relations and employee morale. Moreover, if the offers are not successful, we will have incurred costs in connection with the offers without realizing the benefits that we expected to gain upon completion of the offers.

The integration of the companies will present significant challenges that may result in the combined business not operating as effectively as expected or in the failure to achieve some or all of the anticipated benefits of the transaction.

The benefits and synergies expected to result from the offers will depend in part on whether our operations and those of Aventis can be integrated in a timely and efficient manner. We will face significant challenges in consolidating our functions with those of Aventis, and integrating the organizations, procedures and operations of the two businesses. The integration of our company and Aventis will be complex and time-consuming, and the managements of both companies will have to dedicate substantial time and resources to it. These efforts could divert management's focus and resources from other strategic opportunities and from day-to-day operational matters during the integration process. Failure to successfully integrate the operations of our company and Aventis could result in the failure to achieve some or all of the anticipated benefits of the transaction, including synergies and other operating efficiencies, and could have an adverse effect on the business, results of operations, financial condition or prospects of our company after the transaction.

Even if we consummate the offers, there may be a delay before we can obtain control of the management of Aventis.

In order for us to control the management of Aventis following successful completion of the offers, we will need to take control of the supervisory board (*conseil de surveillance*) and the management board (*directoire*) of

Aventis. Pursuant to Article L. 225-103, II, 4 of the French Commercial Code, if we gain control of Aventis pursuant to the offers, we may request the management board (*directoire*) of Aventis to convene a meeting of shareholders with an agenda that, among other things, will provide for the election of a new supervisory board (*conseil de surveillance*) and, if necessary, the dismissal of the existing management board (*directoire*) of Aventis. Under French law, the supervisory board (*conseil de surveillance*) could then appoint a new management board (*directoire*). If the management board refuses to convene such a shareholders' meeting, we are permitted, after a reasonable delay and the notice mentioned above to Aventis' management board (*directoire*), to convene a meeting for the election of the supervisory board (*conseil de surveillance*). In any event, shareholders' meetings may be held no sooner than 30 days after the publication of a notice announcing the meeting in the *Bulletin des Annonces Légales Obligatoires,* or BALO, the French official legal gazette.

Compliance with conditions and obligations imposed in connection with regulatory approvals could adversely affect our business and the business of Aventis.

Our proposed acquisition of the Aventis securities will be reviewed by and require regulatory approvals from the European Commission, any member state of the European Union that has successfully sought jurisdiction to review the offers under its national competition law and the U.S. antitrust authorities. In order to obtain these regulatory approvals, we may have to divest, or commit to divesting, to third parties certain of our businesses or products and/or the business or products of Aventis. In the alternative or in addition, in order to obtain the necessary regulatory approvals, we may have to make other commitments to the European Commission and/or the U.S. antitrust authorities. These divestitures and other commitments, if any, may have an adverse effect on our business, results of operations, financial condition or prospects after the transaction. Further, if we do not complete any required divestiture, or provide commitments satisfactory to the U.S. Federal Trade Commission, or FTC, with respect to such a divestiture, before the expiration of the initial thirty-day waiting period under the HSR Act, the FTC may issue a second request in order to extend the waiting period. Because the offers are subject to an anti-trust condition, under applicable French regulations, the French offer will lapse ("*est caduque*," meaning it is null and void) as soon as the FTC issues a second request. If the French offer lapses for this reason, we will withdraw the U.S. offer and the German offer.

In addition, if the European Commission initiates a Phase II investigation and we close the offers while such investigation is ongoing (as the procedure for antitrust review by the European Commission permits), until completion of the Phase II investigation, we may not be able to exercise the voting rights of the Aventis ordinary shares that we acquire pursuant to the offers or may only be able to exercise those voting rights to maintain the full value of the Aventis ordinary shares acquired. In such case, we may be delayed from implementing the current plans that we have for Aventis after the successful completion of the offers, and we may not be able to realize some or all of the anticipated benefits from the transaction, including synergies and other operating efficiencies, on the timetable that we currently expect.

Jurisdictions throughout the world claim jurisdiction under their competition or antitrust laws in respect of acquisitions or mergers that have the potential to affect their domestic marketplace. A number of these jurisdictions may claim to have jurisdiction to review the transaction. Such investigations or proceedings may be initiated and, if initiated, may have an adverse effect on our business, results of operations, financial condition or prospects after the transaction.

If the offers are successful, we will incur a substantial amount of debt to finance the cash portion of the consideration for the Aventis securities to be acquired, which debt could restrict our ability to engage in additional transactions or incur additional indebtedness.

In connection with our proposed acquisition of the Aventis securities, on January 25, 2004, we entered into a credit facility agreement that permits us to borrow up to €12,000 million. We may only borrow amounts under this credit facility if our offers for the Aventis securities are successful. If the offers are successful, we expect to borrow a substantial amount under this credit facility, which we will use mainly to finance the cash portion of the consideration to be paid to holders of Aventis securities pursuant to the offers and to refinance certain debt of

Aventis and its subsidiaries. The credit facility includes terms and conditions customary for agreements of this type, which could restrict our ability to engage in additional transactions or incur additional indebtedness. For additional information regarding the €12,000 million credit facility, see Item 5 "Operating and Financial Review and Prospects — Liquidity and Capital Resources" and Item 8 "Financial Information — Significant Changes — Proposed Acquisition of Aventis — The €12,000 Million Credit Facility" of this annual report.

We have not been given the opportunity to conduct a due diligence review of the non-public records of Aventis. Therefore, we may be subject to unknown liabilities of Aventis, which may have an adverse effect on our profitability and results of operations.

In commencing the offers and determining their terms and conditions, we have relied solely and exclusively upon publicly available information relating to Aventis, including periodic and other reports for Aventis as filed with or furnished to the Securities and Exchange Commission on Form 20-F and Form 6-K, as well as Aventis' 2003 *document de référence*, as filed with the AMF. We have not conducted an independent due diligence review of, nor had access to, any non-public information about Aventis. As a result, after the consummation of our offers, we may be subject to unknown liabilities of Aventis, which may have an adverse effect on our profitability, results of operations and financial position, which we might have otherwise discovered if we had been permitted by Aventis to conduct a complete due diligence review.

Consummation of the offers may result in adverse tax consequences to us resulting from a change of ownership of Aventis.

We have not had access to information concerning Aventis' tax situation. It is possible that the consummation of the offers may result in adverse tax consequences arising from a change of ownership of Aventis. The tax consequences of a change of ownership of a corporation can lead to an inability to carry-over certain tax attributes, including, but not limited to, tax losses, tax credits and/or tax basis of assets. In addition, the change of ownership may result in other tax costs not normally associated with the ordinary course of business. Such other tax costs include, but are not limited to, stamp duties, land transfer taxes, franchise taxes and other levies. The fact that we are unaware of information relevant to a determination of the potential tax consequences and related costs represents an additional transaction risk.

Change of control provisions in Aventis' agreements may be triggered upon our acquisition of control of Aventis and may lead to adverse consequences for us, including the loss of significant contractual rights and benefits, the termination of joint venture and/or licensing agreements or the need to renegotiate financing agreements.

Aventis may be a party to joint ventures, licenses and other agreements and instruments that contain change of control provisions that may be triggered when we acquire control of Aventis upon the completion of the offers. Aventis has not provided us with copies of any of the agreements to which it is party and these types of agreement are not generally publicly available. Agreements with change of control provisions typically provide for, or permit the termination of, the agreement upon the occurrence of a change of control of one of the parties or, in the case of debt instruments, require repayment of all outstanding indebtedness. These provisions, if any, may be waived with the consent of the other party and we will consider whether we will seek these waivers. In the absence of these waivers, the operation of the change of control provisions, if any, could result in the loss of significant contractual rights and benefits, the termination of joint venture agreements and licensing agreements or require the renegotiation of financing agreements.

In addition, employment agreements with members of the Aventis senior management and other Aventis employees may contain change of control clauses providing for compensation to be paid in the event the employment of these employees is terminated, either by Aventis or by those employees, following the consummation of the offers. These payments, if triggered, could be substantial and could adversely affect our results of operations in the period they become payable.

If the offers for Aventis securities are successful, but some Aventis securities remain outstanding, the existence of minority interests in Aventis following the offers may limit our ability to integrate and manage the assets and operations of the combined businesses and therefore reduce benefits that we could otherwise achieve.

The existence of minority interests in Aventis after the completion of the offers could impede the integration of our operations with those of Aventis and thereby make it more difficult to achieve the cost savings and other operating efficiencies or to realize the revenue and earnings growth that might otherwise be possible.

Risks Relating to Our Company

We may not be able to continue to expand our presence profitably in the United States, a market that is a key to our growth strategy, and where we are investing substantial resources.

We may not achieve our growth strategy if we do not continue to profitably expand our presence in the United States, the world's largest pharmaceuticals market. We have identified the United States, which accounted for 23.8% of our consolidated sales in 2003, as a potential major source of continued future growth and plan to continue to expand significantly our direct presence in the United States in the coming years. We face a number of challenges to profitable growth in the United States, including:

- The success of the new management organization that we have established in the United States.
- The targeting of new markets.
- The fact that the United States market is dominated by major U.S. pharmaceutical companies.
- Potential changes in health care reimbursement policies and possible cost control regulations in the United States, such as Medicare reform.

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

We commercialize some of our products outside Europe in collaboration with other pharmaceutical companies. We currently have a major collaborative arrangement with Bristol-Myers Squibb for the marketing of Plavix® and Aprovel®. We also have alliances with several Japanese companies for the marketing of our products in Japan. See Item 4 "Information on the Company — Business Overview — Marketing and Distribution." When we commercialize our products through collaboration arrangements, we are subject to the risks 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 Bristol-Myers Squibb are subject to the operational management of Bristol-Myers Squibb 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.

We depend on third parties for the manufacturing of the active ingredients for some of our products, including Stilnox®, Eloxatin® and Xatral®, three of our strategic products.

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 Stilnox®, Eloxatin® and Xatral®, which are three of our strategic products, is currently done by third parties. See Item 4 "Information on the Company — Business Overview — Production and Raw Materials" for a description of these outsourcing

arrangements. Although we have not experienced any problems in the past, if disruptions were to arise from problems with our manufacturers, this would impact our ability to sell our products in the quantities demanded by the market, and could damage our reputation and relationships with our customers. Even though we try 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.

Our collaborations with third parties expose us to risks that they will assert 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 agreements with such entities. However, those entities might assert intellectual property rights with regard 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 protection will provide meaningful protection, or if they are breached, that we will have adequate remedies. You should read Item 4 “Information on the Company — Business Overview — Patents and Intellectual Property Rights” for more information about our patents and licenses.

We have two principal shareholders who continue to maintain a significant degree of influence and who will continue to own a significant percentage of our enlarged share capital and voting rights immediately after the offers are completed.

Our two principal shareholders, Total and L’Oréal, owned 24.4% and 19.5% of our share capital, respectively, as of December 31, 2003. Our bylaws provide that our fully paid up shares that have been held in registered form for at least two years under the name of the same shareholder acquire double voting rights. As a result, as of December 31, 2003, Total and L’Oréal held shares representing 35.0% and 28.1%, respectively, of our voting rights, and are in a position to exert significant influence in the election of our directors and officers and other corporate actions that require shareholder approval.

Even if all of the Aventis securities are validly tendered and exchanged pursuant to the terms of the U.S. offer, the French offer and the German offer, immediately after the exchange, Total and L’Oréal will own, on a diluted basis and taking into account all in-the-money options that are exercisable as of the expected closing date, approximately 13.2% and approximately 10.6%, respectively, of the share capital (other than share capital held by us) and approximately 21.1% and approximately 16.9%, respectively, of our voting rights. Under the terms of a shareholders’ agreement, Total and L’Oréal have agreed to act in concert with respect to their shareholdings in our company and to certain restrictions on the transfer of their ordinary shares. On November 24, 2003, Total and L’Oréal amended the shareholders’ agreement so that it terminates on December 2, 2004 according to its terms, the parties having indicated that they do not intend to act in concert with respect to their shareholdings in our company as from that date. See Item 7 “Major Shareholders and Related Party Transactions — Major Shareholders — Shareholders’ Agreement.”

To the extent these shareholders maintain such level of shareholding, and particularly if they act in concert, after the exchange Total and L’Oréal will remain in a position to exert heightened influence in the election of our directors and officers and in other corporate actions that require shareholders’ approval. Continued ownership of a large percentage of our share capital and voting rights by these two principal shareholders, who are also members of our board of directors, particularly if they act in concert, may have the effect of delaying, deferring or preventing a future change in our control and may discourage future bids for our shares other than with the support of these shareholders.

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

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 and, to a lesser extent, certain currencies in Latin America. In 2003, approximately 23.8% of our consolidated sales were realized in the United States (the United States also represented 45.4% of our 2003 operating profit excluding unallocated costs). While we incur expenses in those currencies, the impact of 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. For example, in 2003, our operating income grew by 17.6% compared to 2002. However, at 2002 exchange rates, our operating income would have grown by 34.4%. 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. For more information concerning our exchange rate exposure, see Item 11 “Quantitative and Qualitative Disclosures About Market Risk.”

Risks Relating to Our Industry

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

We need to invest heavily in research and development to remain competitive.

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. Even if our research and development efforts are fruitful, our competitors may develop more effective products or a greater number of successful new products. In 2003, we spent €1,316 million on research and development, amounting to approximately 16.4% of our consolidated net sales. Our ongoing investments in new product launches and research and development for future products could produce higher costs without a proportionate increase in revenues.

The research and development process is lengthy and carries a substantial risk of product failure.

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 are safe and effective for use in humans. 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 sufficient safety and efficacy data necessary for regulatory approval. As of February 16, 2004, we had 56 compounds in pre-clinical and clinical development in our four targeted therapeutic areas, of which 25 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 — Business Overview — Research and Development.” There can be no guarantee 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 seeking to obtain government approval in multiple jurisdictions, with no guarantee 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 its markets and thereafter. The submission of an application to a regulatory authority does not guarantee that it will grant a license to market the product. Each authority may impose its own requirements, including requiring local 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 or failure to comply with the applicable regulatory requirements may result in marketing restrictions or withdrawal of the product, as well as possible legal sanctions. In addition, we are subject to strict government controls on the manufacture, labeling, distribution and marketing of our products. Each of these factors can increase our costs of developing new products and the risk that we will not succeed in selling them successfully.

If we are unable to protect our proprietary rights, we may not compete effectively or operate profitably.

It is important for our success that we be able effectively to obtain, maintain and enforce our patents and other proprietary rights. Patent law relating to the scope of claims in the pharmaceutical field in which we operate is a continually evolving field of law and can be subject to some uncertainty. Accordingly, we cannot be sure that:

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

Additionally, third parties may challenge the validity of the patents issued or licensed to us, which may result in the invalidation of these rights. We currently have approximately 9,800 patents and patent applications worldwide, and we license-in approximately 30 additional patents. We cannot be sure how much protection, if any, will be given to our patents if we attempt to enforce them and they are challenged in court or in other proceedings.

In the first half of 2002, two pharmaceutical companies, Apotex and Dr. Reddy's Laboratories, each filed an Abbreviated New Drug Application, or ANDA, with the U.S. Food and Drug Administration, or FDA, seeking to market a generic form of Plavix® in the United States and challenging certain U.S. patents relating to Plavix®. In March 2003, Apotex instituted a similar challenge in Canada. For additional information regarding ANDAs, see Item 4 "Information on the Company — Business Overview — Regulation." We have filed suit against Apotex and against Dr. Reddy's Laboratories for infringement of our patent rights. See Item 8 "Financial Information — Legal Proceedings." The Plavix® patent rights are material to our company's business, and if we were unsuccessful in asserting them or they were deemed invalid, any resulting introduction of a generic prescription version of Plavix® in the U.S. would reduce the price that we receive for this product and the volume of the product that we would be able to sell.

In recent years, governments faced with national crises have used pressure to obtain substantial concessions from pharmaceutical companies, including threatening compulsory licensing of products that they consider essential. While we support the efforts of national governments to combat major health care crises, if those efforts come at the expense of effective patent protection, the ability of our company and other pharmaceutical manufacturers to recover amounts spent on research and development will be adversely affected. In such event, we and other manufacturers might curtail our research and development expenditures, and as a result might not develop as many new products.

Our patents may be infringed, or we may infringe the patents of others.

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. Policing unauthorized use of our intellectual property is difficult, and we may not be able to prevent misappropriation of our proprietary rights. This risk is increased by the growth in the number of patent applications filed and patents granted in the pharmaceutical industry.

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

Product liability is a significant commercial risk for us, and could 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. In addition, some pharmaceutical companies have recently withdrawn products from the market in the wake of significant product liability claims. Although we are not currently involved in any significant product liability cases claiming damages as a result of the use of our products, it is possible that such cases will be brought in the future. Further, there is a general trend in the insurance industry to exclude certain products from coverage and to reduce insured limits for liabilities arising through joint ventures. Although we maintain insurance to cover this risk, we cannot be certain that our insurance will be sufficient to cover all potential liabilities.

We face uncertainties over pricing of pharmaceutical products.

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

- a tendency of governments and private health care providers to favor generic pharmaceuticals;
- price controls imposed by governments in many countries; and
- parallel imports, in particular in the European Economic Area, a practice by which traders exploit price differentials among markets by purchasing in lower-priced markets for resale in higher-priced markets.

Price pressure is considerable in our two largest markets, Europe and the United States, which represented 58.3% and 23.8%, respectively, of our consolidated sales in 2003 (the United States also accounted for 45.4% of our 2003 operating profit excluding unallocated costs). Changes in the pricing environments in the United States or Europe (on an individual country basis) could have a significant impact on our revenues and operating profits. See Item 4 “Information on the Company — Business Overview — Pricing” for a description of certain regulatory pricing systems that impact our company.

Risks from the handling of hazardous materials could harm our operating results.

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 exposes 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 harm 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 incident to our business. For more detailed information on environmental issues, see Item 4 “Information on the Company — Business Overview — Health, Safety and Environment.”

Environmental liabilities and compliance costs may have a significant negative effect on our operating results.

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

- that we currently own or operate,
- 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. Any shortfalls could have a material impact on our operating profits. See Item 4 “Information on the Company — Business Overview — Health, Safety and Environment” and “— Regulation” for additional information regarding our environmental policies.

Furthermore, we are or may become involved in claims, lawsuits and administrative proceedings relating to environmental matters. An adverse outcome in any of these might have a significant negative impact on our operating results. Stricter environmental, safety and health laws and enforcement policies could result in substantial costs and liabilities to our company 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 harming our business and operating results.

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 some exchange rate risk. Our ADSs will trade in U.S. dollars and our shares will 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, 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 other 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, in 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. For a detailed description of your rights as a holder of ADSs, you should read Item 12 “Description of Securities other than Equity Securities — Description of American Depositary Shares.”

Sales of our shares that will be eligible for sale in the near future may cause the market price of our shares or ADSs to decline.

At December 31, 2003, we had 732,848,072 shares outstanding, approximately 43.9% of which are held by our two largest shareholders, Total and L’Oréal. On November 24, 2003, Total and L’Oréal amended their shareholders’ agreement so that it terminates on December 2, 2004 according to its terms, as the parties have indicated that they do not intend to act in concert with respect to their shareholdings in our company as from that date. See Item 7 “Major Shareholders and Related Party Transactions — Major Shareholders — Shareholders’ Agreement.” Upon the termination of the existing shareholders’ agreement between those two shareholders, all of our shares owned by these shareholders will become available to be sold in the public market, subject to applicable laws and regulations. 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. See Item 10 “Additional Information — Share Capital — Shares Eligible for Future Sale” for a more detailed description of the eligibility of our shares for future sale.

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, net earnings per share, capital expenditures, 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 similar expressions are 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 Item 3 “Key Information — Risk Factors” beginning on page 10, include but are not limited to:

- the impact of our proposed acquisition of Aventis;
- our ability to continue to expand our presence profitably in the United States;
- the success of our research and development programs;
- our ability to protect our intellectual property rights; and
- the risks associated with reimbursement of healthcare costs and pricing reforms, particularly in the United States and Europe.

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. We do not undertake any obligation to update them in light of new information or future developments.