

Merial – Animal Health

Sanofi-Aventis' animal health activity is carried out through Merial, one of the world's leading animal healthcare companies, dedicated to the research, development, manufacture and delivery of innovative pharmaceuticals and vaccines used by veterinarians, farmers and pet owners. Merial was founded in 1997 as a combination of the animal health activities of Rhône-Poulenc and Merck into a joint venture in which each party held 50%. On September 17, 2009, sanofi-aventis acquired Merck's entire interest in Merial and secured an option for combining Merial with Merck's Intervet/Schering-Plough Animal Health business.

On March 8, 2010, sanofi-aventis exercised its contractual right to combine the Intervet/Schering-Plough Animal Health business with Merial to form a new animal health joint venture equally owned by Merck and sanofi-aventis. In addition to execution of final agreements, formation of the new animal health joint venture remained subject to approval by the relevant competition authorities and other closing conditions.

In accordance with IFRS 5, in its consolidated financial statements for the years ended December 31, 2010 and December 31, 2009, sanofi-aventis recognized 100% of Merial's contribution to net income on a separate line of the income statement entitled "Net income from the held-for-exchange Merial business". For more information see Notes B.7., D.1. and D.8.1 to sanofi-aventis' consolidated financial statements included at Item 18 of sanofi-aventis' Annual Report on Form 20-F for the year ended December 31, 2010 filed with the Securities and Exchange Commission on March 1, 2011 (the "2010 Form 20-F").

On March 22, 2011, Merck and sanofi-aventis announced the mutual termination of their agreement to form a new animal health joint venture combining Merial with Intervet/Schering-Plough, Merck's animal health unit. The companies are discontinuing their agreement primarily because of increasing complexity of implementing the proposed transaction in terms of the nature and extent of the anticipated divestitures and the length of time necessary for the worldwide regulatory review process.

As a result, Merial will remain wholly-owned by sanofi-aventis and Merial will no longer be considered held for sale or exchange under IFRS 5. Going forward, sanofi-aventis will continue to develop its animal health business under the Merial brand as a growth platform of its diversified health business.

It is anticipated that maintaining Merial as a wholly-owned, stand-alone business will have the following effects on sanofi-aventis' financial statements:

Contribution to net sales:

Starting with sanofi-aventis' financial results for the three months ending March 31, 2011, consolidated net sales will include sales generated by Merial. Merial's net sales for the year ended December 31, 2010 (which were not included in the Group's 2010 reported net sales) were €1,983 million. Had Merial not been classified as held-for-exchange in 2010 for accounting purposes, it is estimated that Merial would have generated a contribution to consolidated net sales substantially in that amount.

Contribution to consolidated net income:

Sanofi-Aventis' consolidated net income for the year ended December 31, 2010 included a contribution of €386 million from the held-for-exchange Merial business. However, in accordance with IFRS 5, the depreciation of Merial's property, plant and equipment, and the amortization of intangible assets were discontinued from September 17, 2009 in sanofi-aventis' consolidated income statements (See Note B.7 and Note D.35.1 to the consolidated financial statements included at Item 18 of the 2010 Form 20-F). Had Merial not been classified as held-for-exchange in 2009 and in 2010 for accounting purposes, it is estimated that net income would have been approximately €65 million lower in 2009 and €240 million lower in 2010, reflecting depreciation and amortization of the Merial assets.

Starting with sanofi-aventis' financial results for the three months ending March 31, 2011, sanofi-aventis' net income will reflect such depreciation and amortization and will also include a one time amortization adjustment to cover the corresponding amounts not depreciated or amortized in 2009 and 2010. In accordance with IFRS 5.36 and as Merial will cease to be qualified as held for sale or exchange in future financial statements, the results of Merial classified as held for sale or exchange in previously-issued financial statements (see Note D.8.1) will be reclassified and included in income from continuing operations for all periods presented.

Contribution to business net income:

It is estimated that the level of business net income contributed by Merial in 2009 and 2010 would have been materially the same, whether or not it had been classified as a held-for-exchange asset.

Balance Sheet:

The assets and liabilities of Merial classified in "Assets held for sale or exchange" and "Liabilities related to assets held for sale or exchange" at December 31, 2010 and December 31, 2009, after elimination of intercompany balances between Merial and other Group companies are detailed at Note D.8.1 to the consolidated financial statements included at Item 18 of the 2010 Form 20-F.

Cash Flows:

If the combination does not occur, sanofi-aventis will no longer be required to make either the true-up payment of \$250 million to Merck to establish parity in the joint venture or the \$750 million payment stipulated in the agreement signed on July 29, 2009 by the parties, together representing a reduction of \$1 billion in expected cash outflows in 2011 (See Note D.21.3. to the consolidated financial statements included at Item 18 of the 2010 Form 20-F).

In 2010, in application of IFRS 5, Merial's contribution to cash flows was through dividends received by sanofi-aventis in the amount of €497 million. Starting with sanofi-aventis' financial results for the three months ending March 31, 2011, sanofi-aventis' consolidated cash flows will consolidate cash provided and used by Merial. When sanofi-aventis next issues its consolidated financial statements, prior year amounts in cash flows related to Merial will be reclassified to be comparable for all periods presented.

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