IPSEN
Innovation for patient care

2006 REGISTRATION DOCUMENT

IPSEN
Innovation for patient care

Société anonyme with a share capital of €84,024,683
Registered office: 42, rue du Docteur Blanche, 75016 Paris, France
4 19 838 529 RCS Paris

Registration document

2006

Year ended December 31, 2006

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

Pursuant to the provisions of its general regulation, in particular article 212-13, the *Autorité des marchés financiers* (AMF) has registered this registration document on 23 May 2007 under number R.07-076.

This document may not be used in support of any financial operation unless it is accompanied by a prospectus approved by the AMF. This document has been prepared by the issuer, and its signatories assume responsibility for its contents. The registration pursuant to the provisions of article L. 621-8-1-I of the French Monetary and Financial Code has been granted after the AMF has verified "whether the document is complete and comprehensible and whether the information it contains is consistent". It does not imply a validation by the AMF of the accounting or financial information presented herein.

This registration document is a translation of the official document de référence registered with the AMF and is for information purposes only. In case of any discrepancy between this registration document and the document de référence, the document de référence will govern.

Incorporation by reference:

Pursuant to the provisions of article 28 of EC regulation 809/2004 of 29 April 2004, readers are referred to the prospectus for Ipsen recorded by the AMF on 14 October 2005 under number I.05-127, for the following financial information: financial information prepared under French GAAP for the 2004 financial year: the management discussion and analysis, historical and pro forma consolidated financial statements (including the auditors' reports).

Pursuant to the provisions of article 28 of EC regulation 809/2004 of 29 April 2004, readers are referred to the prospectus for Ipsen recorded by the AMF on 26 April 2005 under number R06-0039, for the following financial information: financial information prepared under IFRS (International Financial Reporting Standard) for the 2005 financial year: the management discussion and analysis, historical and pro forma consolidated financial statements (including the auditors' reports).

General introductory comments

In this registration document, unless stated otherwise, the terms "Company" and "Ipsen" refer to Ipsen SA and the term "Group" refers to Ipsen and its subsidiaries and shareholdings.

This registration document contains forward-looking statements about the Group's targets and forecasts, especially in Chapter 13. Such statements may in certain cases be identified by the use of the future or conditional tense or by forward-looking words including but not limited to "believes", "targets", "anticipates", "intends", "should", "aims", "estimates", "considers", "wishes" and "may". These statements are based on data, assumptions and estimates that the Company considers to be reasonable. They are subject to change or adjustment owing to uncertainties arising from the vagaries inherent in all research and development activities, as well as in the economic, financial, competitive, regulatory and climactic environment. In addition, the Group's business activities and its ability to meet its targets and forecasts may be affected if certain of the risk factors described in Chapter 4 – "Risk factors" of this registration document arise. In addition, attainment of the targets and forecasts implies the success of the strategy presented in section 6.1.1.2 of Chapter 6 – "Strategy" of this registration document.

The Company makes no undertaking and gives no guarantee as to attainment of the targets and forecasts shown in this registration document.

Investors are urged to pay careful attention to the risk factors described in paragraphs 4.1, 4.2, 4.3, 4.4 and 4.5 of this registration document (presented in decreasing order of importance among paragraphs 4.1, 4.2, 4.3 and 4.4) before making their investment decision. One or more of these risks may have an adverse effect on the Group's activities, condition, the results of its operations or on its targets and forecasts. Furthermore, other risks not yet identified or considered as significant by the Group could have the same adverse effects, and investors may lose all or part of their investment.

This registration document also contains details of the markets in which the Group operates. This information is notably taken from research produced by external organisations. Given the very rapid pace of change in the pharmaceutical sector in France and the rest of the world, this information may prove to be erroneous or out of date. Accordingly, trends in the Group's business activities may differ from those set forth in this registration document and the statements or data shown in this registration document may prove to be erroneous, without the Group being obliged in any way whatsoever to update them.

Forward-looking statements, targets and forecasts shown in this registration document may be affected by risks, either known or unknown, uncertainties and other factors that may lead to the Group's future results of operations, performance and achievements differing significantly from the stated or implied targets and forecasts. These factors may include changes in economic or trading conditions and regulations, as well as the factors set forth in Chapter 4 – "Risk factors" of this registration document.

The comments presented in this registration document in relation to 2005 thus concern pro forma consolidated financial statements prepared in accordance with IFRS. To make this document easier to read, the term pro forma will not be included in these comments. The pro forma consolidated financial statements treat the Group's business activity as if the Group's legal restructuring completed at the end of June 2005 had taken place prior to 1 January 2002. The statutory auditors have issued a report on the pro forma financial statements. The consolidated financial statements for 2005 and 2006 appear in note 20.1 of this registration document.

1 Persons responsible

1.1 Person responsible for the registration document

Mr. Jean-Luc Bélingard, Chairman and Chief Executive Officer of Ipsen.

1.2 Attestation of the person responsible for the registration document

"I affirm that having taken all reasonable care to ensure that such is the case, the information contained in this registration document is, to the best of my knowledge, in accordance with the facts and contains no omission likely to affect its import.

The Company has obtained a letter from its statutory auditors certifying that they have verified the financial and accounting information provided in this registration document in accordance with the practice and professional standards applicable in France, and that they have read the document as a whole.

Past and forward-looking financials presented in this Registration Document have been the object of reports from statutory auditors and are presented on pages 85 and 201 of this registration document."

Jean-Luc Bélingard,

Chairman and Chief Executive Officer

1.3 Person responsible for financial information

Claire Giraut
Chief Financial Officer

David Schilansky
Investor Relations Officer

Ipsen
42, rue du Docteur Blanche
75016 Paris
Telephone: +33 (0)1 44 30 43 43
Fax: +33 (0)1 44 30 43 21
investor.relations@ipsen.com
www.ipsen.com

1.4 Indicative financial reporting timetable

3 May 2007: First-quarter 2007 sales

6 June 2007: Annual general meeting

1 August 2007: First-half 2007 sales

29 August 2007: Interim 2007 results

6 November 2007: Nine-month 2007 sales

2 Auditors

2.1 Statutory auditors

Deloitte & Associés
Represented by Christophe Perrau
185, avenue Charles-de-Gaulle
B.P. 136
92524 Neuilly-sur-Seine Cedex

First appointed at the Annual General Meeting of 10 April 2002. Current term ends at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2009.

KPMG Audit
Department of KPMG S.A.
Represented by Catherine Porta
1, cours Valmy
92923 Paris-La Défense Cedex

First appointed at the Annual General Meeting of 18 June 2005. Current term ends at the conclusion of the annual general meeting held to approve the financial statements for the year ending 31 December 2010.

2.2 Alternate auditors

B.E.A.S.
Represented by Alain Pons
7-9, villa Houssay
92524 Neuilly-sur-Seine Cedex

First appointed at the Annual General Meeting of 10 April 2002. Current term ends at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2009.

M. Jean-Paul Vellutini
1, cours Valmy
92923 Paris-La Défense Cedex

First appointed at the Annual General Meeting of 18 June 2005. Current term ends at the conclusion of the Annual General Meeting held to approve the financial statements for the year ending 31 December 2010.

2.3 Fees paid by the Group to the statutory auditors and members of their networks

	Deloitte & Associés				KPMG Audit			
	Amount (excl. VAT)		%		Amount (excl. VAT)		%	
(in thousands of euros)	2006	2005	2006	2005	2006	2005	2006	2005
Audit								
Statutory audit, certification, review of separate and consolidated financial statements								
Issuer	121	1,024	22%	74%	364	1,194	32%	67%
Fully consolidated subsidiaries	420	331	78%	24%	6 19	503	55%	28%
Other work and services directly related to the statutory audit								
Issuer								
Fully consolidated subsidiaries		30		2%				
Sub-total	**541**	**1,385**	**100%**	**100%**	**983**	**1,697**	**87%**	**95%**
Other services provided by the network to fully consolidated subsidiaries								
Legal, fiscal and payroll					147	83	13%	5%
Other								
Sub-total					**147**	**83**	**13%**	**5%**
Total	**541**	**1,385**	**100%**	**100%**	**1,130**	**1,780**	**100%**	**100%**

3 Selected financial information

In 2006, **Group sales** reached €861.7 million, up 6.8% compared to 2005, driven by a 7.6% growth in drug sales, which accounted for 97% of total Group sales. This performance was driven by strong sales in Ipsen's targeted therapeutic areas (oncology, endocrinology, neuromuscular disorders) as well as by strong sales momentum in international markets despite downward price pressures in Major Western European Countries negatively impacting Group sales by € 19.4 million over the period.

Other revenues totalled €83.6 million, up 3.5% compared with €80.7 million in 2005, which included €10.0 million resulting from the termination of a research contract.

Total revenues reached €945.3 million in 2006, up 6.5% year-on-year (€887.9 million in 2005).

The Group's **operating income** stood at €187.2 million, up 1.0% year-on-year despite severe price pressure in Major Western European countries, poor performance of Ginkor Fort® in France and a negative impact of one-off items such as a non-recurring payment of €8.4 million to Inamed for the recovery of all rights related to Reloxin® and a €7.3 million impairment charge relating to Testim®. Therefore, Ipsen's operating income stood at 21.7% of sales compared with 23.0% in 2005.

Excluding the non recurring expenses mentioned above, the Group's recurring operating profit stood at €204.1 million, up 14.8% year-on-year, reaching 23.7% of sales, compared with 22.0% of sales in 2005.

The **effective tax rate** in 2006 amounted to 21.8% of consolidated pre-tax profit from continuing operations before net loss from associates, compared with 19.1% in 2005. Excluding the tax-related one-off impacts, the Group's effective tax rate would have been comparable in both periods, at 25.6% in 2006 against 24.0% a year ago.

The Group's **consolidated profit** for 2006 reached €144.5 million (€144.0 million attributable to equity holders of Ipsen S.A.), down 3.0% year-on-year, including the one-offs mentioned above.

The Group's **recurring consolidated profit** increased by 15.6% in 2006 to reach €148.9 million, from €128.9 million in 2005.

The Group's **intangible assets** evolution mainly stems from the acquisitions of the Increlex™ license from Tercica Inc. (€10 million) and the Acapodene® license from GTx Inc. (€23 million) as well as the impairment charge related to the Testim® license (€7.3 million).

The Group's other **non-current assets** evolution is explained mainly by the transactions in connection with the partnership with Tercica Inc., described in sections 6.3.2 and 9.1.1.4 of this Registration Document as well as the defferred tax assets evolution in connection with the milestones cashed in from partners (Medicis, Roche, Tercica Inc.).

The Group's **other non-current liabilities** evolution is explained mainly by the milestones cashed in from the Group's partners (Medicis, Roche, Tercica Inc.) and recognized as revenues (over the life of the contracts) in the Profit & Loss account.

The Group generated a strong €327.6 million **cash flow from operating activities**, against €176.9 million a year earlier. The cash position at December 31, 2006 benefited from strong sustained activity during the year and from milestones stemming from the partnerships, notably with Medicis and Roche. The Group utilised €163.6 million in investment transactions, notably €63.1 m for the acquisition of 25% of Tercica Inc.'s capital and €20.7 million for the subscription to a convertible bond in the same transaction. Moreover, in June 2006, Ipsen paid dividends of €50.4 million to its shareholders.

(in millions of euros)	2006	2005[1]	% change 2006/2005
Profit & loss account items			
Sales	861.7	807.1	+6.8%
Other revenue	83.6	80.7	+3.5%
Total revenues	945.3	887.9	+6.5%
Operating income	187.2	185.3	+1.0%
Operating margin *(as % of sales)*	21.7%	23.0%	
Recurring operating profit[2]	204.1	177.8	+14.8%
Recurring operating margin[2] *(as % of sales)*	23.7%	22.0%	
Consolidated profit (attributable to equity holders of Ipsen S.A.)	**144.0**	**148.6**	**(3.0)%**
Earnings per share – fully diluted (€)	*1.71*	*2.20*	
Recurring consolidated profit [2]	**148.9**	**128.9**	**+15.6%**
Recurring earnings per share – fully diluted (€)	*1.77*	*1.91*	
Average number of shares			
Non-diluted	*84,000,717*	*67,418,123*	
Fully diluted	*84,024,179*	*67,418,123*	
Balance sheet items			
Intangible assets	68.2	39.8	
Other non-current assets	147.3	18.4	
Other non-current liabilities	195.4	17.6	
Cash flow statement items			
Cash flow from operating activities	327.6	176.9	
Net cash, end of period[3]	**252.9**	**138.8**	

(1) All financial information presented for 2005 is shown on a pro forma basis. The pro forma consolidated financial statements treat the Group's business activity as if the Group's legal restructuring completed at the end of June 2005 had taken place prior to 1 January 2002.

(2) Unaudited data–see section 9.2.3 of this registration document.

(3) Net cash: Cash and cash equivalents minus overdrafts and bank loans and other financial liabilities plus or minus derivative financial instruments.

4 Risk factors

The Group carries on business in an environment which is undergoing rapid change and which poses a number of risks for the Group, some of which are outside its control. Investors are advised to give careful consideration to all the risks set out below (and presented in decreasing order of importance among paragraphs 4.1, 4.2, 4.3 and 4.4) and to all the information contained in this registration document. The risks and uncertainties set out below are not the only ones facing the Group. Other risks and uncertainties of which the Group is not currently aware or which it does not consider to be significant could also have a negative impact on its business, its financial situation or its results.

The Group has set-up, within its Finance department, an "Insurance and Risk management" function, reporting directly to the General Secretary. This function is described in paragraph 3.4.3.4. in section 16.4.1 of this registration document.

4.1 Risks related to the Group and its structure

4.1.1 Dependence on products

The Group relies on two products, Decapeptyl® and Tanakan®, for a substantial part of its sales.

Decapeptyl®. In 2006, this product generated sales of €221.9 million, representing about 26% of the Group's consolidated sales. Due to this high percentage of its consolidated sales, the Group is exposed to significant risks which could arise from factors such as the development of competing products or generic products, the adoption of unfavourable regulatory decisions or the filing of claims in relation to defects or side effects connected with this product. If the Group had to deal with any of these difficulties, this could potentially have a significantly unfavourable impact on its business, its financial situation or its results. The formulations of Decapeptyl® marketed by the Group include a daily formulation, a one-month formulation and a three-month formulation. The Group has new sustained-release formulations at the clinical trials stage, but cannot, however, guarantee the success of these trials. Some of the Group's competitors are also developing sustained-release formulations in excess of three months, some of which are already marketed in the United States. The first of these products to be launched is Eligard (Astellas) 6 months, which received marketing approval on 1 March 2007 in Germany; the fact that these formulations are marketed in territories in which Decapeptyl® is marketed, could affect the sales and results of the Group.

Tanakan®. In 2006, this product generated sales of €129.9 million, including 71% in France (*i.e.* 15% of the Group's consolidated sales). On 25 October 2006, The French Health Minister announced that vasodilators, including Tanakan®, would continue to be reimbursed at a rate of 35% by Public Health Insurance. Furthermore, the Minister applied to the Economic Committee for Health Products for a price cut of up to 20% on these drugs as from the end of January 2007. On 16 March 2007 this price cut had still not been applied.

4.1.2 Dependence on the prices for medicine and their inclusion in the list of reimbursable products

The Group is dependent on the setting of prices for medicines and is vulnerable to the possible withdrawal of certain products from the list of reimbursable products by governments or by the relevant regulatory authorities in the countries where it does business.

In general terms, the Group is faced with uncertainties regarding the fixing of prices for all its products, because over the last few years the prices of medication have been under severe pressure for a number of reasons, including the following:

- the tendency of governments and the suppliers of medical care to recommend the use of generic medication in several countries by means of laws relating to generic substitution, which authorise or require pharmacists issuing medication, wherever possible, to substitute a less expensive generic medication for a medication from the original pharmaceutical laboratory;
- the price controls exercised by governments in numerous countries;
- other restrictive measures which limit increases in the costs of medical services; and
- parallel imports which enable wholesalers to make use of differences in market prices by buying medication at lower prices in certain markets to sell them in other markets at higher prices.

Sparked by government intervention or market pressures in some countries, lower drug prices negatively impacted sales to the tune of € 19.4 million in 2006, compared with 2005. In the year ended 31 December 2006, these impacts reduced sales growth by 2.4 percentage points.

The commercial success of the Group's products depends in part on the proportion of their price that is reimbursed to patients by private medical insurance companies, medical insurance bodies or public health service programmes.

The continued sale of a drug through the OTC channel after its delisting does not necessarily prevent a contraction in its sales, the key factor being whether patients themselves agree to bear the cost of their treatment. Based on events following the delisting of other drugs in France, as well as in Other European Countries, products affected by such measures usually show a decline in their sales. As a result, assuming that a drug marketed by the Group, sales of which contribute a significant portion of its sales, were to be delisted, this measure would be liable to have an unfavourable impact on the Group's business activities, financial condition and earnings. This said, the Group would nonetheless retain the option of entering into an agreement with a partner to market through the OTC channel the drugs that had been delisted, which may curb the adverse impact of any delisting on its business activities, financial condition and earnings.

These risks are illustrated in the following example:

In France, some of the Group's products have been subject to reassessment in order to examine whether they should continue to be paid for by the medical insurance bodies:

- ***Ginkor Fort®.*** The price of Ginkor Fort®, the sales of which reached €41.7 million in 2006, was reduced by 15% in February 2006. In addition, the French government published a notice in the Official Journal of 25 January 2006, under the terms of which the level of reimbursement of all members of the veinotonic class of drugs including Ginkor Fort® would be reduced from 35% to 15% as of 1 February 2006 until 31 December 2007. These drugs will then be withdrawn from the list of reimbursable drugs from 1 January 2008.
- ***Tanakan®.*** In France, on October 26, 2006, the Minister of Health and Solidarities decided to maintain the class of vasodilators, among which Tanakan® on the list of reimbursable drugs and to keep their reimbursement rate by the French Social Security at 35%. Furthermore, the Minister has asked the Comité Économique des Produits de Santé to implement a price cut of up to 20% to these drugs by the end of January 2007. On 16 March 2007 this price reduction had still not been applied. In addition, the Group is endeavouring to validate the clinical benefits of this product in the treatment of age-related cognitive impairment and behavioural disorders. The Group is investigating EGb 761®, the Ginkgo biloba extract in Tanakan®, for the treatment of neurodegenerative disorders, such as Alzheimer's disease. Over 8,000 patients have been enrolled in these research programmes, and eight clinical studies are currently in progress (see in particular section 11.1.7.1 of this registration document): namely amongst these studies there is the GuidAge study assessing the effectiveness of EGb 761® in the prevention of Alzheimer's disease in patients of more than 70 years of age presenting with a spontaneous mnesic complaint. The 2,800 patients were recruited by September 2004 and their treatment will continue for five years.
- ***Artotec®*** health authorities have also announced a reduction in the level of reimbursement from 65% to 35% and a price reduction of 7% as of 1 January 2007 for Pfizer's product Artotec®, the marketing of which was transferred to The Group in 2006.

In Spain, after the "Pacto Social" was withdrawn in 2004 a 2% price reduction was applied on 1 February 2006, following the 4.2% reduction applied since 1 February 2005.

In Italy, the Health Ministry announced a 4.4% reduction in price on all reimbursable pharmaceutical products, together with a further 1% reduction for wholesalers. This measure came into effect on 16 January 2006. Furthermore, the Health Ministry announced an additional 0.6% price reduction of all medicines, applicable since 1 July 2006, and a second reduction of 5.0% applicable since 1 October 2006.

4.1.3 Use of dangerous substances

The Group uses dangerous substances to carry on its business and any claim relating to the improper handling, storage or treatment of these substances could be costly.

The Group's Research and Development programmes, its pre-clinical and clinical trials and its manufacturing and distribution business involve the controlled storage, use and processing of dangerous substances, toxins, chemical and biological agents and radioactive molecules. The Group is subject to laws and regulations governing the use, manufacture, storage, handling and processing of such substances and waste. Although the Group considers that the safety measures it takes in respect to the handling and processing of dangerous substances satisfy the standards laid down by the laws and regulations in force, the risk of accidental contamination or injury caused by dangerous substances cannot be completely eliminated. In the event of an accident, the Group could be held liable for any resulting damage and the liability incurred could exceed the limit of insurance cover taken out by the Group, or even not be covered at all. The Group might be unable to maintain insurance coverage on satisfactory terms, or to obtain any insurance. The Group could incur substantial costs in order to comply with current or future laws and regulations relating to the environment.

4.1.4 Uncertainty on the approval of products which are currently being developed

A number of products that the Group is developing are still at the very first stages of development and the Group cannot be certain that these products will be approved by the competent regulatory authorities and that they will be successfully marketed.

If the products that the Group is developing are not approved during clinical and pre-clinical trials or if they are not approved by the regulatory authorities, this will have a negative impact on the growth of the Group. Of the twenty-one principal development programmes that the Group is currently pursuing, four are at the pre-clinical trials stage, three are at phase I of clinical trials and fourteen are at phase II or phase III of clinical trials. Several years can elapse before a product is approved and it may be that the Group will fail to launch some of its new products on the market. A new product can also appear to be promising at a preparatory stage of development or after clinical trials but never be launched on the market or be launched on the market but fail to sell. This can happen for various reasons including:

- products can prove to be ineffective or to cause side effects which outweigh their therapeutic benefits during pre-clinical or clinical trials;
- the Group could fail to devise adequate and satisfactory clinical trials during pre-clinical trials or at the very beginning of clinical trials;
- the Group could fail to obtain licences from the competent regulatory authorities to allow it to conduct the necessary clinical trials or could be obliged to repeat trials to comply with regulations in different jurisdictions;
- the Group could fail to obtain the necessary licences from the competent regulatory authorities to sell its products on certain markets or on any markets;
- it could prove to be too costly or difficult to manufacture new products on a large scale;
- the marketing of certain products could be prohibited due to the existence of intellectual property rights belonging to third parties;
- the Group could be unable to find a distributor to market its products, or its partners in the context of jointly developed products could decide not to market its products;
- the Group's products could fail to obtain the support of the market;

- the Group's competitors could develop more effective products or products which, for other reasons, obtain more support from the market;
- new products could render the Group's products obsolete; and
- the Group could fail to sell its products at prices which would enable it to realise a satisfactory return on its investment.

4.1.5 Dependence on intellectual property rights held by third parties

In order to manufacture and market several of its products, including four of its main products, the Group depends on intellectual property rights held by third parties.

Intellectual property rights (particularly patents, know-how and trademarks) are covered by licence agreements granted to the Group by third parties that are the owners of those rights or are authorised to license their use under a sub-licence. Four of the Group's main products, Decapeptyl® (sales of which represent about 26% of consolidated sales for 2006), Tanakan® (sales of which represent about 15% of consolidated sales for 2006), Dysport® (sales of which represent about 13% of consolidated sales for 2006) and Somatuline® (sales of which represent about 11% of consolidated sales for 2006) are manufactured and marketed under licence from third parties. Although the Group currently has good relations with these third parties and has taken the necessary steps to protect its interests in the contracts entered into for this purpose, it cannot guarantee that it will be able to continue to benefit from these intellectual property rights or that the provisions of these contracts will be observed. For example, the Group could find itself unable to negotiate new licence agreements or collaboration agreements in the future or to maintain the terms of contracts at a level which is at least as advantageous as the contracts already concluded. In addition, the development and sale of certain products in the future could depend on the terms of the licences. Finally, the Group's ability to grant exclusive patent licences or patent sub-licences to third parties could be limited by rights held by other third parties in respect of the same patents or by such third parties in respect to other patents (see, for instance, section 6.1.1.3.2. in the Intellectual Property section with respect to NutropinAq®).

4.1.6 Dependence on third parties to ensure the success of the Research and Development portfolio

The Group is dependent on the support of third parties to ensure the success of its Research and Development portfolio and its inability to secure such support or any shortcoming in its control of such third parties could have a negative impact on the Group.

The Group enters into collaboration agreements with third parties to enhance its Research and Development portfolio. The Group depends on the technology and know-how of third parties both to undertake research into new molecules and to carry out pre-clinical and clinical trials. The Group's success depends on the quality of the partners that it manages to obtain and on the performance of those partners in carrying out their obligations pursuant to these collaboration agreements. The Group could find itself unable to maintain collaboration agreements in force on acceptable terms or could be unable to conclude new collaboration agreements on satisfactory commercial terms. Insofar as the Group is unable to maintain or conclude such agreements, it would have to develop products at its sole expense. Such a situation would have the effect of increasing the Group's capital requirements or of limiting or delaying its development in other areas. In addition, the Group's partners could fail to fulfil their obligations or to perform them in a satisfactory manner, and this would give rise to delays and lead to expenses for the Group.

4.1.7 Dependence on third parties to develop and market some products

The Group depends on third parties to develop and market some of its products, which generates substantial royalties for the Group, but these third parties could behave in ways which cause damage to the Group's business.

The Group develops and markets some of its products in collaboration with other pharmaceutical companies. The Group has entered into important collaboration agreements, in particular with Medicis, Bayer, Roche and Tercica Inc.. The royalties received by the Group from some of these partners contribute substantially to the Group's operating results and cash flow. When the Group markets its products pursuant to collaboration agreements, it exposes itself to the risk that certain decisions, such as the preparation of budgets and promotional strategies, are controlled by its partners and that the decisions taken by the Group's partners have a negative impact on the conduct of the Group's business pursuant to those agreements. The Group cannot be certain that its partners will fulfil their obligations and it might be unable to obtain any benefit from those agreements. In addition, the Group's partners could choose to develop their existing new products rather than the products marketed in collaboration with the Group. Finally, even if it had the means of obtaining redress against its partners in the event that they caused it damage, the Group is not in a position to ensure that its partners have sufficient insurance coverage to cover the whole of their liability in respect to their business, whether as regards third parties or as regards the Group. If they did not have sufficient coverage, the Group could be obliged to bear a substantial part of the damage thus caused, directly or indirectly, and this could have a negative impact on its business, its financial situation or its results.

A default by any of the Group's partners or tough competition could result in some of the Group's products (for example BIM 51077, Reloxin® or Somatuline® Autogel®) (i) having their development programme delayed or stopped, (ii) not being approved by the FDA in the United States or in other countries, having their approval delayed or being approved for indications which are more restrictive than those originally anticipated, or (iii) generating sales lower than expected. Such situations could have a negative impact on the business of the Group, its financial situation or its results.

4.1.8 Dependence on public authorities to obtain regulatory approvals

Certain products of the Group of biological origin are made of materials stocks of which can only be renewed if regulatory approvals are obtained. In the case of certain of its products of biological origin, the Group has stocks of active ingredients which are the subject of the regulatory approvals necessary when marketing products which contain any such ingredients. When the Group manufactures new batches of such active ingredients or alters the process of production thereof, it has to obtain new regulatory approvals for such batches prior to marketing the products containing any such ingredients. The Group plans the studies it considers necessary to obtain these approvals well in advance. It cannot guarantee, however, that the work carried out in this context will necessarily yield the expected results or that the regulatory authorities will be satisfied with the results of such work and will issue the required licences in time. In the event that the Group failed to obtain such new approvals or only obtained them significantly later than anticipated, it could find itself out of stock of products containing such active ingredients.

Such a lack of stock could have a significantly unfavourable impact on the marketing of the products in question, and this could have a negative impact on the business, the financial situation or the results of the Group.

4.1.9 Risks connected to the intellectual property rights of the Group

The collaboration between the Group and third parties exposes the Group to the risk that the third parties concerned might claim the benefit of intellectual property rights in respect to the Group's inventions or might not ensure the confidentiality of the Group's unpatented technology.

The Group provides the third parties with which it collaborates (including universities and other public or private entities) with information and data in various forms relating to the research, development, manufacture and marketing of its products. Despite the precautions taken by the Group with regard to these entities, in particular of a contractual nature, they (or certain of their members) could claim ownership of intellectual property rights arising from the trials carried out by their employees or any other intellectual property right relating to the Group's products. In addition, where their own intellectual property rights are concerned, these entities could refuse to grant licences to the Group on terms acceptable to it. The Group also depends on unpatented technology, methods, know-how and data which it considers to be industrial secrets. Their protection is, in particular, ensured by the conclusion of confidentiality agreements between the Group and its employees and consultants and some of its subcontractors. The Group cannot be certain that these agreements or any other type of protection for its industrial secrets will be effective or that in the event of their breach, satisfactory means of redress will be available.

4.1.10 Dependence on necessary funds required to finance the Group's operations and investments

The Group's business requires substantial funding in order to finance its operations and investments. If the Group is unable to provide additional funds when needed, it may find itself obliged to delay, scale down or terminate some of its development programmes or to grant rights to third parties earlier than anticipated in order to develop and market its products.

The Group requires substantial funds for its operations. Its future capital requirements will depend on several factors, including, in particular:

- the continuous progress of its Research and Development programmes and the extent of those programmes;
- the scope and results of the pre-clinical and clinical trials conducted by the Group;
- the time and expense involved in obtaining regulatory licences;
- the ability of the Group to keep existing collaboration agreements in force and to conclude new collaboration agreements;
- the costs connected with increases in manufacturing capacity and effective marketing;
- the costs associated with the creation of new establishments where required;
- the volumes of sales and royalties in respect to the current and future products of the Group;
- the expenses connected with the preparation, filing, conduct and enforcement of claims relating to patents and other intellectual property rights; and
- the expenses connected with obtaining and maintaining the licences necessary for the use of patented technology.

Although the Group considers that it has sufficient cash flow to finance its current business, it might need to raise additional funds to develop its business, whether through increases in its share capital, borrowing, entering into collaboration agreements, participating in sponsored research programmes, or by any other means. The Group cannot be certain that it will be able to raise the funds it may possibly require on satisfactory terms. If it proved unable to do so, it might have to delay, reduce or abandon expenditure on certain Research and Development programmes, seek to obtain finance by means of agreements with partners collaborating with it, or grant rights to develop and market new products that it would have preferred to develop and market on its own. Such practices might reduce the profit obtained by the Group from the products concerned. In addition, insofar as the Group increased its share capital by issuing new shares, the shareholdings of the Group's existing shareholders would be diluted.

4.1.11 Risks connected to the international business of the Group

The Group engages in business throughout the world, including in countries other than member states of the European Union and the United States, and, in particular, in China, Russia and other countries of Central and Eastern Europe. The risks incurred by the Group which are specific to the international business are numerous and include, in particular:

- risks associated with unexpected changes in the area of regulations, and in particular in fiscal regulations or regulations regarding trade and tariffs;
- risks associated with the difficulties to construe or implement certain specific regulations;
- risks associated with limitations on the repatriations of profits;
- risks associated with variations in exchange rates;
- risks connected with the deferral of validity of various intellectual property rights;
- risks associated with various employment regulations;
- risks associated with political or economic changes affecting a given region or country;
- risks connected with increased difficulties of recruitment of personnel and management of operating entities abroad; and
- the absence of an international agreement on regulatory standards.

4.1.12 Dependence on certain management executives and scientists

The Group is dependent on certain essential management executives and scientists, the loss of whom could damage the Group's competitiveness and impair the Group's ability to achieve its objectives.

The Group's success depends in large part on certain essential management executives and scientists. The departure of such personnel could damage the competitiveness of the Group and compromise its ability to achieve its objectives. In addition, the Group is convinced that its continued expansion in sectors and business requiring additional expertise and resources (such as marketing, clinical trials and regulatory licences) will require the recruitment of new management executives and scientific officers. The Group may not be able to attract or retain the necessary management executives and science officers.

4.1.13 Dependence on its production tool

The Group is dependent on its production tool in order to maintain and develop its sales. On several of its sites, some production equipment is critical and unique. If a production site were to suffer a breakdown, this could result in production being interrupted for 3 to 24 months while a part or the whole device is replaced, followed by its requalification and validation, or having to use a sub-contractor. Any such business interruption could have a negative impact on the business of the Group, its financial situation or its results.

Depending on the products concerned, returning to prior sales levels could prove difficult, which could have a negative impact on the business of the Group, its financial situation or its results.

Furthermore, the Group uses dangerous and inflammable substances and powders which could lead to an explosion or a fire on several of its production sites. Handling, storing or using these substances could cause part or all of one of the production sites to be destroyed. This could result in the production being interrupted for anything up to 36 months. Depending on the site and the products affected, a return to prior sales levels could prove difficult.

4.2 Risks linked to the pharmaceutical industry

4.2.1 Risks connected with competition on the market

The Group carries on business in well-established markets where developments are rapid and competition is intense. The Group's competitors include, in particular, the large international pharmaceutical groups whose size, experience and capital resources are greater than those of the Group. Consequently, the Group cannot be certain that its new products:

- will be able to obtain the necessary regulatory approvals or be present on the market more quickly than the products of its competitors;
- will be able to compete consistently with safer, more effective or less expensive products marketed by certain large competing groups;
- will adapt sufficiently quickly to new technologies and scientific advances;
- will be preferred by medical centres, doctors or patients to treatments currently used for the same pathologies; or

- will be able to compete effectively with other products used to treat the same pathologies.

New developments are expected in the pharmaceutical industry and in public and private research facilities. Apart from their ability to develop safer, more effective or less expensive products than those of the Group, the Group's competitors could also manufacture, market and distribute their products more efficiently than the Group could do in the case of its own products. Finally, rapid technological developments introduced by competitors could make the Group's new or future products obsolete before it has been able to recover the costs incurred in the research, development and marketing of such products.

Details on the competitive environment of the Group's main products are presented in section 6.1.1.3. of this registration document.

4.2.2 Risks connected to Research and Development failures

The Group invests very substantial sums in Research and Development in order to remain competitive, and will not be able to recover these investments if the clinical trials of the Group's products are not as successful as anticipated or if such products do not receive the necessary regulatory licences.

The Group must invest large sums in Research and Development to remain competitive.

In order to remain competitive in the pharmaceutical industry where competition is very strong, the Group must devote substantial resources every year to Research and Development in order to perfect new products. Even if the efforts of the Group's Research and Development bear fruit, its competitors could develop more effective products or could successfully introduce a larger number of new products to the market. In 2006, the Group spent €178.3 million on Research and Development, which represents about 20.7% of its pro forma consolidated sales. The Group's current investments in respect of the launch of new products and the research and development of future products could give rise to higher costs without a proportionate increase in the Group's revenues.

The Research and Development process is a lengthy one and there is a substantial risk that a product may not succeed.

The Research and Development process usually lasts between eight and twelve years from the date of the discovery to the launch of the product on the market. This process involves several stages at each of which there is a substantial risk that the Group will fail to achieve its objectives and be forced to abandon its efforts in respect of a product in which it has invested significant sums. Thus, in order to develop a product which is viable from a commercial point of view, the Group must demonstrate, by means of pre-clinical and human clinical trials, that the molecules are effective and not dangerous to human beings. The Group cannot be certain that favourable results obtained during pre-clinical trials will be confirmed subsequently during clinical trials, or that the results of clinical trials will be sufficient to demonstrate the safe and effective nature of the product concerned so that the administrative licences necessary for it to be marketed can be obtained.

After the Research and Development stage, in a number of countries the Group must invest substantial additional resources to obtain the necessary governmental licences, without any guarantee that they will be obtained.

The Group must obtain and retain the necessary regulatory licences for its medicines from the regulatory authorities of the European Union, the United States and other regulatory authorities, before a given product can be sold on the market concerned. The presentation of the licence application to an authority does not guarantee that it will grant a licence to market the product concerned. Every authority can impose its own requirements, including the requirement to conduct clinical studies locally, and can delay or refuse to grant the licence applied for even if the product has already been licensed in other countries.

In the Group's main markets, the licensing procedure for new products is complex and lengthy. The time it takes to obtain the necessary licence varies from country to country but in general it is between six months and two years from the date of the application. In addition, if a licence is granted, it may include limitations as to the use for which the product may be marketed. A marketed product is also subject to constant monitoring after the initial licence is granted. The subsequent discovery of problems which were unknown at the time of the licence application or failure to comply with regulatory requirements can result in restrictions being placed on the marketing of the product concerned or its withdrawal from the market, as well as legal penalties. In addition, the Group is subject to rigorous official inspections regarding the manufacture, labelling, distribution and marketing of its products. All these factors can increase the costs connected with the development of new products and increase the risk that new products cannot be marketed successfully.

4.2.3 Dependence on third parties to manufacture some products

Although the Group currently manufactures the active substances for several of its products, it subcontracts the manufacturing of certain of these active ingredients to third parties or purchases these products directly from its partners or its partners' sub-contractors. The Group therefore exposes itself to the risk of a failure of its sources of supply if its suppliers experience financial difficulties or cannot manufacture a sufficient quantity of such products. If a failure of its supplies occurred due to difficulties experienced with its subcontractors, this could have a negative impact on the Group's ability to meet market demand for its products and, in particular, could damage the Group's reputation and its relations with its customers, which could have a negative impact on the business of the Group, its financial situation or its results.

4.2.4 Risks connected with failure of supplies and other disruption

The marketing of certain products by the Group has been and could be affected by a failure of supplies and by other disruption.

Such difficulties can be both of a regulatory nature (the need to correct certain technical problems in order to make production sites conform to the applicable regulations) or of a technical nature (the difficulties of obtaining supplies of satisfactory quality) and they are likely to result in a very noticeable reduction in the volume of production of the products concerned and in the quantity of products delivered. This situation can result in a significant reduction in sales in relation to one or more given products.

Consequently, the Group cannot guarantee that it will manage to ensure the supply of these stocks in the future. If difficulties of this nature persist for a certain period of time in relation to one or more given products, they can also have a negative impact on the Group's sales and thus on its profitability and results.

4.2.5 Dependence on the intellectual property rights of the Group

If the Group does not manage to protect its intellectual property rights, it may be unable to compete and may not manage to achieve any profits. The Group's success depends on its ability to obtain, retain and protect its patents and other intellectual property rights. Patent law, in terms of the extent of claims in the pharmaceutical sector in which the Group carries on business, is an area of the law which is constantly evolving and in which there are a number of uncertainties.

Consequently, the Group cannot be certain:

- that it will develop other patentable inventions;
- that the patents which are currently the subject of applications will be granted;
- that the patents which are granted to it or which are the subject of a licence granted to it will not be challenged and adjudged to be invalid or unenforceable;
- that the protection afforded by a patent will be sufficiently broad to exclude competitors; or
- that other persons will not claim rights including ownership rights over patents and other intellectual property rights owned by the Group or which are the subject of a licence granted to it.

At 31 December 2006, the Group held 2,702 patents, 1,838 of which were issued in European countries and 246 in the United States. At the same date, the Group had 1,736 applications for patents being considered, including 152 in Europe, 37 international applications and 186 in the United States (in the majority of cases, each international application comprises numerous national applications and one European application upon expiry of the 30-month priority period).

The Group cannot guarantee the level of protection that will be afforded to its patents if it seeks to assert its rights and if its rights are challenged in court or in other proceedings. In addition, the legal costs incurred in order to assert the validity of patents could be very substantial.

4.2.6 Risks connected with infringement of the Group's patents

The Group's competitors could infringe its patents or circumvent them through design innovations. In order to prevent infringements, the Group could engage in patent litigation which is costly and time-consuming. It is difficult to monitor the unauthorised use of the Group's intellectual property rights and it could find itself unable to prevent the unlawful appropriation of its intellectual property rights.

In addition, in view of the development of the pharmaceutical industry, more and more patents are being issued, including some which apply to all therapeutic areas, and there is a growing risk that the Group's business and its use of certain technologies could involve the infringement of patents belonging to third parties. This risk is inherent in the business of any pharmaceutical laboratory and, when it occurs, it is usually resolved by licence agreements or cross-licence agreements.

In this context, NutropinAq® is protected by a European patent belonging to Genentech and due to expire on 29 July 2013. A European patent (EP 587.858) belonging to Pharmacia is likely to cover NutropinAq® according to the interpretation of its claims. Genentech has filed its opposition to a European patent belonging to Pharmacia and the Opposition Division of the European Patent Office has amended this patent so that it should longer cover NutropinAq®. This ruling by the European Patent Office's Opposition Division was appealed by Pharmacia on 6 June 2005 and the European Patent Office's Technical Board of Appeal published its decision on 18 July 2006. The terms of Pharmacia's patent's main claim were partially restored but, for usual procedural reasons, the details of the Technical Board of Appeal's decision are at present undisclosed. If Pharmacia claims that NutropinAq® has infringed its patent and, assuming the latter's action were successful, the Group may have to pay compensatory royalties to Pharmacia.

Given that applications for patents are not generally published until eighteen months after the date of the priority application (or even in certain cases on the date of issue of the patents), the Group cannot guarantee that third parties have not been the first to invent certain products or to file applications for patents for inventions which are the subject of patent applications by the Group and which are in the process of receiving approval. In addition, in the United States, patents can be issued according to the date of the invention, which can enable a party to benefit from a patent in respect of an invention even though it was not the first to file its application. If the Group found itself unable to patent its technology, it could be obliged to obtain licences from third parties to use their patents, to terminate certain activities or to obtain alternative technologies.

4.2.7 Risks connected with counterfeit products

The sale of counterfeit products could damage the Group's reputation and affect customers' confidence in the Group's products.

As a manufacturer of medication, the Group is exposed to the risk that third parties might attempt to counterfeit its products and sell counterfeit products as if they were the Group's products. The counterfeit products would not be approved by the competent regulatory authorities and could be dangerous. Insofar as the counterfeit products were sold as those of the Group, its reputation could be affected and the confidence of patients in the Group's products could be undermined. In addition, the Group's products could be withdrawn from the market in the event of sales of counterfeit products. If the confidence of patients or of prescribers of the Group's products was damaged or if the Group was forced to withdraw products from the market, the sales and the results of the Group could be reduced.

4.2.8 Risks connected with product liability

The business of the Group exposes it to the risk of product liability, and its insurance coverage could be insufficient to protect it against such a risk should the need arise. Product liability constitutes a substantial commercial risk for the Group and one which could increase if the business of the Group expands into new markets and continues to grow in the United States (where the costs associated with product liability claims can be particularly burdensome). Considerable sums in damages have been awarded in certain countries against pharmaceutical companies due to physical harm allegedly caused by the use of certain products. Certain pharmaceutical companies have recently had to withdraw products from the market as a result of large claims based on product liability. Although the Group is not currently involved in substantial proceedings arising from product liability, which include claims for damages as a result of the use of its products, it is possible that such proceedings could be commenced in the future. Although the Group has insurance policies to cover the risk of potential claims based on product liability, if a claimant won his case in a claim against the Group based on such liability, this could have a negative impact on the business of the Group, its financial situation or its results.

Insurance coverage in the pharmaceutical industry is becoming more and more expensive and it is impossible to predict the cost that product liability insurance could represent in the future, or to be certain that it will always be possible to obtain such insurance. The Group may be unable to obtain or to retain insurance coverage on acceptable terms and the insurance available to the Group may not provide adequate protection against the potential risks. If the Group was unable to take out an insurance policy at a reasonable price or was unable to make adequate provisions to protect itself against potential claims based on product liability, it could be exposed to substantial risks and could be unable to market its products at the appropriate time or at competitive price levels.

4.2.9 Environmental risks

Environmental liabilities and the costs of compliance could have a negative impact on the results of the Group.

Environmental laws in various countries impose actual and potential obligations on the Group as regards the repair of environmental damage or the clean-up of contaminated sites. These obligations could be applied to sites for which the Group is or was the owner, to sites where it carries or carried on its business or to sites where waste from its business has been deposited. These environmental obligations could considerably reduce the Group's operating results. The Group could be involved in judicial or administrative proceedings arising from disputes about the environment. If these proceedings had an outcome which was unfavourable to the Group this could have a substantial negative impact on its results. Stricter laws relating to the environment, safety and health and more rigorous enforcement measures than those currently in force could generate considerable liabilities and costs for the Group and could make the Group's handling, manufacture, use, reuse or processing of substances or pollutants subject to more rigorous inspection measures than those currently observed. Consequently, compliance with these laws could involve considerable capital expenditure as well as other costs and liabilities which would affect the business and results of the Group. If any of the Group's production units were closed for reasons connected with the application of laws relating to the environment, the Group could suffer temporary interruptions in the production of some of its products and a certain amount of time could elapse before the Group could obtain the necessary regulatory licences to reopen and recommence operation of its reserve production lines. If this situation persisted for a long time, interruptions of this nature could have a negative impact on the Group's sales.

4.2.10 Risks connected with products sold for unauthorised uses and from generic medication

The Group must deal with or may have to deal with competition (i) from generic products, (ii) products which, although they are not strictly identical to the Group's products or which have not demonstrated their bioequivalence, may obtain a marketing authorisation for indications similar to those of the Group's products pursuant to the bibliographic reference regulatory procedure (well established medicinal use) before the patents protecting its products expire, in particular Tanakan® or Ginkor®, and (iii) products sold for unauthorised uses when the protection afforded by patent law to the Group's products and those of its competitors expires. Such a situation could result in the Group losing market share which could affect its current level of growth in sales or profitability. To avoid such situations or to reduce their Impact, the Group could bring legal actions against the counterfeiters in order to protect its rights

Because the producers of generic products do not have to incur the costs associated with the various stages of the process of development of medicines to prove that their products are not dangerous and are fit for their intended purpose, they can sell their products at prices that are lower than the prices at which the Group sells its products, having incurred those costs. The Group's products could lose market share in the face of competition from these alternative treatments and, consequently, the Group could be unable to maintain its current level of growth in sales or profitability.

4.3 Legal risks

4.3.1 The majority shareholder in the Company owns a significant percentage of the equity and of the voting rights in the Company

Mayroy, the main shareholder of the Company, held at 31 December 2006 almost 74% of the capital and 85% of the voting rights in the Company, which might have a material adverse effect on the price of the Company's shares. This concentration of capital and voting rights held by a single shareholder and the possibility for such shareholder, to freely dispose of all or part of its shareholding in the Company might have a material adverse effect on the price of the Company's shares.

4.3.2 The Company's share price may fluctuate

The Company's share price may fluctuate significantly and could be affected by a number of events affecting the Company, its competitors, the pharmaceutical industry or the financial markets in general. The Company's share price could fluctuate in response to the following types of events:

- changes in the Group's financial performance or of its competitors;
- the announcement by the Company or one of its partners of the success or failure of a Research and Development program of the Company or of a third party in partnership with the Company;
- the announcement by the Company of the success or failure of the commercial launch of a new product;
- announcements by competitors concerning the pharmaceutical industry;
- announcements regarding changes in management or key personnel of the Group.

In the last few years, the financial markets have experienced significant volatility that, at times, has had no relationship to the financial performance of listed companies. Market volatility, as well as general economic conditions, could affect the Company's share price.

4.3.3 Judicial and administrative proceedings

In the normal course of its business activities, the Group is a party or may be a party to judicial and administrative proceedings. In connection with certain of these proceedings, financial claims are or may be received by the Group. These claims are provisioned in accordance with IFRS accounting standards (provisions totalling €16.5 million were recorded at 31 December 2006). The Group believes that the amount of accruals set aside for these risks, litigation and disputes either known or currently in progress are sufficient for its consolidated financial position not to suffer a material adverse impact in the event of an unfavourable outcome.

However, the Company cannot guarantee that the Group will not be exposed to legal actions, claims or government investigations which could prevent or delay its products being marketed or affect its operations, its profitability, its cash flow and have a negative impact on the business of the Group, its financial situation or its results.

4.4 Financial risks

4.4.1 Market risks

Financial risks are managed by the Group essentially within the framework of the control procedures set up at the level of financial management within the Group, in collaboration between the subsidiaries concerned and the Group's specialised departments which arrange and manage such matters. The Group essentially uses traditional and low-risk instruments to cover its exposure to exchange and interest rate fluctuations. To protect itself against liquidity risk, the Group favours a diversified and qualitative approach to its business counterparties. The financial impact of market risks is described in note 24 to the consolidated financial statements at 31 December 2006 in section 20.1 of this registration document.

4.4.2 Exchange rate risk

The worldwide business of the Group is conducted by subsidiaries which operate mainly in the countries where they are based. Sales which give rise to invoices issued in a specific currency are thus generally associated with expenses in the same currency. Consequently, the Group's exposure to exchange rate risk in respect to commercial operations is generally of little significance. In addition, in 2006, 68% of the Group's consolidated business took place in the Eurozone. Regarding to the nature of the Group's currency transactions and the way it is organised, net exposure to exchange rate risks is first assessed by the various subsidiaries of the Group before being passed on, where necessary, to the Group's specialised departments. Exchange rate hedging transactions carried out on behalf of subsidiaries and the management of intragroup exchange rate risk, are centralised within the Group's treasury department which mainly uses traditional hedging instruments (futures, multi currency credit lines, options). Foreign currency fluctuations are not subject to hedging, except for certain limited and immaterial billing fluctuations, and one off transactions.

4.4.3 Interest rate risk

As regards the hedging of interest rate risk, the Group applies a prudent policy adapted to the profile of its business. As of 31 December 2006, the Group had no long-term debt which required interest rate hedging. The financial impact of interest rate risk is described in note 25 to the consolidated financial statement at 31 December 2006 described section 20.1 of this registration document.

4.4.4 Liquidity risk

The Group's policy is to diversify its business counterparties so as to avoid the risks associated with excessive concentration and to make a quality based decision in choosing these counterparties. In addition, the Group monitors the credit risks associated with the financial instruments in which it invests and limits its investments according to the credit rating of its business counterparties. As at 31 December 2006, the Group's net cash position stood at €252.9 million. These funds are managed by the Group and are mainly invested in money-market UCITS and certificates of deposit. The Group invests its surpluses in short-term money-market financial instruments negotiated with counterparties whose credit ratings are at least A1 (Standard & Poors) and P1 (Moody's). Off-balance sheet derivative instruments are negotiated with first-class banking counterparties. Further detailed analysis is provided in chapter 10 of this registration document.

4.4.5 Risk related to the valuation of derivative instruments

As a result of its transaction with Tercica Inc., a NASDAQ listed company, (see section 22.1.2.8 of this registration document), the Group holds in its balance sheet financial assets representing the derivative components of Convertible Notes and Warrants issued by Tercica Inc., which have been registered at Fair Value as at 31 December 2006 in compliance with IFRS39. This Fair Value has been determined on the basis of the best estimate made by the Group using existing information to the best of its knowledge, However, given the specific profile of Tercica Inc., the criteria used to determine the fair valuation of such derivative components are highly influenced by the following elements:

- illiquidity: there is no trading market for these securities, which are held by one counterparty only, hence the determination of the appropriate liquidity discount cannot be based on existing comparable market data;

- no credit market: Tercica Inc. has no publicly traded or non publicly traded debt, and to the best knowledge of the Group the company has no close comparables with an actively traded credit. The estimation of an appropriate credit spread which might be used to value the asset component of the convertibles cannot be determined based on existing comparable market data;
- no volatility market: to the best knowledge of the Group, there are no traded options, warrants or convertibles on Tercica Inc. and hence any estimate of the level of implied volatility at which a Tercica Inc. option or convertible would trade cannot be based on existing and comparable data.

On this basis the Group cannot guarantee that the valuation of the corresponding financial assets may not be subject in due course to unexpected and material variations. Moreover, due notably to the fact that these derivatives have been implemented within a global transaction, the Group cannot guarantee that the value at which those assets have been registered in the Group's books corresponds to what third parties would be willing to offer to acquire similar financial assets. The Group will, at each closing of its financial statements, update the valuation of those assets based on criteria then available and could be obliged to impair significantly the value of these assets.

4.5 Insurance coverage

The Group has insurance coverage against the risks to which it is exposed, which includes product liability insurance. This coverage, which is provided by external insurers, encompasses the Group's worldwide risks.

Product liability insurance covers all the products manufactured, marketed and sold by the Group, as well as all clinical trials conducted by the Group. The level of coverage for clinical trials exceeds that required under the applicable local regulations. Furthermore, a specific policy covers all product recall expenses.

The Group maintains insurance coverage for all aspects of its activities in general, including business interruption, as well as environmental liability.

All the Group's policies carry certain restrictions, which are customary for policies of this type, such as deductibles and exclusions for court judgments to pay punitive damages.

As part of product liability claims, the plaintiff may seek to obtain punitive damages and, if such a judgement is issued, the Group's insurance policies may not cover the corresponding amounts. In such circumstances, the Group may not have sufficient financial resources to comply with these court judgments.

Insurance coverage is becoming increasingly expensive in the pharmaceutical industry and it is impossible to predict the future cost of product liability coverage and to guarantee that it will always be possible to arrange such insurance.

The Group believes the restrictions on its insurance coverage are reasonable and prudent given the Group's business activities and the risks with which it is confronted.

Based on the Company's pro forma 2006 consolidated financial statements prepared according to IFRS, the total cost of the insurance premiums paid by the group came to 1.13% of total revenues and 1.24% of sales.

Since 1 January 2006, the Group covers the cost of part of its civil liability programme by setting up a captive reinsurance company. This move will help to mitigate the high level of volatility seen in the insurance market for this risk. The Group's captive insurance company, which is domiciled in Luxembourg, retains €10 million per claim in each insurance year.

5 Company and the Group

5.1 History and development of the Company and of the Group

5.1.1 Name

Name: Ipsen

5.1.2 Registration details

The Company is registered at the Paris Trade and Companies Registry under registration number 4 19,838,529.

5.1.3 Date of incorporation and term

The Company's business sector NAF code is 741J – Administration of Companies.

The Company was incorporated on 28 July 1998 for a fixed period of ninety-nine years from its date of registration at the Trade and Companies Registry, thereby expiring on 18 August 2097 unless extended or wound up earlier.

5.1.4 Registered office, legal form and applicable law

Registered office: 42, rue du Docteur Blanche – 75016 Paris

Telephone: +33 1 44 30 43 43

The Company is a French société anonyme with a Board of Directors organised and existing under the laws of France and governed notably by the provisions of Book II of the Code de commerce and decree no. 67-236 of 23 March 1967 relating to commercial companies

5.1.5 Significant milestones in the development of the Group's business

The Group's history can be traced back to 1929, when Doctor Henri Beaufour set up Laboratoires Beaufour in Dreux for the launch of Romarène®, a naturally occurring pro-duct derived from rosemary used in the treatment of digestive disorders. In 1954, the Group launched Citrate de Betaïne®, a product used in the symptomatic treatment of dyspepsia. Following the opening in 1969 of the Institut Henri Beaufour, the Group's research facility in France, the 1970s represented a period of expansion for the Group's activities in products of natural origin, since it launched Ginkor®, Tanakan® and Smecta®, which all remain major products for the Group and draw on its specific expertise.

During the 1970s, the Group decided to focus its activities on peptide engineering products, which represented a visionary strategic advance. In pursuit of this goal, the Group forged close relationships with universities in the United States and set up Biomeasure, which is spearheaded by the Albert Beaufour Research Institute, its peptide product research facility based close to the Boston universities. Through Biomeasure, relationships were established and built up with several universities in the United States.

During the 1980s, ties were forged with Debiopharm. These partnerships led to the marketing of Decapeptyl®, which was launched in 1986 and has driven the Group's international expansion.

During the mid- 1980s, the Ipsen Foundation for Therapeutic Research was created. It aims to foster exchanges between top-ranking scientists in life sciences. The Foundation's work has been published for the scientific community. The Group believes that this foundation has helped and continues to help to strengthen its relationships with leading university specialists.

In the late 1980s and early 1990s, the Group's international expansion continued with subsidiaries and offices being set up outside France and the acquisition of foreign companies. Outside Europe, the Company set up a commercial outpost in South-East Asia by opening up a regional office in Kuala Lumpur (Malaysia) in 1987.

To strengthen its presence in the United Kingdom, Northern Europe and the United States and to build a sales platform for its biological products, the Group acquired the UK-based company Speywood (known at the time as Porton International) in 1994, which is responsible for developing Dysport®. During this period, the Group also launched in France Somatuline®, its second sustained-release peptide in March 1995, and Forlax®, in February 1996.

In 1992, the Group initiated its expansion in China, initially by setting up representative offices and then in 1997 by setting up a subsidiary with a view to establishing an active presence there. In 2000, the Group opened a manufacturing facility at which it produces Smecta® for the Chinese market. At 31 December 2003, the Group employed almost 400 personnel in China.

In 1998, the PAI FBO Fund, Paribas (now BNP Paribas), CDC Participations and the Schwabe family acquired a significant shareholding in the capital of Mayroy, the holding company that controls the Group.

In December 2001 and January 2002, the Group launched Somatuline® Autogel® in the United Kingdom and in France. This launch was then extended to various other countries, strengthening the Group's position vis-à-vis Novartis, its principal rival in this product segment.

In 2004, the Group launched NutropinAq® in 12 European countries and Decapeptyl® in Germany.

In March 2005, the Group inaugurated the BioProcess Sciences Research Center at its campus near Boston. This biotechnology facility complements the Research and Development centre's activities already present at the same location. The new facility houses a team of biotechnologists specialising in the development processes specific to genetic engineering, industrial development, analysis and formulation of proteins, production, quality assurance and quality control.

In June 2005, the Group reorganised its operations by transferring to the Company all the assets and operational holdings hitherto held by Mayroy, its majority shareholder.

In October 2005, the Group sold assets belonging to its Spanish subsidiary to Faes Farma. The assets were used to promote and sell primary care products, with the exception of Tanakene®, which remains within the Group.

In December 2005, the shares in the Company were listed on the Eurolist by Euronext™.

In June 2006, The Group received its first marketing authorisation for its botulinum toxin in aesthetic medicine indications in Western Europe with Germany.

In July 2006, the Canadian Health Authorities granted marketing authorisation for Somatuline® Autogel® for the treatment of acromegaly. This is Somatuline®'s first marketing authorisation obtained in North America.

In addition since 2002, the Group has forged a number of partnerships to enrich its Research and Development portfolio and extend its product range (a detailed description of these partners is presented in Chapter 22 of this registration document). Noteworthy agreements include the following:

- an agreement with Genentech in September 2002 for the Group to market worldwide (except in North America, Mexico and Japan) a growth hormone under the NutropinAq® brand name;
- an agreement with Novartis in March 2003 for the Group to market two products (Nisis® and Nisisco®) used in the treatment of cardiovascular conditions;
- an agreement with Spirogen (a UK biotechnology company) in May 2003 for the development of a new chemical entity in oncology and concerning access to technologies and compounds belonging to Spirogen;
- an agreement with Teijin (a Japanese conglomerate) in July 2003 to develop and market in Japan molecules belonging to the Group (endocrinology) and to develop and market in Europe a product for the treatment of hyperuricaemia belonging to Teijin (Febuxostat);
- an agreement with Sterix, a UK company acquired by the Group in February 2004, enabling the Group to expand its Research and Development portfolio in oncology;
- an agreement with Auxilium in March 2004 for the Group to market worldwide (except in North America, Mexico and Japan) a testosterone gel under the Testim® brand name;
- an agreement in November 2004 with Genentech concerning the Research and Development of sustained-release formulations of recombinant growth hormones using Genentech's, the Group's or third-party technological platforms;
- an agreement with Pfizer in November 2005 to promote Artotec®, a non-steroidal anti-inflammatory, in France for an initial two-year period beginning 1 January 2006;
- an agreement with Medicis in March 2006, to develop, sell and market certain formulations of the botulinum toxin for use in aesthetic medicine indications in the United States, Canada and Japan;
- an agreement with Roche in July 2006, to develop and market an anti-diabetic molecule invented and patented by the Group, the BIM 51077 (a GLP-1 analogue) after Roche exercised an option which it had since October 2003. These rights are granted to Roche worldwide with the exception of Japan where they are shared with Teijin (the Company's Japanese partner) and in France where the Group may chose to exercise co-marketing rights;
- an agreement with GTx Inc. in September 2006 to develop and market Acapodène® for all its indications, except from breast cancer, by the Group, in the European Union, Switzerland, Norway, Iceland, Liechtenstein and the Community of Independent States (CIS);
- an agreement with MSD in January 2007, for the use in France of Adrovance™, within the framework of a co-marketing agreement. This fixed association of alendronate sodium trihydrate and colecalciferol (vitamin D3) is taken in weekly dosages and is used in the treatment of post-menopausal osteoporosis for patients at risk with low vitamin D levels;
- an agreement with Galderma in February 2007 to develop, promote and distribute the Group's botulinum toxin type A product for aesthetic indications in Europe and certain other territories.

5.1.6 The Ipsen Foundation

Created in 1983 under the patronage of Fondation de France, the Ipsen Foundation's mission is to contribute to the development and dissemination of scientific knowledge. The long-standing action of the Ipsen Foundation is aimed at furthering the interaction between researchers and clinical practitioners, which is indispensable due to the extreme specialisation of these professions. The ambition of the Ipsen Foundation is not to offer definitive knowledge, but to initiate a reflection about the major scientific issues of the forthcoming years. The Ipsen Foundation involves partners from the international academic and scientific communities in each of its actions so that it can independently set out the major issues that it has decided to address and provide an update on the current state of the scientific knowledge.

▶ 5.1.6.1 Medicine and Research Conferences

The Ipsen Foundation brings together distinguished experts in its Medicine and Research Conferences. These annual international meetings are dedicated to the emerging themes of medicine and biology in several fields:

- **Alzheimer's disease** - since 1987 there have been 21 conferences on this topic. in 2006, there was a special commemoration to celebrate the 100th anniversary of Alois Alzheimer's presentation of the Auguste D. case which took place where the initial presentation was made: Institute of Psychiatry in Tübingen, Germany. All the pioneers of research into

Alzheimer's disease presented the major steps made over the past two decades. The next conference in this series to be held on 16 April 2007 will cover the situation of current research, on the synaptic function and plasticity as regards Alzheimer's disease and other degenerative diseases.

- **Neurosciences** – started in 1990, this set of conferences focuses on the major issues emerging in this field, concerning molecular biology or cognitive sciences. The 14th conference of this series took place in April 2006 and covered the molecular and cellular learning mechanisms of the memory. The 2007 conference will cover a completely new theme: the role of retrotransposons in neuronal diversity and brain development.
- **Longevity** – launched in 1987, this topic brings up the issues and paradoxes of a medical approach which is not focused on the disease but on a better resistance to damaging attacks which weaken the physiological systems in ageing.
- **Endocrinology** – this topic, launched in 2002, focuses on the interactions of the endocrine system, and their involvement in the body's functioning. In December 2006, the 6th conference in this series dealt with a theme at the crossroads of oncology and endocrinology: hormonal control of the cell cycle. The next conference to be held in December 2007, will discuss the effect hormones have on social behaviour.
- **Vascular tree** – this new topic, launched in 2004, aims at exploring the various stages leading to the development of the vascular system, its smooth growth in relation to the growth of the various organs, its degeneration, its death and its regeneration possibilities. In 2006, the conference was dedicated to the effects inflammation has on the vascular tree.
- **Cancer –** the first conference in 2005 was based on identifying the aims of therapeutic research, taking into account the fact that cancer is a chronic disease. In 2006, the second meeting discussed the possible link between inflammation and cancer. In 2007, the conference will cover metastases and will bring together the world's leading specialists including several Nobel price winners.

▶ 5.1.6.2 Other international events

The Ipsen Foundation organises international meetings in partnership with several international scientific institutions and organisations, which bring together experts in various disciplines, including:

- **World Health Organisation (WHO)** – Since 1989, a number of meetings on human genetics have addressed some of the most widely debated topics in this field.
- **National Gerontology Foundation –** various conferences on dementia and cognitive ageing.

Three new partnerships will be launched in 2007, with:

- **The Salk Institute (La Jolla) and Nature magazine**- this partnership will set up a series of annual meetings dedicated to biological complexity. The first meeting which took place in January 2007 dealt with transcription, with is a hot topic as demonstrated a few weeks before the meeting by the fact that one of the speakers, Professor Kornberg received the 2006 Nobel Prize in Chemistry.
- **Cell magazine and the Massachusetts General Hospital** – This series ("*Exciting Biologies"*) will start in October 2007 with "Biology in Motion".
- **Nature magazine**- there will be several meetings in 2,007in the United States under the title "*Emergence and Convergence"*.

▶ 5.1.6.3 International publications

The various events of the Ipsen Foundation result in the publication of synthesis works published by international publishing houses within various English language Ipsen Foundation collections:

- *Research and Perspectives in Alzheimer's disease*;
- *Research and Perspectives in Neurosciences*;
- *Research and Perspectives in Longevity*;
- *Research and Perspectives in Endocrinology*;
- *Collection OMS/Ipsen Foundation*;
- *Collection Esprit et Cerveau*;
- *Cellular and Molecular Biology*.

In addition, the Ipsen Foundation has since 1986 published (190 issues released), a periodical dedicated to Alzheimer's disease entitled *Alzheimer Actualités*. It also publishes the Medicine and Research Conferences reports dedicated to the decryption of the vascular tree and cancer.

▶ 5.1.6.4 Awards to encourage research

The Ipsen Foundation awards prizes for the works of pioneers in the 4 following fields of research:

- **Neurosciences** – the 17th prize in Neuronal Plasticity, which was created in collaboration with Prof Jean-Pierre Changeux, was awarded in 2006 by an international jury chaired by Prof Joël Bockaert *(Institute of Functional Genomics, Montpellier)* to three researchers jointly: Prof Eckhart D. Gundelfinger *(Leibniz Institute for Neurology, Magdeburg)*, Prof Mary B. Kennedy *(California Institute of Technology, Pasadena)* and Prof Morgan Sheng *(Picower Institute for Learning and Memory, MIT, Cambridge)* for their works on the synaptic function.
- **Neuropsychology –** The Jean-Louis Signoret prize was awarded by a jury chaired by Prof Albert Galaburda (*Harvard University, Boston*) to Prof Faraneh Vargha-Khadem (*Institute for Child Health, London*) in 2006 for her research in showing that the mutated gene is involved in language disorder in children.
- **Longevity** - In 2006 this prize was awarded to Prof Cynthia Kenyon *(University of California, San Francisco)* for her work on the genetic decoding of the ageing of the *C. elegans* genome.
- **Endocrinology** – The international jury chaired by Prof Iain Robinson *(National Institute for Medical Research, London)* in 2006 selected Prof Roger Cone *(Oregon Health and Science University, Portland*) for his works on peptides involved in metabolism and obesity.

5.2 Investments

During 2006, acquisitions of non-current assets by the Group amounted to €81.8 million, compared with €44.4 million in the same period of 2005.

In 2006, acquisitions of non-current assets included:

- €41.2 million in acquisitions of intangible assets, including the acquisition of the Increlex™ licence for €10.0 million and the Acapodène® licence for €22.8 million;
- €40.6 million in property, plant and equipment to maintain and improve the Group's asset base, including in particular €14.1 million on the Wrexham facility (supply-chain building, and capacity investments).

The Group also allocated €83.8 million as regards its partnership agreements, to transactions for external growth, including €63.1 million for acquiring 25% of the capital of Tercica Inc. and €20.7 million for a convertible bond with the same company. (see section 6.3.2 of this registration document).

6 Overview of the Group's business

6.1 Principal activities

6.1.1 Type of operations of the Company and principal business activities

▶ 6.1.1.1 General presentation of the Group

Ipsen is a European pharmaceutical group founded in 1929, which currently markets more than 20 drugs. The Group's product portfolio includes pharmaceutical products marketed around the world to specialists working in its targeted therapeutic areas (oncology, endocrinology and neuromuscular disorders), which are its primary areas of development. The Group also markets products in other therapeutic areas in which it boasts longstanding expertise (gastroenterology, cardiovascular and cognitive disorders). To a great extent, these are composed of primary care products in France.

In both its targeted therapeutic areas and in primary care, the Group has a diversified portfolio of leading medicines that have demonstrated a good safety profile.

In 2006, the Group posted consolidated sales of €861.7 million (including 36.0% outside the Major Western European Countries, namely Germany, Spain, France, Italy and the United Kingdom), consolidated operating profit of €187.2 million and consolidated net profit, Group share of €144.0 million, determined in accordance with IFRS. At 31 December 2006, the Group had 3,821 employees in more than 30 countries.

The Group's development strategy is based on a complementary combination of products in the targeted therapeutic areas, which are growth drivers, and primary care products, which help finance its Research and Development activities. This strategy is supported by the active development of international partnerships in marketing and Research and Development activities.

In 2006, the Group spent 20.7% of its consolidated sales on Research and Development activities which, to a large extent, focus on the discovery and development of innovative medicinal products in its targeted therapeutic areas with the aim of fulfilling unmet medical needs. The Group believes it is one of the few pharmaceutical companies among its peers capable of integrating the full spectrum of technologies required to develop complex and innovative products. These technologies include peptide engineering, protein engineering, medicinal chemistry and advanced drug delivery systems.

6.1.1.1.1 The Group's products

Targeted therapeutic areas

In 2006, drugs in the three targeted therapeutic areas accounted for 51.5% of the Group's consolidated sales. The Group offers the following drugs in its targeted areas:

Oncology (25.8% of 2006 consolidated sales)

- Decapeptyl®, a peptide formulation for injection that is mainly used in the treatment of advanced prostate cancer.

Endocrinology (12.6% of 2006 consolidated sales)

- Somatuline® and *Somatuline®Autogel®* are sustained-release formulations for injection of a somatostatin analogue peptide, used primarily in the treatment of acromegaly;
- *NutropinAq®*, a liquid formulation for daily use of recombinant human growth hormone used primarily in the treatment of growth failures.

Neuromuscular disorders (13.2% of 2006 consolidated sales)

- *Dysport®*, a botulinum neurotoxin type A complex, used notably to treat spasticity of upper limbs following a stroke, as well as the spasticity of other muscles.

Primary care

In 2006, primary care drugs generated 44.9% of the Group's consolidated sales (including 67.4% derived from France). The principal drugs are as follows:

Gastroenterology (18.3% of 2006 consolidated sales)

- *Smecta®*, a natural clay-based drug used in the treatment of both chronic and acute diarrhoea;
- *Forlax®*, a drug based on a linear polyethylene glycol polymer used in the treatment of constipation.

Cognitive disorders (15.1% of 2006 consolidated sales)

- *Tanakan®*, an oral formulation of EGb 761®, extracted from the leaves of the Ginkgo biloba tree, used principally in the treatment of age-related cognitive disorders.

Cardiovascular (11.5% of 2006 consolidated sales)

- *Ginkor Fort ®*, an oral formulation containing three active substances including a standardised extract from the leaves of the Ginkgo biloba tree used in the treatment of venous insufficiency of the lower limbs and acute haemorrhoid episodes;
- *Nisis® and Nisisco®*, oral formulations notably containing valsartan, used in the treatment of arterial hypertension.

6.1.1.1.2 Strong commitment to Research and Development

Most of the Group's Research and Development activities are focused on its targeted therapeutic areas, and particularly on:

- the discovery and development of new products, especially in oncology and endocrinology, medical fields in which the Group has five drugs currently in clinical trials;
- life cycle management programmes for products already on the market, which include both the development of new formulations, alone or with other molecules, and the extension of indications or product registrations in new geographical areas.

The Group's Research and Development programmes are based on the following four technological platforms:

- *peptide engineering* focuses on the modification through synthesis of derivatives of naturally occurring neuropeptide hormones;
- *protein engineering*, which aims to improve the therapeutic properties of naturally occurring proteins through the selective modification of amino acid sequences;
- *medicinal chemistry*, which focuses on the discovery of enzyme inhibitors for the treatment of cancer and neuro-degenerative conditions, and also on the search for non-peptide ligands (molecules that attach in

preference to one or more receptors) for neuro-peptide hormonal receptors;

- *advanced drug delivery*, which aims to create and develop innovative formulations for new or existing products in order to optimise the efficacy of the active substances while improving patient quality of life and facilitating the use of the products by healthcare professionals.

6.1.1.1.3 The Group's competitive edge

The Group believes that it has the following competitive advantages:

- *an appropriate portfolio* mix of products in the targeted therapeutic areas and primary care products;
- *proven financial strength* thanks to its large recurring cash flows and robust balance sheet;
- *an international presence* in over 100 countries, with core Operations in Europe's five largest markets (France, Germany, Italy, Spain and the United Kingdom, hereinafter referred to as the "Major Western European Countries");
- *proven expertise in cutting-edge technologies*, such as medicinal chemistry, peptide engineering, protein engineering, medicinal chemistry and advanced drug delivery systems, which can be employed together at an early stage of development. In addition, the Group has a biotechnology development and production facility in the United States (Boston);
- *the geographic proximity of its four integrated technological platforms* based in the United States (Boston) and in Europe (Paris, Barcelona and London) to highly regarded university research centres, enabling the Group to tap into the wealth of scientific expertise available and to hire highly qualified personnel;
- *a recognised ability to seal and manage large-scale partnerships* with the world's leading pharmaceutical companies, such as Genentech, Roche, Teijin and Novartis;
- an effective management team boasting considerable experience of working with the world's leading pharmaceutical companies and a cross-divisional organisation structure thanks to its multi-disciplinary Disease Area Teams, which are responsible for devising the Group's Research and Development and partnership strategy.

▶ 6.1.1.2 Group strategy

Over the past few years, the Group has implemented a strategy of profitable growth in targeted therapeutic areas offering it expansion opportunities. Clinical development costs are lower, the risk/benefit ratio is more favourable and implementation of a sales network is more feasible in the treatment of certain serious illnesses in which therapeutic needs remain largely unmet.

Within this framework, the Group uses its technological and sales expertise, as well as its financial strength to pursue the following strategies:

- *a strategy of growth* in its targeted therapeutic areas (oncology, endocrinology and neuromuscular disorders) in which the Group intends to become a force to be reckoned with by marketing innovative treatments fulfilling unmet medical needs;
- *an optimisation strategy* for its primary care products (gastroenterology, cardiovascular and cognitive disorders), while making, where necessary, selective investments in product life cycle management programmes, partnerships and Research and Development;
- *a geographical expansion strategy* in the most promising markets, with an active programme of securing marketing approval for its flagship products in targeted therapeutic areas, especially in the United States (Somatuline® Autogel® and Dysport®);
- *a partnerships* strategy across all its therapeutic areas. The goal of this policy is to (i) enable the Group to secure resources for programmes, the development costs of which it does not want to bear on its own or to broaden its expertise by calling on partners with complementary capacities or technologies, (ii) maximise the profitability of its distribution network by securing the right to market products belonging to third parties in certain countries, including France, where the Group already boasts strong sales coverage, and (iii) maximise benefits by granting licences on products developed by its research units, but which it does not regard as being part of its core business. Since 2002, the Group has entered into over ten major agreements;
- *a monitoring and rapid response strategy* in other therapeutic areas in which the Group develops and markets products based on its expertise (in terms of both Research and Development and marketing) and the opportunities that arise. For instance, the Group is developing OBI-1, a recombinant molecule used in the treatment of haemophilia resistant to human factor VIII, and Febuxostat, a new compound used in the treatment of hyperuricaemia (gout), for which the European Medicines Agency (EMEA) validated the application for marketing authorisation in the European Union on October 2, 2006.

▶ 6.1.1.3 Detailed presentation of the Group's products

6.1.1.3.1 General data

Twenty products are currently marketed by the Group, eight of which each generated sales of over €40 million per product in 2005 and 2006.

The following table shows an analysis of pro forma consolidated sales by therapeutic area:

(in thousands of euros)	Year ended 31 December 2006	2005 *pro forma*
Targeted therapeutic areas		
Oncology	222,039	210,728
Endocrinology	108,448	87,996
Neuromuscular disorders	113,319	92,478
Sub-total, Targeted areas	**443,806**	**391,202**
Primary care		
Gastroenterology	157,430	141,075
Cognitive disorders	129,882	120,960
Cardiovascular	99,268	115,619
Sub-total, Primary care	**386,580**	**377,654**
Other therapeutic areas		
Other pharmaceutical products	4,197	7,021
Active substances and raw materials	27,093	31,237
Pro forma consolidated sales	**861,676**	**807,114**

The Group's principal product Decapeptyl® generated 25.8% of consolidated sales in 2006. The Group's three best-selling products (Decapeptyl®, Tanakan® and Dysport®) contributed 54.0% of pro forma consolidated sales during the same year.

The following table shows an analysis of the main therapeutic uses of the Group's nine top-selling products (Decapeptyl®, Somatuline®, Dysport®, Smecta®, Forlax®, Tanakan®, Ginkor Fort®, Nisis® et Nisisco®).

Name of product	Therapeutic area[1]	Principal therapeutic indications[2]
Targeted therapeutic areas		
Decapeptyl®	Oncology	Advanced metastatic prostate cancer; uterine fibroids; endometriosis; precocious puberty; female sterility (in vitro fertilisation).
Somatuline®	Endocrinology	Acromegaly; neuroendocrine tumours.
Dysport®	Neuromuscular disorders	Motor disorders and muscular spasticity (cervical dystonia; cerebral palsy; blepharospasms and hemifacial spasms).
Primary care		
Smecta®	Gastroenterology	Chronic and acute diarrhoea; symptomatic treatment of pain linked to oesogastroduodenal conditions and colic.
Forlax®	Gastroenterology	Constipation.
Tanakan®	Cognitive disorders	Age-related cognitive impairment; pathophysiological deficiencies; vertigo; retinal deficits; acute or chronic hearing impairment; tinnitus.
Ginkor Fort®	Cardiovascular	Venous insufficiency of the lower limbs; acute haemorrhoid episodes.
Nisis® and Nisisco®	Cardiovascular	Hypertension.

(1) Products are classified into therapeutic areas based on their primary indications.
(2) Therapeutic indications of products vary from country to country.

The following table shows an analysis for the years ended 31 December 2005 and 2006 of consolidated sales by therapeutic area and a breakdown of sales generated by the Group's nine top-selling products (Décapeptyl®, Somatuline®, Dysport®, Smecta®, Forlax®, Tanakan®, Ginkor Fort®, Nisis® et Nisisco®).

Produits [1]	December 2006		December 2005 (*pro forma*)	
	In thousands of euros	*As a percentage*	*In thousands of euros*	*As a percentage*
Decapeptyl®	221,925	25.8%	210,606	26.1%
Other oncology products	114	0.0%	122	0.0%
Oncology	*222,039*	*25.8%*	*210,728*	*26.1%*
Somatuline®	92,222	10.7%	81,751	10.1%
Other endocrinology products	16,226	1.9%	6,245	0.8%
Endocrinology	*108,448*	*12.6%*	*87,996*	*10.9%*
Dysport®	113,319	13.2%	92,478	11.5%
Neuromuscular disorders	*113,319*	*13.2%*	*92,478*	*11.5%*
Targeted therapeutic areas	**443,806**	**51.6%**	**391,202**	**48.5%**
Smecta®	80,341	9.3%	67,465	8.4%
Forlax®	46,303	5.4%	42,771	5.3%
Other gastroenterology products	30,786	3.6%	30,839	3.8%
Gastroenterology	*157,430*	*18.3%*	*141,075*	*17.5%*
Tanakan®	129,882	15.1%	120,960	15.0%
Cognitive disorders	*129,882*	*15.1%*	*120,960*	*15.0%*
Ginkor Fort®	41,700	4.8%	61,162	7.6%
Nisis® et Nisisco®	50,661	5.9%	41,525	5.1%
Other cardiovascular products	6,907	0.8%	12,932	1.6%
Cardiovascular	*99,268*	*11.5%*	*115,619*	*14.3%*
Primary care	**386,580**	**44.9%**	**377,654**	**46.8%**
Other products other areas	4,197	0.5%	7,021	0.9%
Other areas	**4,197**	**0.5%**	**7,021**	**0.9%**
Pharmaceutical products	**834,583**	**96.9%**	**775,877**	**96.1%**
Related activities	**27,093**	**3.1%**	**31,237**	**3.9%**
Total sales	**861,676**	**100.0%**	**807,114**	**100.0%**

(1) Products are classified into therapeutic areas based on their primary indications.

6.1.1.3.2 Targeted therapeutic areas

The products currently marketed by the Group in each of its targeted areas are described below:

Oncology

Decapeptyl®

Decapeptyl® is a peptide formulation for injection that was initially developed and continues to be used mainly in the treatment of advanced metastatic prostate cancer. Additional indications developed subsequently include the treatment of uterine fibroids (a benign tumour of muscle tissues in the uterus), endometriosis (proliferation of endometrial tissue, the mucous membrane that lines the uterine wall outside the reproductive tract) prior to surgery or when surgery is not deemed appropriate, as well as early-onset puberty and female infertility (in vitro fertilisation). Decapeptyl® is available in monthly or quarterly sustained-release formulations, as well as a daily formulation.

Active substance

The active substance in Decapeptyl® is triptorelin, a decapeptide analogue of GnRH (Gonadotrophin Releasing Hormone), a hormone secreted by the hypothalamus, which initially stimulates the release of pituitary gonadotrophins (hormones produced by the pituitary gland), which in turn control hormonal secretions by the testes and ovaries.

Indications

Prostate cancer. Decapeptyl® is mainly indicated in the treatment of advanced metastatic prostate cancer. In this indication, Decapeptyl® temporarily increases the concentration of testosterone and dihydro testosterone, but continuous administration paradoxically leads to a reduction in plasmatic testosterone concentration. After two to three weeks' treatment, testosterone is reduced to levels below the castration threshold, thereby depriving prostate tumours of one of the main hormones promoting tumour development.

Uterine fibroids. Decapeptyl® is used to reduce the risk of blood loss following ablative surgery to remove uterine fibroids and to relieve symptoms such as abdominal pain, dysmenorrhoea (painful menstruation) and menorrhagia (excessive menstrual bleeding) associated with uterine fibroids through the reduction in their hormonal stimulation.

Endometriosis. Decapeptyl® is used as a treatment aiming to suppress oestrogen secretion, depriving the ectopic endometrial tissue of the critical stimulus it needs to grow.

In vitro fertilisation: Decapeptyl is used in association with gonadotrophines, to induce ovulation in view of an in vitro fertilisation followed by embryo transfer.

Early-onset puberty: Decapeptyl is used to inhibit an over secretion of hormones by the pituitary gland, which improves the height age/bone age ratio.

Marketing

Decapeptyl® was initially launched in France during 1986. At 31 December 2006, Decapeptyl® had marketing authorisations in over 60 countries, including 25 in Europe. Decapeptyl® was launched in the United Kingdom in late 2003 and in Germany during 2004 (under the Pamorelin® brand).

In 2006, 64.4% of Decapeptyl® sales were generated in the Major Western European Countries.

Decapeptyl® is prescribed principally by the following specialists: urologists, andrologists, oncologists, radiotherapists, paediatric endocrinologists, gynaecologists, obstetricians and in *vitro* fertilization specialists.

Rival products vary depending on their therapeutic indications, the main ones being Enantone® (Takeda/Wyeth/Abbott), Zoladex® (Astra-Zeneca), Eligard® (Astellas), Somavert® (Pfizer) and, for in vitro fertilisation, Cetrotide® (Serono). This is likely to change over the coming years, due to the likely arrival of Leuprorelin (Enantone) and Goserelin (Zoladex) generics. Some competitors (Enantone and Eligard) are also developing sustained-release formulations for treatment durations of over 3 months. The first formulation (Eligard, 6 months) is available on the European market, as it received marketing authorisation in Germany on 1 March 2007. Enantone is also due to market a 6 month formulation in 2008.

Intellectual property

Debiopharm, which holds the patent to pamoate formulations of Decapeptyl® has granted the Group an exclusive licence to Decapeptyl® within the European Union (outside Sweden) and in certain other countries. Debiopharm has also granted the Group a co-exclusive licence to manufacture Decapeptyl® within the European Union (outside Sweden) and in certain other countries (with Debiopharm nonetheless retaining the right to manufacture and supply Decapeptyl® for its own purposes and those of its other licensees in territories not licensed to the Group).

The pamoate formulations of Decapeptyl® (which contributed 66.5% of Decapeptyl®'s total sales in 2006) are protected by patents until 2010 and are composed of monthly and quarterly administration formulations. The acetate formulations of Decapeptyl® (which contributed 33.5% of Decapeptyl®'s total sales in 2006) have no longer had any patent protection since 2001, with the exception of France, where an additional certificate of protection expired in August 2005 and in Italy where an additional certificate of protection is valid until November 2007. These formulations include daily and monthly administration formulations.

Research and Development

To manage the life cycle of Decapeptyl®, the Group is pursuing the following developments:

- under the aegis of the International Breast Cancer Study Group, the Group is participating in a study of the treatment of pre-menopausal breast cancer comparing the standard treatment regimen with a hormone therapy combining Decapeptyl® with oestrogen-suppressing agents, such as Aromasin®, which is marketed by Pfizer. Hormone therapy for cancer offers a better tolerated option than traditional chemotherapy and is particularly suitable for long-term treatment;
- development of sustained-release formulations over a period of at least four months.

Endocrinology

Somatuline®

Somatuline® and Somatuline® Autogel® are sustained-release formulations for injection containing Lanreotide, a somatostatin analogue (a hormone that inhibits the release of growth hormone). Somatuline® was initially developed and continues to be used mainly in the treatment of acromegaly, a disorder caused by the over-production of growth hormone or prolactin due to a benign tumour of the anterior pituitary gland. This product subsequently underwent further development in the treatment of symptoms associated with neuroendocrine tumours (particularly of a carcinoid type).

The Group believes that the Somatuline® Autogel® formulation, to which it holds the patent, represents a major technological advance. As far as the Group is aware, this represents the first semi-solid formulation for injection without any excipient, since the active substance itself controls the sustained release. Somatuline® Autogel® releases the active substance with no excipient other than water over a period of at least 28 days, thus requiring just one injection per month compared with the two or three injections previously necessary. This product is presented in a pre-filled syringe for easier administration.

Active substance

The active substance in Somatuline® and Somatuline® Autogel® is Lanreotide, which inhibits the growth and secretion of several endocrine, exocrine and paracrine functions. It is particularly effective in inhibiting the secretion of growth and digestive hormones.

Indications

Acromegaly. Somatuline® is used primarily in the treatment of acromegaly when circulating levels of growth hormone remain high despite surgery or radiotherapy. Somatuline® inhibits growth hormone release and thus controls the therapeutic and relieves the symptoms associated with elevated levels of this hormone.

Neuroendocrine tumours. Somatuline® also treats the symptoms associated with neuroendocrine tumours, particularly of a carcinoid type, by inhibiting the over-production of hormones secreted by these tumours.

Marketing

Somatuline® was initially launched in France in 1995. At 31 December 2006, Somatuline® and Somatuline® Autogel® was recorded in almost 60 countries and was marketed in close to 40 countries (including 24 in

Europe) for the treatment of acromegaly and neuroendocrine tumours and in 45 countries (including 26 in Europe) for the treatment of acromegaly alone.

In 2006, 68.5% of the sales generated by Somatuline® and Somatuline® Autogel® derived from the Major Western European Countries. Somatuline® Autogel® accounted for 85.9% of total sales of this product.

Somatuline® and Somatuline® Autogel® are prescribed mainly by endocrinologists, gastroenterologists, oncologists, surgeons and intensive care specialists.

The drug's main rival is Sandostatin® LAR® Depot (a somatostatin analogue called octreotide) developed by Novartis and (ii) Somavert®, a growth hormone antagonist developed by Pfizer; Sandostatin® LAR® Depot and Somavert® are already available in several countries including the United States where Somatuline® Autogel® will be launched, if it receives FDA approval, in this competitive context. Ambrilia Biopharma, QLT, Valera Pharmaceuticals and Camurus are all carrying out research and development on octreotide sustained-release formulations. Novartis is developing a product called pasiretide for the treatment of acromegaly and other hormone-dependent tumours which could be a rival for Somatuline® Autogel®.

Intellectual property

The Group holds an exclusive worldwide licence granted by Tulane University (United States) to manufacture, use and market the active substance in Somatuline® (Lanreotide) and is the direct holder of the patent covering the Somatuline® Autogel® formulation. The Group holds patents to the Somatuline® Autogel® formulation, which are set to expire in 2015 in Europe and in the United States. The patent protecting the active substance is set to expire in 2006 in the United States and expired in December 2005 in Europe, except in Belgium, France, Italy, Luxembourg and the United Kingdom where additional certificates of protection remain valid until 2009.

Research and Development

The FDA accepted the filing of the New Drug Application (NDA) for Somatuline® in the treatment of acromegaly on 29 December 2006. This acceptance signifies the start of the review process of the NDA with a "prescription drug user fee act" goal date set for 30 August 2007.

Additional phase III and IV clinical trials of Somatuline® Autogel® are planned in the treatment of neuroendocrine tumours in the United States and in Europe.

The Group is also pursuing the development of sustained-release formulations for treatment durations of approximately three months. Development of this new formulation is currently at the pre-clinical stage, since a phase I trial with the first candidate formulation proved unsuccessful.

In Japan, the Group's partner, Teijin, started phase II clinical trials of Somatuline® Autogel® in the symptomatic treatment of acromegaly at the beginning of 2007.

NutropinAq®

Active substance

NutropinAq® is a liquid formulation of recombinant human growth hormone to be used with the NutropinAq® Pen. The growth hormone is involved in several physiological processes including growth in stature and bone development.

Indications

NutropinAq® is prescribed for (i) the long-term treatment of children with growth failure owing to inadequate endogenous growth hormone secretion; (ii) the long-term treatment of growth failure associated with Turner's syndrome; (iii) the treatment of prepubertal children with growth failure associated with chronic renal insufficiency ahead of kidney transplantation; and (iv) the treatment of adults with growth hormone deficiency of either childhood or adult-onset.

Marketing

In September 2002, Genentech, a US company specialised in biotechnology, granted the Group exclusive marketing rights for NutropinAq® worldwide outside North America, Mexico and Japan. Genentech has pioneered the development of growth hormone and is currently one of the leading players in the United States market.

At 31 December 2006, the Group had marketing authorisations for 31 countries, including 25 in Europe. The product was launched in over 20 countries across Europe during 2005 and 2006.

Growth hormones are prescribed by paediatric and adult endocrinologists.

Five companies currently market recombinant growth hormones: Pfizer (Genotropin®), Eli Lilly (Humatrope®), Novo Nordisk (Norditropin®), Serono (Saizen®) and Ferring (Zomacton®). Omnitrope® (Sandoz), a biosimilar product to Pfizer's Genotropin®, has recently been introduced on the market (launched in Australia and Germany in 2006). A substantial number of developments focus on sustained-release formulations (weekly or monthly injections) which should improve observance. To the Company's best knowledge, LG LifeSciences, Altus and Pfizer have the most advanced projects.

NutropinAq® is a ready-to-use product, which puts it at a significant advantage in a competitive market in which only Novo Nordisk's Norditropin® boasts the same strength.

Intellectual property

NutropinAq® is protected by a European patent belonging to Genentech and due to expire on 29 July 2013. A European patent (EP 587.858) belonging to Pharmacia is likely to cover NutropinAq® according to the interpretation of its claims. Genentech has filed its opposition to a European patent belonging to Pharmacia and the Opposition Division of the European Patent Office has amended this patent so that it should longer cover NutropinAq®. This ruling by the European Patent Office's Opposition Division was appealed by Pharmacia on 6 June 2005 and the European Patent Office's Technical Board of Appeal published its decision on 18 July 2006. The terms of Pharmacia's patent's main claim were partially restored but, for usual procedural reasons, the details of the Technical Board of Appeal's decision are at present undisclosed. If Pharmacia claims that NutropinAq® has infringed its patent and, assuming the latter's action were successful, the Group may have to pay compensatory royalty to Pharmacia

Research and Development

Within the framework of its agreement with Genentech signed in September 2002, the Group received from Genentech a copy of the registration dossier compiled by Genentech and filed with the FDA in January 2004 with a view to extending the indication for the treatment of idiopathic short stature. The Group filed a dossier in April 2006 with a view to securing an extension of this indication with the European Medicines Agency (EMEA).

The Group is also pursuing Research and Development projects, within the framework of the agreement signed with Genentech in November 2004, aiming to develop a sustained-release formulation for recombinant growth hormone.

Neuromuscular disorders

Dysport®

Dysport, which acts to block acetylcholine release, hence reducing muscular spasm was initially developed for the treatment of motor disorders and various forms of muscular spasticity, including cervical dystonia (a chronic condition in which the neck is twisted or deviated), spasticity of the lower limbs (heal) in children with cerebral palsy, blepharospasm (involuntary eye closure) and hemifacial spasm. It was later developed for the treatment of a wide variety of neuromuscular disorders and aesthetic medicine.

Active substance

The active substance in Dysport® is a botulinum neurotoxin type A complex, which acts at the level of the neuromuscular junction in the targeted muscle.

Indications

Dysport® is used for these therapeutic indications and namely for the treatment of:

Cervical dystonia. Dysport® treats all forms of cervical dystonia.

Cerebral palsy in children. Dysport® treats spasticity of the leg muscles in children with cerebral palsy. Cerebral palsy is a motor disorder resulting from damage to the brain that generally occurs at birth.

Blepharospasm/hemifacial spasm. Dysport® is indicated in the treatment of blepharospasm, which is the involuntary closing of the eyes caused by a spasm of the muscles surrounding the eyes. A hemifacial spasm is similar to a blepharospasm, but affects only one side of the face.

Marketing

Dysport® was originally launched in the United Kingdom in 1991. At 31 December 2006, Dysport® had marketing authorisations in over 70 countries. In 2006, 44% of Dysport®'s sales derived from the Major Western European Countries.

In March 2006 the Group signed an agreement with Medicis, granting the latter the exclusive right to develop, sell and market certain formulations of the botulinum toxin for use in aesthetic medicine indications in the United States, Canada and Japan under a brand other than Dysport®, which could be Reloxin®. In addition, in February 2007, The Group granted Galderma the right to develop, promote and distribute the Group's botulinum toxin type A product for aesthetic indications in Europe and certain other territories (these agreements are presented in detail in section 22.1.3.3 of this registration document).

Dysport® is prescribed chiefly by neurologists, neuro-paediatricians, ENT specialists, ophthalmologists, dermatologists, plastic surgeons, gastroenterologists, urologists, and sports medicine and physical therapy specialists.

Dysport®'s main rival is Botox® (Allergan). A weaker competitor is NeuroBloc®/Myobloc® (Elan), a botulinum toxin type B in liquid form. In the future it would appear that other competing botulinum toxins type A will be available such as Quick Star/Estetox (Lanzhou Biologics Institute, China), which has received marketing authorisation in some Asian and Latin America countries. Furthermore, Xeomin® (Merz) was launched in 2005 in Germany and in 2006 in Mexico and it seems that it has started phase III clinical trials in the United States. Medy-tox Inc. has launched Neuronox in South Korea in 2006. Mentor recently mentioned that phase III clinical trials in the United States for its pure botulinum toxin Puretox® for aesthetic indications would start at the end of the first quarter of 2007.

Intellectual property

Botulinum toxin, the active substance in Dysport®, does not have any patent protection. The Group holds an exclusive worldwide licence granted by the UK Health Protection Agency (HPA), formerly known as the Centre for Applied Microbiology and Research, enabling it to use and to sell the botulinum neurotoxin type A complex, which is the active substance in Dysport®. The Group holds the right to manufacture this toxin using the HPA's expertise. The Group currently manufactures the toxin itself. The Group has also filed eleven patent applications concerning new therapeutic applications of botulinum toxin, as well as filing three other requests, eight of which have not been published to date.

Research and Development

The Group finished recruiting in 2006 for phase III clinical trials with Dysport® the United States in the treatment of cervical dystonia.

Dysport® is currently undergoing phase II clinical trials in the treatment of myofacial pain.

Dysport® is currently undergoing phase III clinical trials in the United States for aesthetic medicine indications (frown lines) led by Medicis under the development and distribution agreement entered into by the Group with the company. Provided the outcome of these trials is positive, Medicis plans to file regulatory submissions with the FDA during 2007 under a brand name other than Dysport®, which may be Reloxin®.

As far as use of the Group's botulinum toxin type A in aesthetic medicinal indications in Europe is concerned, the AFSSAPS regulatory review process is still ongoing. In this context, the Group has decided, in conjunction with its partner Galderma, to optimise the product's profile by including, as soon as possible in 2007 in its marketing authorisation application, the full results of clinical studies in the product's efficacy and safety carried out by its partner Medicis in the United States.

6.1.1.3.3 Primary care

The main products currently marketed by the Group in primary care are described below.

Gastroenterology

Smecta®

Smecta® is an oral formulation devised by the Group. It is used in the treatment of both chronic and acute diarrhoea in adults and children and in the symptomatic treatment of pain associated with oesophageal, gastric, duodenal or colonic disorders.

Active substance

Smecta®'s active substance is diosmectite, a natural clay processed for therapeutic use.

Marketing

The Group launched Smecta® in France in 1977. At 31 December 2006, it held marketing authorisations for Smecta® in over 70 countries. In 2006, 33.2% and 32.6% of Smecta®'s sales derived respectively from France and China, the product's main markets.

Smecta® is prescribed primarily by general practitioners, gastroenterologists and paediatricians.

The drug's main rivals are: Imodium®and Arestal® (Janssen Cilag), Ercefuryl® (Sanofi-Aventis), Ultralevure® (Biocodex) and Tiorfan® (Bioproject Pharma).

Intellectual property

Smecta® was protected by a patent, which expired in 1995.

Research and Development

In February 2007 the Group submitted an application to the French authorities to modify the file to register a new flavour of Smecta.

Forlax®

Forlax® is an oral laxative created by the Group. It is used in the treatment of constipation.

Active substance

Forlax®'s active substance is Macrogol 4000, a linear polyethylene glycol polymer.

Marketing

The Group launched Forlax® in France in 1996 and has since obtained marketing authorisations in more than 60 countries. In 2006, 82.7% of Forlax®'s sales derived from the Major Western European Countries.

Forlax® is prescribed primarily by general practitioners, gastroenterologists, gynaecologists, gerontologists and paediatricians.

The main rival drugs are Duphalac® (Solvay Pharma), Transipeg® (Roche Nicholas) and Movicol® (Norgine Pharma).

Intellectual property

Forlax® has never been protected by a patent.

Cognitive disorders

Tanakan®

Tanakan® is an oral formulation of EGb 761®, extracted from the leaves of the Gingko biloba tree (dioecious tree in the Ginkgoaceae family) using a standardised process that ensures a consistent composition of the various pharmacologically active substances. It was initially developed in the treatment of various vascular and neurological disorders, mainly the treatment of age-related cognitive impairment, pathophysiological deficiencies, vertigo, tinnitus, acute or chronic hearing difficulties and retinal disorders (visual impairment).

Active substance

The active substance in Tanakan®, EGb 761®, is extracted from Ginkgo biloba leaves cultivated under controlled conditions in specially designed plantations. It contains natural substances with antioxidant, neuroprotective and vasoactive properties (*i.e.* it increases the diameter of capillary vessels and hence improves microcirculation).

Indications

Age-related cognitive disorders. Tanakan® is indicated in the treatment of the pathological decline in age-related cognitive functions, such as impaired intellectual capacities, together with memory and attention disorders.

Pathophysiological deficiency. Tanakan® is also indicated in the treatment of a number of cognitive deficiencies of degenerative origin (such as Alzheimer's disease), mainly of a vascular or combined type.

Cochleovestibular disorders. Tanakan® is indicated in the treatment of symptoms of vertigo (such as equilibrium and instability disorders) and tinnitus (such as buzzing or whistling in the ears), and acute or chronic hearing impairment.

Retinal deficit. Tanakan ® is also used in the treatment of visual impairment and vision disorders of vascular origin.

Marketing

Tanakan® was initially launched in France in 1975. At 31 December 2006, Tanakan® had been approved for use in over 60 countries, mainly in Europe and Asia. Since 2004, it has been indicated and reimbursed in Belgium in the symptomatic treatment of mild to moderate forms of Alzheimer's-type dementia associated with memory disorders and cognitive disorders. In 2006, 75.2% of Tanakan®'s sales derived from the Major Western European Countries.

Tanakan® is prescribed primarily by general practitioners, neurologists, psychiatrists, ENT-specialists and ophthalmologists.

In France, on October 26, 2006, the Minister of Health and Solidarities decided to maintain the class of vasodilators, among which Tanakan® on the list of reimbursable drugs and to keep their reimbursement rate by the French Social Security at 35%. Furthermore, the Minister has asked the Comité Économique des Produits de Santé to implement a price cut of up to 20% to these drugs by the end of January 2007. As of May 3, 2007, the price cut had not been implemented.

The main rival drugs in this area are: Fonzylane® (Lafon/Céphalon), Praxilene® (Lipha Santé), Sermion® (Sanofi-Aventis), Torental® (Sanofi-Aventis) and Nootropyl® (UCB Pharma).

Intellectual property

EGb 761® is protected by two patents, one granted to Dr. Willmar Schwabe ("Schwabe"), with which the Group has a longstanding relationship, and the other granted to Italian company Indena. The Group holds licences to these patents entitling it to manufacture, use and sell products containing Ginkgo biloba extracts, including EGb 761®.

Research and Development

The Group is currently investigating EGb 761®, the Ginkgo biloba extract in Tanakan®, in the treatment of neurodegenerative disorders, such as Alzheimer's disease. Over 8,000 patients are taking part in these research programmes, and eight clinical trials are currently in progress, some being conducted in the United States by the National Institutes of Health. A detailed description of these clinical trials is provided in section 11.1.7.1 of this registration document.

Cardiovascular

Ginkor Fort®

Active substance

Ginkor Fort® is an oral formulation containing three active substances, namely troxerutin A (a vasoactive rutin analogue, a flavonoid of plant origin), heptaminol chlorhydrate and a standardised Ginkgo biloba extract. It is used in the treatment of vascular conditions, of venous insufficiency of the lower limbs and of acute haemorrhoid episodes.

Marketing

This product was initially launched as Ginkor® in France in 1972 and subsequently changed its name to Ginkor Fort® in France during 1989. The Group sells Ginkor Fort® chiefly in France from where it derived 91.6% of the product's sales during 2006. At 31 December 2006, Ginkor Fort® also had marketing authorisations in over 50 countries.

Ginkor Fort® is prescribed primarily by general practitioners and the following specialists: gastroenterologists, gynaecologists, phlebologists (vein specialists) and dermatologists.

Ginkor Fort®'s price was reduced by 15% in February 2006. The French government published a decree in the Official Journal on 25 January 2006 cutting the reimbursement rate for all members of the veinotonic class of drugs to 15% from 1 February 2006 to 31 December 2007. These drugs will then be withdrawn from the list of reimbursable drugs from 1 January 2008.

The drug's principal rivals in this area are: Daflon® (Servier), Endotélon® (Sanofi-Aventis) and Veinamitol® (Negma-Lerads).

Intellectual property

The Ginkgo biloba extract contained in Ginkor Fort® is covered by two patents granted to Schwabe and Indena. The Group holds licences to use these patents, entitling it to manufacture, use and sell products containing Ginkgo biloba extracts.

Nisis® et Nisisco®

In 2003, the Group added Nisis® and Nisisco®, two antihypertensive products, to its portfolio by signing an agreement with Swiss group Novartis, to market the products in France, Andorra and Monaco (a detailed description of this agreement follows in section 22.2.2 of this registration document).

Active substance

Nisis® is an oral formulation containing valsartan, while Nisisco® contains valsartan and hydrochlorothiazide. The products are used in the treatment of arterial hypertension. The active substance in Nisis® and Nisisco® is valsartan, a synthetic angiotensin II antagonist compound.

Marketing

Nisis® and Nisisco® were initially launched in France by Sanofi-Aventis. Following the contracts entered into with Novartis and Sanofi-Aventis in March 2003, the Group holds marketing authorisations and has marketed Nisis® and Nisisco® in France since May 2003. In 2006, these two products generated sales of €50.7 million.

Nisis® and Nisisco® are prescribed by cardiologists and general practitioners.

The main drugs competing with Nisis® and Nisisco® in this area are class C9C and C9D specialties: Aprovel® and Coaprovel® (BMS-Sanofi), Cozaar®, Hyzaar® and Fortzaar® (Merck), Tareg® and Cotareg® (Novartis), Atacand® and Hytacand® (Astra-Zeneca), Kenzen® and Cokenzen® (Takeda).

Intellectual property

Novartis holds a European patent to the compound carrying the DCI valsartan (synthetic angiotensin II antagonist). This patent is complemented in France by an additional certificate protecting valsartan until 12 May 2011. Two European patent applications covering galenic formulations of valsartan and valsartan/hydrochlorothiazide are currently being assessed. The former was granted on 22 September 2004 and will expire on 18 June 2017.

6.1.1.3.4 Other therapeutic areas

The Group sells a number of other products. During 2006, sales generated by the Group's other products amounted to €4.2 million or 0.5% of its consolidated sales.

▶ 6.1.1.4 Marketing and distribution

The Group markets its products in the targeted therapeutic areas to specialists, including decision-makers with influence over the opinion of their peers. The Group also markets numerous primary care products.

In 2006, the Group's consolidated sales came to €861.7 million, 64% of which derived from the Major Western European Countries.

The following table shows a geographical analysis of consolidated sales for each of the stated periods.

	Year ended 31 December			
	2006		2005 *pro forma*	
	Amount[1]	%	Amount[1]	%
Major Western European Countries[2]	551,674	64.0%	547,287	67.8%
Other European countries	184,800	21.5%	155,893	19.3%
Rest of the world[3]	125,202	14.5%	103,934	12.9%
Total sales	**861,676**	**100%**	**807,114**	**100%**

(1) In thousands of euros.
(2) I.e: Germany, Spain, France, Italy and United Kingdom.
(3) Including North America and Asia.

At 31 December 2006, of the 1,216 people comprising the Group's sales force, 630 staff were employed outside the Major Western European Countries, *i.e.* 16.5% of the Group's workforce. A geographical analysis of the Group's workforce by job category and by therapeutic area is provided in Chapter 17 of this registration document on Employees.

▶ 6.1.1.5 Manufacturing

The Group operates, either alone or with its partners, a total of nine production facilities in France, the United Kingdom, Ireland, Spain, Switzerland and China, together with five plantations and leaf-drying facilities in France, China and the United States.

The Group's principal manufacturing process has three stages: the primary manufacture of the principal active substances, the incorporation of these constituents into secondary formulations and the related packaging. Each stage of the manufacturing process takes place in strictly controlled conditions and is subject to the applicable national and international legislation. All the Group's manufacturing facilities comply with Good Manufacturing Practices (GMP), in line with the relevant directives. Manufacturing facilities outside the United States, which import products into the country, must be approved by the FDA on a product-by-product basis and are subject to periodic inspections by the FDA.

The Group manufactures its own products when it deems this to be necessary for its business for strategic reasons, but also relies upon outsourcing as an alternative for certain projects. Likewise, where appropriate, the Group enters into supply agreements with third parties, such as Expansia, a fine chemicals company that supplies certain active substances.

The Group currently manufactures the active substances in its principal products and some of its products that appear to harbour significant future growth prospects. The Group manufactures EGb 761® through its partnership with Schwabe and under its licensing agreement with Indena. In addition to the pharmaceutical manufacturing expertise required to produce its highly specialised products, the Group boasts a wealth of experience in the technology of biological manufacturing processes based on proteins, which represents a solid platform enabling it to harness the emerging opportunities deriving from the biological manufacturing process. In addition, the Group believes it is one of the few pharmaceutical groups able successfully to manufacture sustained-release peptide formulations for injection.

Each of the Group's manufacturing facilities focuses on a particular technology to maximise its operational efficiency. For instance, the Wrexham site (United Kingdom) is devoted to the purification and formulation of proteins, while the Dreux plant (France) specialises in the manufacture and packaging of high volumes of oral formulations. The continued implementation of this policy and the resulting efficiency are critical to the success of the Group's product procurement strategy.

To secure access to the requisite quantities and quality of raw materials needed to manufacture naturally occurring products in the Ginkgo biloba range, the Group produces a large proportion of the Ginkgo biloba leaves that it uses on its own plantations (in China, France and the United States). It thereby minimises its exposure to any significant risk deriving from the availability of raw materials and the volatility of their prices.

6.1.2 Significant new products or services launched on the market in 2006

Somatuline® Autogel® was launched in 2006 in Kazakhstan, Switzerland, Romania, Turkey and Israel.

6.2 Principal markets in which the Group operates

6.2.1 General data

The pharmaceutical industry is highly competitive. In recent years, the pharmaceutical sector has undergone increasing vertical and horizontal integration. In addition, the way pharmaceuticals are marketed is currently undergoing significant change in markets across Europe and the United States, with reduced flexibility in price-setting, tighter cost-control measures and the impact of healthcare cost management initiatives, particularly concerning the selection of products and the setting of selling prices.

Against this backdrop, the Group has to compete with other companies to develop and secure marketing authorisations for new pharmaceutical specialities in the therapeutic areas it has targeted, as well as for specific products producing comparable therapeutic results to those produced by the drugs marketed by the Group. The Group also competes with other pharmaceutical groups to find suitable partners to ensure growth in its Research and Development portfolio and in its portfolio of products already on the market.

A number of the companies that compete with the Group to develop and secure marketing authorisations for new compounds are significantly larger than the Group and, accordingly, are able to devote more resources to Research and Development, as well as to marketing, which may give them the advantage of being able to offer a broader range of products and having a larger sales force. Some of these companies have a stronger presence in markets in which the Group currently markets products within therapeutic areas it has targeted, particularly in the European Union and markets earmarked for expansion, such as the United States and Japan.

The Group's strategy as a specialty pharmaceutical company is to focus its Research and Development programme on the development of a complementary range of products for a deliberately low number of debilitating conditions in the therapeutic areas targeted by the Group. From a marketing standpoint, this strategy has prompted the Group to concentrate its efforts on influential physicians, primarily specialists, who are responsible for drug prescriptions or who may prompt similar prescriptions by other doctors. By forging a strong reputation with these key specialists in highly specific and specialised fields, the Group believes it is able to conduct its marketing activities selectively and cost-effectively, thereby alleviating the need for it to run a large sales force. This said, the Group will have to continue competing with larger companies marketing products in the same therapeutic areas.

Once they reach the market, the Group's products have to compete with those marketed by other pharmaceutical companies for the same indications. Some of these products may already have been on the market for some time when the Group introduces its rival product. In the United States, for instance, the Group hopes to submit a New Drug Application for Dysport® in 2007. If this application is approved, Dysport® will have to compete with an already well-established botulinum toxin, namely Allergan's Botox®. In certain cases, the Group hopes to harness synergies between its technological platforms by using its research into new delivery systems for highly refined active substances that are practical for patients to give its existing and new products competitive advantages. For instance, Somatuline® faces competition from Novartis' Sandostatin®, but the Group believes the development of Somatuline® Autogel®, a sustained-release formulation that is relatively painless and easy to use, gives it a competitive advantage in the somatostatin analogue market.

The Group may also have to compete with generic drugs or those marketed for unapproved indications following the expiry of patents protecting its own products or those of its rivals. The cost of these products may be significantly lower than the original products they are replicating, because the pharmaceutical companies manufacturing them do not incur the corresponding Research and Development costs. The Group is also exposed to the risk of the creation and sale of counterfeit versions of its products being manufactured by third parties.

In addition to the competition facing its products, the Group also has to compete with other companies when recruiting scientists and other highly experienced employees. The Group believes that its internal human resources policy is highly competitive and is instrumental in fostering a positive working environment which, coupled with its Research and Development reputation, enhances its appeal to suitably qualified candidates.

6.2.2 Geographical breakdown of the sales of the main drugs of the Group

The sales referred to in section 6.2.2 are sales established in line with IFRS accounting standards.

▶ 6.2.2.1 Products in the Group's targeted therapeutic areas

6.2.2.1.1 Oncology

The following table shows the geographical breakdown of the sales recorded by Decapeptyl® during the financial year ended 31 December 2006:

	Financial year 2006	
	In thousands of euros	*As a percentage*
Major Western European Countries[1]	142,842	64.4%
Other European countries	58,285	26.2%
Rest of the world	20,798	9.4%
Total	**221,925**	**100.0%**

(1) I.e.: Germany, Spain, France, Italy and United Kingdom.

6.2.2.1.2 Endocrinology

The following table shows the geographical breakdown of the sales recorded by Somatuline® during the financial year ended 31 December 2006:

	Financial year 2006	
	In thousands of euros	*As a percentage*
Major Western European Countries[1]	63,127	68.5%
Other European countries	24,127	26.1%
Rest of the world	4,968	5.4%
Total	**92,222**	**100.0%**

(1) I.e.: Germany, Spain, France, Italy and United Kingdom.

6.2.2.1.3 Neuromuscular disorders

The following table shows the geographical breakdown of the sales recorded by Dysport® during the financial year ended 31 December 2006:

	Financial year 2006	
	In thousands of euros	*As a percentage*
Major Western European Countries[1]	50,305	44.4%
Other European countries	28,338	25.0%
Rest of the world	34,676	30.6%
Total	**113,319**	**100.0%**

(1) I.e.: Germany, Spain, France, Italy and United Kingdom.

▶ 6.2.2.2 Primary care products

6.2.2.2.1 Cognitive disorders

During the financial year ended 31 December 2006, 70.8% of the sales recorded by Tanakan® were generated in France.

6.2.2.2.2 Cardiovascular

During the financial year ended 31 December 2006, 91.6% of the sales recorded by Ginkor Fort® were generated in France.

6.3 Exceptional events that influenced the information given in sections 6.1 and 6.2

6.3.1 Governmental measures

European governments continued to introduce various measures to reduce public health spending, which had an impact on the Group's sales and earnings during 2006.

In France, sales tax on pharmaceutical companies was increased to 1.76% in 2006, from 0.6% in 2005 and reduced as of January 1, 2007 to 1.0%.

Bedelix®, which generated sales of €9.0 million in 2005, was withdrawn from the list of drugs reimbursable under the national health plan on 1 March 2006. The price of Ginkor Fort®, which generated sales of €57.5 million in 2005, dropped 15% in February 2006. On 25 January 2006 the French Authorities published their decision to lower the reimbursement rate of Ginkor Fort® from 35% to 15% from 1 February 2006 to 31 December 2007, and to remove it from the list of reimbursable drugs on 1 January 2008. The price of NutropinAq® also dropped by 7% on 1 August 2006 following a decision of the Economic Committee for Health Products(CEPS).

In Italy, following the repeal in October 2005 of the 6.8% discount on drug sales enacted in June 2004, a new 4.4% price discount (applicable on all reimbursed products) was implemented on 16 January 2006. An additional discount of 1.0%, granted to wholesalers by the laboratories is also applied. Furthermore, the newly elected government announced an additional 0.6% reduction in drug prices (effective as of 1 July 2006), followed by a second 5.0% reduction effective as of 1 October 2006.

In Spain, after the "Pacto Social" was withdrawn in 2004 a 2% price reduction has been applied since 1 February 2006, following the 4.2% reduction applied since 1 February 2005.

Furthermore, European governments continue to introduce various measures to reduce public spending which will influence the Group's future results. In France, on October 26, 2006, the Minister of Health and Solidarities decided to maintain the class of vasodilators, among which Tanakan® on the list of reimbursable drugs and to keep their reimbursement rate by the French Social Security at 35%. Furthermore, the Minister has asked the Comité Économique des Produits de Santé to implement a price cut of up to 20% to these drugs by the end of January 2007. As of May 3, 2007, the price cut had not been implemented.

The French authorities have also announced a reimbursement rate cut - to 35% from 65% - along with a 7% price reduction on Pfizer's Artotec®, the promotion of which is carried out by Ipsen since 2006. These measures have been implemented on January 1, 2007.

6.3.2 Partnerships

Botulinum toxin type A - Reloxin® - North America and Japan: In March 2006, the Group and Inamed rescinded the development and distribution agreement concluded on 30 July 2002 for the products based on botulinum toxin type A, and the Group paid Inamed a non recurrent amount of €8.4 million to recover all the rights on Reloxin®. On 20 March 2006, The Group and Medicis announced the completion of an agreement whereby The Group granted Medicis the rights to develop, distribute, and commercialise the Group's botulinum toxin product in the United States, Canada and Japan for aesthetic use by physicians. Medicis paid the Group $125.1m in return for the corresponding exclusive distribution rights, and agreed to pay an additional $26.5m upon the successful completion of various clinical and regulatory milestones, $75.0 million upon the product's approval by the US FDA (Food and Drug Administration), and $2.0 million upon regulatory approval of the product in Japan, thereby bringing the total sum to $228.6 million. the Group will manufacture and supply the product to Medicis for the duration of the agreement, due to expire in September 2019. the Group will receive royalties proportional to sales as well as a supply price, the total amounting to approximately 30% of net sales as defined in the agreement. Besides, Medicis will be responsible for Research & Development costs related to obtaining regulatory approval in the countries concerned.

BIM 51077 (GLP-1 analogue): On 19 July 2006, Roche exercised its option of exclusive rights to develop and market the Group's patented anti-diabetes compound, BIM 51077 (a GLP-1 analogue) which it held since October 2003. These rights are granted to Roche worldwide with the exception of Japan where they are shared with Teijin (the Group's Japanese partner) and in France where the Group may choose to exercise its co-marketing rights. The exercise of this option has resulted in Roche paying to the Group €56 million followed by an additional €1.7 million. the Group may also receive an additional total payment of up to €170 million, depending on the success of the clinical development, manufacturing, regulatory and commercial milestones. Moreover, the Group will receive royalties on a sliding scale proportional to the product's worldwide sales. As of the date of the option's exercise, Roche becomes fully responsible

for the product's development and manufacturing and will therefore hold the regulatory approvals. Roche will be wholly responsible for the next stages in the development of BIM 51077, with the exception of Japan where costs will be shared equally between Roche and Teijin.

Somatuline® – North America and **Increlex™** - Europe: the Group signed a series of agreements on 13 October 2006 with the US company Tercica Inc. (based in Brisbane, California), the terms of which are as follows:

1) Cross licensing agreements:

Tercica Inc. granted the Group the exclusive license to develop and market Increlex™ worldwide except for the United States, Japan, Canada, the Middle East and Taiwan. the Group made an upfront cash payment of €10.0 million to Tercica Inc. upon the closing of this transaction, and will pay an additional €15.0 million on approval of the Increlex™ Medical Marketing Application in the European Union for the targeted indication. Once Increlex™ is launched in the Group's territory, the Group will pay royalties to Tercica Inc. on a sliding scale from 15% to 25% of net sales, in addition to a supply price of 20% of net sales of the product.

The Group granted Tercica Inc. the exclusive license to develop and market Somatuline® Autogel® in the United States and Canada. Tercica Inc. made an upfront payment of $25.0 million to the Group upon closing of this transaction, and will make an additional payment of €30 million upon United States approval of Somatuline®' Autogel® for the targeted indication. Both of these milestones will be financed through the issuance by Tercica Inc. of convertible notes to the Group (see below). Once Somatuline® Autogel® is launched in Tercica Inc.'s territory, Tercica Inc. will pay royalties to the Group on a sliding scale from 15% to 25% of net sales, in addition to a supply price of 20% of net sales of the product.

2) Equity investment and convertible notes

- At the closing of the transaction:

- **equity investment**: the Group acquired newly issued ordinary shares at $6.17 per share representing a 25% stake in Tercica Inc. (post transaction, on an non-diluted basis). The Group's total investment in cash amounted to $77.3 million;

- **convertible note 1**: Tercica Inc. issued to the Group a convertible note for a principal amount of $25.0 million. The note, which will mature 5 years from the date of closing carries a 2.5% coupon (payable in shares *in fine*) of and is convertible into Tercica Inc. common stock at a conversion price of $7.41 per share. This note was issued in payment of the upfront licensing payment for Somatuline® Autogel® in the United States and Canada described above;

- **Warrant**: Tercica Inc. issued a warrant to the Group, with an exercise price of $7.41 per share, convertible into Tercica Inc. common stock at any time until 12 October 2011. This warrant is meant to allow the Group to increase its stake in Tercica Inc. to 40% on fully diluted basis post transaction.

- Once Somatuline® Autogel® has been approved in the United States in the product's targeted indication:

- **convertible note 2**: Tercica Inc. will issue to the Group a convertible note for a principal amount of €30.0 million. The note, which will mature 5 years from the date of closing, carries a coupon of 2.5% and is convertible into Tercica Inc. common stock at a conversion price of €5.92 ($7.41) per share. This note will be issued in payment of the second licensing payment for Somatuline® Autogel® described above;

- **convertible note 3**: Tercica Inc. will issue to the Group a convertible note for a principal amount of $15.0 million. The note, which will mature 5 years from the date of closing, carries a coupon of 2.5% and is convertible into Tercica Inc. common stock at a conversion price of $7.41 per share. the Group will purchase this note for cash.

Overall, these instruments will allow the Group to increase its stake holding in Tercica Inc. to up to 40%, on a post transaction and fully diluted basis. Should the Group decide not to convert the notes, they would be repaid in cash at maturity. In accordance with the contractual relationship between the Group and Terica Inc., the Group has appointed two members to Tercica Inc.'s nine-member Board of Directors and also benefits from an approval right related to specified material transactions and actions by Tercica Inc.

Acapodene® – Europe: On 7 September 2006, the Group signed with the company GTX Inc. (Memphis, Tennessee, USA) an exclusive license agreement for the development and commercialisation of Acapodene® in all its indications with the exception of breast cancer, in the European Union, Switzerland, Norway, Iceland, Liechtenstein and the Community of Independent States (CIS). The Group paid GTX Inc. an initial payment of €23 million which may be followed, upon the product's successful development and the launch in Europe in its different indications, by additional milestones payments totalling up to €39 million. As of the date of the signature of this agreement, the Group will be responsible for the development, registration and launching costs of Acapodene® in Europe, and also, under certain conditions, for part of the development costs borne by GTX Inc. to develop the product in the United States. Ipsen will pay GTX Inc. royalties amounting to approximately 15% of sales, but which may rise to approximately 25% based on the price reached. The Group will be responsible for manufacturing the finished product.

Botulinum toxin type A® - Europe and other territories: On 26 February 2007, the Group granted Galderma exclusive development, promotion and distribution rights for a specific formulation for the aesthetic medicine indications of its botulinum toxin type A product in the European Union, Russia and certain territories in Eastern Europe and the Middle East, as well as rights for future formulations. In addition, the Group also granted Galderma first rights of negotiation for aesthetic medicine indications in the rest of the world, excluding the United States, Canada and Japan. Galderma will pay the Group an initial milestone of €10 million and up to an additional €20 million if certain conditions are satisfied, such as marketing authorisation and product launches on certain territories. In addition Galderma will pay the Group an extra sum, to be determined, for the rights in Russia. The Group will provide Galderma with the finished product at a fixed price and Galderma will pay Ipsen royalties based on sales, which will represent approximately 40% of Galderma's net sales. This agreement is due to expire in September 2019, and may be renewed by Galderma subject to certain conditions for a total of 30 years.

Adrovance™ – France: On 30 January 2007, the Group and MSD announced a co-marketing agreement which grants the Group the right to market Adrovance™. This fixed association of alendronate sodium trihydrate and colecalciferol (vitamin D3) is taken in weekly dosages and is used in the treatment of post-menopausal osteoporosis for patients at risk with low vitamin D levels.

6.4 Extent of the Company's dependence on patents or licences, industrial, commercial or financial contracts or new manufacturing processes

The extent of the Group's dependence on patents, licences, industrial, commercial or financial contracts or new manufacturing processes are described in Chapter 4 – Risk Factors of this registration document, particularly in sections 4.1.5, 4.1.6, 4.1.7, 4.1.8, 4.1.9, 4.1.10, 4.1.12, 4.1.13, 4.1.14, 4.2.3 , 4.2.5 and 4.2.6.

6.5 Elements on which the Company's statements concerning its competitive position are based

The Group's competitive position is predominantly presented in the developments described in section 6.1 and 6.2 of this registration document, in which the Group identifies its principal rivals. IMS, which specialises in processing pharmaceutical industry sales data from right around the world, supplies data (notably including IMS – MIDAS/ Ex-manufacturers), which makes it possible to calculate market share. Further information can be obtained from the www.imshealth.com website. The Group does not provide market share data, but considers that the data supplied by third parties is unlikely to provide a perfect picture of the sales actually recorded by the Group and its rivals. In addition, the sales figures of the Group's rivals may be obtained directly from the relevant companies.

6.6 Regulations

The international pharmaceutical industry is highly regulated by government bodies. Regulations cover nearly all aspects of the Group's activities, from Research and Development and marketing to its manufacturing facilities and processes. In each country where it markets its products or conducts research, the Group has to comply with the standards laid down by the local regulatory authorities and by any other competent supra-national regulatory authority. These authorities notably include the EMEA, AFSSAPS (French Agency for the Safety of Health Products), the Medicines & Healthcare Products Regulatory Agency (MHRA) in the United Kingdom and the FDA in the United States, as well as various other regulatory bodies, depending on the relevant market.

6.6.1 Regulatory approval

In the European Union, there are currently two methods of securing marketing authorisation for drugs: the centralised procedure and the mutual recognition procedure. With the centralised procedure, an application for marketing authorisation is filed directly with the EMEA (based in London), which covers all the countries in European Union. This procedure is obligatory for all biotechnology products and is optional for other new chemical entities. With the mutual recognition procedure, authorisation is granted in one European Union country and the beneficiary then requests mutual recognition of this decision to cover the other European Union countries. This procedure is used only when the product is registered in a single EUR member state, when the company is seeking to extend registration of an existing product to other countries or when the centralised procedure is not obligatory. A national authorisation system remains in place for local registrations limited to just one country.

Manufacturing facilities located in Europe are subject to inspections and require authorisation from national bodies. For all health products in France, the AFSSAPS conducts (scientific and medical-economic) assessments and checks (on laboratories and advertising) and inspects production facilities. It monitors the safety profile of all products on the market (post-marketing surveillance, blood surveillance, equipment checks, monitoring of medical devices and cosmetics monitoring). The AFSSAPS also participates in EMEA's pan-European evaluation and control systems.

In the United States, the FDA regulates and controls clinical trials, authorisations, manufacturing, labelling and packaging of drugs destined for sale in the United States. The FDA also controls all the drugs currently available for sale on the US market. The process of applying for marketing authorisation for a drug from the FDA is similar to that adopted in other countries. A New Drug Application (NDA) can be filed only after the efficacy and safety profile of the relevant drug have been proven through intensive testing on animals and in-depth clinical trials on humans.

The authorisation procedure may take between six months and four years in the United States and varies in the European Union depending on the quality of the evidence produced, the degree of control exercised by the competent regulatory body, the efficacy of examination of the dossier and the type of product.

Once marketing authorisation has been granted for a given territory, the new drug may be prescribed by doctors in the relevant region.

Subsequently, the holder of the marketing authorisation has to submit reports from time to time to the regulatory authorities listing any cases of undesirable reactions. For certain drugs, the regulatory authorities may require additional (phase IV) trials to evaluate the long-term effects of the drug or to compile information about its use in specific circumstances.

The regulatory authorities also require compliance with research, clinical and production standards.

Manufacturing facilities outside the United States producing products imported into the US market must also be approved by the FDA on a product-by-product basis and are subject to periodic inspections by the FDA.

6.6.2 Good manufacturing practices

In addition to securing regulatory approval for its products, all the Group's manufacturing sites must be GMP-compliant (Good Manufacturing Practices). The term GMP is used internationally to describe a set of standards and procedures that manufacturers of therapeutic products must adopt to ensure that they are suitable for use by humans. One of the fundamental tenets of GMP is that the quality of a product cannot be tested solely using one batch, but must be verified at each stage of the manufacturing process. Quality directives include stipulations related to the methods, plants and controls used to design, manufacture, package, label and store drugs, including guidelines concerning the installation and maintenance of the equipment used in the manufacturing process. In most countries, GMP compliance represents a basic criterion taken into consideration when new pharmaceutical facilities are authorised to start up their Operations. All the Group's manufacturing facilities comply with Good Manufacturing Practices (GMP) required in the place in which they operate and for the markets they serve.

6.6.3 Price-setting and control

Regulations may cover the setting and the control of selling prices in certain countries in which the Group markets its products. These controls are implemented pursuant to law or because the government or other healthcare agencies in a given country are the principal purchasers of products or reimburse purchasers for their cost. Price control mechanisms vary in the way they operate from country to country. This may lead to significant differences between markets, which may be amplified by exchange rate fluctuations. These pricing differences may also be exploited by parallel import companies, which buy branded products in markets where prices are low and sell them in markets where prices are higher.

In recent years, efforts by government authorities to curb healthcare spending have led to tighter controls on reimbursement policies in most of the countries in which the Group operates, particularly in Western Europe, where state-controlled healthcare systems (with the reimbursement by the state of a portion of healthcare costs) are the norm. Measures intended to curb direct costs come in various forms, including mandatory price cuts (or a refusal to accept price increases), a larger share of the cost being borne by the patient (reduction in the amount reimbursed by the third party), the withdrawal of certain products from the lists of reimbursable products, the alignment of reimbursed prices with the lowest product price in a given category, analysis of the cost/benefit ratio of drugs prescribed and efforts to promote growth in the generic drugs market. In addition, when a product's price is set, the national authority takes into account the price of the same product in other countries.

In certain European countries, governments also influence drug prices indirectly by controlling the national healthcare systems, which have to pay a large proportion of the costs of these products. In France, for instance, a government agency sets the price of reimbursable drugs taking into account the product's scientific value, as well as the agreements struck between the government authorities and pharmaceutical groups. The price set for a drug depends on the benefits it produces in terms of an improvement in medical performance and innovation and on an economic analysis comparing it with existing treatments.

In addition, a multi-year agreement in France between companies and the Economic Committee for Health Products sets a target for national spending on pharmaceutical products. If this target is exceeded, the companies party to this agreement are subject to quantitative discounts calculated according to the trend in total spending by drug treatment category and to the sales posted by each company.

French law no. 2004-810 of 13 August 2004 instituted a French Supreme Health Authority responsible for evaluating and classifying the health benefits expected or produced by medical procedures, services and products. This committee will from time to time issue opinions on the Group's drugs, the health benefits of which were described as insufficient during the reassessments initiated during 1999 and 2000. Based on this opinion recommending that Bedelix® and Ginkor Fort® no longer be reimbursed, the French government published two ministerial decrees announcing the withdrawal of Bedelix® from the list of reimbursable drugs from 1 March 2006 (decree published in the Official Journal on 25 January 2006) and the introduction of a reimbursement rate of 15% for all members of the veinotonic class of drugs, to which Ginkor Fort® belongs, from 1 February 2006 to 31 December 2007. This class of drugs will then be removed completely from the list of reimbursable drugs on 1 January 2008. Furthermore, the price of Ginkor Fort was reduced by 15% pursuant to an agreement between the Group and the Economic Committee for Health Products (CEPS), published in the Official Journal on 3 February 2006.

On 25 October 2006, the French Health Minister announced that vasodilators, including Tanakan®, would continue to be reimbursed at a rate of 35% by Public Health Insurance. Furthermore, the Minister applied to the Economic Committee for Health Products for a price cut of up to 20% on these drugs as from the end of January 2007. On 16 March 2007 this price cut had still not been applied.

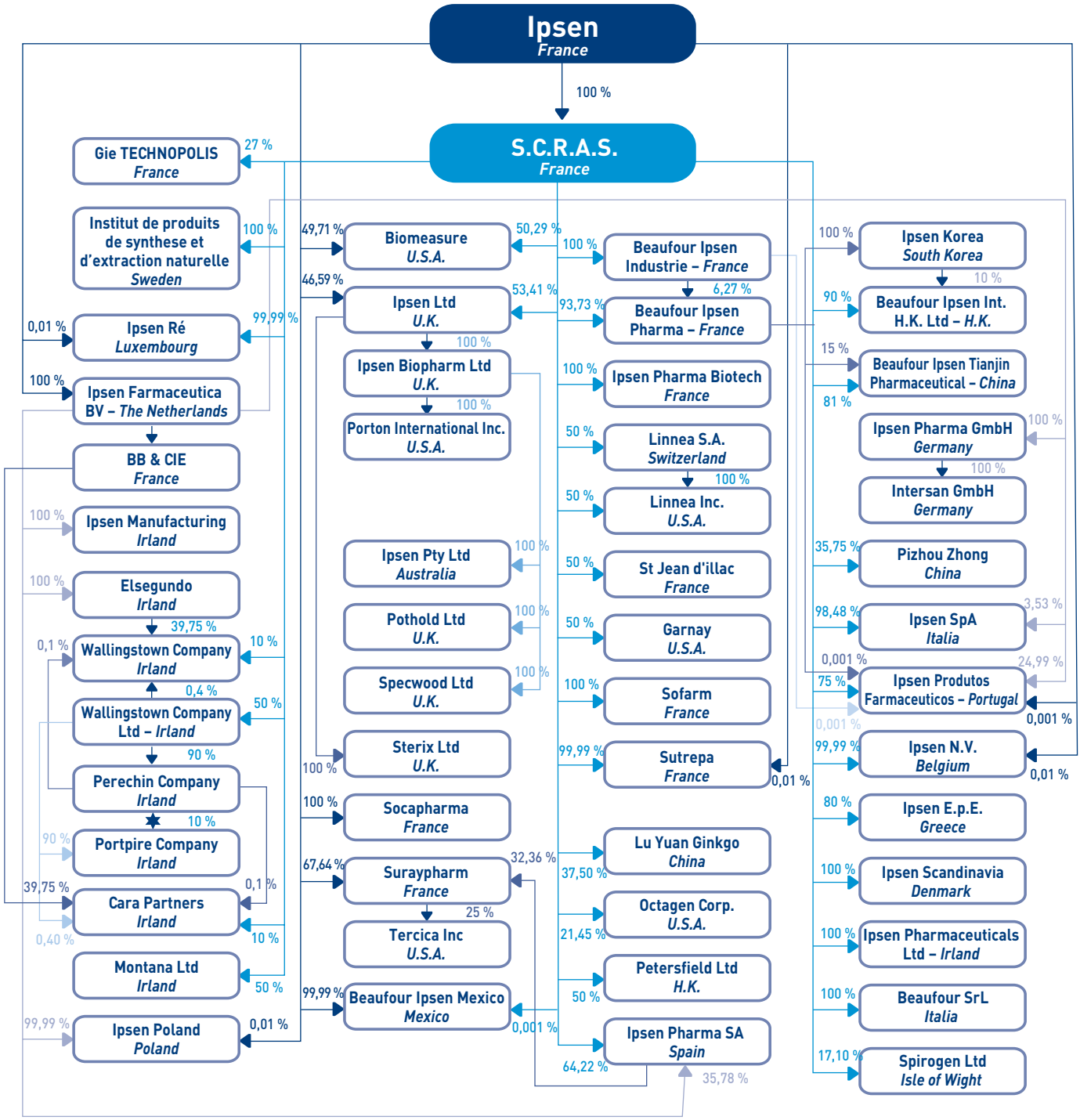
Several recent factors have significantly increased the normal discounts and taxes owed by the Group in France during the 2006 financial year. Guidelines addressed by the Government on 6 October 2006 to the Economic Committee for Health Products, recommended that "coherent prices within each class of drugs, taking into account the existence of generics" be set up "for drugs which present no or very slight progress compared with existing drugs". In France the Social Security budget (LFSS) for 2006 increased the rate of contributions based on the sales recorded by pharmaceutical companies to 1.76% in 2006, from 0.6% in 2005. However, for 2007 this rate has been reduced to 1.0% as from 1 January 2007 whilst allowing a tax credit based on the amount of Research expenditure. This contribution, which is not tax deductible, trimmed the Group's operating profit in 2006 by €6.2 million.

7 Corporate structure of the Group

7.1 Organisational structure

The stated percentages indicate the proportion of share capital and voting rights held in each company.

Group Organization chart at 31 December 2006



8 Property, plant and equipment

8.1 Industrial sites, real estate properties and equipment

The Company's registered office and its administrative offices are located in France. The Group's operational headquarters are located in France and the United Kingdom. The Group owns or leases Research and Development facilities across Europe (France, Spain and the United Kingdom) and in the United States (Boston), representing a total surface area of around 3,800 m².

The Group currently manufactures the majority of active substances in its main products and of products that seem highly promising in terms of its future growth at its primary manufacturing facilities. At these plants producing active substances, the Group processes its raw materials, which chiefly comprise natural clays, natural plant extracts, Ginkgo biloba and solid phase peptides.

The second phase of the Group's manufacturing process takes place at secondary locations, where secondary dosage formulations are manufactured and packaged, and where protein products are purified and formulated.

In addition to its research and primary and secondary manufacturing facilities, the Group manages, either on its own or with partners, five plantations and leaf-drying plants in France, China and the United States.

The Group operates the following industrial and agricultural sites:

Location	Principal products	Specialisation
Dreux (France)	All primary care finished products	High-volume oral formulations, 911 million sachets, 767 million tablets, 362 million dry powder capsules, 72.5 million packs for sale, 10,600 tonnes distributed. Analytical development and production of medicinal products for clinical trials.
Signes (France)	Decapeptyl® Somatuline®	Sustained-release peptide formulations for injection.
L'Isle-sur-la-Sorgue (France)	Semi-finished Smecta®	API plant, manufacturing more than 2,500 tonnes(1) of therapeutic clay per year, used for gastroenterology products.
Wrexham (United Kingdom)	Dysport®	Preparation of bulk active substances (BAS), purification and formulation of protein-based biological products.
Dublin (Ireland)	Triptoreline (Decapeptyl®) Lanreotide (Somatuline®)	API plant, solid phase peptide synthesis.
Cork (Ireland)	EGb 761®	Standardised plant extract from Ginkgo *biloba leaves*
Tianjin (China)	Smecta®	Local market supply for China. The site operates as a joint venture with local partners.
Barcelona (Spain)	All primary care finished products for the Spanish market	Manufacturing and packaging of oral dosage forms. Products manufactured at this site mainly supply the Spanish market. (subcontracted activity)
Locarno (Switzerland)		Extracts from natural plant sources (including Ginkgo biloba) *and related* synthetic chemistry for the pharmaceutical and cosmetic industries.
Captieux (France)	Ginkgo *biloba leaves*	Plantation and leaf-drying facility.
Saint-Jean d'Illac (France)	Ginkgo *biloba leaves*	Plantation and leaf-drying facility.
Garnay (United States)	Ginkgo *biloba leaves*	Plantation and leaf-drying facility.
Lu Yuan (China)	Ginkgo *biloba leaves*	Leaf-drying facility set up in 1996, operated in conjunction with local partners.
Zhong Da (China)	Ginkgo *biloba leaves*	Leaf-drying facility operated in conjunction with local partners.

(1) Data for 2005 financial year.

The Group owns all its land, building and equipment with the exception of:

- in Cork (Ireland), the land on which the plant has been built. While the Group owns the building and equipement, it has a 100-year lease for this land;
- in Lu Yuan and Zhong Da (China), the lands on which the leaf-drying facilities have been built. The Group has an "occupancy right" in accordance with the law in China. The Group owns the buildings and equipments.

8.2 Environmental issues

8.2.1 Environmental regulations

The Group's activities, particularly the manufacturing facilities that it operates in Western Europe, as well as in China, are regulated by the applicable environmental, health and safety legislation.

In Western Europe, all the Group's manufacturing facilities are located in countries belonging to the European Union (except for the Locarno plant in Switzerland). In the European Union, the environmental legislation covering industrial companies has become much more extensive since the beginning of the 1980s. Production facilities are covered by EC directive 96/61 of 24 September 1996 on integrated pollution prevention and control. This directive introduced a formidable array of specific operating formalities (declaration or filing for authorisation to operate) and covers all the environmental issues potentially facing an industrial plant (waste management, environmental discharges, use, handling and storage of toxic and/or hazardous substances, etc.). This directive has now been enacted into national legislation in every EU member state, and its provisions must be observed at each of the Group's facilities located in these countries.

Furthermore, the European Parliament adopted directive 2004/35 on 21 April 2004 on environmental responsibility related to the prevention and remediation of environmental damage. This directive has implemented an original liability system in which initiatives are to be taken solely by an independent authority that has yet to be created. This directive, which will have to be transposed into national law in EU countries by 30 April 2007, will merely complement the existing civil liability framework in the event of soil or water pollution with which the Group's facilities must already comply.

In addition, the REACH Regulation (Registration, Evaluation, Authorisation and Restriction of Chemicals) was formally adopted on 18 December 2006 by the Council of Environment Ministers which will enter into force on 1 June 2007 and implies that manufacturers and importers of more than one tonne of chemicals a year will be under a duty to register all information regarding such chemicals in a central data base.

The aim is to improve the protection of human health and the environment. At the same time, innovative capability and competitiveness of the EU chemicals industry should be enhanced.

The Group also operates a manufacturing facility in Switzerland. Swiss environmental, health and safety regulations are similar to those in force in the European Union.

In Western Europe, the Group has all the requisite authorisation for its business activities and conforms to the regulations applicable to its Operations and its manufacturing facilities. This said, owing to the uncertainties inherent in the treatment of environmental issues and the increase in the relevant regulatory standards, the Group cannot rule out the possibility of having to devote additional expenditure to this area going forward.

Given its increasing integration with worldwide international trade channels, China has for several years been developing a specific framework of environmental, health and safety regulations. The manufacturing facilities operated by the Group in China are thus subject to a set of regulations in these areas. While the relevant standards are not comparable to those applicable in Western Europe, Chinese environmental, health and safety regulations are poised to be tightened up over the coming years. As in Western Europe, the manufacturing facilities operated by the Group in China hold the authorisations and permits required for their Operations and comply with all the applicable environmental, health and safety regulations.

At all its facilities, the Group believes it does not have any significant exposure to liability for non-compliance with applicable legislation or environmental, health and safety regulations. The Group believes it substantially conforms to all environmental, health and safety legislation and regulations. The Group's policy is to provide a safe workplace that protects the environment and does not affect the health of its employees or that of neighbouring communities.

8.2.2 Environmental impacts of the Group's activities

▶ 8.2.2.1 Consumption of energy resources, water, raw materials and discharges into water, air and soil

Further efforts to achieve greater energy efficiency

The Group's energy consumption totalled 131,253,847 kWh in 2006, compared with 124,975,000 kWh in 2005, representing an increase of 5.0%, compared with a rise of 8.3% between 2004 and 2005.

This increase was attributable to the strong rise in production volumes at most facilities and growth totalling 9.1% in sales volumes. Consumption trends at individual plants mirrored trends in production volumes, albeit with a generally favourable and significant differential. This improved energy efficiency was the result of deliberate efforts to reduce consumption at most plants.

The Wrexham facility (United Kingdom) posted an increase of 10.9% in its energy consumption between 2005 and 2006 whilst sales rose 19.1%, a good performance due to a major awareness-raising campaign. Energy consumption at the Signes facility dropped by almost 3.0% in 2006, while its production rose by 8.5%. Energy consumption at the Dublin plant remained stable in spite of the 20% increase in its production. Similarly, energy consumption at the Dreux plant also remained stable (while its production dropped 3.1%) owing notably to quality controls aimed at providing better temperature control at the facility.

The ratio of energy consumption to sales posted a satisfactory decline of 0.7% to 152.3 kWh per thousand euros in 2006 from 153.4 in 2005 on a rise of 9.1% in consolidated sales volumes compared with 2005.

Consumption by energy source:

Electricity	45%
Gas	42%
Fuel oil	13%

The proportion of energy consumption accounted for by gas is rising steadily, with the proportion generated by fuel oil moving in the opposite direction. Linnea remains the principal facility still using fuel oil, accounting for 80% of the Group's fuel oil consumption during 2006. The Group is currently examining the possibility of replacing fuel oil installations in Tianjin by gas, which would improve this ratio in the future.

In 2006 virtually all sites set up or reinforced employee awareness-raising campaigns in an aim to develop exemplary behaviour as regards energy consumption.

Water consumption tightly controlled in spite of growth in sales

The Group's water consumption came to 583,278 m^3 in 2006, representing a reduction of 2.4% on the 597,576 m^3 recorded in 2005.

This increase was tightly controlled through initiatives taken to recycle manufacturing and washing process water, and also due to systematic investigations to detect water losses.

Consumption at the Signes plant declined by a further 1.72% due to better yield management. Consumption at Dreux dropped sharply (–26.9%) due to systematic recycling of cooling waters since 2005 and at Lugano where cooling needs and treatment losses have been reduced.

The Isle-sur-Sorgue facility alone accounted for 72% of the Group's water consumption. Its consumption rose by 3.8%, a slower rate of increase than that seen in product volumes, thanks to changes made to manufacturing processes (increased recycling).

The ratio of water consumption to sales posted a very encouraging decline of 8% to 0.68 m^3 per thousand euros compared with 2005.

The water supply mix at our facilities have undergone a change, with well water increasing by 2.5% to 70% of the total, up from 67% one year earlier. This trend was attributable to the near-shutdown of the well water operations at the Dreux plant and the increase in consumption at the Isle-sur-Sorgue facility. The latter plant accounted for almost all the well water used by the Group during 2006.

Solid and liquid waste

The Group produced 20,154 tonnes of waste in 2006, up from 20,102 tonnes in 2005, representing an increase of 0.3%, a much slower rate of growth than that seen in production volumes over the same period.

Production of solid waste remained stable (down 0.1%) across the Group as a whole. This trend was attributable to a 23.9% reduction in volumes at the Isle-sur-la-Sorgue site owing to improved recovery of water from processed sludge and particularly to the acquisition of a baling press which significantly reduces the volume of paper and plastic waste. Solid waste volumes at the Dreux and Cork (7.0%) plants are in line with the uptrend in production volumes.

The proportion of recycling is thus steadily increasing, while incineration and landfill volumes are moving in the opposite direction. Significant efforts are underway and/or being developed by the majority of facilities to reuse a larger proportion of their waste. For instance, more and more organic waste is being composted in Cork, paper and cardboard recycling is developed in Tianjin since 2005 and in Isle-sur-la-Sorgue since 2006, and dichloromethane recycling was rolled out at the Signes plant during 2005.

In addition, the Wrexham plant introduced important measures during 2005 and 2006 to improve waste segregation at the facility. Lastly, plants are increasingly implementing policies to optimise waste treatment by seeking new recycling methods helping to increase the percentage of waste reused.

The stability in the Group's overall waste volumes in spite of higher production shows the benefits deriving from implementation of the Group's management policies for both solid and liquid waste.

Consequently, although total solid and liquid waste tonnages increased by 0.3% at Group level, the ratio of waste to sales decreased by 5.0% to 23,392 kg per thousand euros in 2006 compared with 2005.

The Group's waste treatment mix during 2005 was as follows:

Recycling	85.4%
Incineration	8.2%
Landfills	6.4%

There has therefore been an ongoing significant effort for several years to increase waste recycling and treatment.

Improvement in quality of discharges into the air

The Group has made ongoing efforts over the past few years in this area, scrapping the use of fuel oil in Dublin at the end of 2003 and at Dreux from 1 January 2005 and the plan to do the same in 2007/2008 in Tianjin all contribute to the decrease in sulphur dioxide tonnages following the discontinuation of or reduction in the use of fuel oil.

To this end, the Group stepped up its efforts by renewing its plant with special emphasis on modern and more efficient processes, such as changing the gas burners at the Dreux facility.

Furthermore, no major odour problems were encountered across any of our facilities.

Encouraging trend in the effluent to sales ratio

Group-wide effluent volumes dropped significantly by 12.5% to 445,081 m^3 in 2006, compared with 508,749 m^3 in 2005.

All the plants recorded lower or stable effluent volumes thanks to specific reprocessing measures and/or efforts to curb inputs, especially at the Isle-sur-la-Sorgue plant. This facility, which leads the way in the treatment of discharges, alone accounts for 71% of the Group's total effluents. It posted a 12% decrease (43,024 m^3) during 2006 and was thus the key contributor to improvement.

This reduction in the volume of water discharges was attributable to improved treatment of the sludge sent to landfill and thus better quality water discharges.

Irrespective of the measures implemented to boost recycling of the manufacturing and washing process water at the facility, the significant growth in production volumes between 2005 and 2006 were well controlled and the employee awareness-raising campaigns were constructive.

Given the increase in the Group's sales, the effluent to sales ratio posted a very encouraging decline of 16.6% to 0.52m^3 per million euros during 2006 compared with 2005 (0.62 m^3 per million euros).

Noise

No particular noise issues were reported at the Group's manufacturing facilities that caused nuisance to neighbours (nuisance was restricted to uninhabited environments). Most of our facilities are located far from residential areas and no specific comment was made in the specialised audit carried out in 2006.

Soil pollution

The Group attaches a very high level of importance to the issue of the impact of its Operations on the soil in and around its plants. It is therefore very pleased to note that no instances of soil pollution were recorded at the Group's facilities in 2006.

The previous practice of spreading discharges on a limited area of the Cork facility (no longer used) may have contributed to the presence of ammonium sulphate in higher-than-average concentrations in certain locations.

This issue is monitored on a regular basis by the local environmental authorities, which have confirmed the steady decline in this modest contamination without any other action.

To mitigate such risks, the Group conducts preventative measures, such as storing all potentially hazardous products in secondary containment areas.

▶ 8.2.2.2 Biological equilibrium, natural habitats and protected species

The Group's policy is to provide a safe workplace that protects the environment and does not affect the health of its employees or that of neighbouring communities. The preservation of biological equilibriums, conservation of natural habitats and protection of protected species are monitored carefully.

In accordance with article 148-3-2° of decree no. 67-236 of 23 March 1967, the measures taken to curb impacts on biological equilibriums, natural habitats and protected plant and animal species are embedded in the Group's general environmental protection program and are, more specifically, reflected in the significant reduction in sulphur dioxide emissions and in much slower growth in effluent discharges, water consumption and waste production than in the Group's sales.

▶ 8.2.2.3 Environmental certification

Environmental protection remains a constant priority for the Group, which is pursuing a bold accreditation policy for its manufacturing facilities. Under this policy, the Group's Operations, particularly its manufacturing facilities in Western Europe and in China, comply with the environmental, health and safety requirements applicable under the legislation.

Western Europe

As pointed out in section 8.2.1 of this registration document, in Western Europe all manufacturing facilities apply European regulations including in Switzerland, where regulations are similar to those in force in the European Union.

The Group's commitment to environmental protection is embodied in its achievement in July 2004 of ISO 14001 version 2004 certification for the Isle-sur-la-Sorgue facility, which was renewed following a follow-up audit in July 2005. Meanwhile, the Wrexham plant secured Green Dragon Level 3 certification from the local environmental authorities, demonstrating the success of its corporate initiatives.

In addition, the Cork and Dublin plants in Ireland embarked during 2005 on a process of ISO 14001 version 2004 certification, with the audit scheduled for mid-2007.

China

As detailed in section 8.2.1 of this registration document all manufacturing facilities operated by the Group in China apply the specific regulations currently in force in China.

Aside from these points, the Group undertakes to abide in China by the good manufacturing practices employed in Europe as part of its global vision concerning the environmental impact of its activities.

Accordingly, the Tianjin plant was awarded an environment certificate by the local environmental authorities in December 2005 and has embarked upon an ISO 14000 certification process for the end of 2007.

▶ 8.2.2.4 Spending on the prevention of environmental impacts and on regulatory compliance

Since environmental protection remains a permanent priority for the Group, it regularly invests in this area.

The principal investments made during 2006 linked to environmental protection were as follows:

- compliance Hcl storage and decanting areas in Isle-sur-la-Sorgue;
- creating a retention area for potential chemical leakages in Signes;
- replacing environmental alert alarm systems and generalising the use of meters in Cork and Wrexham;
- dismantling fuel tanks in Dreux.

In addition to this expenditure, the Group pursued campaigns during 2006 at most of its facilities to raise users' awareness about energy consumption, and all energy-consuming investments are now assessed and undergo an energy review by the Group's industrial department.

▶ 8.2.2.5 Internal management resources for environmental issues

Responsibility for environmental protection at each plant is assigned to a person identified by name. In 2006, 21 staff were involved in this organisation across the Group as a whole. It is managed by the head of the Health-Safety-Environment function for the whole of the Group's Industrial department.

Specific measures to treat a case of accidental pollution were implemented at five of the Group's manufacturing facilities.

100% of the Group's facilities stated that they complied with local environmental standards in 2006.

▶ 8.2.2.6 Provisions and guarantees for environmental risks, compensation and litigation

Regular surveys of environmental risks are carried out and proactive policies are implemented to mitigate these risks. As a result, the Group does not have significant exposure to liability for environmental damage or, more generally, for remediation of environmental damage caused by its operations.

Accordingly, it has not set aside any specific provisions or guarantees in respect of any identified environmental risk. Likewise, during 2004, 2005 and 2006, no ruling or compensation payments in respect of environmental damage caused by one of the Group's manufacturing facilities were brought to the Group's attention.

Foreign subsidiaries

The Group's environment policy is applied to the same standards everywhere the Group does business. Bold management principles for environmental issues and a proactive attitude are consistently applied at all the Group's foreign subsidiaries, in conjunction with local regulations.

9 Review of the financial position and results

All financial information presented for 2005 is shown on a pro forma basis. The pro forma consolidated financial statements treat the Group's business activity as if the Group's legal restructuring completed at the end of June 2005 had taken place prior to 1 January 2002.

In 2006, Group sales reached €861.7 million, up 6.8% compared to €807.1 million in 2005. This performance was driven by strong sales in the Group's targeted therapeutic areas (oncology, endocrinology, neuromuscular disorders) as well as by strong sales momentum in international markets despite downward price pressures in Major Western European Countries negatively impacting Group sales by € 19.4 million over the period.

Other revenues totalled €83.6 million in 2006, up 3.5% compared with €80.7 million in 2005. The 2005 income included €10.0 million resulting from the termination of a research contract.

Total revenues reached €945.3 million in 2006, up 6.5% year-on-year (€887.9 million in 2005).

The Group's operating income stood at €187.2 million, up 1.0% year-on-year despite severe price pressure in Major Western European Countries. Therefore, the Group's operating income stood at 21.7% of sales compared with 23.0% in 2005. Excluding the non recurring expenses mentioned above, the Group's recurring operating profit stood at €204.1 million, up 14.8% year-on-year, reaching 23.7% of sales, compared with 22.0% of sales a year ago and 21.6% of total revenues versus 20.3% in 2005.

The effective tax rate in 2006 amounted to 21.8% of consolidated pre-tax profit from continuing operations before net loss from associates, compared with 19.1% in 2005. The Group benefited in 2005 and 2006 from the recognition of deferred tax assets and the non recurring tax impact of the use of capital losses of some of the Group's subsidiaries which had not been recognised previously. Excluding the tax-related one-off impacts, the Group's effective tax rate would have been comparable in both periods, at 25.6% in 2006 against 24.0% a year ago.

The Group's recurring consolidated profit increased by 15.6% in 2006 to reach €148.9 million, up from €128.9 million in 2005. The Group's consolidated net profit for 2006 reached €144.5 million (€144.0 million attributable to equity holders of Ipsen S.A.), down 3.0% year-on-year, due mainly to the one-offs mentioned above.

9.1 Major developments and transactions in the period under review

9.1.1 Partnerships

▶ 9.1.1.1 Reloxin®

North America and Japan: In March 2006, the Group and Inamed rescinded the development and distribution agreement concluded on 30 July 2002 for the products based on botulinum toxin type A, and the Group paid Inamed a non recurrent amount of €8.4 million to recover all the rights on Reloxin®. On 20 March 2006, the Group and Medicis announced the completion of an agreement whereby Ipsen granted Medicis the rights to develop, distribute, and commercialise the Group's botulinum toxin product in the United States, Canada and Japan for aesthetic use by physicians. Medicis paid the Group $125.1m in return for the corresponding exclusive distribution rights, and agreed to pay an additional $26.5m upon the successful completion of various clinical and regulatory milestones, $75.0 million upon the product's approval by the US FDA (Food and Drug Administration), and $2.0 million upon regulatory approval of the product in Japan, thereby bringing the total sum to $228.6 million. The Group will manufacture and supply the product to Medicis for the duration of the agreement, due to expire in September 2019. Ipsen will receive royalties proportional to sales as well as a supply price, the total amounting to approximately 30% of net sales as defined in the agreement. Besides, Medicis will be responsible for Research & Development costs related to obtaining regulatory approval in the countries concerned.

▶ 9.1.1.2 Zoxan

Zoxan - France: On 23 April 2006, Ipsen and Pfizer terminated prematurely the co-promotion contract for Zoxan signed in 2001, which was initially due to expire on 30 November 2006. In August 2006, Pfizer paid the Group a fixed and final settlement of €7.5 million, less the commissions paid on sales achieved by Pfizer in the first quarter 2006.

▶ 9.1.1.3 BIM 51077 (GLP-1)

BIM 51077 (GLP-1): On 19 July 2006, Roche exercised its option of exclusive licence, development and commercialisation of Ipsen's patented anti-diabetes compound, BIM 51077 (a GLP-1 analogue) which it held since October 2003. These rights are granted to Roche worldwide with the exception of Japan where they are shared with Teijin (Japanese partner of the Group) and in France where the Group may choose to exercise its co-marketing rights. The exercise of this option has resulted in Roche paying the Group €57.7 million. Ipsen may also receive an additional total payment of up to €170 million, depending on the success of the clinical development, manufacturing, regulatory and commercial milestones. Moreover, the Group will receive royalties on a sliding scale proportional to the product's worldwide sales. As of the date of the option's exercise, Roche becomes fully responsible for the product's development and manufacturing and will therefore hold the regulatory approvals. Roche will be wholly responsible for the next stages in the development of BIM 51077, with the exception of Japan where costs will be shared equally between Roche and Teijin.

▶ 9.1.1.4 Somatuline®

Somatuline – North America and Increlex™ - Europe: On 13 October 2006, the Group signed a series of agreements with US company Tercica Inc. (based in Brisbane, California), as follows:

9.1.1.4.1 Licensing agreements

- Tercica Inc. granted Ipsen the worldwide development and commercialisation rights to Increlex™, with the exception of the United

States, Japan, Canada, the Middle East, and Taiwan. the Group paid Tercica Inc. an initial cash payment of €10 million at the closing of the transaction, and will have to pay an additional €15 million upon regulatory approval of Increlex™ in the European Union. As soon as Increlex™ will be commercialised in Ipsen's territory, the Group will pay Tercica Inc. royalties on a sliding scale from 15 to 25% of net sales, in addition to a supply price of 20% of net sales of the product.

- Ipsen granted Tercica Inc. the development and commercialisation rights for Somatuline® Autogel® in the United States and Canada. At the closing of the transaction, Tercica Inc. paid the Group an initial payment of $25.0 million, and will have to pay €30 million upon regulatory approval granted in the United States to Somatuline® Autogel® in the targeted indication. These payments have been and will be financed by the issue of convertible notes to the Group (see below). Once Somatuline® Autogel® has been launched on the territories of Tercica Inc., the latter will pay Ipsen royalties on a sliding scale of 15 to 25% of net sales, in addition to a supply price of 20% of net sales of the product.

9.1.1.4.2 Equity investment and issue of convertible notes

At the closing of the transaction:

- **equity investment:** the Group acquired newly issued ordinary shares at $6.17 per share representing a 25% stake in Tercica Inc. (post transaction, on an non-diluted basis). The Group's total investment in cash amounted to $77.3 million;
- **convertible note 1:** Tercica Inc. issued to the Group a convertible note for a principal amount of $25.0 million. The note, which will mature 5 years from the date of closing carries a 2.5% coupon (payable in shares in fine) of and is convertible into Tercica Inc. common stock at a conversion price of $7.41 per share. This note was issued in payment of the upfront licensing payment for Somatuline® Autogel® in the United States and Canada described above;
- **Warrant:** Tercica Inc. issued a warrant to the Group, with an exercise price of $7.41 per share, convertible into Tercica Inc. common stock at any time until 12 October 2011. This warrant is meant to allow the Group to increase its stake in Tercica Inc. to 40% on fully diluted basis post transaction.

At the date regulatory approval is granted to Somatuline® Autogel® in the United States in the product's targeted indication:

- convertible note 2: Tercica Inc. will issue to the Group a convertible note for a principal amount of $30 million. The note, which will mature 5 years from the date of closing, carries a coupon of 2.5% and is convertible into Tercica Inc. common stock at a conversion price of €5.92 per share. This note will be issued in payment of the second licensing payment for Somatuline® Autogel® described above;
- convertible note 3: Tercica Inc. will issue to the Group a convertible note for a principal amount of $15.0 million. The note, which will mature 5 years from the date of closing, carries a coupon of 2.5% and is convertible into Tercica Inc. common stock at a conversion price of $7.41 per share. Ipsen will purchase this note for cash.

Overall, these instruments will allow the Group to increase its stake holding in Tercica Inc. to up to 40%, on a post transaction and on a fully diluted basis. Should the Group decide not to convert the notes, they would be repaid in cash at maturity.

▶ 9.1.1.5 Acapodene®

Acapodene® – Europe: On 7 September 2006, the Group signed with the company GTX Inc. (Memphis, Tennessee, USA) an exclusive license agreement for the development and commercialisation of Acapodene® in all its indications with the exception of breast cancer, in the European Union, Switzerland, Norway, Iceland, Liechtenstein and the Community of Independent States (CIS). Ipsen paid GTX Inc. an initial payment of €23 million which may be followed, upon the product's successful development and then launch in Europe in its different indications, by additional milestones payments totalling up to €39 million. As of the date of the signature of this agreement, the Group will be responsible for the development, registration and launching costs of Acapodene® in Europe, and also, under certain conditions, for part of the development costs borne by GTX Inc. to develop the product in the United States. Ipsen will pay GTX Inc. royalties amounting to approximately 15% of sales, but which may rise to approximately 25% based on the price reached. Ipsen will obtain the raw materials from a third party and is responsible for the manufacturing of the finished product.

9.1.2 Registration of new products

- On 17 July 2006, the public health authorities in Canada granted a marketing authorisation to Somatuline® Autogel® in the treatment of acromegaly. It is the first approval obtained by Somatuline® in North America. The product will be commercialised in Canada early 2007 by Tercica Inc., holder of the distribution rights to Somatuline® Autogel® in North America.
- On 28 June 2006, the approval granted in Germany gave Ipsen the first marketing authorisation for its botulinum toxin in aesthetic indications in Western Europe. Ipsen launched the product in July 2006.

9.1.3 Government measures

Governments continue to introduce various measures to reduce public health spending which have had an impact on 2006 sales and results.

- In France, the rate of the sales-based contribution of pharmaceutical laboratories was raised from 0.6% in 2005 to 1.76% as of 2006.
- Bedelix®, which generated sales of €9.0 million in 2005, was withdrawn from the list of drugs reimbursable under the national health plan on 1 March 2006. The price of Ginkor Fort®, which generated sales in France of €57.5 million in 2005, dropped by 15% in February 2006. The French Authorities published on 25 January 2006 their decision to lower the reimbursement rate of Ginkor Fort® from 35% to 15% from 1 February 2006 to 31 December 2007, and to remove it from the list of reimbursable drugs on 1 January 2008. The price of Nutropin® also dropped by 7% on 1 August 2006 following a decision of the Economic Committee for Health Products (CEPS).
- In Italy, following the repeal in October 2005 of the 6.8% discount on drug sales enacted in June 2004, a new 4.4% price discount (applicable

on all reimbursed products) was implemented on 16 January 2006. An additional discount of 1.0%, granted to wholesalers by the laboratories is also applied. Furthermore, the newly elected government announced an additional 0.6% reduction in drug prices (effective as of 1 July 2006), followed by a second 5.0% reduction effective as of 1 October 2006.

- In Spain, after the government withdrew the pacto social, an additional 2% price decrease was implemented as of 1 February 2006, following the 4.2% decreased implemented on 1 February 2005.

In France, on October 26, 2006, the Minister of Health and Solidarities decided to maintain the class of vasodilators, among which Tanakan® on the list of reimbursable drugs and to keep their reimbursement rate by the French Social Security at 35%. Furthermore, the Minister has asked the Comité Économique des Produits de Santé to implement a price cut of up to 20% to these drugs by the end of January 2007. As of May 3, 2007, the price cut had not been implemented.

The French authorities have also announced a reimbursement rate cut - to 35% from 65% - along with a 7% price reduction on Pfizer's Artotec®, the promotion of which is carried out by Ipsen since 2006. These measures have been implemented on January 1, 2007. On the contrary, the 2007 sales tax on pharmaceutical companies has been reduced, as of January 1, 2007 to 1.0% from 1.76% in 2006.

9.2 Analysis of results

9.2.1 Comparison of consolidated sales for the years ended 31 December 2006 and 31 December 2005

▶ Consolidated sales

(in thousands of euros)	2006	2005	%
Total drug sales	**834,583**	**775,877**	**+7.6%**
of which:			
Targeted therapeutic areas	443,806	391,202	+13.4%
Primary care	386,580	377,654	+2.4%
Drug-related sales[1]	27,093	31,237	(13.3)%
Group sales	**861,676**	**807,114**	**+6.8%**

(1) Sale of active substances and raw materials.

For the full year 2006, consolidated Group sales reached €861.7 million, up 6.8% year-on-year (6.7% excluding foreign exchange impacts). Drug sales posted a solid 7.6% growth year-on-year, driven by Targeted Therapeutic Areas which grew by 13.4%, further accelerating growth year on year, while primary care drug sales only grew by 2.4% in the same period, being negatively affected by slow sales of Ginkor Fort® in France. This solid growth in drug sales was hampered by slow sales of drug-related activities (active ingredients and raw materials) which decreased by 13.3% year-on year, due to lower sales of active ingredients, mainly the Gingko biloba extract (EGb 761®) and to lower sales from Linnea, a non-strategic botanical extract manufacturing and trading activity.

For the full year 2006, volumes grew by 9.1%, with price decreases negatively impacting the Group's consolidated sales growth by 2.4 points, representing € 19.4 million.

Excluding Ginkor Fort®, Group sales rose 9.9% year-on-year in 2006.

▶ Sales by therapeutic area

The following table presents the sales by therapeutic area:

(in thousands of euros)	2006	2005	%
Products in the targeted therapeutic areas			
Oncology	222,039	210,728	5.4%
Endocrinology	108,448	87,996	23.2%
Neuromuscular disorders	113,319	92,478	22.5%
Sub-total	**443,806**	**391,202**	**13.4%**
Primary care products			
Gastroenterology	157,430	141,075	11.6%
Cognitive disorders	129,882	120,960	7.4%
Cardiovascular	99,268	115,619	(14.1)%
Sub-total	**386,580**	**377,654**	**2.4%**
Other therapeutic areas			
Other drugs	4,197	7,021	(40.2)%
Sub-total	**4,197**	**7,021**	**(40.2)%**
Total drug sales	**834,583**	**775,877**	**7.6%**
Drug-related sales	27,093	31,237	(13.3)%
Group sales	**861,676**	**807,114**	**6.8%**

For the full year 2006, drug sales reached €834.6 million, representing 96.9% of the Group's consolidated sales (96.1% in 2005), up 7.6% year-on-year (or 7.5% excluding foreign exchange impacts). Drug-related sales amounted to €27.1 million in 2006, down 13.3% year-on-year (12.8% excluding foreign exchange impacts).

Products in targeted therapeutic areas

For the full year 2006, sales of products in the Group's targeted therapeutic areas reached €443.8 million, up 13.4% year-on-year (€391.2 million in 2005), representing 51.5% of the Group's consolidated sales, against 48.5% a year earlier.

In oncology, sales reached €222.0 million, up 5.4% year-on-year (€210.7 million for 2005) despite negative administrative measures impacting Decapeptyl® prices mainly in Italy, Poland and Belgium. Volume growth year-on-year reached 8.6%.

In endocrinology, sales reached €108.4 million, up 23.2% year-on-year (€88.0 million for 2005). This performance was driven by sales of Somatuline®, up 12.8% year-on-year, and the successful performance of NutropinAq® in several markets three years after its first launch, with sales totalling 13.6% of endocrinology sales at the end of December 2006 against 6.5% a year earlier.

In neuromuscular disorders, sales reached €113.3 million in 2006, up 22.5% year-on-year (€92.5 million for 2005) driven by Dysport® sales in the United Kingdom, Eastern and Central Europe, South Korea and Latin America.

Primary care products

For the full year 2006, sales of primary care products reached €386.6 million, up 2.4% year-on-year (€377.7 million in 2005), impacted by the poor performance of the sales of Ginkor Fort® in France. Excluding Ginkor Fort®, sales of primary care products reached €344.9 million, up 9.0% year-on-year (€316.5 million in 2005). This growth was fuelled mainly by strong performance of Nisis®/Nisisco® in France, and of Tanakan® and gastro-enterology products in China and in Eastern and Central Europe.

In gastroenterology, sales reached €157.4 million, up 11.6% year-on-year (€141.1 million in 2005), driven by sales of Smecta® in France, China, Vietnam, Eastern and Central Europe, by sales of Forlax® in Italy, France and China, and by sales of Fortrans® in Poland and Russia.

In the cognitive disorders area, sales reached €129.9 million, up 7.4% year-on-year (€121.0 million in 2005), sustained by sales growth of Tanakan®.

In the cardiovascular area, sales amounted to €99.3 million, down 14.1% year-on-year (€115.6 million in 2005), mainly due to the poor performance of Ginkor Fort® sales in France. Sales of this product suffered from the 15% price cut enforced on 1 February 2006 by the French Government, as well as from a volume decrease linked to the reduction of its reimbursement rate by the French Social Security to 15% from 35%, and the decision by some of the private insurance companies not to continue reimbursement of Ginkor Fort®. Sales in the cardiovascular area were also affected in 2006 by the impact of the first year of the licence agreement signed with Recordati in 2005, under which the Group

granted the distribution of Tenstaten® to Recordati while continuing to supply the product. Higher volumes sold following the start of distribution by Recordati partly offset the price decrease of Tenstaten®, thus limiting the overall negative impact on sales to €5.5 million year-on-year, despite a corresponding negative price impact of €9.0 million. Nisis® and Nisisco®, with a 22.0% sales growth year-on-year, continued to show strong performance.

Other therapeutic areas

For the full year 2006, other therapeutic areas generated sales of €4.2 million, down 40.2% year-on-year (€7.0 million in 2005), due to the decision of the Group to withdraw from market some non-strategic products in Eastern Europe.

Drugs-related activities

For the full year 2006, drug-related sales (active ingredients and raw materials) were down 13.3% to €27.1 million, due to lower sales of active ingredients, mainly the Ginkgo biloba extract (EGb 761®). This activity accounted for 3.1% of the Group's total sales, against 3.9% a year earlier.

▶ Sales by products

The following table presents the sales by products:

(in thousands of euros)	2006	2005	%
Décapeptyl® [1]	221,925	210,606	5.4%
Tanakan®	129,882	120,960	7.4%
Dysport® [1]	113,319	92,478	22.5%
Somatuline® [1]	92,222	81,751	12.8%
Smecta®	80,341	67,465	19.1%
Ginkor Fort®	41,700	61,162	(31.8)%
Forlax®	46,303	42,771	8.3%
Nisis and Nisisco®	50,661	41,525	22.0%
NutropinAq® [1]	14,728	5,740	156.6%
Other products	43,502	51,419	(15.4)%
Total drug sales	**834,583**	**775,877**	**7.6%**
Drug-related sales	27,093	31,237	(13.3)%
Group Sales	**861,676**	**807,114**	**6.8%**

(1) Peptide or protein-based products.

Decapeptyl® -- sales reached €221.9 million, up 5.4% year-on-year (€210.6 million in 2005). Negative price movements reduced sales by 3.2 points but were more than offset by strong volume growth in Germany, the United Kingdom, Ireland, Greece and China as well as in Eastern and Central Europe.

Tanakan® -- sales reached €129.9 million, up 7.4% year-on-year (€121.0 million in 2005), notably driven by sales in China and in Central and Eastern Europe. France accounted for 70.8% of total Tanakan® sales in 2006 compared with 73.2% a year earlier.

Dysport® -- sales reached €113.3 million, up 22.5% year-on-year (€92.5 million in 2005). This growth was especially fuelled by double digit growth in Latin America, Central and Eastern Europe, South Korea, the United Kingdom and in most other markets.

Somatuline® -- sales reached €92.2 million, up 12.8% year-on-year (€81.8 million in 2005), driven mainly by France, Spain, Germany, Scandinavia and Central and Eastern Europe.

Smecta® -- sales reached €80.3 million, up 19.1% year-on-year, or 18.7% excluding foreign exchange impacts (€67.5 million in 2005), due to strong growth in France, China and Central and Eastern Europe.

Ginkor Fort® -- sales - mainly in France - stood at €41.7 million, down 31.8% year-on-year (€61.2 million in 2005). As explained above, the product suffered from the decision taken by the French Government to reduce both its price and its reimbursement rate by the French Social Security on 1 February 2006.

Forlax® -- sales amounted to €46.3 million, up 8.3% year-on-year (€42.8 million in 2005) supported by solid growth in China, France and Italy.

Nisis® and Nisisco® -- sales amounted to €50.7 million, up 22.0% year-on-year (€41.5 million in 2005). Nisis® and Nisisco® performed well above the market despite high competitive pressure.

NutropinAq® -- sales reached €14.7 million (€5.7 million in 2005). As expected, this product is highly contributing to the Group's growth in its third year of commercialisation.

Testim® -- After launches in Germany, the United Kingdom, Benelux, Scandinavia and Spain in 2005 and in Portugal, Italy and Greece in 2006, sales of Testim® remain below Group expectations, with slower overall market growth and lower than expected market penetration of gels in the territories where it is marketed. Furthermore, difficulties in obtaining reimbursement status in certain major European countries, such as Italy, have impacted sales development.

With sales of **Decapeptyl®**, **Dysport®**, **Somatuline®** and **NutropinAq®**, Ipsen's peptide- or protein-based products sales reached €442.2 million in 2006, representing 51.3% of Group consolidated sales, up 13.2% year-on-year (in 2005, sales stood at €390.6 million, representing 48.4% of the Group's consolidated sales).

▶ Sales by geographical region

The following table presents the sales by geographical region:

(in thousands of euros)	2006	2005	%
France	358,666	360,908	(0.6)%
Spain	53,099	52,005	2.1%
Italy	66,414	65,980	0.7%
Germany	40,279	39,462	2.1%
United Kingdom	33,216	28,932	14.8%
Major Western European Countries	**551,674**	**547,287**	**0.8%**
Other European countries	**184,800**	**155,893**	**18.5%**
Asia	67,184	52,087	29.0%
North America	99		
Other countries in the Rest of the world	57,919	51,847	11.7%
Rest of the world	**125,202**	**103,934**	**20.5%**
Group sales	**861,676**	**807,114**	**6.8%**

For the full year 2006, sales in **Major Western European Countries** reached €551.7 million, up 0.8% year-on-year (€547.3 million in 2005). The growth in volume (up €21.5 million, or +3.9%) mainly stemmed from the United Kindgom, Italy, Spain and France but was penalized by negative price impacts in Italy, Spain and France totalling €17.2 million. In France, negative price effects were mostly due to the impact of the first year of the Tenstaten® licence agreement granted to Recordati as described above, and to the Ginkor Fort® price reduction. In Germany, the strong 18.4% growth in drug sales year-on-year was almost offset by the 23.0% decline in drug-related sales. **In Other European countries,** sales reached €184.8 million, up 18.5% year-on-year (€155.9 million in 2005). Other European countries confirmed their good performance (Central and Eastern Europe, Belgium, Greece, Scandinavia) despite negative price impacts in Poland, Romania, Belgium and Lithuania. **In the Rest of the World,** sales reached €125.2 million, up 20.5% year-on-year (€103.9 million in 2005), driven by sales in China, Latin America, South Korea and Australia.

9.2.2 Comparison of the consolidated income statement for the years ended 31 December 2006 and 31 December 2005

A comparison of the income statement is presented below:

	31 December 2006		31 December 2005 pro forma		
	(in thousands of euros)	% of sales	*(in thousands of euros)*	% of sales	2006/2005 variation
Sales	**861,676**	**100.0%**	**807,114**	**100.0%**	**6.8%**
Other revenues	83,581	9.7%	80,738	10.0%	3.5%
Total revenues	**945,257**	**109.7%**	**887,852**	**110.0%**	**6.5%**
Cost of goods sold	(181,377)	(21.0)%	(171,042)	(21.2)%	6.0%
Research and Development expenses	(178,348)	(20.7)%	(169,025)	(20.9)%	5.5%
Selling, general and administrative expenses	(383,015)	(44.5)%	(364,135)	(45.1)%	5.2%
Other operating income and expenses	(8,223)	(1.0)%	1,169	0.1%	ns
Restructuring costs	190	ns	530	ns	(64.2)%
Impairment losses	(7,265)	(0.8)%	-	-	ns
Operating income	**187,219**	**21.7%**	**185,349**	**23.0%**	**1.0%**
Income from cash and cash equivalents	7,974		1,952		
Cost of gross financial debt	(2,142)		(7,870)		
Cost of net financial debt	**5,832**	**0.7%**	**(5,918)**	**(0.7)%**	**ns**
Other interest income and expense	(5,707)	(0.7)%	(632)	(0.1)%	ns
Income tax	(40,891)	(4.7)%	(34,208)	(4.2)%	19.5%
Share of loss/profit from associated companies	(1,666)	(0.2)%	-	-	
Net profit from continuing operations	**144,787**	**16.8%**	**144,591**	**17.9%**	**0.1%**
Net profit/loss from discontinued operations	**(290)**	**ns**	**4,416**	**0.5%**	**ns**
Consolidated net profit	**144,497**	**16.8%**	**149,007**	**18.5%**	**(3.0)%**
Equity holders of Ipsen S.A.	144,006		148,638		
Minority interests	491		369		

▶ Other revenues

In 2006, ***other revenues*** totalled €83.6 million, up 3.5% year-on-year (2005, €80.7 million).

Other revenues break down as follows:

(in thousands of euros)	31 Dec. 2006	31 Dec. 2005 *pro forma*	2006/2005 variation Amount	%
Breakdown by revenue type				
- Royalties received	41,650	45,049	(3,399)	-7.5%
- Milestone payments and licensing agreements	20,199	21,126	(927)	-4.4%
- Other (co-promotion revenues, recharging)	21,732	14,563	7,169	49.2%
Total	**83,581**	**80,738**	**2,843**	**3.5%**

Royalties received mainly comprised royalties from the Kogenate® licence, which amounted to €38.7 million for 2006, down 7.8% year-on-year (€42.0 million in 2005). The first quarter of 2005 had been particularly high due to the carry-over of some 2004 royalties into 2005.

Milestone payments and licensing agreements represent recognition of payments received over the life of contracts. In 2006, this income mainly comprised milestones in relation to the Reloxin® agreement with Medicis, the Tenstaten® agreement with Recordati and the recognition of advance payments made by Roche as a result of the BIM 51077 (GLP-1 analogue) partnership. Moreover, in 2005, an income of €10.0 million was recorded in connection with the termination of a research contract.

Other revenues reached €21.7 million in 2006, up 49.2% year-on-year (€14.6 million in 2005). This increase stemmed from higher billings for R&D services within the framework of existing partnerships, such as with Roche for the development of BIM 51077 (GLP-1 analogue) and with Genentech. Co-promotion revenues were slightly down year-on-year, as new revenues generated by Artotec® and Tenstaten® in 2006 did not offset the negative impact of early termination of the co-promotion contract for Zoxan® with Pfizer.

▶ Cost of goods sold

In 2006, *cost of goods sold* amounted to €181.4 million, representing 21.0% of sales compared with 21.2% in 2005, as increased production volumes, a more favourable product mix and an increase in productivity more than offset the negative impact of price cuts during the year (e.g. as a percentage of sales, price cuts alone would have amounted to an increase of 0.5% in the cost of goods sold).

▶ Research and development expenses

A comparison of research and development expenses for the years 2006 and 2005 is presented in the following table:

(In thousands of euros)	31 Dec. 2006	31 Dec. 2005 *pro forma*	2006/2005 variation Amount	%
Breakdown by expense type				
- Drug-related research and development[1]	150,083	145,805	4,278	2.9%
- Industrial development[2]	22,957	18,333	4,624	25.2%
- Strategic development[3]	5,308	4,887	421	8.6%
Total	**178,348**	**169,025**	**9,323**	**5.5%**

(1) Drug-related research and development is aimed at identifying new agents, determining their biological characteristics and developing small-scale manufacturing processes. Pharmaceutical development is the process through which active agents become drugs approved by regulatory authorities and is also used to improve existing drugs and to research new therapeutic indications for them. Patent-related costs are included in this type of expense.

(2) Industrial development includes chemical, biotechnical and development-process research costs to industrialise small-scale production of agents developed by the research laboratories.

(3) Strategic development includes costs incurred for research into new product licences and establishing partnership agreements.

Research and development expenses increased by 5.5% to €178.3 million, representing 18.9% of total revenues and 20.7% of sales, compared with €169.0 million in 2005, representing 19.0% of total revenues and 20.9% of sales.

In 2006, **major research and development projects** included preparation for registration of Somatuline® Autogel® with the Food and Drug Administration (FDA), continuation of phase III clinical trials for Dysport® in the USA and finalisation of BIM 51077 development programmes agreed within the partnership with Roche, until July 2006 when the latter opted-in.

The growth in drug-related research and development expenses reflects in particular the full-year impact of the Group's strengthening of its clinical development teams, started in 2004.

In the area of industrial development, the increase is mainly linked to costs incurred in preparation for pre-approval inspections by the FDA (Food and Drug Administration) at some of the Group's manufacturing sites, in anticipation of future launches of Dysport® and Somatuline® Autogel® in the USA.

▶ Selling, general and administrative expenses

A comparison of *selling, general and administrative* expenses for the years 2006 and 2005 is presented in the following table:

(In thousands of euros)	31 Dec. 2006	31 Dec. 2005 *pro forma*	2006/2005 variation Amount	%
Breakdown by expense type				
Royalties paid	31,186	29,033	2,153	7.4%
Taxes and sales tax	15,207	11,142	4,065	36.5%
Other sales and marketing expenses	261,402	255,183	6,219	2.4%
Selling expenses	**307,795**	**295,358**	**12,437**	**4.2%**
General and administrative expenses	75,220	68,777	6,443	9.4%
Total	**383,015**	**364,135**	**18,880**	**5.2%**

In 2006, selling, general and administrative expenses increased by only 5.2% to €383.0 million, representing 44.5% of sales against 45.1% of sales a year earlier.

Selling expenses amounted to €307.8 million, 35.7% of sales, up by 4.2% year-on-year (€295.4 million in 2005, representing 36.6% of sales). This increase stands well below the sales growth level, despite a significant negative impact resulting from the increases in royalties paid to third parties and taxes and sales taxes:

- **Royalties paid** to third parties on sales of products marketed by the Group amounted to €31.2 million in 2006, up 7.4% year-on-year, stemming from the sales growth of the corresponding products.
- **Taxes and sales taxes** were up 36.5% at €15.2 million, mainly due to an increase of sales tax in France enforced from 1 January 2006.
- **Other sales and marketing expenses** (ie. marketing and sales force costs) were up by only 2.4% year-on-year, amounting to €261.4 million in 2006, compared with €255.2 million in 2005. This increase is significantly below the sales growth level and reflects the success of the Group's productivity improvement programmes in a context where the growth in volume of drugs sold by the Group reached +10.2% in 2006.

General and administrative expenses grew by 9.4% to €75.2 million in 2006, representing an increase of €6.4 million from a year ago. This evolution stemmed mainly from an increase in the costs of corporate functions, particularly due to the stock exchange listing of the Group, as well as reinforcement of certain administrative functions related to the Group's expansion in international markets. General and administrative expenses in 2006 included a non-recurring expense of €1.4 million.

▶ Other operating income and expenses

In 2006, other operating income and expenses amounted to an €8.2 million expense compared with a €1.2 million income a year ago. In 2006, this amount essentially comprised a non-recurring payment of $10.0 million to Inamed for the recovery of all rights related to Reloxin® in the USA, Canada and Japan, in accordance with the termination agreement between the Group and Inamed.

▶ Impairment charges

Impairment charges relating to Testim® amounted to a €7.3 million expense in 2006. This corresponds to the full impairment of the net book value of the intangible asset related to Testim® rights. The performance of this product was below the Group's expectations, with growth and market penetration lower than anticipated in all territories where the product is marketed, and thus no longer justified the existing asset carrying value in the Group's accounts.

▶ Operating profit

As a result of the above, the Group's operating income for 2006 reached €187.2 million, representing 19.8% of total revenues and 21.7% of sales, up 1.0% over 2005, when it represented 20.9% of total revenues and 23.0% of sales.

Restated for non-recurring charges, the Group's operating profit in 2006 amounted to €204.1 million, representing 21.6% of total revenues and 23.7% of sales. This compares with a recurring operating profit of €177.8 million in 2005, representing 20.3% of total revenues and 22.0% of sales.

▶ Segment reporting: Operating profit by geographical region

In compliance with IAS 14 "Segment Reporting", the Group's primary reporting format is presented according to geographical segment, since Ipsen operates in a single business segment, *i.e.* drug research and development, production and sales.

Sales, revenues and operating profit for the years 2006 and 2005 are presented in the following table by geographical region:

	31 December 2006		31 December 2005 pro forma		2006/2005 variation	
	(in thousands of euros)	% of sales	(in thousands of euros)	% of sales	(in thousands of euros)	%
Major Western European countries[1]						
Sales	551,674	100.0%	547,287	100.0%	4,387	0.8%
Revenues	564,528	102.3%	559,461	102.2%	5,067	0.9%
Operating profit	215,829	39.1%	219,652	40.1%	(3,823)	(1.7)%
Other European countries						
Sales	184,800	100.0%	155,893	100.0%	28,907	18.5%
Revenues	184,800	100.0%	156,258	100.2%	28,542	18.3%
Operating profit	71,516	38.7%	54,969	35.3%	16,547	30.1%
Rest of the World						
Sales	125,202	100.0%	103,934	100.0%	21,268	20.5%
Revenues	125,202	100.0%	103,934	100.0%	21,268	20.5%
Operating profit	42,309	33.8%	29,228	28.1%	13,081	44.8%
Allocated Total						
Sales	861,676	100.0%	807,114	100.0%	54,562	6.8%
Revenues	874,530	101.5%	819,653	101.6%	54,877	6.7%
Operating profit	329,654	38.3%	303,849	37.6%	25,805	8.5%
Non-Allocated Total[2]						
Revenues	70,727	7.5%	68,199	7.7%	2,528	3.7%
Operating loss	(142,435)	(76.1%)	(118,500)	(63.9%)	(23,935)	20.2%
Ipsen Total						
Sales	861,676	100.0%	807,114	100.0%	54,562	6.8%
Revenues	945,257	109.7%	887,852	110.0%	57,405	6.5%
Operating profit	187,219	21.7%	185,349	23.0%	1,870	1.0%

(1) France, Spain, Italy, Germany and the UK.

(2) For revenues and operating loss, percentages are calculated on "Ipsen Total".

- **In Major Western European countries,** sales grew by only 0.8% year-on-year. This mainly reflects government measures imposing price cuts, together with the impact of the Tenstaten® agreement with Recordati in France. Moreover, in 2006, sales taxes increased by nearly €3 million year-on-year, mainly in France. As a result, operating profit declined by 1.7% to €215.8 million for 2006, representing 39.1% of sales, against €219.7 million a year ago, representing 40.1% of sales.
- **In Other European countries,** which include other Western European countries and Eastern Europe countries, operating profit for the period increased by 30.1% to €71.5 million, compared with €55.0 million a year earlier. As a result, operating profit in the region for 2006 represented 38.7% of sales, against 35.3% a year earlier. This good performance was achieved due to a strong profitable growth increase in sales despite a €4.5 million negative impact of price reductions, (i) a reduction in sales taxes and commissions in some countries including Poland and (ii) the absence of non-recurring expenses in 2006, which had impacted 2005.
- **In the Rest of the World,** most of the Group's products are marketed by third-party distributors and agents, except in China, South Korea and Mexico, where Ipsen has a direct presence. In 2006, operating profit increased sharply to €42.3 million, up 44.8% year-on-year (€29.2 million in 2005), due to a strong 20.5% increase in sales, while costs have not increased at the same pace. As a result, operating profit in the region for 2006 represented 33.8% of sales, against 28.1% a year earlier.

Non-allocated operating loss totalled €142.4 million, against a loss of €118.5 million a year ago. In 2006, the non-allocated operating loss included:

- revenues of €70.7 million against €68.2 million a year earlier. This increase is particularly explained by higher billings for R&D services

within the framework of existing partnerships. Royalties received from the Kogenate® licence amounted to €38.7 million for 2006 against €42.0 million a year earlier. Revenues also included milestone payments in relation to the Reloxin® agreement with Medicis, the Tenstaten® agreement with Recordati and the recognition of advance payments made by Roche as a result of the BIM 51077 partnership. Moreover, in 2005, an income of €10.0 million was recorded in connection with the termination of a research contract;

- research and development expenses of €159.9 million, up from €151.1 million a year ago;
- Non allocated selling, general and administrative expenses of €38.0 million, compared with €38.4 million a year ago;
- other operating and restructuring expenses of €8.2. million, mainly consisting of the indemnity paid to Inamed as described above, compared with an income of €2.8 million a year ago;
- the impairment charge on Testim® of €7.3 million.

▶ Cost of net financial debt

In 2006, the cost of net financial debt was an income of €5.8 million against an expense of €5.9 million a year earlier. This positive trend mainly reflects a strong improvement in the cash position due to the capital increase in December 2005 and cash received in 2006 from partnerships.

Other elements represented a €5.7 million expense, compared with a €0.6 million expense in 2005, mainly comprising:

- a €2.7 million charge in connection with a revaluation as at 31 December 2006 - according to IAS 39 - of financial instruments (warrants and convertible bonds) in connection with the transaction with Tercica;
- a €1.8 million charge due to foreign exchange loss (€0.5 million in 2005) of which €0.7 million stems from the derivative instruments in connection with the transaction with Tercica.

▶ Income tax

In 2006, the Group's effective tax rate amounted to 21.8% of net profit from continuing operations before net loss from associates, compared with 19.1% a year earlier. The Group's effective tax rate benefited in 2006 from the non-recurring tax impact of use of UK capital losses brought forward for a total of €7.1 million. Due to uncertainty of recovery of these capital losses, no deferred tax asset had previously been recognized whereas, in 2006, the capital gain deriving from the Reloxin® agreement with Medicis enabled capital losses to be offset in the period.

The 2006 effective tax rate also benefited from:

- tax credits for research activities in France, Spain, Ireland, UK and the USA of €14.4 million compared with €9.0 million a year earlier;
- a tax credit for reinvesting activities in Spain of €2.6 million; and
- a beneficial tax rate on €4.5 million of down-payments in 2006 compared with €21.5 million a year earlier.

Excluding these non-recurring impacts, the Group's tax rate would have been 25.6% in 2006, against a comparable rate (*i.e.* excluding non-recurring impacts) of 24.0% in 2005. A year ago, the Group's effective tax rate had benefited from non-recurring impacts of recognizing net deferred tax assets and utilizing previously unrecognized tax loss carry-forwards in UK, Italian and Dutch subsidiaries, since their profitability had improved.

▶ Net loss from associates

The Group's loss from associates amounted in 2006 to €1.7 million ($2.1 million) and was solely composed of the Group's share in the net losses of Tercica in the fourth quarter of 2006, stated as required under IFRS GAAP. In January 2007, Tercica began shipments of Increlex™ to specialty pharmacy distributors and recorded sales totalling $0.7 million for the fourth quarter of 2006. Tercica recognized as other revenues in 2006 $0.2 million out of $10 million received as an upfront payment on the licensing of Increlex™ to the Group as described above, the balance being recorded as deferred revenue. As a result, Tercica's total revenues amounted to $0.9 million in the fourth quarter of 2006. Tercica's costs of goods sold amounted to $0.3 million, while research and development costs increased to $4.6 million in the fourth quarter of 2006, essentially related to clinical activities for Primary IGF-1 and severe Primary IGF-1, and to manufacturing development costs. Selling, general and administrative expenses amounted to $12.9 million in the fourth quarter of 2006, reflecting sales and marketing activities post-launch of Increlex™ as well as executive management, corporate administration, legal fees and other infrastructure support costs. Due to Tercica's positive net cash position, interest income in the fourth quarter of 2006 was $4.9 million. Finally, the Group recognised $5 million of tax income on Tercica's loss before tax of $12.0 million in the fourth quarter of 2006.

▶ Profit from continuing operations

As a result of the items noted above, profit from continuing operations was in line, at €144.8 million, with €144.6 million a year earlier. Profit from continuing operations represented 15.3% of total revenues, compared with 16.3% in 2005.

▶ Profit from discontinued operations

Profit from discontinued operations benefited from an additional payment received by the Group from the sale of its primary care business in Spain in October 2005, offset by provisions made in the USA related to the disposal of Dynport in 2004. Therefore, in 2006, the net loss was €0.3 million, compared with a net profit of €4.4 million a year earlier.

▶ Consolidated profit

As a result of the items noted above, consolidated profit in 2006 declined by 3.0% to €144.5 million (€144.0 million attributable to equity holders of Ipsen S.A.), against €149.0 million (€148.6 million attributable to equity holders of Ipsen S.A.) a year earlier. Consolidated profit represented 15.3% of revenues in 2006, compared with 16.8% in 2005. Excluding non-recurring items, the Group's net profit reached €148.9 million, up 15.6% year-on-year (€128.9 million in 2005).

Milestones cashed-in but not yet recognized as revenues

In 2006, total milestones received in cash by the Group but not yet recognised as revenue in its consolidated income statement amounted to €184.3 million, against €21.8 million in 2005. These payments will be recognised in the Group's income statement as revenue going forward as follows:

(in million of euros)	Milestones received in cash but not yet recognized as revenue in the years:	
	31 décembre 2006	31 décembre 2005
Total	**184.3**	**21.8**
These will be recognized as revenue in the future as follows:		
In 2007	13.6	9.6
In 2008 and beyond	170.7	12.2

9.2.3 Impact of non-recurring items on the group's 2006 and 2005 results (unaudited data)

The following table shows the items which the Company considers as "non-recurring", *i.e.* which are one-offs and which, once deducted from the Group's results, show the underlying or "recurring" performance.

(in millions of euros)	31 December 2006			31 December 2005 *pro forma*		
	Consolidated	Non recurring items	Recurring consolidated	Consolidated	Non recurring items	Recurring consolidated
Sales	**861.7**		**861.7**	**807.1**		**807.1**
Other revenues	83.6		83.6	80.7	(9.9) [a]	70.8
Total revenues	**945.3**		**945.3**	**887.9**	**(9.9)**	**877.9**
Cost of goods sold	(181.4)		(181.4)	(171.0)		(171.0)
Research and Development expenses	(178.3)		(178.3)	(169.0)		(169.0)
Selling, general and administrative expenses	(383.0)	1.4 [a]	(381.6)	(364.1)	2.9 [b]	(361.2)
Other operating income and expenses	(8.2)	8.5 [b]	0.2	1.2		1.2
Restructuring costs	0.2	(0.2)	-	0.5	(0.5)	-
Impairment losses	(7.3)	7.3 [c]	-	-		-
Operating profit	**187.2**	**16.9**	**204.1**	**185.3**	**(7.5)**	**177.8**
in % of sales	*21.7%*		*23.7%*	*23.0%*		*22.0%*
Income from cash and cash equivalents	8.0		8.0	2.0		2.0
Cost of gross financial debt	(2.1)		(2.1)	(7.9)		(7.9)
Cost of net financial debt	**5.8**		**5.8**	**(5.9)**		**(5.9)**
Other interest income and expense	(5.7)		(5.7)	(0.6)		(0.6)
Income tax	(40.9)	(12.8) [d]	(53.6)	(34.2)	(8.2) [c]	(42.4)
Net loss from associates	(1.7)		(1.7)	-		-
Profit from continuing operations	**144.8**	**4.1**	**148.9**	**144.6**	**(15.7)**	**128.9**
Loss from discontinued operations	**(0.3)**	**0.3**	**-**	**4.4**	**(4.4)**	**-**
Consolidated profit	**144.5**	**4.4**	**148.9**	**149.0**	**(20.1)**	**128.9**
in % of sales	*16.8%*		*17.3%*	*18.5%*		*16.0%*

Impact of the non recurring elements in the 2006 group's results:

(a) One-off expense of €1.4 million relating to certain corporate functions.

(b) Non-recurring payment of $10.0 million to Inamed for the recovery of all rights related to Reloxin® in the US, Canada and Japan.

(c) Impairment charges relating to Testim®.

(d) Includes an income tax relating to the non-recurring elements mentioned above and the non recurrent recognition of deferred tax assets.

Impact of the non recurring elements in the 2005 group's results:

(a) Non-recurring income recorded in connection with the termination of a research contract.

(b) Includes non recurring expenses relating to certain corporate functions and a one-off payment relating a friendly settlement.

(c) Includes an income tax relating to the non-recurring elements mentioned above and the non recurrent recognition of deferred tax assets.

10 Cash flow and capital for years ending 31 December 2006 and 31 December 2005

In 2006, the Group generated a strong €327.6 million cash flow from operating activities, against €176.9 million a year earlier. The cash position at 31 December 2006 benefited from strongly sustained activity during the year and from receipt of a €102.4 million (USD123.1 million) milestone from Medicis under the Reloxin® distribution agreement granted by the Group for the USA, Canada and Japan in the aesthetics indication, as well as from a €57.7 million option payment from Roche following their decision to license-in BIM51077 worldwide. As a result, the Group reimbursed most of its credit facilities, while keeping open the option of re-using them (for a total of €241.2 million at 31 December 2006). The Group utilised €163.6 million in investment transactions, spending in particular €63.1m on acquisition of 25% of the capital of Tercica, a California-based biotechnology company, and subscribing for a €20.7 million convertible bond in the same transaction. No such operations were undertaken in 2005. Ipsen SA paid dividends of €50.4 million in June 2006.

Cash arising from discontinued activities amounted to €0.6 million in the year compared with €12 million in 2005.

10.1 Analysis of the cash flow statement

(in thousands of euros)	2006	2005 *pro forma*
- Cash flow before variation in working capital requirements	167,626	172,967
- (Increase) decrease in working capital requirements for operations	160,009	3,887
• Net cash flow generated by operating activities	327,635	176,854
• Net cash flow used in investment activities	(163,618)	(52,749)
• Net cash flow used in financing activities	(82,214)	(18,950)
• Net cash flow provided by discontinued activities	647	12,001
Impact of pro forma treatment	-	(10,150)
Increase (decrease) in cash flow for the year	**82,450**	**107,006**
Cash and cash equivalents at beginning of year	**200,564**	**92,763**
Impact of foreign exchange variations	729	795
Cash and cash equivalents at end of year	**283,743**	**200,564**

• Net cash flow generated by operating activities

During 2006, net cash flow generated by operating activities before changes in working capital totalled €167.6 million, against €173.0 million in 2005. Cash flow before variation in working capital includes revenue of only €7.5 million from the €160.1 million of milestones received from Medicis and Roche as described above. Revenue from these agreements is being recognised over the lives of the corresponding contracts, whereas the whole tax burden on the full milestones received has increased the deferred tax assets, such increase being deducted from net cash flow generated by operating activities before changes in working capital.

Working capital requirements for operating activities declined by €160.0 million in 2006 compared to a € 3.9 million decrease in 2005. This evolution is linked to the following:

- the balance between current assets and current liabilities represents a debt which increased by €166.1 million during 2006. This increase arose in particular from receipts of milestone payments not yet recognised as revenue at 31 December 2006, of which € 152.6 million was received from Medicis and Roche;
- inventories remained almost stable at the end of 2006 compared with 2005 (growth of €4.6 million). Trade receivables grew by €27.4 million, mainly resulting from business growth, from modification of payment terms of certain customers in France and from increased sales to hospitals in Italy with longer payment terms, whereas trade payables decreased by €7.1 million, partly due to payment during the period of IPO-related fees accrued in 2005 and to an invoicing level from suppliers which was lower than in the fourth quarter of 2005.
- conversely, tax payable increased by €33.1 million, comprising €7.4 million in respect of taxation in the U.K. on the payment received from Medicis and €14.9 million in respect of the balance of tax payable related to Group affiliates in France in 2006.

As a result of the above, net cash flow generated by operating activities amounted to €327.6 million for 2006 compared with €176.9 million in 2005.

• Net cash flow used in investment activities

Net cash flow used in investment activities amounted to €163.6 million in 2006 (2005, €52.7 million). This comprised mainly asset acquisitions, net of disposals, of €78.8 million, against €43.3 million in 2005. The Group also acquired 25% of the capital of Tercica, a California-based biotechnology company, for a €63.1 million down payment and subscribed to a €20.7 million convertible bond in the same transaction. No such operations were undertaken in 2005. Working capital requirements arising from investment activities in 2006 decreased by €5.8 million due to an increase in payables linked to investment projects in the UK, compared with an increase of €7.6 million in 2005. Additionally, the Group utilised €2.5 million in 2006 to fund its liquidity contract on Ipsen shares and €4.2 to fund its post-employment benefit plans.

During 2006, tangible fixed asset acquisitions totalled €40.6 million, mostly consisting of capital expenditure required to maintain the Group's industrial facilities, namely €6.4 million for industrial buildings and fittings and € 19.9 million for industrial equipment, mainly at the Dreux and Wrexham production sites. During the same period, intangible asset acquisition amounted to €41.2, mainly related to payments due within the framework of alliances, such as Acapodene® and Increlex™, and to acquisition of software, against €7.9 million in 2005.

- **Net cash flow used in financing activities**

In 2006, net cash flow used in financing activities totalled €82.2 million against €18.9 million in 2005. Following payments received from Medicis, €31.8 million of the Group's credit facilities has been repaid, thus reducing the overdraft as at 31 December 2006 to €6.3 million. In 2005, repayment of credit facilities amounted to € 190.0 million. The Group has maintained the option to utilise fully these credit facilities.

In the first half of 2006, the Group paid out €50.4 million in dividends, compared with €29.3 million in the same period of 2005.

- **Net cash flow from discontinued activities**

In 2006, net cash flow from discontinued activities amounted to €0.6 million (2005, €12 million), resulting from the decrease in working capital requirements linked to primary care activities in Spain, which were divested in October 2005.

10.2 Analysis of net cash

At 31 December 2006, the Group's net cash (cash and cash equivalents minus bank overdrafts, bank borrowings and other financial liabilities plus or minus derivative financial instruments) was €252.9 million, compared with €138.8 million at 31 December 2005. The Group has four-year credit facilities totalling €241.2 million, out of which €6.3 million was in use at 31 December 2006, compared with utilisation of €37.8 million at 31 December 2005. Covenants included in the loan agreements, namely net debt to equity and net debt to EBITDA (Earnings before interest, tax, depreciation and amortisation), are irrelevant in respect of the current positive net cash situation.

11 Research and Development, patents and licences

11.1 Research and Development

The Group's Research and Development activities are focused on the discovery and development of new molecules as well as on programmes relating to life cycle management for products already marketed by the Group (development of new formulations or extensions of indications and product registrations in new geographical areas). The Group's significant Research and Development effort is complemented by an active partnership policy.

The Group's Research and Development programmes are based on four technological platforms: peptide engineering, protein engineering, medicinal chemistry and advanced drug delivery systems. This array of technologies is necessary to meet the Group's objectives:

- fulfilling unmet medical needs;
- optimising the efficacy of active substances;
- providing patients with better quality of life; and
- facilitate the use of these products by healthcare personnel.

Integration of these platforms drives the discovery of innovative products for the treatment of severely debilitating or life-threatening therapeutics in the Group's targeted therapeutic areas.

One of the best examples of this approach is the proprietary, patented formulation of Somatuline® Autogel, a product that illustrates the Group's ability to combine the results of its research in peptides with advanced drug delivery technologies.

Pursuant to its aim of developing and maintaining a global presence among specialists within the targeted therapeutic areas, the Group has established an international network of Research and Development facilities based in areas giving it access to key expertise in academic research and to employees skilled in technology and development processes (pharmaceutical, pre-clinical, clinical and regulatory).

Furthermore, in 2005 the Group inaugurated the BioProcess Sciences Research Center, a biotechnology unit complementing the activities of the Boston Research and Development centre. The new site houses a team specialising in the development processes specific to genetic engineering, industrial development, analysis and formulation of proteins, production, quality assurance and quality control. This biotechnology production facility represents a major asset for the Group that will facilitate its efforts to find and seal new partnerships.

Group research efforts are based on a continuously updated understanding of pathophysiological pathways, *i.e.* biological processes that distinguish between healthy and therapeutic conditions. On the basis of this knowledge, the Group identifies hormones, enzymes, proteins and important biological growth factors that represent suitable targets for the design of medicinal products. The Group has found that products of natural origin (plant, animal or human) often prove to be the most beneficial starting point from which to develop new products that are both effective and well tolerated by patients.

At 31 December 2006, 700 of the Group's employees (compared with 692 at 31 December 2005 and 657 at 31 December 2004) were assigned to Research and Development activities. During 2006, the Group spent €178 million in Research and Development (vs. €169 million in 2005 and €147 million in 2004), *i.e.* 20.7% of its pro forma consolidated sales (vs. 20.9% in 2005 et 19.1% in 2004).

11.1.1 Research activities: technological platforms, a key focus for the Group

The Group's four technological platforms are described below:

- **Peptide engineering** focuses on the modification through synthesis of derivatives of naturally occurring neuropeptide hormones. This research is conducted by the Boston Research and Development centre (United States).
- **Protein engineering** aims to improve the therapeutic properties of naturally occurring proteins through the selective modification of their sequences. This research is conducted by the Boston Research and Development centre (United States).
- **Medicinal chemistry** aims to discover enzyme inhibitors, mitochondrial protective agents and non-peptide ligands (molecules that attach preferentially to one or more receptors) for specific hormone receptors. Medicinal chemistry research is conducted by the Group's research facilities in Paris (France).

The acquisition of UK-based Sterix in February 2004 has given the Group access to additional expertise in the development of medicinal products derived from steroid hormones.

In addition, under the agreements with Spirogen of the United Kingdom in 2003, the Group has expanded use of its medicinal chemistry platform by securing access to a technology making it possible to target specific regions of genes that control their expression.

- **Advanced drug delivery** aims to create and develop innovative formulations for new or existing products in order to optimise the efficacy of the active substances while improving patient quality of life and facilitating the use of the products by healthcare professionals. These research activities are conducted at the Group's research centre in Barcelona (Spain).

11.1.2 Development: pre-clinical and clinical trials

The process of developing a molecule or a new compound through to its approval by the regulatory authorities may take between eight and twelve years and can usually be divided up into five distinct stages, *i.e.* the pre-clinical stage and phase I, II, III and IV clinical trials.

During the pre-clinical stage, which usually lasts two to four years, the Group's research scientists study the effects of innovative drug candidates on cell systems or organs in isolation, in vitro or in animal models, to gain a better understanding of their pharmacological and toxicological properties. An analysis of the results of these studies helps to determine whether the compound meets the therapeutic objectives laid down. If so, further development through clinical trials must be subject to the approval of the competent regulatory authorities, as well as ethics committees.

The purpose of clinical trials is to establish proof that the drug candidate is safe to use and effective in humans. If results are positive, they are compiled into a registration dossier, which is submitted to the regulatory authorities for them to decide whether or not to issue marketing authorisation.

The four phases of clinical trials are as follows:

- **phase I**. The purpose of phase I is to conduct a short-term assessment on healthy volunteers (or on patients in oncology) of the safety profile of the drug candidate based on dosage administered and to establish a preliminary pharmacokinetic (absorption, metabolism, distribution, elimination) pharmacodynamic profile. These results combined with those of pre-clinical trials help to verify the drug's tolerance profile and to confirm the dosage and optimum treatment regimen maximising efficacy while minimising side effects;
- **phase II**. The purpose of phase II is to assess on patients the pharmacological properties of the drug candidate and identify the therapeutic index (ratio between the active and toxic dose) in one or more of the administered dosages identified during phase I. At this stage, if the drug candidate's therapeutic efficacy and its tolerance profile are confirmed, a decision may be taken to hold phase III trials;
- **phase III**. Phase III trials represent the final stage of clinical trials conducted before an application for marketing authorisation is filed. These trials are normally conducted on a much larger number of patients than are used for phase II trials, and their purpose is to provide reliable clinical and statistical data regarding their tolerance and efficacy;
- **phase IV**. Phase IV trials are generally held once a drug is on the market. They are intended to check and, if need be, document in greater detail a drug's efficacy and safety.

11.1.3 Research and Development portfolio

The Group is currently pursuing the pre-clinical and clinical development of several innovative compounds and new formulations of existing drugs. The following table and comments provide a summary of the Group's principal development programmes currently in progress. The Group believes that it is one of the few pharmaceutical companies able to pursue a significant number of Research and Development projects in its targeted therapeutic areas:

Development pipeline	Indications	Development stage and forecast date of marketing authorisation[1]
News molecules pipeline		
Angiomates	Cytotoxic	Pre-clinical
BIM 46187	Cytostatic drug, solid tumours	Pre-clinical
Sustained-release growth hormone	Long term treatment of growth failure in children and growth hormone deficiency in adults	Pre-clinical
Dopastatine	Pituitary adenomas	Pre-clinical
BN 83495 (STX 64)	Post-menopausal breast cancer expressing œstrogenic receptors	Phase I
BN 2629 (SJG-136)	Advanced metastatic cancer	Phase I
Elomotecan (BN 80927)	Advanced metastatic cancer	Phase I
Diflomotecan (BN 80915)	Advanced metastatic cancer	Phase II
OBI-1®	Hemostase	Phase II
BIM 51077	Type II diabetes	Partnership with Roche (July 2006)
Acapodene®	Treatment of side effects from LHRH-a based androgen-deprivation therapy	Phase III
Increlex®	Long term treatment of growth failure in children with severe IGF-1 deficiency	Europe: regulatory review
Febuxostat®	Symptomatic hyperuricaemia	Europe: regulatory review

(1) The Group may decide to submit certain drugs under development for approval in certain countries before seeking marketing authorisation for them in other countries. As a result, several different dates have been given for certain drugs in the development pipeline.

Development pipeline	Indications	Development stage and forecast date of marketing authorisation[1]
Product life-cycle management programmes		
Decapeptyl®	Combined hormone therapy for premenopausal breast cancer	Phase III
Decapeptyl®	Prostate cancer formulation: 4 months	Phase III
Somatuline Autogel®	Asymptomatic neuroendocrine tumours	Phase III
Somatuline Autogel®	Co-administration with Pegvisomant	Phase III
Tanakan®	Mild cognitive impairment related to age	Phase III
Somatuline Autogel®	Acromegaly	United States: regulatory review
NutropinAq®	Idiopathic short stature	Europe regulatory review
Dysport®	Cervical dystonia	Phase III United States: NDA filing forecast 2007
Reloxin®	Aesthetic medical purposes	Europe: regulatory review United States: partnership with Medicis – NDA filing forecast 2007

(1) The Group may decide to submit certain drugs under development for approval in certain countries before seeking marketing authorisation for them in other countries. As a result, several different dates have been given for certain drugs in the development pipeline.

The forecast dates of applications for marketing authorisation in the above table are those stated in the Group's current Research and Development programme, which is likely to be revised owing to the large number of relevant factors, many of which are highly unpredictable. Accordingly, the Group may not meet these dates for various reasons, including delays in clinical trials, therapeutic failures, failure to secure regulatory approval, the occurrence of a technical or administrative event beyond the Group's reasonable control and other reasons described in Chapter 4 "Risk Factors" of this registration document.

11.1.4 Research and Development programmes in oncology

▶ 11.1.4.1 Research programmes

The Group's technology programmes in peptide engineering and medicinal chemistry enable it to explore and develop new approaches in cancer treatment under hormonal control, such as (i) key enzyme inhibitors in the biosynthesis of steroids, (ii) growth factors, notably including prolactins, Growth Hormone Releasing Hormone, Mullerian Inhibiting Substance and (iii) enzymes regulating cell cycles (notably phosphatases) and (iv) factors involved in the transduction of the intracellular signal and angiogenesis. These research programmes are conducted internally with assistance from university and industry specialists.

The February 2004 acquisition of Sterix has opened up new opportunities for the Group in the development of medicinal products derived from steroids. Steroid hormones play an essential role in the processes controlling vital functions. Having signed a partnership agreement with the Group, the team from the University of Bath in the United Kingdom discovered a chemical modification which, when applied to steroids and their derivatives, enables the selective inhibition of enzymes that convert precursor steroids into their biologically active form. Through its collaboration with Imperial College London and the University of Bath, the Group intends to leverage the use of this technological platform in the field of hormone-dependent cancer.

The agreement signed with Spirogen in May 2003 has provided the Group with access to a technological platform with the potential to identify the genes involved in serious therapeutics such as cancer. The Group has exclusive access to this technology for several genes involved in cancer refractory to conventional therapies.

▶ 11.1.4.2 Development programmes

- ***Decapeptyl***®: With regard to managing the life cycle of Decapeptyl®, the Group is pursuing the following developments:

- it is participating in three phase III studies conducted under the auspices of the International Breast Cancer Study Group in the treatment of breast cancer in premenopausal women, comparing the conventional treatment methods with hormone therapy combining Decapeptyl® with œstrogen suppressant agents, such as Aromasin®, marketed by Pfizer. These trials are due to take place until 2015. Hormone therapy for cancer offers a better tolerated option than traditional chemotherapy and is particularly suitable for long-term treatment;

- it is developing sustained-release formulations for treatment durations longer than three months. A formulation for a minimum treatment duration of four months is currently undergoing its phase III clinical trials and a sustained-release formulation for a duration of 6 months is currently in phase I clinical trials.

- ***Acapodene***®: The Group has acquired the rights in Europe, Switzerland, Norway, Iceland, Lichtenstein & the Commonwealth of Independent States from the US biotech company GTx Inc. for the development & marketing of Acapodene® (toremifene citrate) for all indications except breast cancer. This drug can modulate the activity of the estrogen receptor in an organ-selective manner (Selective Estrogen Receptor Modulator). Acapodene® is currently undergoing its phase III development programme in two different clinical settings; i) treatment of side effects from LHRH-a based androgen-deprivation therapy

in advanced metastatic prostate cancer (80mg) & chemoprevention of prostate cancer in individuals carrying evidence of prostatic lesions known as high-grade prostatic intraepithelial neoplasia HGPIN (20mg). The Group detains the marketing rights for the first indication and an option for the second one.

- ***BN 83495 (STX 64)***. BN 83495 and similar molecules acquired through the acquisition of Sterix, are selective inhibitors of the sulphatase enzyme involved in a key stage of the biosynthesis of œstrogens, one of the principal factors contributing to breast cancer in post-menopausal women. A phase I clinical trial in patients with breast cancer has been completed and the results demonstrated the inhibition of the sulphatase enzyme at the dosages tested in tumour biopsies.
- ***Angiomates (STX 140).*** The angiomates refer to a family of small molecules acquired through the acquisition of Sterix which are multitargeted anticancer agents, exhibiting both antiproliferative (killing cancer cells) and antiangiogenic properties (inhibiting the blood vessels network supporting the tumour). They are currently at the pre-clinical development stage and will target the treatment of hormone-dependent tumours and possibly some hematological malignancies.
- ***BIM 46187***. BIM 46187 is an innovative anti-tumour compound that acts on cellular signals by the receptors attached to Protein G (the most common form of receptors for neuropeptide hormones and neurotransmitters). This compound is at the pre-clinical stage. BIM 46187 may be used either alone or in combination with other cancer therapies in the treatment of solid tumours, such as lung and prostate cancer.
- ***BN 2629 (SJG-136)***. BN 2629, a product originating from Spirogen, is a synthetic molecule that has demonstrated during pre-clinical studies its ability to block the anarchic cellular proliferation process characteristic of cancerous diseases. This product is being studied in three phase I studies of different administration regimens in patients with metastatic tumours resistant to certain types of chemotherapy conducted by two renowned institutions, namely Cancer Research in the United Kingdom and the National Cancer Institute in the United States. The Group is pursuing ex vivo research using this molecule in leukaemia resistant to other treatments.

The Group is looking for a partner with which to continue the development of a patented class of cytotoxic agents

- ***diflomotecan***. Diflomotecan is a cytotoxic agent (cell killer) that inhibits the topoisomerase 1 enzyme. Two phase II clinical trials in lung cancer have been completed, but failed to achieve their safety and efficacy targets in this indication for the dosages and drug administration regimens tested. During phase I clinical trials, diflomotecan showed high oral bioavailability, low gastrointestinal toxicity and no cumulative haemotoxicity. Investigations into other indications are due to be carried out;
- ***elomotecan***. Elomotecan is a cytotoxic (cell killer) inhibitor of topoisomerase 1 and topoisomerase 2 enzymes, intended for the treatment of certain types of advanced metastatic cancer (colon, breast and prostate). Elomotecan is currently undergoing phase I clinical trials.

Development of these cytotoxic agents was carried out in conjunction with Roche under the licensing and partnership agreement of December 2002. The Group and Roche terminated this partnership in May 2005.

11.1.5 Research and Development programmes in endocrinology

▶ 11.1.5.1 Research programmes

In pituitary disorders, the Group is involved in several programmes, chiefly in pituitary adenomas, such as acromegaly. The Group is also continuing its efforts to identify second-generation somastatin analogues and growth hormone antagonists. This disorder used to be treated by surgical removal of the benign tumour followed by radiotherapy. If the tumour did not respond sufficiently, a somatostatin analogue was administered. However, because of the heterogeneity of the tumour, new therapies are needed since a substantial number of patients still do not receive satisfactory treatment.

The Group is currently investigating molecules with a broader spectrum of activity and hopes that they will not only provide a symptomatic treatment for acromegaly, but also offer the possibility of reducing tumour size, thereby eliminating many of the limitations associated with existing treatments (Dopastatin).

The Group is also exploring the role of certain peptide hormones (ghrelin, MSH/MC4) in regulating food intake and the gastro-intestinal function with the priority objective of treating cachexia (lack of appetite), which is often the cause of functional disorders in the elderly, cancer patients and patients with chronic illnesses (ghrelin, MSH/MC4). The Group is continuing to pursue the programmes it initiated in 11ßHSD enzyme inhibitors with a view to developing a therapy for the related metabolic syndromes associated with obese patients with hyperinsulinemia, which principally manifests itself in the form of greater cardiovascular risks.

In conjunction with Asterion, the Group is also continuing to develop growth hormone antagonists.

▶ 11.1.5.2 Development programmes

- ***Somatuline® Autogel®.*** With regard to managing the life cycle of Somatuline® Autogel®, the Group is pursuing the following developments:

- the phase III clinical trials in the United States with Somatuline® Autogel® for the symptomatic treatment of acromegaly have ended. The FDA accepted the NDA filing on 29 December 2006. The prescription drug user fee act goal date is set for 30 August 2007;
- additional phase III and IV clinical trials of Somatuline® Autogel® are planned in the treatment of neuroendocrine tumours in the United States and in Europe;
- the Group is also pursuing the development of sustained-release formulations for treatment durations of more than two months. Development of this new formulation is currently at the pre-clinical stage, since a phase I trial with the first candidate formulation proved unsuccessful;
- in Japan, the Group's partner, Teijin, has started phase II trials of Somatuline® Autogel® in the symptomatic treatment of acromegaly;
- the Group envisages securing additional marketing authorisations for Somatuline® Autogel® shortly, in Poland and Russia for the treatment of acromegaly and neuroendocrine tumours, and in France and Germany for the treatment of neuroendocrine tumours.

- ***NutropinAq***®. With regard to managing the life cycle of NutropinAq®, the Group is pursuing the following development work:

- within the framework of its agreement with Genentech signed in September 2002, the Group received from Genentech a copy of the registration dossier compiled by Genentech and filed with the FDA in January 2004 with a view to extending the indication for the treatment of idiopathic short stature. The Group filed a dossier in April 2006 with a view to securing an extension of this indication with the European Medicines Agency (EMEA);

- furthermore the Group is pursuing Research and Development projects under the agreement signed with Genentech in November 2004 that aim to develop a sustained-release formulation for recombinant growth hormone.

- ***BIM 51077*** is an analogue of peptide hormone GLP-1 (Glucagon Like Peptide-1), which is covered by a partnership option with Roche. A detailed description of this partnership is provided in section 22.1.2.4 of this registration document. In Japan, the Group's Japanese partner (Teijin) has completed its phase I trials with BIM 51077 and is now preparing to hold further phase I trials with sustained-release formulations.

- ***Increlex***® (mecasermin [recombinant DNA origin] injection)) is a substitution treatment human insulin like growth factor (rhIGF-1) produced by a recombinant DNA technology, indicated in the long term treatment of growth failure in children with severe primary insulin-like growth factor-1 deficiency (Primary IGFD). The main active substance of Increlex™ is identical to the natural hormone IGF-1 produced by the body in response to a stimulation by the growth hormone. IGF-1 is the principal hormonal mediator of statural growth and must be present so that children's bones, cartilage and organs grow normally. If the IGF-1 is not present in sufficient quantities, the child will not reach its normal stature. Increlex™, approved by the FDA in August 2005 for the treatment of IGF-1 deficiency, is available to patients in the United States. Furthermore, in December 2005, Tercica Inc. submitted an application for marketing authorisation for Increlex™ in the European Union. Increlex has received orphan drug exclusivity.

11.1.6 Research and Development programmes in neuromuscular disorders

▶ 11.1.6.1 Research programmes

The Group's research programmes in neuromuscular disorders mainly focus on the identification of new botulinum toxin formulations.

In neurodegenerative conditions, the Group has synthesised several original classes of chimeric compounds, *i.e.* compounds capable of performing several pharmacological activities simultaneously and used to protect mitochondria (intracellular organelles responsible for the production of energy) in connection with neurodegenerative conditions, such as Parkinson's and Huntington's disease.

▶ 11.1.6.2 Development programmes

- ***Dysport***®. With regard to managing the life cycle of Dysport®, the Group is pursuing the following developments:

- in August 2005, the Group initiated phase III clinical trials of Dysport® in the United States in the treatment of cervical dystonia. Subject to positive results, the Group envisages filing for registration with the FDA in 2007;

- Dysport® is currently undergoing phase II clinical trials in the treatment of myofacial pain;

- Dysport® (Reloxin®) is currently undergoing phase III clinical trials in the United States for aesthetic medicine indications (frown lines) led by Medicis within the framework of the development and distribution agreement entered into with the company. Provided the outcome of these trials is positive, the Group plans to file regulatory submissions with the FDA during 2007 under a brand name other than Dysport®, which may be Reloxin®;

- As far as use of the Group's botulinum toxin type A in aesthetic medicinal indications in Europe is concerned, the AFSSAPS regulatory review process is still ongoing. In this context, the Group has decided, in conjunction with its partner Galderma, to optimise the product's profile by including, as soon as possible in 2007 in its marketing authorisation application, the full results of clinical studies in the product's efficacy and safety carried out by its partner Medicis in the United States.

11.1.7 Other Research and Development programmes

▶ 11.1.7.1 Cognitive disorders

Tanakan®. The Group is endeavouring to validate the clinical benefits of Tanakan® in the treatment of age-related cognitive impairment and behavioural disorders. The Group is thus involved in the assessment of EGb® 761®, the extract of Ginkgo biloba present in Tanakan®, for the treatment of neurodegenerative disorders such as Alzheimer's disease. More than 8,000 patients are enrolled in the research programmes, and eight clinical studies are currently underway:

- the National Institutes of Health (United States) are currently sponsoring four clinical trials:

- a study on the prevention of Mild Cognitive Impairment (MCI) in patients aged over 85,

- a study on the primary prevention of Alzheimer's disease in "healthy" patients aged over 75 ("GEM"). The 3,000 patients for this study have now been recruited, and they will be treated at least until 2008,

- two pilot studies on the cognitive disorders caused by cancer treatments (chemotherapy or radiation therapy);

- the Group is the sponsor of four other studies in Europe, including:

- the GuidAge study assessing the effectiveness of EGb® 761® in the prevention of Alzheimer's disease in patients of more than 70 years of age presenting with a spontaneous memory complaint; The 2,800 patients were recruited by September 2004 and their treatment will continue for five years. The results of this study are likely to be available in 2010,

- a study evaluating the efficacy of EGb® 761® in cognitive disorders in patients with Alzheimer's disease and related behavioural and psychological disorders (Behavioural and Psychological Symptoms in Dementia),
- two pilot studies aiming to study the efficacy of EGb® 761® in cognitive impairment related to various disorders, such as multiple sclerosis and the consequences following a stroke.

All of these clinical studies, with the exception of the GuidAge study, are proof-of-concept studies. If successful, they will have to be confirmed by further clinical studies before a new indication can be registered. If the GuidAge trial is successful, its results may be used for the purpose of securing an indication for EGb® 761® in the prevention of Alzheimer's disease in patients over 70 with spontaneous memory impairment.

▶ 11.1.7.2 Haematology

The Group also boasts longstanding expertise in haemostasis (blood coagulation). The Group's research has enabled it to establish partnerships with Emory University (United States) and Octagen, in order to develop a recombinant version of porcine factor VIII using its protein engineering platform. This product (OBI-1) is intended for the treatment of congenital or acquired haemophilia resistant to human factor VIII.

OBI-1 is currently in its phase II trials in the United States. OBI-1 is produced at the Group's biotechnology unit in Boston.

▶ 11.1.7.3 Rheumatology

Within the framework of the partnership established in July 2003 with Japanese group Teijin in endocrinology, the Group signed a specific agreement to develop in Europe Febuxostat, a drug intended for the treatment of symptomatic hyperuricaemia, currently in the process of being registered by Takeda Abbott Pharmaceuticals (TAP) in the United States (a detailed description of this agreement is provided in section 22.1.2.5 of this registration document). The FDA issued an approvable letter in October 2005 followed by a second one in August 2006. With a view towards possibly launching the compound in Europe, after assessing the submissions filed by TAP with the FDA in February 2006 in response to this approvable letter, the Group has decided to submit for marketing authorisation the European authorities. This application was accepted by the EMEA in October 2006 and is currently being reviewed.

11.1.8 Research and Development facilities

The Group has established an international network of Research and Development centres, located in areas providing access to considerable expertise in academic research and to employees skilled in technology and development processes. Thanks to its Research and Development programmes, as well as the geographical location of its Research and Development facilities, the Group can recruit talented scientists, making it highly competitive in pharmaceutical research compared with other similarly-sized groups.

▶ 11.1.8.1 The Paris Research and Development centre (France)

The Paris Research and Development centre (Institut Henri Beaufour) specialising in medicinal chemistry was opened in 1969. New facilities were built more recently in 1996, with a research team comprising chemists, biologists and pharmacologists essentially working on discovering new chemical entities and having access to high-throughput screening and combinatorial chemistry techniques and the early characterisation of their distribution and elimination properties in the body. Its key areas of research are molecular and cellular oncology, together with neuromuscular disorders.

The Group also has a clinical development team in Paris that coordinates its clinical trials around the world.

Analytical development and production of medicinal products for clinical trials are carried out at the Group site located in Dreux (France).

▶ 11.1.8.2 The Boston Research and Development Center (United States)

The Boston Research and Development centre (Albert Beaufour Research Institute) specialises in protein and peptide research. Its scientists mainly work in three areas: synthetic chemistry, pharmacology and biotechnology. The Boston centre boasts extensive knowledge about hormone-dependent pathophysiological mechanisms in which neuropeptides are involved. The Group also has a clinical research and development team dedicated to the coordination of the Group's clinical research in North America and regulatory activities with the FDA in the United States. In March 2005, the Group inaugurated the BioProcess Sciences Research Center, a biotechnology unit complementing the activities of the Boston Research and Development centre. The new site houses a team of specialising in the development processes specific to genetic engineering, industrial development, analysis and formulation of proteins, production, quality assurance and quality control. One of the main activities of the site is to modify the structure of endogenous proteins and peptides to enhance their properties. Replacing certain protein sequences with different sequences may reduce antigenicity (detection by existing antibodies), toxicity or immunogenicity (formation of new antibodies) and increase the duration of action, specificity or compatibility with controlled-release formulations.

▶ 11.1.8.3 The London Development and Registration centre (United Kingdom)

Located near London, which is home to the European Medicines Agency (EMEA), the clinical development and regulatory affairs departments devise development and regulatory approval strategies and implement pre-clinical and clinical development programmes to implement these strategies. They coordinate multicenter international clinical trials, collect data, analyse results and file dossiers and registration applications with the international regulatory authorities to ensure that the Group obtains the necessary approvals to market its products in the shortest possible time.

The main objective of the clinical development teams is to execute or commission execution of clinical trials complying strictly with the regulatory standards and able to provide high-quality and extensive data about the efficacy and safety of using the Group's products. Successful registration requires the consolidation, on a Group level, of all regulatory data necessary for a dossier.

▶ 11.1.8.4 The Barcelona Research and Development centre (Spain)

The Barcelona Research and Development centre (Ipsen Pharma) specialises in the discovery, design and development of advanced drug delivery systems. Its main objective is to determine optimum methods for the delivery of highly potent medicinal products. Its teams were, for instance, behind the development of the Somatuline® Autogel® formulation, which releases the active substance, without any excipient other than water, over a period of at least 28 days. Somatuline® Autogel® is now the Group's fourth best-selling product, with net sales of €92.2 million in 2006. This research plays a critical role in improving the quality of life of patients by providing them with convenient therapeutic regimens and delivery systems that minimise discomfort. The Barcelona centre employs researchers, together with scientists and technicians specialising in drug delivery systems, and is supported by a pharmacokinetics department integrated with the worldwide clinical development group.

11.2 Intellectual property

The Group's intellectual property strategy consists of seeking protection for patents, copyright and brand names in relation to its products and processes and to defend its intellectual property rights vigorously throughout the world.

11.2.1 Patents

The Group considers that protection of its patented technologies and products is essential to the success of its activities. At 31 December 2006, the Group held 2,702 patents, 1,838 of which were issued in European countries and 246 in the United States. (in most cases, each international patent application comprises various national applications and a European application following expiry of the 30-month priority period).

At the same date, the Group had 1,736 applications for patents being considered.

European and international patent applications target by definition a large number of countries and will give rise to patents at a later date. In reality, many of these applications will give rise to patents issued in those countries which are determined as important for the Group. Therefore the 152 European and 37 international patent applications will give rise to significantly more than the 189 national patents issued.

In countries in which the Group is seeking legal protection through patents, the length of legal protection afforded to an individual product is generally 20 years from the date on which the Group's patent application is filed. This period of protection may be extended in certain countries, particularly in the European Union and in the United States. The protection granted, which may also vary from country to country, depends on the type of patent and its scope. In most industrialised countries, any new active substance, formulation, indication or manufacturing process may be afforded legal protection. The Group conducts ongoing checks to protect its inventions and to act against any infringement of its patents and commercial brands.

The following table shows the expiry dates of the patents currently held by the Group covering its principal products. The Group enjoys protection through intellectual property rights under licensing agreements for products and compounds that were patented by other companies.

Product	Patent holder	Patent expiry date
Target areas		
Oncology		
Décapeptyl® - pamoate formulation - acetate formulation	Debiopharm -	2010 (Europe/United States) / Syntex patent now expired
Diflomotécan	Ipsen	2016 (Europe/United States)
BN 80927	Ipsen	2016/2018 (Europe) et 2016 (United States)
BN 2629 (SJG-136)	Spirogen	2019 (Europe/United States)
BN 83495 (STX 64)	Ipsen (Sterix)	2017 (Europe/United States)
STX 140	Ipsen (Sterix)	2021 (Europe/United States)
Endocrinology		
Somatuline® Autogel®	Ipsen	2015 (Europe[1] and United States)
Somatuline®	Tulane University	2005 (Europe[2]) and 2009 (Europe[3])
NutropinAq®	Genentech	2013 (Europe)
Testim® 50mg Gel	Bentley Pharmaceuticals	2006 (existing patent)/2023 (new patent application granted in Europe)
BIM 51077	Ipsen	2019
BIM 51182	Ipsen	2019
Neuromuscular disorders		
Dysport®	-	No patent filed
Primary care		
Gastroenterology		
Smecta®	-	Patent now expired
Forlax®	-	No patent filed
Cognitive disorders		
Tanakan® [4]	Schwabe/Indena	2009/2010 (Europe)/2009 (Europe) and 2014 (United States)
Cardiovascular		
Ginkor Fort® [4]	Schwabe/Indena	2009/2010 (Europe)/2009 (Europe) and 2014 (United States)
Nisis® et Nisisco®: - active substance – oral formulation	Ciba Geigy-Novartis	2011/2017
Other therapeutic areas		
Neurology		
BN 82451	Ipsen	2020 (Europe/United States)
Haematology		
OBI-1: - active substance – formulation	Emory University/Ipsen	2016 (Europe/United States)/2023 (if new patent application granted)

(1) An application for an additional certificate of protection has been granted in Austria, Belgium, Spain, Greece, Luxembourg, Sweden and Portugal (expires 2016) and is currently pending in Denmark. Similar applications were submitted and rejected in France and the United Kingdom.

(2) Except in Belgium, France, Italy, Luxembourg and the United Kingdom.

(3) Belgium, France, Italy, Luxembourg and the United Kingdom, where an extension until 2009 has been secured thanks to an additional certificate of protection.

(4) Schwabe and Indena hold patents to EGb® 761®, the active substance in Tanakan® and to Ginkgo biloba extract, one of the active substances in Ginkor Fort®.

Expiry of the patent protecting a product may result in fierce competition owing to the emergence of generic products and, especially in the United States, in a very sharp reduction in sales of a product that used to have patent protection. In certain circumstances, however, the Group may continue to reap commercial benefits from product manufacturing secrets, patents covering processes and intermediate items facilitating the cost-effective manufacture of the active substances, patents covering special product formulations, delivery systems and the conversion of active substances into over-the-counter drugs. In certain countries, some of the Group's products may also qualify for a marketing exclusivity period of five to ten years. This exclusivity period is independent of the protection granted by patent legislation and may also protect a product from competition from generic products, even when the initial patent has expired. Some of the Group's products, including certain acetate formulations of Decapeptyl® and Dysport®, Smecta® and Forlax®, have never been or are no longer protected by patents.

11.2.2 Brands and trademarks

The protection of brands and trademarks varies from country to country. In certain countries, this protection is based primarily on use, while in others it is solely derived from registration. Rights related to brands may be secured under national trademarks, international registrations or EU-wide trademarks. Registrations are generally granted for a period of ten years and may be renewed an unlimited number of times, although, in certain cases, the brand name must be used continuously to secure continued registration.

The Group notably holds trademarks in respect of the names of the products that it uses commercially. These trademarks qualify for the protection of pharmaceutical products contained in class five of the international classification of products and services. Registrations protect product names in Latin script, as well as product names in local script (Cyrillic, Chinese characters, etc.).

The principal products, namely Decapeptyl®, Somatuline® (and Somatuline® Autogel®), Dysport®, Tanakan®, Ginkor Fort®, Smecta® and Forlax®, trademarked by the Group at 31 December 2006, are set forth in the following table.

Brands and trademarks	Number of registrations and applications
Decapeptyl®	76[1]
Somatuline®	131
Autogel®	129
Dysport®	162
Tanakan®	128
Ginkor Fort®	95
Smecta®	155
Forlax®	137

(1) Including 64 brands and trademarks held by the Group and 12 brands and trademarks held under licence from Debiopharm.

The Group also holds registrations for the names of its component companies, as well as the logo and slogan forming the Group's graphics charter.

The Group defends its trademark rights by contesting applications for the registration of identical or similar brands and initiates, where appropriate, legal proceedings to have its rights recognized.

11.2.3 Domain names

As of 31 December 2006, the Group held 469 domain names (reserved or currently being reserved).

12 Information on trends

12.1 Technical and regulatory situation in France

In France, the rate of contributions based on the sales recorded by pharmaceutical companies was increased to 1.76% as from 2006, from 0.6% in 2005. The Social Security budget (LFSS) for 2007 reduced this rate to 1.0% as from 1 January 2007.

Bedelix®, whose sales represented €9.0 M€ en 2005, was withdrawn from the reimbursable drugs list on 1 March 2006.

The price of Ginkor Fort®, the sales of which reached €41.7 million in 2006, was reduced by 15% in February 2006. In addition, the French government published a notice in the Official Journal of 25 January 2006, under the terms of which the level of reimbursement of all members of the veinotonic class of drugs including Ginkor Fort® would be reduced from 35% to 15% as from 1 February 2006 until 31 December 2007. These drugs will then be withdrawn from the list of reimbursable drugs from 1 January 2008.

Nutropin® also saw a 7% reduction in price on 1 August 2006 following a decision by the Economic Committee for Health Products.

25 October 2006, The French Health Minister announced that vasodilators, including Tanakan®, would continue to be reimbursed at a rate of 35% by the medical insurance bodies. Furthermore, the Minister applied to the Economic Committee for Health Products for a price reduction of up to 20% on these drugs as from the end of January 2007. On 16 March 2007 this price reduction had still not been applied.

The health authorities have also announced a reduction in the level of reimbursement from 65% to 35% and a price reduction of 7% as of 1 January 2007 for Pfizer's product Artotec®, the marketing of which was transferred to the Group in 2006.

12.2 Other measures introduced to reduce public health spending

Group sales continue to be impacted by the measures taken over the past years by the governments of the countries where it operates, particularly in Europe, in an aim to control public health spending (see sections 4.1.2 and 9.1.3 of this registration document). The Group foresees that this trend of reducing public health spending will continue in Europe in the foreseeable future.

12.3 Product trends

As far as use of the Group's botulinum toxin type A in aesthetic medicinal indications in Europe is concerned, the AFSSAPS regulatory review process is still ongoing. In this context, the Group has decided, in conjunction with its partner Galderma, to optimise the product's profile by including, as soon as possible in 2007 in its marketing authorisation application, the full results of clinical studies in the product's efficacy and safety carried out by its partner Medicis in the United States.

Tercica Inc. has granted the Group an exclusive licence to develop and market Increlex™ worldwide, with the exception of the United States, Japan, Canada, Taiwan, and some countries in the Middle East and North Africa. This product has been approved by the FDA and is currently marketed by Tercica Inc. in the United States and Canada where it has received orphan drug exclusivity. In December 2005, Tercica Inc. submitted an application for marketing authorisation for Increlex™ in the European Union to the EMEA which accepted orphan drug exclusivity. This application is currently under regulatory review process.

The Group has submitted a New Drug Application to the FDA for Somatuline® Autogel® (60, 90, 120 mg) in the United States; presented in 28 day sustained-release formulation, this drug is used in the treatment of patients suffering from acromegaly. This acceptance signifies the start of the review process of the NDA with a "prescription drug user fee act" goal date set for 30 August 2007. If the FDA approves the product, the Group's partner, Tercica Inc. will market Somatuline® and Autogel® in the United States.

12.4 Productivity drive

The Group decided to step up its efforts to increase its efficiency by launching during 2005 a productivity drive encompassing all its activities: sales, manufacturing, Research and Development and administrative services. This programme is intended to deliver short-term benefits, as well as developing a culture of continuous productivity improvements. These measures revolve notably around implementation of various programmes to increase purchasing efficiency in the production, Research and Development and sales functions (deployment of processes and pooling of certain raw material, energy and service purchases). The programme of continuous improvement covering the Group's key processes also contributes to this productivity drive (e.g. through implementation of various efforts to streamline the distribution chain for our products or to enhance sales and marketing efficiency). For instance, the Group's sales expenses (marketing and sales expenses) only increased 2.4% compared with 2005, totalling €261.4 million, versus €255.2 million a year earlier. This contained increase is evidence of the Group's productivity efforts, whilst volumes of drugs sold rose by 10,2%.

12.5 First Quarter 2007 sales

On 3 May 2007, Ipsen reported its sales (unaudited) for the first quarter 2007.

(in million euros)	2007	2006	% change
Targeted Therapeutic Areas	121.2	107.4	12.8%
Primary care	96.8	97.3	(0.6%)
Total Drug Sales	218.0	204.7	6.4%
Drug-related Sales	8.7	7.1	24.0%
Group Sales	**226.7**	**211.8**	**7.0%**

Note: From January 1, 2007, the Group reports its former "Other Drug" sales in the Primary care sales in order to improve readability. This change has no impact on overall Group sales. "Other drug" sales amounted to €1.0 million for the first quarter 2007 compared with €1.3 million a year ago. 2006 numbers are presented accordingly.

For the first quarter 2007, Group sales reached €226.7 million, up 7.0% year-on-year (or up 7.2% excluding foreign exchange impacts). This increase was fuelled by the strong growth in targeted therapeutic areas (oncology, endocrinology and neuromuscular disorders), up 12.8% year on year. Ipsen's endocrinology and oncology franchises notably, up 26.3% and 10.1% respectively over the period, continued to show a robust performance. Primary care products remained roughly stable, despite the performance of Ginkor Fort® in France, down 26.2% year-on-year, suffering from the reduction of its reimbursement rate from 35% to 15% as well as a 15% price reduction enforced in February 2006. Excluding Ginkor Fort®, Group sales grew by 8.9% year-on-year. **Volumes grew by 9.4%**, with price pressure negatively impacting Ipsen's consolidated sales growth by 2.2 points, representing a negative impact of €4.6 million.

For the first quarter 2007, sales generated in the **Major Western European countries** amounted to €138.8 million, stable year-on-year. Strong sales in the United Kingdom and in Italy despite negative price impacts, were offset by decreasing sales in France led by Ginkor Fort® and by stable sales in Spain and Germany. Sales in the Major Western countries represented 61.2% of total consolidated Group sales versus 65.6% a year ago. **In Other European countries**, sales reached €52.7 million, up 17.3% year-on-year. Central and Eastern Europe, Greece, Scandinavia performed well, while negative price impacts mainly in Poland and Romania. In **the Rest of the World**, sales reached €35.2 million, up 26.1% year-on-year, driven notably by strong sales of Decapeptyl® in the Middle East, good performance of Smecta® in China and strong drug-related sales mainly in South Korea.

A more detailed information on the 2007 sales first quarter is available on the Group's website at www.ipsen.com.

13 Earnings forecasts and estimates

13.1 Results forecast

As part of the management of its business activities, the Group prepares operational and financial targets for the current and subsequent financial years. These targets take into account the decisions made to reduce public health spending described in section 9.1.3 of this registration document, notably including the price reduction followed by the delisting of Ginkor Fort®, and do not take into account the possible consequences of the announcement by the French Health Minister in a letter dated 25 October 2006, of its intention to reduce the price of Tanakan®. No assumption for price change has been made in this respect. These targets are prepared without taking into account external growth assumptions, which may alter these parameters.

When preparing its targets, the Group's management used the same accounting rules it adopted for its IFRS-compliant pro forma financial statements.

Excluding any events which are at present unknown and excluding any possible price reduction on Tanakan® in France, the Group has set a sales growth target of 6.5% to 7.5% for 2007 despite the continued downward pressure on prices which is significant in most of the markets in which the Group operates. Furthermore, the Group expects a total revenues growth for 2007 of 4.0% to 5.0%.

Based on the same assumptions, the Group also aims to achieve operating margin for 2007 expressed as a percentage of sales, of 22.0% to 23.0% despite significant marketing investments in 2007 for launching Increlex™ in Europe and Adrovance™ in France.

For the Group to be able to achieve these targets, management believes that it will have to invest between €30 million and €35 million per year from 2007 to 2009 to maintain and upgrade its property, plant and equipment. This spending will focus on replacement, productivity-enhancing, safety-related and normal regulatory compliance investment. Furthermore, the Group may need to invest an additional aggregate amount of between around €50 million and €60 million between 2007 and 2008 to increase its capacity or for manufacturing purposes as a result of the evolution of its Research and Development pipeline.

The targets summarised above are based on data, assumptions and estimates regarded as reasonable by the Company. These data, estimates and assumptions are likely to change or to be adjusted as a result of uncertainties arising notably from the economic, financial, regulatory and competitive environment. In addition, the Group's business activities and its ability to meet its targets would be affected if certain of the risk factors described in Chapter 4 of this registration document arose. Furthermore, attainment of the targets is contingent upon success of the Group's business strategy presented in section 6.1.1.2 of this registration document. Ipsen does not undertake to meet or give any guarantee that it will meet the targets presented in Chapter 13, nor does it undertake to publish or disclose any corrections or updates to these figures.

13.2 Statutory auditors' report on profit forecasts

Ipsen S.A.

Registered office: 42, rue du docteur Blanche – 75016 Paris

Share capital: €84,024,683

Statutory auditors' report on profit forecasts

Year ended 31 December 2006

To the Chairman of the Board of Directors,

In our capacity as statutory auditors and in accordance with EC Regulation no.809/2004, we have prepared this report on the profit forecasts of Ipsen S.A. included in chapter 13 of its registration document for the year ended 31 December 2006.

These forecasts and the significant assumptions on which they were based are your responsibility, in accordance with the provisions of EC Regulation no. 809/2004 and the CESR recommendations on profit forecasts.

It is our responsibility, on the basis of our procedures, to express an opinion, in accordance with the terms specified in appendix I, point 13.2 of EC Regulation no. 809/2004, as to whether such forecasts have been properly prepared.

We carried out our work in accordance with professional guidelines applicable in France. This work comprised an assessment of the procedures implemented by management for the preparation of the forecasts and the implementation of procedures to verify the consistency of the accounting methods used with those adopted for the preparation of Ipsen S.A.'s historical information. Our procedures also included gathering such information and explanations that we considered necessary in order to obtain reasonable assurance that the forecasts were properly prepared on the basis of the assumptions as set out.

We would remind you that, since forecasts are, by their very nature, subject to uncertainties, actual results sometimes differ significantly from the forecasts presented and that we do not express any opinion on the likelihood, or otherwise, of the actual results being in line with these forecasts..

In our opinion:

- The forecasts have been properly prepared in accordance with the basis indicated,
- The accounting basis used for the purposes of these forecasts is consistent with the accounting methods used by Ipsen S.A.

This report has been prepared solely for the purpose of filing the registration document with the French Financial Markets Authority, or AMF *(Autorité des Marchés Financiers)* and may not be used for any other purpose.

Paris La Défense and Neuilly-sur-Seine, 3 April 2007

KPMG Audit	Deloitte & Associés
Department of KPMG S.A..	
Catherine Porta	Christophe Perrau
Partner	Partner

14 Administrative, management and supervisory bodies and senior management

14.1 Members of the administrative, management and supervisory boards

14.1.1 Composition of the Board of Directors

The members of the Board of Directors of the Company are:

Name	Office	Elected	Terms ends
Jean-Luc Bélingard	Chairman Chief Executive Officer	30/08/2005	AGM held to approve the 2007 financial statements
Anne Beaufour	Director	30/08/2005	AGM held to approve the 2007 financial statements
Henri Beaufour	Director	30/08/2005	AGM held to approve the 2007 financial statements
Alain Béguin	Director	30/08/2005	AGM held to approve the 2007 financial statements
Hervé Couffin	Director	30/08/2005	AGM held to approve the 2007 financial statements
Antoine Flochel	Director	30/08/2005	AGM held to approve the 2007 financial statements
Gérard Hauser	Director	14/12/2005	AGM held to approve the 2007 financial statements
Pierre Martinet	Director	19/09/2005	AGM held to approve the 2007 financial statements
René Merkt	Director	19/09/2005	AGM held to approve the 2007 financial statements
Yves Rambaud	Director	30/08/2005	AGM held to approve the 2007 financial statements
Klaus-Peter Schwabe	Director	30/08/2005	AGM held to approve the 2007 financial statements

Antoine Flochel was appointed Vice Chairman of the Board of Directors at the Board Meeting held on 30 August 2005 for the duration of his term as a Director, at the AGM to be held in 2008 to approve the 2007 financial statements.

Anne Beaufour and **Henri Beaufour** are brother and sister. No further family relationship exists among the other members of the Company's Board of Directors.

Pierre Martinet, Gérard Hauser and **Yves Rambaud** are independent directors within the meaning of the Board Charter described in section 16.1.1.6 of this registration document.

The following table shows other directorial, managerial and supervisory positions or partnership positions held by Directors in non-Group companies during the past five years:

Directors	Office	Company	Date
Jean-Luc Bélingard	Director	Applera Corp. (United States)	1993 to date
	Director	Lab. Corp. of America (United States)	1995 to date
	Director	NicOx (France)	2003 to date
	Director	Inserm (France)	January 2006 to date
	Director	Exonhit Therapeutics (France)	from 1999 to 2006
	Director	bioMérieux (France)	December 2006 to date
	Managing Director	Mayroy (Luxembourg)	from 2002 to 2005
Anne Beaufour	Director	Mayroy (Luxembourg)	1998 to date
	Managing Director	Mayroy (Luxembourg)	December 2005 to date
	Legal Manager	SCI du 47 Henri Heine (France)	2000 to date
	Legal Manager	SCI Dreux Châteaudun (France)	2000 to date
	Legal Manager	SCI de la Fraternité (France)	2000 to date
	Legal Manager	Beech Tree (Luxembourg)	2001 to date
	Legal Manager	FinHestia (Luxembourg)	2003 to date
Henri Beaufour	Legal Manager	Camilia (Luxembourg)	2003 to date
	Legal Manager	Beech Tree (Luxembourg)	2003 to date
	Legal Manager	FinHestia (Luxembourg)	2003 to date
	Permanent Representative Camilia	Mayroy Board of Directiors	December 2006 to date
Alain Béguin	Legal Manager	Beech Tree (Luxembourg)	2003 to date
	Permanent Representative Beech tree	Mayroy Board of Directiors	December 2006 to date
	Legal Manager	SCI du 43 rue de Montmorency (France)	2002 to date
	Legal Manager	SCI d'Andigné VIII (France)	2002 to date
	Chairman	Alain Béguin Consultant (France)	2000 to date
Hervé Couffin	Chairman	Callisto SAS (France)	2005 to date
	Managing Partner	HC Conseil SARL (France)	2005 to date
	Permanent Representative	HC Conseil (on Antargaz's Board of Directors)	January 2006 to date
	Director	Carbonne Loraine (France)	1996 to date
	Director	CFTP (Tunisia)	2004 to date
	Advisor	Bouygues Telecom (France)	1999 to 2006
	Advisor	Neuf Cegetel (France)	2003 to 2006
	Director	Mayroy (Luxembourg)	2002 to September 2005
	Director	Gerflor (France)	Until 2005
	Member of Executive Committee	PAI Partners (France)	1998 to 2004
	Director	Ceva Santé Animale(France)	Until 2003
	Chairman	Coparex (France)	Until 2002
	Director	Neuf Cegetel (France)	2006 to date

Directors	Office	Company	Date
Antoine Flochel	Director	Mayroy (Luxembourg)	1998 to date
	Managing Director and Chairman of the Board	Mayroy (Luxembourg)	December 2005 to date
	Legal Manager	Beech Tree (Luxembourg)	2003 to date
	Legal Manager	VicJen Finance (France)	July 2005 to date
	Partner	PwC Corporate Finance (France)	1998 to June 2005
Pierre Martinet	Director Managing Director	Sequana Capital SA (France)	2005 to date
	Director	Arjo Wiggins Appleton Ltd (GB)	2005 to date
	Chairman	Financière de Construction de Logement SAS	2005 to date
	Director	Exor Finance Ltd	2004 to date
	Director	Adriatique B.V. (the Netherlands)	2002 to date
	Director	Old Town (Luxembourg)	2000 to date
	Director and Vice President	Exor USA (United States)	2000 to date
	Member of the Supervisory Board	Cartier SA (France)	1981 to date
	Member of the Supervisory Board	Worms & Cie (France)	Until 2005
	Director	Long Pond B.V. (The Netherlands)	Until 2005
	Member of the Supervisory Board	Club Méditerranée (France)	Until 2004
	Director	Société Foncière Lyonnaise (France)	Until 2004
	Director and Managing Director	Exor SA (France)	Until 2004
	Director	Adriatique SA (France)	Until 2003
	Legal Manager	Château Margaux SCA (France)	Until 2003
	Chairman and Chief Executive Officer	Européenne de Financement (France)	Until 2002
Gérard Hauser	Chairman and Chief Executive Officer	Nexans (France)	October 2000 to date
	Director	Alstom (France)	11 March 2003 to date
	Director	Faurecia (France)	22 July 2003 to date
	Director	Aplix (France)	2001 to date
	Director	Electro Banque (France)	2000 to 18 November 2005
René Merkt	Director	A. Dewavrin Fils, Brig-Glls (Switzerland)	To date
	Director	Assor S.A., Geneva (Switzerland)	2005 to date
	Director	Asunpar S.A., Geneva (Switzerland)	To date
	Director	Bruxinter S.A., Geneva (Switzerland)	To date
	Director	Canon S.A., Geneva (Switzerland)	To date
	Director	COGES Corraterie Gestion SA, Geneva (Switzerland)	To date
	Director	De Wey & Cie S.A., Fribourg (Germany)	To date
	Director	Eden Holding S.A., Montreux (Switzerland)	2004 to date
	Director	Etrea S.A., Meyrin, Geneva (Switzerland)	To date
	Director	Exbasa S.A., Geneva (Switzerland)	To date

Directors	Office	Company	Date
	Director	Fimaser Invest S.A., Geneva (Switzerland)	To date
	Director	Fitral S.A., Geneva (Switzerland)	Corporation revoked in 2006
	Director	GIV Gesellschaft für Industrie, Geneva (Switzerland)	Corporation revoked in 2006
	Director	Galderma Pharma S.A., Lausanne (Switzerland)	To date
	Director	Gerber & Goldschmidt A.G., Zoug (Switzerland)	To date
	Director	Homic S.A., Geneva (Switzerland)	2000 to date
	Director	Holcos S.A., Geneva (Switzerland)	To date
	Director	Hôtels Intercontinental, Geneva (Switzerland)	To date
	Director	Inyourmind Music S.A., Fribourg (Germany)	2001 to date
	Director	L'Oréal Suisse S.A., Geneva (Switzerland)	To date
	Director	L'Oréal Produits de luxe Suisse S.A., Renens (Switzerland)	To date
	Director	Laboratoires de spécialités scientifiques sérums et vaccins, S.A., Meyrin, Geneva (Switzerland)	To date
	Director	Matt Fashion S.A., Geneva (Switzerland)	2000 to date
	Director	Mafsa S.A., Villars s/ Ollon (Switzerland)	To date
	Director	Mining & Chemical Products S.A., Geneva (Switzerland)	Corporation revoked in 2006
	Director	Novagraaf Intern. S.A., Vernier, Geneva (Switzerland)	2002 to date
	Director	OM Pharma, Meyrin, Geneva (Switzerland)	To date
	Director	Park Plaza Hôtel A.G., Zurich (Switzerland)	To date
	Director	Participante S.A., Fribourg (Germany)	To date
	Director	Renalco S.A., Geneva (Switzerland)	To date
	Director	S.I. Grands Espaces, Lens (France)	To date
	Director	Sisley S.A., Bachenbülach	To date
	Director	S.A. Hôtelière Montreux (Switzerland)	2004 to date
	Director	Société de Gestion Fiduciaire S.A, Geneva (Switzerland)	2002 to date
	Director	Villa Toscane Holding S.A., Montreux (Switzerland)	2004 to date
	Director	Welding Engineers Ltd, Geneva (Switzerland)	Corporation revoked in 2006
	Director	Italfarmaco S.A., Fribourg (Germany)	Until 2004
	Director	Cie Aramayo S.A., Geneva (Switzerland)	Until 2004
	Director	Beckman Coultier Int. S.A., Geneva (Switzerland)	Until 2003
	Director	Beckman Coultier Eurocenter S.A., Geneva (Switzerland)	Until 2003
	Director	Novafin Financière S.A., Geneva (Switzerland)	Until 2003
	Director	Chevron Phillips Chem. Inc., Geneva (Switzerland)	Until 2002
	Director	Synchem S.A., Geneva (Switzerland)	Until 2003
	Director	Codipa S.A., Fribourg (Germany)	Until 2002

Directors	Office	Company	Date
	Director	Engelhard-Clal S.A., La Chaux-de-Fonds (Switzerland)	Until 2002
	Director	Germonpar S.A., Geneva (Switzerland)	Until 2002
	Director	Ofor S.A., Geneva (Switzerland)	Until 2002
	Director	Reh Ream Estate Holding S.A., Geneva (Switzerland)	Until 2002
	Director	Sopafin S.A., Geneva (Switzerland)	Until 2002
	Director	Sylvania Lighting S.A., Geneva (Switzerland)	Until 2002
Yves Rambaud	Director	Mayroy (Luxembourg)	2003 to August 2005
	Director	Géodis (France)	2003 to date
	Director	Société Métallurgique Le Nickel SLN (France)	1985 to 2006
	Director	Comilog (France)	Until 2002
	Chairman and Chief Executive Officer	Eramet (France)	Until 2002
Klaus-Peter Schwabe	Director	Mayroy (Luxembourg)	1998 to date
	Legal Manager	Extracta Beteiligungs GmbH (Germany)	1980 to date
	Legal Manager	Irexan Verwaltungs GmbH (Germany)	1986 to date
	Legal Manager	Dr W. Schwabe Familienstiftung Verwaltungs GmbH (Germany)	1993 to date
	Legal Manager	Dr Schwabe Pharma Verwaltungs GmbH (Germany)	1994 to date
	Legal Manager	A. Marggraf Arzneimittel Gmbh (Germany)	2006 to date
	Legal Manager	Wallingstown Company Ltd (Ireland)	1980 to date
	Legal Manager	FinHestia SARL (Luxembourg)	2003 to date
	Legal Manager	Finvestan SARL (Luxembourg)	2005 to date
	Legal Manager	Luisenhof GmbH (Germany)	2006 to date
	Legal Manager	Carolabad Immobiliengesellschaft (Germany)	1995 to date

For the purposes of their appointments as executive officers, directors are domiciled at the Company's head office.

To the best of the Company's knowledge, none of the Directors of the Company have been during the past five years:

- convicted of fraud, charged with any other offence or had any official public disciplinary action taken against them by statutory or regulatory authorities;
- implicated in a bankruptcy, receivership or liquidation as an executive officer or director;
- disqualified from acting as a board member, senior executive or supervisory board member or from participating in the management of a listed company.

The résumés of the members of Board of Directors are shown below:

Jean-Luc Bélingard

Jean-Luc Bélingard, 59, is Chairman and Chief Executive Officer of the Company. From 1999 to 2001, he was a member of the Executive Board and CEO of BioMérieux-Pierre Fabre, a French healthcare conglomerate, where he was responsible for the group's worldwide pharmaceuticals and cosmetics activities. In 1982, Jean-Luc Bélingard joined the Roche Group, where he held several positions including head of the diagnostics division. He was also a member of the executive committee in Switzerland. Jean-Luc Bélingard is also Director and Chairman of the compensation committee of the Laboratory Corporation of America, NC (United States) Director of Applera Corporation, CT (United-States), Director and member of the Compensation Committee of NicOx (France) and advisor to the French government on foreign trade. Jean-Luc Bélingard is Delegate General and spokesman for G5, an association encompassing the primary French pharmaceuticals companies, namely Sanofi-Aventis, Servier, Pierre Fabre and Ipsen. He graduated from the HEC business school in 1971 and was awarded an MBA from Cornell University (United States) in 1974. Jean-Luc Bélingard was appointed to the Board of Directors of Inserm (France) at the beginning of 2006, as well as the Board of Directors of BioMérieux (France) and Tercia (United-States) from December 2006.

Anne Beaufour

Anne Beaufour, 43, holds a bachelor's degree in geology (University of Paris Orsay). She has been a director of Mayroy (Luxembourg) since 1998, legal manager of Beech Tree SARL (Luxembourg) since 2001 and legal

manager of FinHestia SARL (Luxembourg) since 2003. She was legal manager of Audibert-Beaufour SARL (France) until 2003 and she has been co-manager of Stef Audibert-Beaufour since 1994. Anne Beaufour has been a director of the Company since 1998, when she already held other positions with Group subsidiaries.

Henri Beaufour

Henri Beaufour, 42, holds a bachelor of arts degree (Georgetown, University of Washington DC, United States). Since 2003, he has been legal manager of Camilia Holding (Luxembourg), Beech Tree SARL (Luxembourg) and FinHestia SARL (Luxembourg). Over the past decade, he has held various positions with the Group's international subsidiaries. Henri Beaufour has been a director of the Company since 2000.

Alain Béguin

Alain Béguin, 59, joined the Group in 1975 as Head of Exports for Laboratoires Beaufour. Subsequently, he was general secretary of Laboratoires Beaufour, deputy CEO of SCRAS and general secretary of the Group until 1999. Previously, he worked for Bank of America. Alain Béguin is currently secretary of Mayroy's board of directors and co-legal manager of Beech Tree SARL, as well as working for an asset management organisation consultancy.

Hervé Couffin

Hervé Couffin, 55, is Chairman and chief executive officer of Callisto, a consultancy advising management teams on LBOs, and sits on the board of directors of several other companies (Carbone Lorraine, Neuf Cegetel, Antargaz). From 1998 to 2004, he was a member of the executive committee and senior partner at PAI Partners. Previously, he worked for Paribas for a period of 15 years. Hervé Couffin is a graduate of the École Polytechnique and a member of the prestigious Corps des Mines of elite French engineers.

Antoine Flochel

Antoine Flochel, 42, is currently legal manager of VicJen Finance and Vice-Chairman of the Company's Board of Directors. He is a managing director and chairman of the board of Mayroy and legal manager of Beech Tree and Senior Adviser of Bryan Garnier & Co. He worked for Coopers & Lybrand Corporate Finance (now PricewaterhouseCoopers Corporate Finance) from 1995 to 2005 and was made a partner in 1998. Antoine Flochel is a graduate of the IEP (institute of political studies) in Paris, holds a law degree and a postgraduate degree in economics of Paris Dauphine University, as well as an MSc in finance from the London School of Economics.

Gérard Hauser

Gérard Hauser, 65, has been Chairman and CEO of Nexans since June 2001. Before becoming a member of the executive committee of Alcatel and taking up the responsibility for its Cables and Components sector in 1996, he held various offices in the Pechiney group. From 1975 to 1996 he was Director of primary metal sales, Chairman and CEO of Pechiney World Trade and then of Pechiney Rhénalu and finally Senior Executive Vice-President of American National Can and member of the executive committee of the group. Gérard Hauser is a graduate of the IEP (institute of political studies) in Paris and holds a law degree. He was lecturer at the IEP. Gérard Hauser is also director of Alstom, Faurecia, Aplix et Electro Banque.

Pierre Martinet

Pierre Martinet, 56, joined the Group in September 2005 as a director. He is director and executive officer of Sequana Capital (previously Worms & Cie), as well as at the Exor group. From 1990 to 1992, he was a member of Perrier's executive team, where he notably oversaw the group's withdrawal from non-core activities and acquisitions. From 1986 to 1990, he participated in the management of investment funds at Paribas Technology, then at Pallas Venture, of which he was a co-founder. Previously, he had worked at Cartier as general secretary since 1977. Pierre Martinet, a Chevalier de l'Ordre national du Mérite, graduated from the Paris ESC business school and holds an MBA from the Columbia Graduate School of Business.

René Merkt

René Merkt, 73, was called to the Bar of Geneva in 1955. He specialises in business law and financial issues. René Merkt is currently the director of several companies, including OM Pharma SA and L'Oréal (Switzerland) SA. René Merkt is a graduate of the University of Geneva and holds the Bellot medal for 50 years' professional service as a lawyer.

Yves Rambaud

Yves Rambaud, 72, was Chairman and Chief Executive Officer of Eramet from 1991 to 2002. He also participated in the management of Le Nickel from 1971 to 1991. Yves Rambaud is a graduate of the École Polytechnique and the École des Mines de Paris.

Klaus Peter Schwabe

Dr Klaus Peter Schwabe, 65, is the Chairman of Dr. Willmar Schwabe Familenstiftung, the holding company for Dr. Willmar Schwabe GmbH & Co. KG since 1993. From 1976 to 1993, he was chief operating officer at Dr. Willmar Schwabe GmbH & Co. KG, where he began his career as research and development manager. Dr. Klaus Peter Schwabe studied pharmacy and biochemistry. He holds a PhD in biochemistry. He has also received management training.

14.1.2 Board committees

The Strategic Committee	
Chairman	Mr. Jean-Luc Bélingard
Members	Mrs. Anne Beaufour
	Mr. Henri Beaufour
	Mr. Antoine Flochel
	Mr. Klaus-Peter Schwabe
	Mr. Hervé Couffin
Audit committee	
Chairman	Mr. Yves Rambaud
Members	Mr. Alain Béguin
	Mr. Pierre Martinet
The Appointments Committee	
Chairman	Mrs. Anne Beaufour
Members	Mr. Alain Béguin
	Mr. Hervé Couffin
The Compensation Committee	
Chairman	Mr. Antoine Flochel
Members	Mr. Yves Rambaud
	Mr. Gérard Hauser

14.1.3 Composition of the executive management

Jean-Luc Bélingard is the Chief Executive Officer of the Company and Chairman of the Board of Directors. He was appointed at the Board of directors' meeting on 30 August 2005.

14.1.4 Composition of the Executive Committee

Name	Office	Location	Joined the Group
Jean-Luc Bélingard	Chairman and Chief Executive Officer	Registered office	2001
Claire Giraut	Executive Vice-President, Chief Financial Officer	Registered office	2003
Alain Haut	Executive Vice-President, Human Resources	Registered office	2005
Christophe Jean	Executive Vice-President, Chief Operating Officer	Registered office	2002
Jacques-Pierre Moreau	Executive Vice-President, Chief Scientific Officer	United States	1976
Alistair Stokes*	Executive Vice-President, Corporate Development	United Kingdom	1994
Peter Wilson	Executive Vice-President, Manufacturing and Supply Organisation	United Kingdom	1999

* *Within the context of the retirement of Dr Alistair Stokes, the Group announced on 26 February 2007, the appointment, with effect from 2 April 2007, of Stéphane Thiroloix as Executive Vice-president, Corporate development of the Group.*

The following table shows other directorial, managerial and supervisory positions or partnership positions held by members of the executive committee in non-Group companies over the past five years:

Committee Members	Office	Company	Date
Jean-Luc Bélingard	Director	Applera Corp. (United States)	1993 to date
	Director	Lab. Corp. of America (United States)	1995 to date
	Director	Exonhit Therapeutics (France)	1999 to 2006
	Director	NicOx (France)	2003 to date
	Director	Inserm (France)	January 2006 to date
	Managing Director	Mayroy (Luxembourg)	from 2002 to December 2005
Claire Giraut	Member of the Board	Coflexip Stena Offshore Contracting BV(the Netherlands)	2002
	Member of the Board	Coflexip Stena Offshore NV (the Netherlands)	2002
	Director	Coflexip Offshore West Africa (France)	2002
	Director	Coflexip (France)	2002
Alain Haut	-	-	-
Christophe Jean	Chairman of the Executive Board	Pierre Fabre Médicaments (France)	Term ended 2002
	Chairman	Pierre Fabre Pharma Srl (Italy)	Term ended 2002
	Chairman	Robapharm Inc. (Canada)	Term ended 2002
	Chairman	Pierre Fabre Ilac (Turkey)	Term ended 2002
	Legal Manager	PFM Portugal (Portugal)	Term ended 2002
	Supervisory Board member	Exonhit Therapeutics (France)	from October 2006
Jacques-Pierre Moreau	-	-	-
Alistair Stokes*	Director	Octagen Corp. (United States)	1999 to date
	Director	Spirogen (United Kingdom)	2003 to date
	Director	Funxional Therapeutics Ltd. (United Kingdom)	2006 to date
Peter Wilson	Director	PS Consulting Services Ltd (United Kingdom)	1999 to date

The recent trends in the pharmaceutical industry, namely slower growth and reduced productivity of R&D efforts now require a renewed operational structure at Group management level. The aim of this new structure is to differentiate Research activities from development activities, attaching greater importance to each one of these functions which are key to Ipsen's strategy. With this in mind it has been decided that a new unit be created alongside innovative and design function headed by Jacques-Pierre Moreau, Executive Vice-President, Research and Chief Scientific Officer. This new unit, Corporate Development, will be headed by Stéphane Thiroloix and will have a wider scope. Stéphane Thiroloix's task will be to bring a competitive and coherent pipeline of molecules to the market on a global scale, through internal Research external business development opportunities. This new model is aimed at guaranteeing that outstanding Research results in a constant flow of products bringing real clinical and medical benefits to patient care.

To the best of the Company's knowledge, none of the members of the Company's Executive Committee have been:

- convicted of fraud, charged with any other offence or had any official public disciplinary action taken against them by statutory or regulatory authorities;
- implicated in a bankruptcy, receivership or liquidation as an executive officer or director;
- disqualified from acting as a board member, senior executive or supervisory board member or from participating in the management of a listed company.

Below are the résumés of the Executive Committee members:

Jean-Luc Bélingard

See section 14.1.1 of this registration document.

Claire Giraut

Claire Giraut joined the Company in early 2003 as Chief Financial Officer. In 2002, she was a member of the Executive Board of the Technip Group, an engineering group, and Chief Financial Officer of its offshore division after Technip's acquisition of Coflexip Stena Offshore, an oil services company listed on the Nasdaq and the Premier Marché in Paris. From 1997 to 2001, she was Chief Financial Officer, Group Head of Communications and a member of the Executive Committee of Coflexip Stena Offshore. Before that, she was Chief Financial Officer of the Serete Group, an engineering company which she first joined in 1986 and where she subsequently held various positions in finance. She began her career with the Sanders food group in 1978. Claire Giraut graduated in 1978 from the Institut National Agronomique in Paris.

Alain Haut

Alain Haut joined the Group in March 2005 as Group Vice-President, Human Resources. He has a masters degree in economics and social sciences from Belgium and an MBA from Warwick University in the United Kingdom. Alain Haut has held various positions in international human resources management in the United States and Europe in the automotive and high technology industries. Before joining the Group, he was Vice-President of Global Human Resources and Administration with Serono and Covance.

Christophe Jean

Christophe Jean was appointed Group Vice-President, Operations in May 2003. A Harvard graduate, he joined the pharmaceuticals industry with Ciba-Geigy, where he held several positions in sales and marketing (Brazil and Sweden) and international management. He was then appointed financial controller and information systems controller at the head office and was also a member of the pharmaceuticals executive committee. When Ciba-Geigy merged with Sandoz to create Novartis, Christophe Jean was appointed head of Europe, the Middle East and Africa region. In 2000, he became Chairman and CEO of Pierre Fabre Médicaments. He joined the Group in September 2002, initially in charge of creating the strategic planning and strategic marketing departments.

Jacques-Pierre Moreau

Jacques-Pierre Moreau was appointed Group Vice-President, Research and Development in June 1997. He is responsible for the Group's research and development programmes in Paris, London, Barcelona and Boston. Before that, he was Vice-President, Research from April 1994 and has been a member of the Executive Committee since that date. In October 1976, Jacques-Pierre Moreau founded Biomeasure Incorporated, based near Boston, and has been its Chairman and CEO since then. He was also responsible for establishing Ipsen Manufacturing Ireland Ltd. (fomer Kinerton Ltd.) in Ireland in March 1989, a wholesale manufacturer of active substances, of which he is a Director. Mr. Moreau has a degree in biology from the University of Orléans and a PhD in biochemistry. He has also conducted post-doctorate research at the École polytechnique. He has published over 50 articles in scientific journals and has invented or co-invented 30 patents. He is a regular speaker at scientific conferences.

Alistair Stokes

Dr. Alistair Stokes was Group Vice-President, Corporate Development since 1994. At the beginning of 2007 Dr. Alistair Stokes announced that he has decided to retire. Stéphane Thiroloix will be reponsible for Corporate Development, his résumé is set out below. He will be replaced as He joined the Company in 1994 when the Group acquired Porton International plc (Speywood Group), a UK-based biopharmaceuticals company for which Dr. Stokes was Managing Director, having first joined in 1990. From 1985 to 1987, he was Managing Director of the Yorkshire Region of the UK National Health Service. Apart from that period, from 1982 to 1990, he held various positions with Glaxo Holdings plc, including Managing Director of Glaxo Laboratories and Regional Director for the Middle East and South East Asia. From 1976 to 1982, Dr. Stokes worked in the United States for Monsanto, where he was head of business development for the healthcare division and then head of sales and marketing for the speciality chemicals division. From 1974 to 1976, Dr. Stokes worked in the technical department and the sales and marketing department of Pharmacia AB, a Swedish pharmaceuticals company. He has a BSC degree (summa cum laude) and a PhD from the University of Wales. He is a member of the UK Institute of Directors.

Peter Wilson

Peter Wilson, Group Vice-President, Manufacturing and Supply Organisation, has managed the Group's manufacturing activities since he joined the Group in September 1999. From December 1998 to September 1999, he ran his own consultancy company. From 1967 to 1998, he held various positions in manufacturing with Beecham and then SmithKline Beecham, which took him to Belgium from 1970 to 1978 and Germany until 1992, where he finally became head of Technical Operations. After 1992, he held various management positions as head of manufacturing in Europe, the Middle East, Africa, Latin America, Australia, the Indian sub-continent and the Far East, and was then appointed to an international management position as head of the quality and international distribution for the group. Mr. Wilson has a BSc degree from the University of Liverpool.

Stéphane Thiroloix

The appointment with effect from 2 April 2007, of Stéphane Thiroloix as Executive Vice-President, Corporate Development and member of

Ipsen's Executive Committee is made within the context of the retirement of Dr Alistair Stokes. The scope of Stéphane Thiroloix's responsibilities will cover pharmaceutical development, clinical development, regulatory affairs, business development and legal affairs.

M. Thiroloix graduated from HEC Business School. After joining Roussel-Uclaf (which became Hoechst Marion Roussel and now Sanofi-Aventis) in 1987, he held various executive positions at a Corporate Level, in France, in South Africa, in Mexico and in Australia, where he was General Manager. He later became Vice-President and Sales Director at SmithKline Beecham (now GlaxoSmithKline), then Vice-President and Director of French Operations and ultimately Vice-President and Director, European Business Development and Marketing Alliances. He joined Bristol-Myers Squibb in September 2002 as Vice-President, French Operations, and was promoted Vice-President Europe and General Manager, France in January 2004.

14.2 Conflicts of interest involving directors and executive officers

Dr. Klaus Peter Schwabe, who is a director of the Company, is also Chairman of Dr. Willmar Schwabe Familienstiftung, the holding company of the Schwabe group. The Group has entered into various agreements and has shareholdings in joint ventures with the Schwabe group. These agreements and holdings are described in sections 18.3.1 and 22.2.1 of this registration document. These ties were forged in compliance with the applicable provisions of law and to the Company's knowledge, there is no conflict of interest with Dr. Klaus Peter Schwabe as a result of these operations.

To the best of the Company's knowledge, there is no other matter likely to give rise to a conflict of interest between the duties of the members of the Board of Directors vis-à-vis the Company and their personal interests and other duties.

To the best of the Company's knowledge, there is no further undertaking or agreement with shareholders, clients, suppliers or other party pursuant to which one of the members of the Board of Directors of the Company has been appointed as director.

To the best of the Company's knowledge, the persons indicated in section 14.1.1 of this registration document has not entered into any agreement restricting the sale of their shareholding in the Company.

14.3 Directors' and executive officers' interests in the Company and the Group at 31 December 2006

Name	Office	Number of shares[1]	% of share capital & voting rights
Jean-Luc Bélingard	President-Chief Executive Officer	1	NS
Anne Beaufour	Director	1	NS
Henri Beaufour	Director	1	NS
Alain Béguin	Director	2,194	NS
Hervé Couffin	Director	1,201	NS
Antoine Flochel[2]	Director	3,000	NS
Gérard Hauser	Director	1,347	NS
Pierre Martinet	Director	2,132	NS
René Merkt[3]	Director	2,666	NS
Yves Rambaud[4]	Director	1,801	NS
Klaus-Peter Schwabe	Director	1	NS
Total		**14,345**	**NS**

(1) Source: Individual accounts of Company shareholders.

(2) VicJen Finance SARL, 99% owned by Mr. Antoine Flochel, owns 2,000 shares since 2 February 2007.

(3) To the Company's best knowledge René Merkt holds 4160 extra shares since 17 January 2007.

(4) To the Company's best knowledge of the 1,801 shares, Marie-France Rambaud, Yves Rambaud's wife, holds 900 shares.

Certain directors hold an indirect shareholding in the Company or have the power to influence its decisions, as stated notably in section 18.3 of this registration document.

15 Compensation and benefits

15.1 Global amount of compensation and benefits paid to directors

15.1.1 Directors' fees

In respect of the financial year ended 31 December 2006, members of the Company's Board of Directors received an aggregate amount of €770.000 in directors' fees, which were paid during 2006 for the first half and first quarter 2007 for the second half. This amount is broken down as follows:

Anne Beaufour: €85,000

Henri Beaufour: €50,000

Alain Béguin: €65,000

Jean-Luc Bélingard: €70,000

Hervé Couffin: €65,000

Antoine Flochel: €150,000

Gérard Hauser: €50,000

Pierre Martinet: €50,000

René Merkt: €35,000

Yves Rambaud: €100,000

Klaus-Peter Schwabe: €50,000

For the year ending 31 December 2006, Mayroy (see section 18.1 of this registration document) paid Directors' fees of €25,000 each to, Antoine Flochel, Anne Beaufour and Klaus-Peter Schwabe as Directors of Mayroy.

15.1.2 Compensation and benefits paid to the Chairman and Chief Executive Officer

The principles underpinning the compensation and benefits paid to Mr Bélingard in his capacity as an executive officer of the Company were set by the Company's Board of Directors at its meetings on 15 September 2005, 16 March 2006, 21 June 2006 and 16 March 2007. These principles notably include payment of a target bonus of between €300,000 and €450,000 for 2006 based on performance-related criteria, the allotment of 11,000 bonus shares and termination benefits equivalent to thirty months of his compensation and benefits as an executive officer. The target bonus is based on qualitative and quantitative criteria which are determined annually by the Board.

On 16 March 2007, the Company Board:

- fixed the Chairman and Chief Executive Officer's bonus for 2006 at €370,000 and determined that the target bonus for 2007 would be €375,000, between 0 and €563,000;
- and decided upon the criteria for determining the bonus for 2007: two thirds of this bonus are based on achieving sales, operating profit, cash flow generated by operating activities and diluted earnings per share targets. The remainder of the bonus is based on qualitative criteria, including corporate governance, successfully setting up the Group in the United States and increasing the value of the Research and Development assets.

In addition, Jean-Luc Bélingard retains the benefit of the employment contract he signed on 18 July 2005 with the Company, under which he receives annual remuneration of €630,000 gross (plus an expatriate bonus) and in-kind benefits representing an annual gross amount of around €150,000, plus termination benefits equivalent to thirty months of compensation and benefits under his employment contract.

Under the plan, Jean-Luc Bélingard receives the benefit of a pension plan in force at the Company calculated on the basis of the number of years' service determined by reference to the date appearing in the employment contract, that is from 1 January 1995 in Mr Bélingard's case, at the rate of 0.6% a year applied on the amount under 8 PASS at the rate of 0.6% (the PASS for 2006 was €31,068) and at the rate of 1% on the amount above of 8 PASS to the remuneration received in the last 12 months of service.

The total compensation and benefits received by Jean-Luc Bélingard during the financial year ended 31 December 2006 came to €1,286,640, excluding employee profit-sharing, and comprised: an annual salary of €630,006, an expatriate bonus of €115,212, benefits in kind totalling €171,422, a bonus in his capacity as executive officer of €300,000 for 2005 and €70,000 in Director's fees.

In addition, the Board of Directors allotted bonus shares to Jean-Luc Bélingard (see sections 15.2 and 21.1.4.2 of this registration document) and stock options (see sections 15.3.2 and 15.3.3. of this registration document).

15.1.3 Compensation of other executive officers

With the exception of Directors' fees (see section 15.1.1 of this registration document), the other directors do not receive any compensation or benefits in kind.

15.2 Bonus shares allotted to directors and executive officers

Certain directors and executive officers of the Company and some of the Group' employees, have Ipsen Bonus Shares (described in section 21.1.4.2 of this registration document). The following table sets forth all the Ipsen Bonus Shares allotted to members of the Board of Directors:

	Date of allotment of entitlements to Ipsen Bonus Shares	Date of the final allotment of Ipsen Bonus Shares	Number of shares allotted
Jean-Luc Bélingard	06/12/2005	06/12/2007	11,000
	12/12/2006	12/12/2008	11,000
Total			**22,000**

15.3 Stock options allotted to directors and executive officers

15.3.1 Mayroy Options

Certain executive officers, like certain other Group employees, have stock options for shares in Mayroy (hereinafter the "Mayroy Options"), the Company's parent company. The following table sets forth all the Mayroy Options allotted to members of the Board of Directors at 31 December 2006:

	Date of allotment of entitlements to Ipsen Bonus Shares	Date of the final allotment of Ipsen Bonus Shares	Number of shares allotted
Jean-Luc Bélingard	06/12/2005	06/12/2007	11,000
	12/12/2006	12/12/2008	11,000
Total			**22,000**

Should the Mayroy Options become exercisable, the liquidity mechanism available to holders of Mayroy Options under the Mayroy Understanding, as described in section 18.3.2 of this registration document, would enable Directors of the Company holding Mayroy Options to exchange the Mayroy shares obtained upon exercise of the options for a maximum of 600,392 existing shares in the Company currently held by Mayroy.

15.3.2 Ipsen Options

Certain executive officers, like certain other Group employees, have stock options for shares in the Company (hereinafter "Ipsen Options"), the Company's parent company. The following table sets forth all the Ipsen Options allotted to members of the Board of Directors at 31 December 2006:

	Type of option	Exercise price[1]	Exercise period	Number of shares corresponding to the Ipsen Options	Number of Ipsen Options exercised
Jean-Luc Bélingard	Stock subscription options	€33.21[1]	From 12 December 2010 to 12 December 2018	133,333	0
	Stock purchase options	€35.86	From 12 December 2011 to 12 December 2018	133,333	0
	Stock purchase options	€38.73	From 12 December 2012 to 12 December 2018	133,334	0
Total				**400,000**	**0**

(1) Average exercise price per share in euros.

15.3.3 Tercica Inc. Options

Jean-Luc Bélingard, as Director of Tercica Inc., owns 22,500 stock options for shares in Tercica Inc. granted on 13 October 2006. These options with a validity period of ten years starting at the date of the allotment will become exercisable as to 1/3 of the shares on 13 October 2007, 13 October 2008 and 13 October 2009. The exercise price equals 100% of the fair market value per share on the date of the grant *i.e.* $5.42 per share.

15.4 Agreements entered into by the Group with executive officers or key shareholders

In connection with stock option liquidity mechanism described in section 18.3.2 of this registration document, the Company has entered into an agreement with Société Générale Bank & Trust (SGBT) and Mayroy, the purpose of which is to entrust SGBT with management of the liquidity mechanism for the Mayroy Options. This agreement was approved by the Company's Board of Directors on 26 September 2005.

Under this agreement, the Company has notably undertaken to provide Mayroy and SGBT with all the information in its possession required to implement this liquidity mechanism and also to ensure the smooth operation of the liquidity mechanism for Group employees holding Mayroy Options.

Under this agreement, the Company has agreed to cover the SGBT's expenses and charges and to compensate Mayroy for any loss of any kind whatsoever incurred by Mayroy in the event that the Company passes on incorrect information to SGBT when discharging its obligations.

This agreement will continue for fiscal year 2006.

Prior to the IPO, the Board of Directors at its meeting on 15 September 2005 approved the benefit of a pension plan in force at the Company and termination benefits allocated to the Chairman and Chief Executive Officer. These termination benefits are equivalent to thirty months of compensation and benefits under his employment contract. This was approved by the General Shareholders Meeting on 2 June 2006.

15.5 Loans and guarantees granted to executive officers

None.

16 Operation of the Company's governing bodies

16.1 Organisation of the Company's governing bodies

16.1.1 Organisation of the Board of Directors

▶ 16.1.1.1 Members of the Board of Directors

Subject to the derogations provided for by law, the Board of Directors comprises not less than three and not more than eighteen members, elected by ordinary resolution of the shareholders.

Directors must own at least one share in the Company. A Director who does not own the requisite number of shares on the date of election or ceases to own the requisite number of shares during his term of office, and fails to remedy the position within three months, shall be deemed to have stood down from office.

Should one or more seats on the Board of Directors become vacant between two annual general meetings, either through death or resignation, the Board of Directors may appoint replacements on a provisional basis under the terms and conditions set out by law. However, if the number of Directors falls below the minimum legal requirement, the remaining Directors, or failing that the Statutory Auditors, shall immediately call an ordinary general meeting to elect new Directors. Directors appointed by the Board of Directors must have their appointments approved at the next annual general meeting. Should any appointments not be approved by the shareholders, resolutions and actions taken by or with the assistance of such Directors will nevertheless still be valid. A Director elected to replace an outgoing Director shall remain in office for the remainder of his predecessor's term.

Directors are elected for a term of three years, ending at the conclusion of the annual general meeting held during the year in which they are due to retire by rotation. Directors may always stand for re-election.

▶ 16.1.1.2 Chairman of the Board of Directors

The Board of Directors shall elect a Chairman from among its members, who must be a natural person, failing which the appointment shall be null and void, for a term that may not exceed his term as Director. The Chairman may stand for re-election and may be removed by the Board of Directors at any time.

In the event of the Chairman's temporary unavailability or death, the Board of Directors may delegate another Director to take his place for a limited but renewable term in the event of temporary unavailability and until a new Chairman is elected in the event of death.

The Chairman presides over Board meetings, organises and manages the work of the Board of Directors, reports on the Board's activities to the shareholders, and executes its decisions. The Chairman is responsible for ensuring that the Company's governing bodies function correctly and that the Directors are capable of fulfilling their duties.

The Board of Directors may also appoint a Deputy Chairman, who must be a natural person, to preside over Board meetings in the Chairman's absence. Failing that, in the Chairman's absence, Board meetings shall be chaired by the Director present who is the oldest.

▶ 16.1.1.3 Board meetings

The Board of Directors meets as often as required in the interests of the Company. Meetings are called by the Chairman.

If the Board has not met for a period of over two months, at least one third of the directors, or the Chief Executive Officer if he is not also the Chairman, may ask the Chairman to call a meeting to discuss a particular agenda. The Chairman may not refuse to call a meeting under these circumstances.

Should he fail to do so, and only in such a case, the Chief Executive Officer, one of the Deputy Chief Executive Officers or at least two directors may call a Board meeting and set the agenda.

Notice of meetings may be sent by any means, including letter, fax, telex or electronic mail, not less than fifteen days before the date of the meeting, except in emergencies when notice may be sent by any means until the day before the meeting. Meetings may, notwithstanding, be called verbally and held immediately if all members of the Board agree.

Meetings take place either at the Company's registered office or in any other place indicated in the meeting notice.

An attendance register is kept and signed by those Directors attending the Board meeting.

▶ 16.1.1.4 Quorum and majority

The quorum required for the meeting to transact business is the effective presence of at least one half of the Directors. Resolutions are by majority vote of those Directors present in person or by proxy. In the event of a split vote, the Chairman has the deciding vote.

The Directors attending the meeting *via* videoconferencing or other electronic have to be counted for the purposes of calculating the quorum and majority, within the limits and under the terms and conditions set out by law. More particularly, this option is not available for those resolutions referred to in article s L.232-1 and L.233-16 of the *Code de commerce.*

▶ 16.1.1.5 Powers

The Board of Directors is responsible for defining and implementing the Company's strategic objectives.

Subject to those powers expressly reserved for the general shareholders' meeting and within the limits of the Company's corporate objects, the Board of Directors is competent to consider and settle all issues involving the proper functioning of the Company through the passing of its resolutions.

With respect to third parties, the Company is bound by the Board of Directors' acts even where they are *ultra vires* of the Company's corporate purpose, unless the Company can prove that the third party knew the act was *ultra vires* or could not fail to know given the circumstances.

Publication of the Company's Articles of Incorporation does not in itself constitute sufficient proof.

The Board of Directors undertakes all the controls and verifications it deems fit.

All Directors shall receive the information required to fulfil their duties and may request any documents they deem useful from the Company's executive management.

▶ 16.1.1.6 Board Charter

Under a resolution passed on 30 August 2005, the Board of Directors adopted an internal charter setting out the role and operation of the Board, in accordance with the provisions of the law, the Company's Articles of Incorporation and standard corporate governance practice for listed companies. The Board's charter is available on the Company's website (www.ipsen.com). The main provisions of the Board Charter are described below.

16.1.1.6.1 Role of the Board

The Board of Directors is responsible for governing the Company within the framework of its legal obligations and the obligations set out in its Articles of Incorporation:

- the Board of Directors regularly reviews the strategic objectives and guidelines of the Company and Group, its investment, asset sale and internal restructuring projects, and the Group's general human resources policy, and more particularly its policy on compensation, profit-sharing and incentive schemes. It conducts an annual performance appraisal of the Company's senior executives and is consulted on new executive appointments;
- it approves acquisitions or sales of equity interests or assets, as well as research, development, industrial or commercial partnerships, alliances or co-operation agreements, and more generally all transactions or commitments likely to have a material impact on the Group's financial position, business operations or strategic objectives;
- it is advised by its Chairman and its special committees of all material events concerning the Group's and the Company's business dealings, financial structure and cash position;
- it is responsible for communications with the shareholders and general public, particularly through its supervision and control over information provided by the Company. In this respect, the Board is responsible for defining the Company's communications policy, and particularly the frequency at which the Group publishes financial information;
- it ensures that the Company has reliable procedures for identifying, assessing and monitoring its liabilities and risks, including contingent liabilities, together with an appropriate internal control system.

16.1.1.6.2 Members of the Board of Directors

Directors must devote the appropriate time and attention to their duties and are expected to attend meetings of the Board and any committees of which they are a member.

Directors should be chosen for the skills and experience they can offer the Company and the Group in their business operations.

Directors are deemed to be independent if they meet the following conditions on the date the assessment is made:

- they are neither employees, executive officers, nor closely related to an executive officer of a Group entity or an entity controlling the Company within the meaning of article L.233-3 of the *Code de commerce*;
- they are neither executive officers, nor closely related to an executive officer of a company in which a Group entity holds an executive office, either directly or indirectly;
- they are neither a client, supplier or service provider of the Group, nor a member of a company that is a client, supplier or service provider of the Group;
- they (i) do not represent a shareholder that owns, (ii) are not members of an entity that directly or indirectly owns and (iii) do not directly or indirectly own, more than five percent of the Company's share capital or voting rights.

The meaning of executive officer and close relationship with an executive officer are defined in article L.621-18-2 of the *Code monétaire et financier*.

The Board shall determine at least annually which Directors meet these independence conditions and present its conclusions to the shareholders (i) at each annual general meeting held to approve the financial statements and (ii) during general meetings held to elect new Directors or ratify Directors appointed by the Board.

Directors may attend training sessions on specific areas of the company, its business activities and industrial sector, arranged spontaneously by the Company or at the request of the Board of Directors.

Before accepting office, Directors should familiarise themselves with any general or specific obligations imposed upon them. More particularly, they should familiarise themselves with the law governing the Company, its Articles of Incorporation and all the provisions of the Board Charter.

Directors have a duty to report to the Board any existing or potential conflicts of interest between them and the Company or the Group and must, where it does not involve an ordinary business agreement on market terms and conditions, abstain from the corresponding vote.

Directors are required to contribute to setting the Company's and the Group's strategic objectives and to exercise control over their implementation. They should exercise careful and effective oversight of the Company's and the Group's management.

Directors have a general duty of discretion as regards proceedings at Board and special committee meetings. The same applies to all non-public information and documents provided to them during or outside meetings as part of their function on the Board or its special committees and their participation in Board deliberations. This duty of discretion does not end with their term of office.

Directors undertake to comply with all stock market regulations designed to prevent any abuse of the market that might harm the interests or the image of the Company or the Group.

Directors may not engage in transactions concerning shares of companies in which they have inside information which is likely to influence the price of those shares.

16.1.1.6.3 Operation of the Board of Directors

The Board of Directors meets at least once a quarter at the Company's registered office or at any other place stipulated in the notice of meeting. Directors may take part in meetings by any means permitted by law or the Company's Articles of Incorporation.

Once a year, the Board discusses its method of operation and appraises the performance of the Group's executive team, including the Chief Executive Officer, but not in their presence. The Board may call in an outside consultant to conduct an appraisal.

16.1.1.6.4 Resources of the Board of Directors

The Board of Directors may establish temporary or permanent special committees comprising between three and six Directors, including a Chairman of the Committee, appointed by it. These special committees report to the Board on their work and submit their recommendations and proposals.

In order to maintain effective and prudent control over the Company's and the Group's operations, the Board may call upon the Group's senior executives for assistance. It may ask to see any internal reports, documents and research drawn up by the Group and commission any external technical reports at the Company's expense, subject to the usual confidentiality undertakings.

The Directors may, together or individually, consult the Group's senior executives for advice on any matters, after advising the Chairman of the Board, and meet senior executives without the Chairman's presence.

Similarly, the Directors may, together or individually, ask the Chairman for any information they believe necessary, provided it does not breach any confidentiality rules.

The Directors receive all relevant information, including a monthly report, press reviews and financial research reports.

The annual report contains a review of the work and operation of the Board and its special committees during the previous year.

16.1.1.6.5 Permanent committees of the Board of Directors

The Board has set up four permanent committees: a Strategic Committee, an Audit Committee, a Compensation Committee and an Appointments Committee. The role and work of these committees as defined in the Board Charter is described in section 16.3 of this registration document.

16.1.2 Executive management

▶ 16.1.2.1 The Chief Executive Officer

16.1.2.1.1 Appointment and Removal of the Chief Executive Officer

If the Board of Directors decides to split the roles of Chairman of the Board and Chief Executive Officer, it appoints the Chief Executive Officer and fixes his term of office and any restrictions on his powers.

The Chief Executive Officer may be removed at any time by the Board of Directors. If the Chief Executive Officer is not the Chairman, his removal may give rise to compensation if believed unwarranted.

The Chief Executive Officer is subject to the provisions of article L.225-94-1 of the *Code de commerce* on simultaneously holding more than one of the offices of Chief Executive Officer, member of the Executive Board, sole executive officer, director or member of the Supervisory Board of a *Société Anonyme* with its registered office in France.

If the Chairman is also the Chief Executive Officer, the provisions concerning the Chief Executive Officer also apply to him.

16.1.2.1.2 Powers

The Chief Executive Officer has full powers to act at all times and in all circumstances in the name of the Company, within the limits of the Company's corporate purpose and subject to those powers expressly vested by law in the shareholders and the Board of Directors.

The Chief Executive Officer represents the Company in its dealings with third parties. The Company is bound by the Chief Executive Officer's acts even if the acts are ultra vires due to going beyond the Company's stated corporate purpose, unless the Company can prove that the third party knew the act was ultra vires or could not fail to know given the circumstances. Publication of the Company's Articles of Incorporation does not in itself constitute sufficient proof.

▶ 16.1.2.2 Deputy Chief Executive Officers *(directeurs généraux délégués)*

At the time of the proposal to appoint the Chief Executive Officer, the Board of Directors may appoint one or more persons to assist the Chief Executive Officer in his duties, with the title of Deputy Chief Executive Officer.

The maximum number of Deputy Chief Executive Officers is fixed at five.

The scope and term of powers to be vested in the Deputy Chief Executive Officers are determined by the Board of Directors in agreement with the Chief Executive Officer.

The Deputy Chief Executive Officers have the same powers as the Chief Executive Officer with respect to third parties.

The Deputy Chief Executive Officers may be removed at any time by the Board of Directors at the proposal of the Chief Executive Officer.

If the Chief Executive Officer ceases to exercise or be prevented from exercising his duties, the Deputy Chief Executive Officers will remain in office until a new Chief Executive Officer is appointed, unless otherwise agreed by the Board of Directors.

16.1.3 Executive Committee

The Group has an Executive Committee which is responsible for managing the Company's day-to-day operations and for co-ordinating the Group's various scientific, legal, financial, commercial and strategic actions.

The Executive Committee is also responsible for establishing consistent management policies throughout the Group and assisting the Chairman in implementing the Board's decisions. The Executive Committee comprises the following members: Mrs. Claire Giraut, and Messrs Jean-Luc Bélingard, Christophe Jean, Alain Haut, Jacques-Pierre Moreau, Alistair Stokes and Peter Wilson.

In view of the Alistair Stokes' retirement (during the first half of 2007), the Group announced on 26 February 2007, the appointment of Stéphane Thiroloix to the Executive Committee as from 2 April 2007 (see section 14.1.4. of this registration document).

16.2 Service contracts with members of the Company's governing bodies

The Company is not aware of any service contract between the Company or any of its subsidiaries and any of the members of the Board of Directors or management of the Company at the date of registration of this registration document.

16.3 Board Committees

16.3.1 Rules common to all committees

- Committee members are personally appointed from among the Directors for the duration of their term of office as Director. They may not appoint a proxy to attend meetings. They may be replaced or removed at any time by the Board of Directors. Their term of office is renewable. A Director may be a member of several committees.
- The chairman of each committee is appointed from among the committee members by the Board of Directors.
- Subject to any special rules applicable to them, the committees determine how often they meet. Meetings are held at the Company's registered office or at any other place stipulated by the chairman, who convenes the meetings and draws up the agenda.
- A quorum of at least half the members is required for the committee to transact business. Members may take part in meetings by any means permitted by law or the Articles of Incorporation.
- The chairman of a committee may invite all members of the Board of Directors or any other person to attend one or more of its meetings in a consultative capacity, but only the committee members may vote on agenda items.
- Minutes of each committee meeting are prepared by the secretary of the Board of Directors, under the responsibility of the committee's chairman. The minutes are circulated to all committee members. The chairman reports to the Board of Directors on the committee's work under the terms and conditions determined by the Board.
- The committees make proposals and recommendations in their field of expertise.

To this end, they may conduct or commission all external reports or research to assist them in their work, at the Company's expense.

The committees report to the Board of Directors on their work at each Board meeting.

A summary of the activity of each committee can be found in the Company's annual report and accounts.

- Fees paid to committee members and chairmen are set by the Board of Directors and deducted from the total amount of Directors' fees approved by the shareholders.
- The committees are responsible for determining all their other rules and procedures. They periodically ensure that their rules and procedures enable them to assist the Board effectively in handling matters within its scope of responsibility and may propose changes to the Board charter.

16.3.2 The Strategic Committee

- The Strategic Committee's role is to:
  - review all strategic issues affecting the Company and the Group with regard to research and development, industrial, commercial and financial matters, and alliances and partnerships of all types;
  - review any major investment, asset sale, restructuring, alliance or partnership projects;
  - prepare for the Board of Directors' periodic appraisal of its operating procedures and make recommendations for improvement;
  - analyse, appraise and report annually to the Board of Directors on all aspects of the performance of the Company, the Group and its management, and make recommendations for improvement;
  - submit reports, proposals and recommendations on all issues falling within its scope of responsibility.
- The Strategic Committee is composed of the Chairman of the Board, who is also the chairman of the committee, plus five other Directors.
- The Strategic Committee meets at least four times a year. Meetings are convened by the committee's chairman.
- The Strategic Committee may call upon the Group's senior executives for assistance. It may request sight of any internal reports, documents and research drawn up by the Group and commission any external technical reports at the Company's expense, subject to the usual confidentiality undertakings.

16.3.3 Audit committee

- The Audit Committee's role is to:
  - evaluate the accounting policies used to prepare the parent company and consolidated financial statements, review and evaluate the basis for consolidation and the relevance of accounting methods applied to the Group;
  - examine the semi-annual and annual financial statements, together with budgets and forecasts, prior to their presentation to the Board of Directors;
  - control the quality of and compliance with procedures, evaluate information received from management, internal committees and internal and external auditors;
  - supervise the appointment and reappointment of the statutory auditors, form an opinion on the amount of fees charged by the statutory auditors and report it to the Board of Directors;
  - review the details and appropriateness of the fees paid by the Company and the Group to the statutory auditors and ensure that these fees and corresponding services are not liable to affect their independence.
- The Audit Committee comprises three Directors not including the Chairman of the Board. The chairman of the committee is appointed by the Board of Directors from among the committee members.
- The Audit Committee meets at least four times a year. Meetings are convened by the committee's chairman.
- The Audit Committee is responsible for:
  - submitting proposals to the Board of Directors concerning the appointment, fees and replacement of the statutory auditors;
  - reviewing with management and the statutory auditors the quarterly, semi-annual and annual financial statements, the Group's accounting methods, audit systems and internal control systems, and all reports on financial reporting, accounting policies and communications between management and the statutory auditors;
  - examining and controlling rules and procedures concerning conflicts of interest, management expenses, identification and measurement of the key financial risks and their application, and submitting an annual report to the Board of Directors;
  - examining, controlling and evaluating on an annual basis the statutory auditors' independence, audit procedures, difficulties encountered and measures taken to resolve them, and supervising the internal audit function;
  - more generally, examining, controlling and evaluating all matters likely to affect the accuracy and fairness of the financial statements.
- The Audit Committee may request any information it deems necessary or useful and call upon anyone it deems necessary or useful for assistance.

16.3.4 The Appointments Committee

- The Appointments Committee's role is to:
  - make proposals to the Board on the re-election, replacement or nomination of new Directors;
  - give an opinion on the appointment or replacement of the Chief Executive Officer and any Deputy Chief Executive Officers.
- The Appointments Committee is composed of three Directors other than the Chairman of the Board. The chairman of the Appointments Committee is appointed by the Board of Directors from among the committee members.
- The Appointments Committee meets at least twice a year. Meetings are convened by the committee's chairman or at the request of the Chairman of the Board of Directors.

16.3.5 The Compensation Committee

- The Compensation Committee's role is to:
  - make proposals to the Board of Directors on all components of the compensation paid to the Group's executive officers and senior managers;
  - give an opinion on the appointment of key managers other than the Chief Executive Officer, and on all components of their compensation;
  - make recommendations to the Board of Directors on all personnel compensation and incentive schemes, including employee savings plans, employee share ownership, stock options and bonus shares.
- The Compensation Committee comprises three members elected from among the Directors, other than the Chairman of the Board. The chairman of the committee is appointed by the Board of Directors from among the committee members.
- The Chairman of the Board may be asked to take part in the committee's work, except where it concerns his own compensation.
- The Compensation Committee meets at least twice a year. Meetings are convened by the committee's chairman, or at the request of the Chairman of the Board.

16.4 Internal control

The Company meets legal requirements concerning internal control and follows the principles of corporate governance.

The Company has an internal control system covering operational and financial processes. The Chairman of the Board of Directors has prepared a report on corporate governance and internal control.

16.4.1 Chairman's report on corporate governance and internal control

To the Shareholders,

The present report is drawn up in compliance with article L.225-37 paragraph 6 of the *Code du commerce*, based on Act n°2005-842 dated 26 July 2005, which places a duty on the Chairman of the Board of Directors to report to the shareholders General Annual Meeting, in a report included in the management report, on the "corporate governance and internal control". The report indicates where necessary any limits which the Board of Directors places on the Chief Executive Officer's powers.

All the information shown below relating to corporate governance and internal control implemented by the Group, correspond to those procedures implemented during the year ending 31 December 2006.

▶ 1. Corporate governance

1.1 Composition of the Board of Directors

At 16 March 2007, the Board of Directors was composed of eleven members. All Directors are due to retire at the conclusion of the annual meeting held to approve the financial statements for the year ended 31 December 2007.

The members of the Board of Directors are:

Names	Office	Elected
Jean-Luc Bélingard	Chairman and Chief Executive Officer	30/08/2005
Anne Beaufour	Director	30/08/2005
Henri Beaufour	Director	30/08/2005
Alain Béguin	Director	30/08/2005
Hervé Couffin	Director	30/08/2005
Antoine Flochel	Director	30/08/2005
Gérard Hauser	Director	14/12/2005
Pierre Martinet	Director	19/09/2005
René Merkt	Director	19/09/2005
Yves Rambaud	Director	30/08/2005
Klaus-Peter Schwabe	Director	30/08/2005

Antoine Flochel was been appointed Vice Chairman of the Board of Directors at the Board meeting on 30 August 2005.

1.2 Frequency of Board meetings

The Board of Directors met seven times in 2006.

1.3 Notice of meetings and Directors' attendance

Directors receive a notice of meeting by letter not less than fifteen days before the date of the meeting, in accordance with the provisions of the Company's Articles of Incorporation.

The attendance register shows that the following Directors were present in person or by proxy at each of the meetings held in 2006:

- 16 March, 2006: eleven Directors out of eleven;
- 12 May, 2006: eleven Directors out of eleven;
- 2 June, 2006: eleven Directors out of eleven;
- 21 June, 2006: eleven Directors out of eleven;
- 6 July, 2006: eleven Directors out of eleven;
- 5 September, 2006: eleven Directors out of eleven;
- 12 December, 2006: eleven Directors out of eleven.

As required by article L.823-17 of the *Code de commerce*, the Statutory Auditors were invited to attend the Board meetings held to review or approve the annual and interim financial statements, as follows:

- meeting of 16 March 2006 to approve the Company's individual and consolidated financial statements for the financial year ended 31 December 2005;
- meeting of 5 September 2006 to approve the Company's interim financial statements for the six months ended 30 June 2006;
- meeting of 16 March, 2007 to approve the Company's individual and consolidated financial statements for the financial year ended 31 December 2006.

1.4 Chairman of the Board meetings

All the Board meetings in 2006 were chaired by Jean-Luc Bélingard, Chairman of the Board.

1.5 Organisation and operation of the Board's special committees

At its meeting of 30 August 2005, the Board of Directors adopted an internal charter setting out the role and operation of the Board, in accordance with the provisions of law, the Company's Articles of Incorporation and standard corporate governance practice for listed companies.

Under the Charter, the Board created four permanent committees:

- *Strategic Committee*, whose principal role is to review all strategic issues affecting the Company and the Group with regard to research and development, industrial, commercial and financial matters, and alliances and partnerships of all types;
- *Audit Committee*, whose principal role is to examine the individual and consolidated financial statements, together with budgets and forecasts, prior to their presentation to the Board, and to control the quality of and compliance with procedures, and evaluate information received from management, internal committees and internal and external auditors;
- *Appointments Committee*, whose principal role is to make proposals to the Board of Directors on the re-election, replacement or nomination of new Directors;
- *Compensation Committee*, whose principal role is to make proposals to the Board of Directors on all components of the compensation paid to the Group's executive officers and senior managers.

The composition of these four permanent committees is as follows:

- the Strategic Committee: Jean-Luc Bélingard, Anne Beaufour, Henri Beaufour, Antoine Flochel, Klaus-Peter Schwabe and Hervé Couffin;
- the Audit Committee: Yves Rambaud, Alain Beguin and Pierre Martinet;
- the Appointments Committee: Anne Beaufour, Alain Beguin and Hervé Couffin;

- the Compensation Committee: Antoine Flochel, Yves Rambaud and Gérard Hauser.

During the year 2006 the permanent committees met as follows:

- the Strategic Committee met on 27 January 2006, 20 February 2006, 1 September 2006, 10 November 2006 and 11 December 2006. Attended by all members. The committee deliberated about the strategy to be pursued in the US market;
- the Audit committee met on 13 March 2006, 16 June 2006, 1 September 2006, 8 December 2006 and 18 December 2006. Attended by all members, except on 13 March 2006 where one member was absent. The agenda for these meetings mainly dealt with review of the annual and interim financial statements , the budget and risk mappng.
- the Appointments Committee met on 12 May 2006 and 15 November 2006. Attended by all members. The agenda involved the implementation and roll out of procedure for auditing the Board;
- the Compensation Committee met on 31 January 2006, 2 May 2006, 16 June 2006, 13 October 2006 and 1 December 2006. Attended by all members. The agenda concerned stock option plans and bonus shares. The committee deliberated about the Chairman's compensation and that of the members of the Executive Committee.

1.6 Minutes of Board meetings

Minutes of Board meetings are prepared after the meeting and submitted to the Board for approval at its next meeting. Once approved by the Board, they are signed and placed in the Company's minute book.

1.7 Auditing of the Board

An external auditor audited the operating of the Board.

This report, which was presented at the Board meeting on 25 January 2007, states that the Board operates satisfactorily and suggests that there should be better order between information and decisions.

▶ 2. Executive management and restrictions on the powers of the Chief Executive Officer

At its meeting dated 30 August 2005, the Board elected not to split the offices of Chairman of the Board and Chief Executive Officer. There are no restrictions on the powers of the Chairman and Chief Executive Officer.

The Chairman and Chief Executive Officer has full powers to act at all times and in all circumstances in the name of the Company, within the limits of its corporate purpose and subject to those powers expressly vested by law in the collective body of shareholders and the Board of Directors. He represents the Company in its dealings with third parties.

At its meeting of 30 August 2005, the Board appointed Jean-Luc Bélingard as Chief Executive Officer for a term concurrent with his term as Director.

The Board has not appointed any Deputy Chief Executive Officers.

▶ 3. Internal control

3.1 Scope of internal control

The Group's internal control rules apply to all its subsidiaries (hereinafter "the Subsidiaries") of the Company under exclusive control within the meaning of IFRS. The Company and its Subsidiaries are together referred to as the "Group".

3.2 Basis for preparation of the report

This report describes the internal control system put in place by the Group. It has been prepared with the assistance of the Finance Department based on existing procedures within the Company. These procedures were identified through interviews with the Company's key managers and consultation of the available documentation concerning the issues under review.

3.3 Internal control objectives

Internal control is a function defined and implemented by executive management and Group employees to provide shareholders, Directors and executive officers with reasonable assurance about the achievement of the following objectives:

- completion and optimisation of operations, including the effectiveness of operations and protection of the Company's assets;
- reliability of the financial statements; and
- compliance with all applicable laws and regulations.

Internal control is designed to provide reasonable assurance about these matters but cannot provide absolute assurance that the objectives will be met.

To meet its internal control objectives, the Group's executive management has set out the following general guidance:

1. Control environment

All Group Subsidiaries are required to maintain and develop a reliable and effective internal control system. This principle underpins all the internal control mechanisms implemented within the Group. Criteria include integrity, ethical values, management philosophy and operating style, empowerment and responsibility, as well as management's duty to oversee business operations, the quality of information reported to the Group and management transparency.

2. Risk assessment

The risk management process was defined in line with various elements described in the COSO II standard.

In particular, mapping of risks, which represents the first step in risk management, was initiated in 2006 on a large part of the Group's industrial processes. This mapping has identified the risks of the industrial entities concerned, and analysed the potential impact, the probability that the identified risks occur and the measures taken to limit any potential impact. For each risk identified, an employee has been appointed at the industrial site concerned, who is in charge of ensuring the required protection measures are applied where necessary. The process and all related information are coordinated by the Group's Insurance and Risk Management department. The risk mapping methodology will continue in 2007 throughout the Group's industrial sites and will be extended to the Group's development activities.

3. Control activities

This principle involves all procedures and rules designed to ensure that risks are taken into account and Group directives are properly applied.

4. Information and communication

This principle involves identifying, collecting and communicating the information required to assume responsibilities and take informed decisions.

5. Oversight

This principle involves the periodical assessment of controls, through oversight activities conducted by management, particularly within the Executive Committee and its special committees.

3.4 General internal control structure

The Group's business operations all fall within the same sector and are vertically integrated. Its operations, as presented below, are managed on a decentralised basis within autonomous business units ("Business Units") which have real decision-making power but operate in line with the Group's overall strategic guidance.

The Group's business activities are:

- pharmaceutical research and development;
- manufacturing; and
- marketing and sales activities, organised geographically by country or groups of countries depending on their size and development stage.

The central support functions are:

- executive management;
- strategic planning;
- strategic marketing;
- finance, including the administrative services and Group Information Technology department;
- business development;
- legal affairs;
- intellectual property;
- human resources;
- information department;
- public affairs and corporate communications.

The Business Units are governed by three types of process:

- operating processes, which are the key processes involved in the Group's business activities: discovering, developing and registering drugs; manufacturing drugs and managing the supply chain; promoting and marketing the drugs in their various markets;
- management processes, which are the responsibility of the Group's executive management and concern the Group's organisation and strategic planning, preparation, communication and over-sight;
- support processes, which help optimise and control operating processes and protect the Group's assets (finance, human resources, public affairs and corporate communications, legal affairs and administration).

As the Group operates globally, this may cause the risks described in section 4.1.11 of this registration document. These risks are managed within the Business Units with support and control functions operated at administrative services level.

3.4.1 General internal control structure

3.4.1.1 Board of Directors and its permanent committees

The role of the Board of Directors and its permanent committees, together with the organisation and operation of executive management, are presented in the first part of this report.

An external auditor audited the operating of the Board. This report, which was presented at the Board meeting on 25 January 2007, states that the Board operates satisfactorily and suggests that there should be better order between information and decisions (see section 1.7 of this report).

3.4.1.2 Executive Committee

The Group has an Executive Committee which is responsible for managing the Company's day-to-day operations and for co-ordinating the Group's various scientific, legal, financial, commercial and strategic initiatives.

Chaired by the Chairman and Chief Executive Officer, its role is to implement the Group's strategy, review and authorise transactions submitted to it and set targets for the operating departments and support functions. The Executive Committee is also responsible for providing the Board of Directors with information and recommendations on issues concerning the Group's strategy and business activity.

In addition, the Executive Committee's role is to establish consistent management policies throughout the Group and assist the Chairman and Chief Executive Officer in implementing the Board's decisions.

The members of the Executive Committee are:

- Chief Executive Officer: Jean-Luc Bélingard;
- Chief Financial Officer: Claire Giraut;
- Executive Vice-President, Human resources: Alain Haut;
- Executive Vice-President, Operations: Christophe Jean;
- Executive Vice-President, Research and Development: Jacques-Pierre Moreau;
- Executive Vice-President, Corporate Development: Alistair Stokes (replaced after his retirement by Stéphane Thiroloix);
- Executive Vice-President, Manufacturing and Supply Organisation: Peter Wilson

The Executive Committee typically meets twice a month.

Minutes are drafted after each of the meetings and distributed internally to those employees who are involved in the issues concerned.

The Executive Committee examines the Group's financial situation and the forecast cash position given the risks described in sections 4.1.10 and 4.4. of this registration document.

The Executive Committee also assesses the situation of the Group's key management and scientists as regards the risks described in section 4.1.13 of this registration document.

The Executive Committee is assisted by the technical committees whose role is described hereafter.

3.4.1.2.1 Disease Area Teams (DAT) and Ipsen Strategy Teams

The DATs report to the Executive Committee and are responsible for defining and managing the Group's strategy in its targeted therapeutic areas. They are cross-functional teams and are composed of representatives from the Group's various business activities. Their work focuses on assessing the needs of markets and patients and on acquiring scientific knowledge in the therapeutic areas concerned, and on identifying and judging external growth opportunities as regards the Group's strategic priorities.

The Ipsen Strategy Teams play a similar role for the primary care therapeutic areas.

3.4.1.2.2 Strategic Product Planning Committee (SPPC)

The SPPC reports to the Executive Committee. Its role is to manage its development portfolio and review opportunities of external growth.

The Committee is composed of representatives from across the Group's business activities and the main support functions (finance, legal affairs, intellectual property and business development).

Its key responsibilities are: centralising, assessing and taking decisions on recommendations and information concerning research and development projects, preparing information for the Executive Committee on acquisition opportunities submitted to it and prioritising and allocating resources to development projects, within the budgets approved by the Executive Committee.

The committee regularly reviews the SPPC's operations. This review is drawn up as a report which is distributed to the members of the SPPC and to the Chairman and Chief Executive Officer.

The SPPC aims to extend the Group's product portfolio and as a result to reduce the proportion of consolidated sales represented by the two main products which are described in section 4.1.1 of this registration document. It is also part of a cross-divisional organisation structure which oversees the Group's main development programmes and manages the corresponding risks which are set out in sections 4.1.4. and 4.1.6. of this registration document.

3.4.1.2.3 Financial Communications Preparation Committee (FCPC)

The purpose of this committee is to prepare the information released in regular financial communications and to formulate and then update drafts submitted for the Executive Committee's approval. It is required by the financial department to participate in drafting and validating the main documents and publications used by the Group in its relations with the markets.

This committee, which is overseen by the Chief Financial Officer, has eight permanent members representing the Group's principal functions.

3.4.1.2.4 The Corporate Disclosure Committee

The role of this Committee is to prepare communications and statements for the Executive Committee related to unforeseen events, which could potentially have a significant impact on the value of Ipsen shares. This committee has four members, namely the Chief Financial Officer, the Chief Legal Officer, the Chief Communications Officer and the Chief Medical Officer. Other staff may attend, if need be. It meets as required and provides the Executive Committee with the information it needs to make decisions.

3.4.1.2.5 Management of partnership agreements

The Executive Committee creates cross-functional teams to oversee the main projects conducted under partnership agreements. Each team is headed by a project manager and comprises representatives of the various business activities concerned, as well as the support functions. The teams provide a central contact point for each partnership. Their role is to ensure that the Group's partnerships take place in the best possible conditions and in accordance with the terms of the agreement and to manage the corresponding risks as described in section 4.1.7. of this registration document. They are also responsible for co-ordinating work and meetings between the parties.

A central database contains all information relating to the various partnerships.

3.4.1.3 Group Strategic Planning

The Group Strategic Planning Department reports to the Group Vice-President, Operations. Its role is to co-ordinate the Group's four-year plan and conduct research on the Group's organisation structure, business operations and acquisitions. The group strategic planning also takes into account, in coordination with the Operations, the competitive positioning of the Group in the market in which it operates, notably in the context of the risks described in sections 4.2.1 and 4.2.9 of this registration document. It makes recommendations to the Group Executive Committee.

3.4.1.4 Operations Committees

1. The Operations Committee is headed by the Group Vice-President, Operations. It is composed of the heads of each of the key operating Business Units responsible for product marketing, as well as representatives of the support functions. It meets about eight times a year to review the Group's performance in terms of sales and product promotion in the various local and regional markets, as well as the main operating procedures applicable before their implementation. Certain groups of countries have their own regional Operations Committee. The Committee also manages the risks described in sections 4.2.3 and 4.2.4 of this registration document.
2. The Manufacturing Committee is headed by the Group Vice-President, Manufacturing and is comprised of the heads of the Group's manufacturing facilities. It meets about eight times a year to review and improve the Group's manufacturing performance, to prepare and assess the budgets, to analyse the financial performance, to determine the stages of the main projects, and to oversee the main points concerning the production facilities or manufactured products.
3. The Research & Development Operational Committee is headed by the Group Vice-President, Research & Development and is comprised of operations and support function managers. It meets at least one a month for decisions concerning organisation, budget and technical issues on Research and Development projects and partnerships, and give its view on the fundamental changes in processes or tools. The Research & Development Operational Committee also oversees the Group's research and development programmes within the limits of those uncertainties described in sections 4.1.4, 4.1.6 and 4.2.2 of this registration document.

3.4.1.5 Code of Ethical Conduct

On 1 July 2005, at the initiative of the Executive Committee, the Group prepared a code of conduct (hereinafter "the Code of Ethical Conduct") governing all Group employees. It sets out the general principles underlying the professional conduct required of all Group employees (competition law, prevention of conflicts of interest, relations with third parties, gifts and entertainment, financial statements and fraud prevention) and summarises the key existing legal provisions governing relations between the Group and third parties.

Concomitantly, the Executive Committee has put in place an ethics committee independent of the Group hierarchy to give employees who so desire the option of notifying the committee of any matter or presumed irregularity or infringement of the Code of Ethical Conduct. The ethics committee has the power to investigate matters reported to it and presents its conclusions directly to the Group's Executive Committee. In 2006, this committee was not notified of any matters infringing the Code of Ethical Conduct.

3.4.2 Central internal control

3.4.2.1 Quality control department

The Group has two quality control departments whose role is to support the needs of the entire Group in research and development and manufacturing.

The International Quality Assurance department reports to the Research and Development department. Its role is to ensure that clinical trials are conducted in line with good clinical practice ("GCP") and good laboratory practice ("GLP").

The Group Quality department reports to the manufacturing Business Unit. Its role is to establish quality systems that comply with good manufacturing practice ("GMP") both for products in the clinical development stage and those that are already registered.

These departments have set up protocols for checking and auditing their operations. The role of these protocols is to ensure that all regulations and related procedures established by the Group are properly applied, and to report their conclusions to Company management. Qualitative criteria are assessed using predetermined indicators in all areas of quality control.

In addition, each manufacturing plant has a Quality Assurance department responsible for controlling the conformity of operations, systems and products. These plants have their own auditing and performance measurement protocols, adapted according to the Group's reference systems.

3.4.2.2 Legal affairs department

The Group Legal Affairs department is responsible for managing the Group's legal risks, notably the judicial and administrative proceedings as described in section 4.3.3 of this registration document. It plays a support, optimisation and control role in drawing up contractual terms between the Group and third parties. The Group Legal Affairs department has implemented a referral procedure setting out the areas in which and the way in which the Legal Affairs department is to be consulted by all Group companies before they enter into any agreement.

It is also responsible for managing all litigation and disputes involving Group companies.

3.4.2.3 Intellectual property department

The Intellectual Property Department is responsible for (i) protecting the Group's intangible assets, including its inventions, brands and trademarks, logos, domain names and know-how; and (ii) protecting and enhancing the value of the Group's intellectual property portfolio by strengthening its position with respect to third parties notably in the context of the risks described in sections 4.1.5, 4.1.9, 4.1.12, 4.2.5 et 4.2.6 of this registration document. It plays an intelligence, information and advisory role for management and all Group companies, particularly by providing strategic information to help determine the Group's intellectual property policy.

3.4.2.4 Information department

The role of the Information department is to determine the framework of the information systems and to develop, implement, operate and control all information technology solutions used within the Group. To ensure that this environment is coherent and sustainable, the information systems department organises the management and functioning to ensure that the portfolio of information technology projects are in line with the Company's priorities, by managing resources used and guaranteeing the security and the quality of the information systems.

The performance is judged with regard to the compliance with the pharmaceutical industry's regulatory requirements for applications involved in the security, efficiency and quality of the products and, also as regards the information systems management, due to external or internal audits and of the compliance with the internal rules set out by the coordinators in the Group's subsidiaries.

3.4.2.5 Public Affairs and Corporate Communications department

The Public Affairs and Corporate Communications department is responsible for defining and overseeing the Group's communications strategy. It defines the schedule of priority communications campaigns and generally maintains the coherence and checks the accuracy and relevance of information released and disseminated both internally and outside the Group.

Rules of conduct have been drawn up and brought to the attention of all employees and specific presentations are made to certain groups of employees.

3.4.3 Other components of the internal control framework

3.4.3.1 Pharmacovigilance

Pharmacovigilance forms an integral part of the Group's research and development activity. Its role is to monitor the risk of undesirable side effects resulting from the use of products being developed and marketed by the Group.

Pharmacovigilance includes:

- gathering information on reported undesirable side effects;
- registering, assessing and using that information for preventive purposes;
- conducting research and other work concerning the safe use of drugs.

Pharmacovigilance also ensures that the Group meets its regulatory obligations in respect of these three activities in all countries where it operates.

3.4.3.2 Health, safety and environment policy (HSE)

The Group's Quality Department Control is responsible for the Group's overall health, safety and environmental policy, and for monitoring performance indicators in this field. Each manufacturing plant has its own HSE department responsible for setting out internal HSE rules, for ensuring that personnel and site operations comply with safety regulations and for implementing actions necessary in the framework of the use of dangerous substances as described in sections 4.1.3 and 4.1.8 of this registration document. In 2006, the Group Quality Department Control and Group HSE carried out an audit on its main operating sites of the health, safety and environmental policies, of the related management systems and identified the main changes needed. The Group made recommendations in the action plans, and in 2007 plans to set up a single management system and a management training programme.

3.4.3.3 Logistics

The logistics function is responsible for providing effective logistics flows and information systems with the aim of securing and optimising the supply of goods from the manufacturing plants to the Group's markets, notably in the context of the risks described in section 4.2.4 of this registration document.

The plan to strengthen relations between manufacturing plants and operational markets launched in 2004 and implemented in 2006 has harmonised and officialised the industrial management rules within the Group. A network of designated logistics coordinators, and the implementation of new procedures, of information technology solutions and reporting systems, have enabled the Group to improve the order forecasting accuracy and ensure the availability of stocks required for optimum functioning of logistics flows.

3.4.3.4 Insurance and Risk Management

The insurance function is the responsibility of the administrative department, which reports to the Group's Finance Department. Its role is to:

- identify and reduce risks, notably product liability as described in section 4.2.7 and environmental risks set out in section 4.2.8 of this registration document, by recommending the implementation of appropriate prevention plans;
- provide technical support to the Group's operational departments in mapping risks and managing documents;
- arbitrate whether residual risks should be transferred to the insurance department;

- negotiate and monitor the Group's insurance policies as well as manage the risks as described in section 4.5 of this registration document;
- provide technical support to the Group's companies in negotiating and monitoring the local insurance policies, ensuring that the Group's activities are adequately covered by these insurance policies;
- handle claims;
- monitor the Group's legal commitments and their impact in terms of liability.

A report is transmitted to the Executive Committee annually which shows claims trends and premium budgets, risk management measures based on their assessment and control and the renewal of cover. Operational and financial managers are informed annually of existing insurance cover and procedures.

3.4.3.5 Audits

The pharmaceutical industry is highly regulated at both the national and international level. A strict framework of laws and regulations govern all the Group's business activities, from clinical research and development to the manufacture of active substances and drugs, and their promotion in the market. The Group's manufacturing plants are inspected regularly by official organisations.

The Group's quality control departments (Research and Development and Manufacturing) conduct audits of the activities that come under their responsibility.

In 2004, the Group's Finance Department created an internal audit function whose role is to control the integrity of financial reporting activities.

3.5 Financial reporting procedures

3.5.1 Objectives and participants

The Group Finance Department is responsible for internal control over financial reporting. The key objectives are:

- preparing consolidated financial statements for the Group in accordance with the applicable laws and regulations, under the authority of the Group's Accounting and Consolidation Department;
- managing the budgeting and forecasting process, under the authority of the Group's Financial Control department;
- reviewing the Group's performance and any variance against forecasts, under the authority of the Group's Financial Control department;
- reviewing the monthly management report for research and development, manufacturing and operations, under the authority of the Group's Financial Control department;
- managing fiscal affairs and overseeing any matters relating to company law for all Group subsidiaries, under the authority of the administrative department;
- managing the Group's financing, which is the responsibility of the Group's Treasury department;
- controlling the integrity of financial reporting, which is the responsibility of the Internal Audit department.

3.5.2 Preparation of the consolidated financial statements

The Group's Accounting and Consolidation department centralises information reported by the finance department of each Subsidiary and produces consolidated financial statements for the Group:

- the financial statements reported by each Subsidiary are analysed before being imported for consolidation;
- the financial statements are reconciled with the management indicators monitored by the financial control department. Sales trends, consolidated debt, investment and workforce figures are reconciled with the periodic monitoring carried out by the Group's financial control and treasury departments.

As part of its responsibility for producing consolidated financial statements, the Group's Accounting and Consolidation department draws up accounting manuals, management reporting packages and the chart of accounts to be used for preparing the Group's financial statements, to ensure that all Group Subsidiaries produce consistent information that complies with the Group's accounting policies.

It also verifies that the financial and accounting information reported externally by the Group is fair and comprehensive.

3.5.3 Periodic letter of representation

At the end of each year, the finance departments of each Group company are required to confirm in writing, at the request and in the terms set out by the Group's executive management, that the financial statements comply with all applicable laws and regulations.

3.5.4 Financial control

Financial control is organised on the basis of the Group's business activities. It issues instructions for preparing budgets and forecasts. It controls the quality of information received in the monthly reporting and as part of the Group's budget and plan preparation.

The financial control department also analyses the Group's actual performance and any variance against forecasts. It identifies and quantifies the risks and opportunities involved in budget and forecast information.

3.5.5 Authorisation of capital expenditures

This procedure is designed to assess the appropriateness of capital expenditure plans, independently from the budget and forecasting process, and obtain the information and authorisations required to commit to the expenditures. A summary is prepared to centralise all conclusions relevant to the decision-making process at the appropriate level.

This procedure is implemented in all the Group's manufacturing plants.

3.5.6 Financial authorisation.

The financial authorisation procedure lays down the commitment levels authorised for operational managers and the list of managers authorised to enter into commitments.

3.5.7 Financing and treasury

The Group has a centralised cash management system to ensure optimum protection of its financial assets and adequate liquidity. Exposure to exchange rate and interest rate risk is managed by the Group's Treasury department, which does not take any positions that are not directly linked with the Group's operational or financial activities.

3.5.8 External audit

In accordance with the law, the Group's financial statements are audited by statutory auditors. Their responsibility encompasses all Group companies included in the scope of consolidation. Each company, with the exception of certain non-material companies with regard to the consolidated financial statements, is subject to an audit or limited review as the case may be.

Apart from the legal requirements, the statutory auditors produce a report on their work summarising all key audit points identified and their resolution, as well as recommendations on the Group's internal control system. These recommendations are discussed with each subsidiary's management team and their implementation is monitored. The statutory auditors' report is also presented to the Board's Audit Committee.

16.4.2 Statutory auditors' report prepared in accordance with Article L. 225-235 of the French Commercial Code, on the report prepared by the Chairman of the Board of Ipsen S.A., on the internal control procedures relating to the preparation and treatment of accounting and financial information

Ipsen S.A.

Registered office: 42, rue du Docteur Blanche – 75016 Paris

Share capital: €84,024,683

Statutory auditors' report prepared in accordance with Article L. 225-235 of the French Commercial Code, on the report prepared by the Chairman of the Board of Ipsen S.A., on the internal control procedures relating to the preparation and treatment of accounting and financial information

Year ended 31 December 2006

To the Shareholders,

In our capacity as statutory auditors of Ipsen S.A., and in accordance with Article L. 225-235 of the French Commercial Code, we report to you on the report prepared by the Chairman of your company in accordance with Article L. 225-37 of the French Commercial Code for the year ended 31 December 2006.

In his report, the Chairman reports, in particular, on the conditions for the preparation and organisation of the Board of Directors' work and the internal control procedures implemented by the company.

It is our responsibility to report to you our observations on the information and assertions set out in the Chairman's report on the internal control procedures relating to the preparation and treatment of accounting and financial information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information and assertions set out in the President's report on the internal control procedures relating to the preparation and treatment of accounting and financial information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organisation of internal control, as well as the internal control procedures relating to the preparation and treatment of accounting and financial information, as set out in the Chairman's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information and the assertions given on the internal control procedures relating to the preparation and treatment of accounting and financial information, contained in the Chairman of the Board's report, prepared in accordance with Article L. 225-37 of the French Commercial Code.

Paris La Défense and Neuilly-sur-Seine, 20 March 2007

The Statutory Auditors

KPMG Audit	Deloitte & Associés
Department of KPMG S.A.	
Catherine Porta	Christophe Perrau
Partner	Partner

17 Employees

17.1 Human resources

At 31 December 2006, the Group had 3,821 employees worldwide, 40% of whom (excluding the "field" sales force) are exempt employees. Of these 3,821 employees, 700 were assigned to Research and Development activities, 1,530 to sales (70% of whom were medical sales representatives), 1,050 to manufacturing and supply chain functions and 541 to administration and support services.

With 3,775 employees at 31 December 2004 and 3,800 at 31 December 2005, the Group's workforce saw a modest increase of 0.55% during 2006.

17.1.1 Geographical analysis

At 31 December 2006, close to 32% of the Group's 3,821 employees and notably 49% of the sales force, were employed outside the Major Western European Countries. The following table shows a geographical analysis of Group's employees by function.

	Sales	Manufacturing and Supply	Research and Development	Administration and other	Total
At 31 December 2006					
Major Western European Countries[1]	782	870	572	389	2,613
Other European countries	328	119	30	86	563
Rest of the world[2]	420	61	98	66	645
Total	**1,530**	**1,050**	**700**	**541**	**3,821**
At 31 December 2005					
Major Western European Countries[1]	800	869	579	385	2,633
Other European countries	320	119	29	84	552
Rest of the world[2]	405	60	84	66	615
Total	**1,525**	**1,048**	**692**	**535**	**3,800**
At 31 December 2004					
Major Western European Countries[1]	841	857	546	381	2,625
Other European countries	316	117	31	81	545
Rest of the world[2]	401	55	80	69	605
Total	**1,558**	**1,029**	**657**	**531**	**3,775**

(1) I.e.: Germany, Spain, France, Italy and United Kingdom.
(2) Including North America and Asia.

17.1.2 Structure and trends in Group's workforce

The following tables provide an insight into the structure and recent trends in the Group's workforce. As illustrated by these tables, the Group's efforts to provide stable employment enabled the Group to maintain a high level of permanent jobs at 31 December 2006 and the size of the workforce increased by 46 employees between 31 December 2004 and 31 December 2006.

▶ 17.1.2.1 Overall trends in Group's workforce

	31/12/2006	31/12/2005	31/12/2004
Major Western European Countries[1]	2,613	2,633	2,625
Other European countries	563	552	545
Rest of the world[2]	645	615	605
Total	**3,821**	**3,800**	**3,775**

(1) I.e.: Germany, Spain, France, Italy and the United Kingdom.
(2) Including North America and Asia.

▶ 17.1.2.2 Analysis of the workforce by type of employment contract

(As a percentage)	31/12/2006	31/12/2005	31/12/2004
Permanent	97%	96%	97%
Non-permanent	3%	4%	3%

▶ 17.1.2.3 Analysis of the workforce by employment category

	Exempt staff	Non-exempt staff	Sales force[1]
At 31 December 2006	1,087	1,659	1,075
At 31 December 2005	907	1,695	1,198
At 31 December 2004	984	1,634	1,157

(1) "Field" sales force.

Between 2004 and 2006, the number of exempt staff increased significantly (+10.47%), while the number of non-exempt staff increased by 1.53%. The ratio of exempt staff to non-exempt staff rose from 60.2% at 31 December 2004 to 65.5% at 31 December 2006.

▶ 17.1.2.4 Recruitments within the Group

	31/12/2006			31/12/2005			31/12/2004		
		Of which			Of which			Of which	
	Total	Perm.	Fixed term	Total	Perm.	Fixed term	Total	Perm.	Fixed term
Major Western European Countries[1]	357	253	104	382	245	137	379	279	100
Other European countries	142	132	10	133	110	23	150	136	14
Rest of the world[2]	196	194	2	231	221	10	183	172	11
Total	**695**	**579**	**116**	**746**	**576**	**170**	**712**	**587**	**125**

(1) I.e.: Germany, Spain, France, Italy and the United Kingdom.
(2) Including North America and Asia.

▶ 17.1.2.5 Termination of employees within the Group

	Redundancies / Dismissals	Resignations, end of fixed-term contracts, seasonal contracts	Retirements, deaths
2006 Financial year			
Major Western European Countries[1]	85	278	24
Other European countries	27	97	0
Rest of the world[2]	9	155	0
Total	**121**	**530**	**24**
2005 Financial year			
Major Western European Countries[1]	78	276	20
Other European countries	27	97	2
Rest of the world[2]	42	178	1
Total	**147**	**551**	**23**
2004 Financial year			
Major Western European Countries[1]	144	239	40
Other European countries	35	80	-
Rest of the world[2]	27	169	-
Total	**206**	**488**	**40**

(1) I.e.: Germany, Spain, France, Italy and the United Kingdom.

(2) Including North America and Asia.

In October 2005, the Group entered into an agreement with Faes Farma S.A. to sell assets belonging to its Spanish subsidiary Ipsen Pharma S.A. that are dedicated to promoting and selling primary care products. Employees working for the sales network of these products were transferred to Faes. In spite of all its efforts, the Group was unable to find a buyer for the manufacturing activities of this subsidiary. The cessation of the manufacturing activity is progressive towards a complete closure in 2007. Today, 43 employees have left the division. Out of those 43 employees, 11 were transferred within the Group and 7 were eligible to early retirement. For the other employees who benefited from an improved redundancy plan, an outplacement programme has been made available to support the search for new employment. Complete closure in 2007 should lead to an additional 26 redundancies.

In addition, the Group has pursued the reorganisation of some functional departments. Thanks to good human resources planning, those restructuring activities did not have adverse impact on employment.

Lay-offs initiated by the employer (255 in 2006) relate either to dismissals for personal reasons, during trial periods or from the non-renewal of fixed-term contracts that had reached their maturity.

17.1.3 Group's human resources policy

▶ 17.1.3.1 Group's values

In 2006 the Group decided to formalise certain practices which had been in use for some time already, and provide a common framework to our actions. "Vision, Mission and Values" are Ipsen's cultural references. In a context of growth, it should help to support our growth, focus company projects, formalise organisational changes already initiated for some time, better serve our customers, to reinforce the sense of belonging to the Group and value its ethical dimension.

- One vision: Innovation for patient care;
- One mission: An innovation driven international specialty pharmaceutical group;
- Five values:
  - *Commitment*: we recognise our patients, prescribers, regulatory authorities, payers, business partners, suppliers, shareholders, and our employees are the heart of everything we do and we are committed to meeting their needs and expectations,
  - *Drive*: we create new opportunities by nurturing innovation and welcoming change. We deliver agreed objectives and quality work on time. We demonstrate a competitive spirit, resilience, flexibility, compliance and drive to succeed,
  - *Teamwork & Respect*: we work together as one Group and share our knowledge across hierarchies, functions, businesses and countries. Our diversity and mutual respect strengthen our performance. We encourage individual and team development, foster expertise and reward success,

- *Value creation*: we invest in our future through a strategy of clarity, consistency and market intelligence. We pursue competitive growth, profitability and business performance. We are all accountable custodians of company assets,
- *Ethics*: we earn the trust of others by consistent honesty, truthfulness and acting responsibly. We adhere to the highest standards of business, social responsibility, personal integrity and safety.

▶ 17.1.3.2 Group's employment policy

Group's employment policy aims at attracting and maintaining a suitably qualified, well trained and highly motivated workforce to perform, as efficiently as possible, the various tasks and roles inherent to the Group's business activities.

17.1.3.2.1 Career development

Internal promotion is one of the key ways to motivate employees and their supervisors (4.8% of employees had a promotion in 2006). Accordingly, opportunities to change jobs, switch functions and to move to new locations are regularly offered to Group's employees on the jobs forum of the Group's intranet site, prior to or at the same time as they are advertised externally. In 2006, 154 job vacancies (excluding medical sales representatives) were published internally (48% for administration and support services, 21% for Research and Development, 12% for manufacturing and supply chain and 19% for operations).

Vocational training courses have been organised in manufacturing units and, in France, efforts towards professional certifications are underway.

17.1.3.2.2 Use of temporary personnel

The main reason for using temporary personnel is the replacement of absent employees. It is concentrated primarily in manufacturing and supply chain departments where absenteeism is the highest, while it is vital to keep production going at all times. Even so, only limited use is made of temporary staffing, since it accounted for only 71.5 full-time equivalents during 2006 for all Group's production units, *i.e.* 6.8% of the production workforce. In addition, Group's sales units use external medical sales representatives and services, specifically in France (104 full-time equivalents in 2006).

17.1.3.2.3 Integration of disabled workers

Disabled workers accounted for 1% of the total number of Group's employees at 31 December 2006.

A number of measures facilitating the insertion of disabled workers were implemented. For instance, the Group organises part-time work in Lithuania for disabled workers and in the United States it undertakes to protect the jobs of employees affected by a temporary inability to work. In France and Spain, the Group communicates job descriptions of positions likely to suit disabled workers to specialised employment agencies. Moreover, when new buildings are constructed, the Group endeavours to allow accessibility of working spaces to disabled workers (Ipsen Biopharm Ltd in Wales or Scras IHB in les Ulis are recent examples). Furthermore, several Group companies call upon disabled workers sub-contracting organizations to complete outsourced tasks (Beaufour Ipsen Industrie in Dreux, for example).

17.1.3.2.4 Equal opportunities

The Group endeavours to ensure that all its employees adhere to its policy of non-discrimination. The Group's employment policy is based on objective criteria and individual merit. Employees are thus given equal opportunities without any discrimination on the basis of race, colour, religion, gender, disability, family situation, sexuality, age, nationality or ethnic background.

The average age of employees in the Group is: 38.

Certain Group companies have an official equal opportunities policy (Ipsen Biopharm Ltd in Wales for example), while others have incorporated measures ensuring equal opportunities into their recruitment policy (Ipsen Poland LLC or Beaufour Ipsen Korea Ltd) or into more general codes of conduct (Ipsen SpA in Italy).

Of the measures implemented within the Group, the most significant ones relate to equal opportunities for males and females. For instance, they are based around ensuring work and family life balance for women (flexible working hours, working from home, easy access to part-time), while making sure that potential career opportunities are protected. Better communication is established with fathers - depending on the local applicable legislation - regarding the possibility for them to benefit from the same paid-leave and childcare rights as women (specifically paternity leave and parental leave in France).

The following table provides an analysis of the number of male and female Group employees by employment category:

(As a percentage)	31/12/2006		31/12/2005		31/12/2004	
	Male	Female	Male	Female	Male	Female
Exempt	14%	14%	12%	12%	14%	12%
Non-exempt	18%	26%	18%	27%	17%	26%
Field sales force	12%	16%	13%	18%	14%	17%
Total	**44%**	**56%**	**43%**	**57%**	**45%**	**55%**

▶ 17.1.3.3 Working hours

The way working hours are organised varies considerably from country to country and depends upon professional category (fixed working hours, flexible working hours, individualised working hours, autonomous exempt employees, hourly contracts, daily contracts, annual contracts, etc.).

17.1.3.3.1 Full-time working hours

Working hours of Group companies are in line with practices and local legislation as shown in the following table:

Country	Weekly working hours *(in hours)*
Spain	40.0
United States	40.0
Greece	40.0
Italy	40.0
Ireland	39.0
Germany	37.5
United Kingdom	37.5
Denmark	37.0
France	35.0

17.1.3.3.2 Reduction of working hours in France

In France, the reduction of legal working time down to 35 hours created an opportunity to reconsider working time organisation.

For instance, the calculation of woring hours on an annualised basis with additional vacation being granted was the most frequently adopted solution for non-exempt personnel, with exempt employees mainly switching to a system of a set number of days per year.

Working hours are organised in various ways among Group's French companies. In general, the shorter working week led to an additional 13 days' leave per year per employee, all categories combined. Medical sales representatives were alone in benefiting from an additional 22 days' leave in accordance with customary pharmaceutical industry practice for this type of function. Management and social partners have agreed to meet in 2007 in order to harmonise the rules of the 35-hour working week on all French sites.

17.1.3.3.3 Absenteeism

The following table shows the absenteeism rates by function during the 2004, 2005 and 2006 financial years:

	2006 financial year	2005 financial year	2004 financial year
Manufacturing and supply chain	3.6%	3.9%	4.4%
Sales	3.0%	3.3%	2.4%
Administration and other	2.7%	2.6%	2.5%
Research and Development	1.9%	1.6%	1.5%
Total	**2.8%**	**2.8%**	**2.8%**

▶ 17.1.3.4 Group's compensation and benefits policy

17.1.3.4.1 Compensation and benefits

The Group's compensation and benefits policy is based on a Global Total Reward approach, which endeavours to value all functions, as well as measure the performance of their employees.

It is based on four main principles: an assessment of the positions using a model applicable to all the Group's positions; competitiveness at regional, national and international level; equal internal opportunities; and performance-based compensation.

These principles are applied in countries where the Group operates, and the way they are implemented is adapted to the local socio-economic and legal environment.

From 2006 onwards, annual pay increases are implemented using a common framework and identical schedule for the entire Group.

Employees performing a management role are eligible to a bonus system. The proportion of variable compensation has been increased with efforts by the Group to foster a performance-based culture, and this policy will be continued over the coming years.

Trends in compensation and benefits paid by Group companies depend on local circumstances.

The following table shows the average increase by category in compensation and benefits paid to full-time Group employees in France over the past three financial years:

	2006	2005	2004
Exempt	4.62%	3.23%	3.51%
Non-exempt	3.70%	2.90%	3.35%

The trend in the Group's total payroll costs as a percentage of sales over the past three financial years is shown in the following table:

(in thousands of euros)	31/12/2006	31/12/2005	31/12/2004
Gross salaries and wages	166,353	157,937	142,483
Employer social security contributions	66,256	61,056	56,058
Total	**232,609**	**218,993**	**198,541**
Consolidated sales	861,676	807,114	751,539
As a % of consolidated sales	**26.99%**	**27.13%**	**26.4%**

17.1.3.4.2 Employee savings plan

Only French companies benefit from a profit-sharing agreement, which generated returns of 13.56% in 2006, 14.27% in 2005 and 13.72% in 2004. Amounts recorded in accounts are shown in the following table:

(in thousands of euros)	31/12/2006	31/12/2005	31/12/2004
Employee profit sharing	10,059	10,760	8,874

A description of this employee profit-sharing agreement is provided in section 17.2.1 of this registration document.

The Group also set up a corporate savings plan for employees of French companies, which is described in section 17.2.1 of the this registration document.

Lastly, when the Company's shares were admitted for trading on Eurolist by Euronext™, the Group offered employees of French companies the opportunity of becoming shareholders through a dedicated mutual fund. Employees subscribing to the offer received special terms (discount of 20% plus some matching contributions by the Group).

▶ 17.1.3.5 Collective bargaining within the Group

17.1.3.5.1 Employee representation

Employees are represented at each Group company in accordance with the applicable local legislation, *i.e.* by the Joint Consultation Group in the United Kingdom, by the Rappresentanza Sindicale Unitaria in Italy, by a Work Council in Spain. In France, employees' representation is now organised within the framework of an Economic and Social entity, with a unique Central Works Council for all employees in France. This Economic and Social entity model allows to perpetuate the central negotiation model in place since 2004 within the Group in France.

In 2007, management will initiate a special negotiation body with employees representatives of European Union to analyse the opportunity of establishing an European Works Council.

The frequency of meetings between management and employee representatives also depends on the applicable local legislation, *i.e.* bimonthly in the United Kingdom, monthly in France and annually or biannually for the Group works council.

The Group ensures that the rights and freedoms of employee representatives are strictly observed and that they enjoy the same promotion and training opportunities as other employees. In France, since 2006, to safeguard equal wage and promotion opportunities, employee representatives have the opportunity of a specific interview with their line and human resources managers. A specific agreement was reached in 2006 in relation to employees who are Medical Sales Representatives, for them to maintain their variable compensation opportunities while they exercise their employee representative activities.

17.1.3.5.2 Collective bargaining agreements

Where there are relevant local regulations, the Group applies collective bargaining agreements or industry agreements for the pharmaceutical sector. In addition, companies negotiate specific agreements according to their individual characteristics and requests of employee representatives and union organisations.

Management continues its policy to develop the social dialogue and to negotiate favourable agreements for its employees. Accordingly, in 2006 in France a central agreement was reached on salaries. In addition, management and social partners have reached an agreement in relation to the rights of employees' representatives, in order to allow them to use appropriate means to exercise their duty in the best possible conditions. In addition to time credits and training, intranet usage has been granted in order to ease communication between the representatives and the employees.

Several subjects of negotiation with employees' representatives are already planned for 2007, amongst them manpower and skills management, diversity and measures against discrimination, employment of disabled people and the review of the Time Saving Account *(Compte Epargne Temps)*.

▶ 17.1.3.6 Professional training within the Group

The Group consistently aims to provide its employees with high-quality training tailored to the specific features of each business. Training can be broken down into two types: at central level, training programmes are organised to promote the development of managerial expertise and the cohesion of the Group, and at local level technical training is provided linked to business expertise.

In 2006, the Group devoted €6.8 million to continuous professional training, representing 2.92% of its total payroll costs. Spending excluding salaries and wages, travel and accommodation expenses broke down as follows:

Type of training

(in thousands of euros)	2006	2005	2004
Team and personnel management	325	351	315
Employee efficiency and development	233	206	348
Business and technical expertise	1,380	1,858	1,426
Language training	509	629	610
Health, safety and environment	138	88	117
Quality procedures	277	120	149
Office and messaging applications	338	133	223
Total	**3,200**	**3,385**	**3,188**

Over the past three years, the total number of training hours provided to Group employees was as follows:

	2006	2005	2004
Number of hours of training	113,823	135,143	107,958

A new Group-wide framework (IDEA: Ipsen Development and Education Academy) was implemented during the final quarter of 2005 to facilitate the development of Training, Development and Education -TD&E- initiatives continues to evolve in order to support the philosophy of the culture of company and the development of employees.

IDEA is oriented toward six principal goals:

- *core competencies*, to facilitate the development and advancement of a corporate culture;
- *integration of new employees*, using a common standard implemented at local level, by plant and by geographical region. It will be complemented by e-integration *via* the intranet and a specific programme for managers;
- *young professionals development programme*, which aims to attract, secure the loyalty and accelerate the development of high-potential graduates who will be involved in key roles within the Group's various divisions;
- *the Managers college*, which aims to raise the performance of supervisors and managers to a high level guaranteeing the consistency of management practices within the Group;
- *the Leaders college*, which aims to hone the leadership skills of senior executives in long-term strategic areas;
- *the Group's image*, to bolster the Group's credentials as an employer of choice in the current market through its image and clear communication of the Group's human resources practices and management initiatives.

To optimise continuous investment in the TD&E initiatives, the network of training staff specifically trained to deliver Ipsen programmes will be strengthened during 2007.

The Ipsen Performance Appraisal Process, which was introduced during 2006, encourages the identification of training and development needs to meet personal and business goals. It facilitates regular discussions regarding personal and development objectives between employees and their managers.

▶ 17.1.3.7 Health and safety within the Group

Ipsen believes passionately in Environment, Health and Safety. The Group's policy is based upon the following principles:

- "We respect people, property and the environment;
- all our sites and personnel operate in a safe and responsible manner;
- we comply fully with all local environmental, Health and Safety legislation and this is supported by compliance with our Global EHS Standards;
- EHS and loss prevention are integral to all projects, business processes, planning and decision-making;
- we evaluate and report on all EHS incidents and issues so that they may be corrected;
- we promote a culture of continuous improvement in EHS performance;
- our business practices, EHS and loss prevention strategies optimally utilise resources and prevent pollution to ensure the long-term sustainable development of Ipsen and the global environment;
- we take into account a lifecycle management and product stewardship approach such that EHS requirements are a key for the selection of suppliers, contractors and business partners;

- as individuals we are all responsible for our own safety and environment together with those of our colleagues, key stakeholders and neighbours."

The Group's policy in this area is not only focused on compliance with local health and safety legislation but efforts are made on training in the prevention of accidents and risks at workstations. Additionally, Ipsen insists on communicating with and empowering individuals. In France, the health, safety and working conditions committees (CHSCT) meet regularly and are associated with action plans and projects relating to health and safety of the personnel on sites.

Supervisors, as well as the entire workforce, have a duty to respect their peers, their equipment and the environment. Through their actions and behaviour, all the Group's employees must play their part in the success of this strategy. For instance, to reduce the risk of accidents, all the managers of manufacturing facilities and of research and development activities decided to pool their experience and initiatives by setting up a health, safety and environment work group at the beginning of 2000 (named EHS), which is composed of specialists representing all the Group's production plants. A collaborative database has hence been created.

In 2006, the Group continued its health and safety programme. Numerous projects were conducted such as the anti-smoking campaign, safety driving, vaccinations and medical check-ups.

In conjunction with University of Lyon ergonomics laboratory, one of the Group's manufacturing facilities in France has introduced ergonomic improvements to operators' workstations to improve safety and working environment. At the same site, a project team has helped to optimise use of water and energy resources needed to manufacture drugs.

The year 2006 has signalled the end of the series of audits that we had launched in order to verify our conformity with the regulations and our group standards. The results, in line with our estimations, give us a solid reference basis.

In 2006, the Wrexham team (Ipsen Biopharm Limited) was awarded one of the most prestigious Health and Safety prizes by the Royal Society for Prevention of Accidents with a silver award. In particular, the awards recognised achievements in reducing the number of occupational accidents and illness. In fact, the Wrexham site has not had any lost time due to an accident for 16 months.

▶ 17.1.3.8 The Group's social initiatives

The Group's policy on social initiatives is based on four main priorities: initiatives benefiting its employees' children, initiatives for retired employees, initiatives for active employees and, lastly, all other initiatives, such as relationships with not-for-profit organisations, sponsorship, etc.

Aside from the normal benefits linked to family events, the calendar and various subsidised leisure activities, the Group aims to provide genuine support to its employees.

The scope of the Group's actions also extends beyond its business. For several years, the Group has donated drugs to TULIPE, the French pharmaceutical industry's charitable association set up originally in 1982. More recently, the Group swung into action during the flood disaster in South China: 15,560 boxes of Smecta were sent to the Red Cross and toys were also sent to the Institute of Children. Ipsen Mexico promotes the Candy project which is offering a reduced treatment cost for Child Cerebral Palsy to families with limited resources. Ipsen Portugal makes a donation every year to a charity association for disabled children.

▶ 17.1.3.9 Use of outsourcing by the Group

During the 2006 financial year, the Group spent €24 million on outsourcing, compared with €22.7 million in 2005 and €21.8 million in 2004.

The Group also uses the services of external companies for security, building and green space maintenance, company catering, administration, maintenance, and the processing of certain drugs.

17.2 Employee incentive schemes

17.2.1 Incentive scheme and profit-sharing plans

For over ten years, as required by French law, the Group has developed an active employee share ownership policy in its French subsidiaries, based on a profit-sharing agreement and an employee share ownership plan.

Under the profit-sharing agreement dated 23 May 2006, which covers the Group's French subsidiaries, amounts set aside for the special profit-sharing reserve are calculated using an alternative method rather than the benchmark method provided by French law. For the year ended 31 December 2006, the amount set aside to the profit-sharing reserve was €10,123,653 representing a rate of 13.56%.

Employees of the Company's French subsidiaries also benefit from an employee share ownership plan, which is a voluntary scheme. The French subsidiaries encourage employees to participate in the plan by paying all management fees charged by the various investment funds involved.

During 2005, the Group also set up the Ipsen Action corporate mutual fund to hold the shares subscribed by employees of the Group's French subsidiaries as part of the share offering reserved for employees carried out in connection with the admission of the Company's shares for trading on Eurolist by Euronext™.

17.2.2 Stock options

Certain Group employees hold Ipsen options (described in section 21.1.4.1 of this registration document). The number of Ipsen options allotted to the ten Group employees (excluding members of the Board of Directors) to whom have been allotted the highest number of Ipsen options is shown in the following table:

	Number of shares corresponding to the Ipsen options	Number of Ipsen options exercised	Exercise price *(in euros)*[1]	Exercise period[2]
1	141,000	0	33.89	From 06/12/2009 to 12/12/2018
2	141,000	0	33.89	From 06/12/2009 to 12/12/2018
3	110,000	0	34.68	From 06/12/2009 to 12/12/2018
4	73,000	0	33.49	From 06/12/2009 to 12/12/2018
5	10,000	0	22.20	From 06/12/2009 to 06/12/2015
6	10,000	0	22.20	From 06/12/2009 to 06/12/2015
7	10,000	0	22.20	From 06/12/2009 to 06/12/2015
8	10,000	0	22.20	From 06/12/2009 to 06/12/2015
9	7,100	0	22.20	From 06/12/2009 to 06/12/2015
10	7,000	0	22.20	From 06/12/2009 to 06/12/2015

(1) Average weighted price per share in euros.

(2) The Ipsen options were granted under several stock option plans with different exercise periods. The exercise period indicated corresponds to the opening date of the first exercise period and the closing date of the last exercise period.

17.2.3 Ipsen Bonus Shares

Seven Group employees hold Ipsen Bonus Shares (described in section 21.1.4.2 of this registration document). The number of Ipsen Bonus Shares allotted to the six Group employees (excluding members of the Board of Directors) allotted the highest number of Ipsen Bonus Shares is shown in the following table:

	Number of Ipsen Bonus allotted	Period of final allotment of the Ipsen Bonus Shares[1]
1	6,000	From 06/12/2007 to 12/12/2008
2	5,500	From 06/12/2007 to 12/12/2008
3	3,000	From 06/12/2007 to 12/12/2008
4	1,500	06/12/2007
5	1,500	06/12/2007
6	1,500	06/12/2007

(1) The Ipsen Bonus Shares were granted under several bonus shares plans with different allotment periods. The allotment period indicated corresponds to the opening date of the first allotment period and the closing date of the last allotment period.

17.2.4 International employee profit sharing plan

Subject to the legal restrictions applicable in each of the relevant countries and the complexity to realize an homogeneous international employee profit sharing plan in all relevant countries, the Company has decided not to implement an international employee profit sharing.

17.2.5 Mayroy stock options

Certain Group employees hold Mayroy options. The number of Mayroy Options allotted to the ten Group employees (excluding members of the Board of Directors) allotted the highest number of stock options is shown in the following table:

	Number of shares corresponding to the Mayroy Options	Number of Mayroy Options exercised at 31 December 2006	Exercise price *(in euros)*[1]	Exercise period[2]
1	195,100	0	13.77	From 10/11/2004 to 13/02/2014
2	138,550	4,900	12.34	From 10/11/2004 to 13/02/2014
3	138,400	4,200	14.75	From 10/11/2004 to 13/02/2014
4	62,500	0	27.20	From 18/12/2007 to 13/02/2014
5	62,500	0	27.20	From 18/12/2007 to 13/02/2014
6	57,400	0	18.76	From 31/05/2005 to 13/02/2014
7	41,350	0	14.33	From 31/05/2005 to 13/02/2014
8	25,150	700	15.86	From 31/05/2005 to 13/02/2014
9	21,200	600	15.54	From 31/05/2005 to 13/02/2014
10	21,100	0	16.58	From 31/05/2005 to 13/02/2014

(1) Average weighted price per share in euros.

(2) The Mayroy options were granted under several stock option plans with different exercise periods. The exercise period indicated corresponds to the opening date of the first exercise period and the closing date of the last exercise period.

If the Mayroy Options become exercisable, the liquidity mechanism available to holders of Mayroy Options under the Mayroy Understanding, as described in section 18.3.2 of this registration document, requires Mayroy to exchange the Mayroy shares obtained upon exercise of the options for existing shares in the Company currently held by Mayroy. The table below shows the maximum number of shares in the Company that may be allotted to the ten employees listed above under the liquidity mechanism:

Maximum number of Mayroy shares that may be allotted after the exercise of the Mayroy Options	Maximum number of shares in the Company that may be held pursuant to the liquidity mechanism
195,100	236,071
138,550	167,645
138,400	167,464
62,500	75,625
62,500	75,625
57,400	69,454
41,350	50,033
25,150	30,431
21,200	25,652
21,100	25,531

17.2.6 Tercica Inc. stock options

Christophe Jean, as Director of Tercica Inc., has 22,500 stock options for shares in Tercica Inc. granted on October 13, 2006. These options with a validity period of ten years starting at the date of the allotment will become exercisable as to 1/3 of the shares on October 13, 2007, October 13, 2008 and October 13, 2009. The exercise price equals 100% of the fair market value per share on the date of the grant *i.e.* $5.42 per share.

As to Jean-Luc Bélingard, as Director of Tercica Inc., his stock options are described in section 15.3.3 of this registration document.

18 Main shareholders

18.1 Identification of the shareholders

At 31 December 2006, to the best of the Company's knowledge, ownership of the Company's share capital and voting rights was as follows:

	Share Capital		Voting rights	
	Number	%	Number	%
Mayroy	62,121,178	73.93%	120,726,178	84.66%
Directors	14,345	0.02%	14,345	0.01%
Employees	224,908	0.27%	224,908	0.16%
Treasury shares	37,250	0.04%	0.00	0.00%
Free Float	21,627,002	25.74%	21,627,002	15.17%
Total	**84,024,683**	**100.0%**	**142,592,433**	**100.0%**

Mayroy is a *société anonyme* organised and existing under the laws of Luxembourg. On the date of registration of this registration document, its share capital was owned as follows:

(i) 68.38% by Beech Tree SARL, including 16.59% directly and 51.79% indirectly by its wholly-owned subsidiary Camilia Holding (16.12%), its 91%-owned subsidiary FinHestia S.à.r.l. (12.68%) and its subsidiary Bee Master Holding(22.99%), in which it holds all the A shares, which themselves give rights to all the Mayroy shares (22.99%). Beech Tree SARL, Camilia Holding, FinHestia and Bee Master Holding are collectively referred to as the "The Beech Tree Group".

Beech Tree SARL is 29. 19% owned by Anne Beaufour, 29. 19% by her brother Henri Beaufour, and 41.62% by Altawin, a Luxembourg *société anonyme* whose ultimate shareholder is a first trust, the trustee of which is a company belonging to the Barclays Group and the beneficiaries of which are descendants of the late Doctor and Mrs. Albert Beaufour.

None of the three shareholders control Beech Tree SARL, which in the absence of any shareholders' agreement, is governed only by its Articles of Incorporation.

Shareholders' resolutions are passed by a simple majority of the share capital for ordinary business and three-quarters majority for alterations to the Articles of Incorporation and any resolutions affecting Mayroy's share capital or Beech Tree SARL's holding in Mayroy. Resolutions taken by the Management Committee, which has seven members including two nominated by Anne Beaufour, two by Henri Beaufour and three by Altawin, are passed by simple majority for ordinary business and three-quarters majority for all resolutions affecting Mayroy's share capital or Beech Tree SARL's holding in Mayroy. Altawin also has an exit right *via* the exchange of its shares for Mayroy shares in the event of major continuing disagreement over Beech Tree SARL's management or strategy;

(ii) 4.36% by Finvestan, a company controlled by the Schwabe family, which also holds 9% of FinHestia;

(iii) 0.03% by the Beaufour family made up of the three children of Mr. and Mrs. Albert Beaufour (Anne Beaufour, Henri Beaufour and Véronique François born Beaufour);

(iv) 4.53% by Bee Master Holding II, whose ultimate shareholder is a second trust whose trustee is the same as the first trust and whose beneficiaries are descendants of the late Doctor Albert Beaufour's family;

(v) 14.01% by Opéra Finance Europe SARL, which is controlled by Véronique François born Beaufour sister of Anne and Henri Beaufour;

(vi) 0.10% by Group employees;

(vii) 8.59% by Mayroy itself.

Under the terms of Mayroy's Articles of Incorporation, Beech Tree SARL, Bee Master Holding, Bee Master Holding II and Opéra Finance, who are all class A shareholders, have pre-emptive rights should a shareholder propose to sell shares other than to a shareholder of the same class, or in the event of an internal reclassification of shares, or to obtain class D shares *via* the exercise of stock options or to exchange D shares for Company shares.

The class B shareholders, that is Finvestan (Schwabe family), also have the right to one seat on the Board for as long as it holds at least 4% of the share capital.

18.1.1 Changes in the ownership of the share capital and voting rights over the past three financial years

At the end of the past three financial years, ownership of the Company's voting rights and share capital was as follows:

Ownership of the share capital

Shareholders	31/12/2006	31/12/2005	31/12/2004
Mayroy	73.93%	80.97%	100.0%
Directors	0.02%,	0.01%	0.0%
Employees	0.27%	0.30%	0.0%
Treasury shares	0.04%	0.00%	0.0%
Free Float	25.74%	18.72%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**

Ownership of voting rights

Shareholders	31/12/06	31/12/2005	31/12/2004
Mayroy	84.66%	88.79%	100.0%
Directors	0.01%	0.01%	0.0%
Employees	0.16%	0.17%	0.0%
Treasury shares	0.00%	0.0%	0.0%
Free Float	15.17%	11.03%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**

18.2 Voting rights of shareholders

At ordinary and extraordinary general meetings of the Company, shareholders are entitled to as many votes as they hold shares or proxies, without limitation.

However, double voting rights are granted to all fully paid registered shares which have been registered in the name of the same shareholder for at least two years. The double voting rights cease ipso jure if the shares are converted to bearer shares or transferred to another registered holder, save in the case of transfers arising upon inheritance, division of estate between divorcing spouses or gifts inter vivos to a spouse or other person of an eligible degree of relationship.

Mayroy holds 84.66% voting rights owing to the 58,605,000 shares with double voting rights that it holds.

18.3 Shareholders' agreements

18.3.1 Shareholders' agreements

▶ 18.3.1.1 Agreements between shareholders of the Company

None.

▶ 18.3.1.2 Agreements between shareholders of Mayroy

On 17 December 2003, the Beech Tree Group on the one hand and certain members of the Schwabe family (the "Schwabe Family Members") on the other, entered into an agreement to act in concert (the "Second Agreement") the purpose of which is to preserve a stable controlling ownership structure over Mayroy.

This Agreement, for a term expiring on 31 December 2008, requires Bee Master Holding, FinHestia and the Schwabe Family Members to make lock-up undertakings in respect of their Mayroy shares, and prevents Beech Tree SARL and Camilia Holding from selling their Mayroy shares without first giving Bee Master Holding, FinHestia and the Schwabe Family Members the option to sell or otherwise transfer their own Mayroy shares at the same time and on the same terms and conditions. The Agreement also provides for majority representation of the parties on Mayroy's Board of Directors, including one person nominated by the Schwabe Family Members. The Second Agreement constitutes an agreement to act in concert between the shareholders and Mayroy, both signatories to the agreement.

18.3.2 Liquidity mechanism available to holders of Mayroy Options

In connection with the listing of the Company's shares on a regulated market, Mayroy provided a liquidity mechanism for those employees and executive officers who held Mayroy Options, after the exercising these options.

Since the expiry of the lock-up undertaking made by Mayroy as part of the initial public offering, holders of Mayroy Options are granted a put option on the Mayroy shares they acquire following the exercise of their Mayroy Options. Mayroy also has the right to purchase the shares at its own initiative at the end of the third month after the exercise of the Mayroy Options. The administrative costs of the liquidity mechanism will be borne by the Company.

Regardless of the liquidity mechanism used (exercise of put option by Mayroy Option holders or purchase by Mayroy), the total number of Mayroy shares that could be issued and sold to the Company is 1,263,690 shares.

Each share that is sold will be exchanged for 1.21 Company shares per Mayroy share and a fixed sum of €1.26 per Mayroy share, so that the maximum number of existing Company shares which may be allotted by Mayroy to holders of Mayroy Options was accordingly 1,529,065 representing 1.82% of the Company's share capital at 31 December 2006.

18.3.3 Parties acting in concert

Certain directors of the Company (Anne Beaufour, Henri Beaufour, Alain Béguin, Antoine Flochel, René Merkt, and Klaus-Peter Schwabe) and Mayroy are presumed to act in concert.

18.4 Undertakings/Agreements likely to cause a change of control of the Company

None.

19 Related party transactions

With the exception of (i) the contract concerning the liquidity of the Mayroy Options described in section 18.3.2 of this registration document and (ii) the agreements entered into with the Schwabe group described in section 22.2.1 of this registration document, there are no other agreements between the Group and related parties.

20 Financial information concerning the Company's assets and liabilities, financial position, and profits & losses

20.1 2006 Consolidated Financial Statements

20.1.1 Consolidated income statement

(in thousands of euros)	Notes	31 December 2006	31 December 2005 pro forma	31 December 2005
Sales of goods	4.2.2	861,676	807,114	788,709
Other revenues	4.2.3	83,581	80,738	75,046
Total revenue	**4.2.1**	**945,257**	**887,852**	**863,755**
Cost of goods sold		(181,377)	(171,042)	(176,833)
Research & development expenses		(178,348)	(169,025)	(167,571)
Selling expenses		(307,795)	(295,358)	(292,586)
General and administrative expenses		(75,220)	(68,777)	(66,787)
Other operating income and expenses	7	(8,223)	1,169	1,185
Restructuring costs	9	190	530	530
Impairment losses	6.1	(7,265)	-	-
Operating income	**4.1**	**187,219**	**185,349**	**161,693**
- Investment revenue		7,974	1,952	1,312
- Cost of financing		(2,142)	(7,870)	(7,701)
Net finance cost	**8.1**	**5,832**	**(5,918)**	**(6,389)**
Other financial income and expenses	8.2	(5,707)	(632)	(291)
Income tax	10.1	(40,891)	(34,208)	(32,643)
Share of (loss)/profit of associated companies		(1,666)	-	-
Revenues from continuing operations		**144,787**	**144,591**	**122,370**
Revenues from discontinued operations	**11**	**(290)**	**4,416**	**4,416**
CONSOLIDATED REVENUES		**144,497**	**149,007**	**126,786**
- attributable to equity holders of Ipsen S.A.		144,006	148,638	119,230
- attributable to minority interests		491	369	7,556
Basic earnings per share, continuing operations *(in € per share)*	22.3.1	1.72	2.14	1.71
Diluted earnings per share, continuing operations *(in € per share)*	22.4.1	1.72	2.14	1.71
Basic earnings per share, discontinued operations *(in € per share)*	22.3.2	0.00	0.06	0.06
Diluted earnings per share, discontinued operations *(in € per share)*	22.4.2	0.00	0.06	0.06
Basic earnings per share *(in € per share)*	22.3.3	1.71	2.20	1.77
Diluted earnings per share *(in € per share)*	22.4.3	1.71	2.20	1.77

The accompanying notes form an integral part of these consolidated financial statements.

20.1.2 Consolidated balance sheet–before allocation of net profit

(in thousands of euros)	Notes	31 December 2006	31 December 2005
ASSETS			
Goodwill	12	188,836	188,836
Other intangible assets	14	68,203	39,800
Tangible assets	15	198,186	187,769
Equity investments	16	1,825	2,656
Investments in associated companies	17.2	50,832	-
Other non-current financial assets	19	30,601	2,671
Deferred tax assets	10.2	64,025	13,096
Total non-current assets		**602,508**	**434,828**
Inventories	20.2.1	78,947	74,390
Trade receivables	20.1	191,702	164,681
Current tax assets	20.1	2,665	10,951
Other current assets	20.2.2	44,601	42,966
Cash and cash equivalents	21.2	285,459	202,034
Total current assets		**603,374**	**495,022**
Assets of discontinued operations		8,391	12,659
TOTAL ASSETS		**1,214,273**	**942,509**
EQUITY & LIABILITIES			
Share capital	**22.1**	**84,025**	**84,025**
Share premiums and consolidated reserves		506,244	420,591
Net profit for the year		144,006	119,230
Foreign exchange differences		(7,789)	(4,080)
Equity attributable to equity holders of Ipsen S.A.	**22.2.1**	**726,486**	**619,766**
Minority interest		1,419	1,334
Total equity		**727,905**	**621,100**
Retirement benefit obligation	5.3.3.2	9,299	8,032
Long-term provisions	23	11,421	8,266
Bank loans	24.1	6,286	37,751
Other financial liabilities	24.1	15,313	15,508
Deferred tax liabilities	10.2	2,371	1,358
Other non-current liabilities	20.2.3	172,270	-
Total non-current liabilities		**216,960**	**70,915**
Short-term provisions	23	5,323	3,309
Bank loans	24.1	6,973	7,074
Financial liabilities	24.1	2,251	1,760
Trade payables	20.1	100,269	107,045
Current tax liabilities	20.1	27,215	2,223
Other current liabilities	20.2.3	114,824	113,525
Bank overdrafts		1,716	1,470
Total current liabilities		**258,571**	**236,406**
Liabilities of discontinued operations		10,837	14,088
TOTAL EQUITY & LIABILITIES		**1,214,273**	**942,509**

The accompanying notes form an integral part of these consolidated financial statements.

20.1.3 Consolidated statement of cash flows

(in thousands of euros)	Notes	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Net profit for the period		**144,497**	**149,007**	**126,786**
Net profit from discontinued operations	11	290	(4,416)	(4,416)
Share of loss/profit from associated companies	17.2	1,666	-	-
Net profit from continuing operations before share from associated companies		**146,453**	**144,591**	**122,370**
Non-cash and non-profit items:				
• Depreciation, amortisation and impairment losses	6.2	49,940	30,603	28,869
• Change in fair value of derivative financial instruments	25.5	1,562	276	276
• Net gains or losses on disposal of non-current assets	18	(877)	232	215
• Share of government grant released to profit and loss		(112)	(135)	(81)
• Exchange differences		694	(1,238)	(1,553)
• Change in deferred taxes	10.2 (C)	(34,227)	(4,717)	(4,517)
• Share-based payment expenses	5.4	3,282	3,355	3,355
• Net gains or losses on disposal of treasury shares	(1)	221	-	-
• Other non- cash items		690	-	-
Cash flow from operating activities before changes in working capital		*167,626*	*172,967*	*148,934*
• (Increase) / decrease in inventories		(4,644)	(5,315)	(8,100)
• (Increase) / decrease in trade receivables		(27,419)	(6,755)	(3,943)
• (Increase) / decrease in trade payables		(7,121)	9,192	8,049
• Net change in income tax liability		33,051	(15,110)	(16,357)
• Net change in other operating assets and liabilities		166,142	21,875	20,970
Change in working capital related to operating activities	*20.1 (A)*	*160,009*	*3,887*	*619*
NET CASH PROVIDED BY OPERATING ACTIVITIES		**327,635**	**176,854**	**149,553**
Acquisition of property, plant & equipment	15.1	(40,630)	(36,479)	(35,716)
Acquisition of intangible assets	14.1	(41,217)	(7,944)	(6,911)
Proceeds from disposal of intangible assets and property, plant & equipment		3,044	1,124	1,096
Acquisition of investments in non-consolidated companies	16.1 (A)	(15)	-	-
Acquisition of investments in associated companies	17.1	(63,082)	-	-
Convertible note subscriptions	19 (A)	(20,966)	-	-
Payments to post-employment benefit plans	5.3.3.5	(4,226)	(1,400)	(1,400)
Impact of changes in the scope of consolidation	13	-	-	(51,405)
Treasury shares[1]	(1)	(1,294)	-	-
Other cash flows related to investing activities	19 (A)	(1,028)	(426)	(475)
Change in working capital related to investing activities	20.1 (B)	5,796	(7,624)	(6,778)
NET CASH USED BY INVESTING ACTIVITIES		**(163,618)**	**(52,749)**	**(101,589)**

(in thousands of euros)	Notes	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Additional long-term borrowings	24.1 (A)	-	13,052	13,052
Repayment of long-term borrowings	24.1 (B)	(31,824)	(189,969)	(200,949)
Net change in short-term borrowings	24.1 (C)	(89)	(3,095)	(3,095)
Ipsen S.A. capital increase		-	9,088	133,616
Increase in share premiums or transfer premiums		-	182,731	212,652
Dividends paid by Ipsen S.A.	22.6	(50,407)	(29,303)	(29,303)
Dividends paid by subsidiaries to minority interests		(358)	(300)	(300)
Change in working capital related to financing activities	20.1 (C)	464	(1,154)	(3,440)
NET CASH USED BY FINANCING ACTIVITIES		**(82,214)**	**(18,950)**	**122,233**
Impact of operations due to be sold or discontinued		647	12,001	12,001
Impact of pro forma restatements		-	(10,150)	-
CHANGE IN CASH AND CASH EQUIVALENTS		**82,450**	**107,006**	**182,198**
Opening cash and cash equivalents	**21.1.1**	**200,564**	**92,763**	**17,742**
Impact of exchange rate fluctuations		729	795	624
Closing cash and cash equivalents	**21.1.2**	**283,743**	**200,564**	**200,564**

(1) See Statement of change in equity.

The accompanying notes form an integral part of these consolidated financial statements.

20.1.4 Statement of change in equity

(in thousands of euros)	Share capital	Share premiums	Consolidated reserves	Treasury shares	Net profit for the year	Cumulative translation reserve	Equity attributable to equity holders of Ipsen S.A.	Equity attributable to minority interests	Total equity
Balance at 1 January 2005	**446,863**	**-**	**(349,665)**	**-**	**83,001**	**(5,142)**	**175,057**	**22,672**	**197,729**
Income and expenses recognised directly in equity	-	-	-	-	-	-	-	-	-
Net profit for the period	-	-	-	-	119,230	-	119,230	7,556	126,786
Total recognised income and expenses for the period	**-**	**-**	**-**	**-**	**119,230**	**-**	**119,230**	**7,556**	**126,786**
Allocation of net profit for the prior period	-	-	83,213	-	(83,001)	(212)	-	-	-
Capital increase	133,616	212,540	-	-	-	-	346,156	-	346,156
Dividends	-	-	(29,303)	-	-	-	(29,303)	(300)	(29,603)
Change in foreign exchange differences	-	-	-	-	-	3,598	3,598	78	3,676
Share-based payments	-	-	3,355	-	-	-	3,355	-	3,355
Impact of restructuring operation	-	-	3,995	-	-	(2,324)	1,671	(28,672)	(27,001)
Other changes	(496,454)	496,454	2	-	-	-	2	-	2
Balance at 31 December 2005	**84,025**	**708,994**	**(288,403)**	**-**	**119,230**	**(4,080)**	**619,766**	**1,334**	**621,100**

(in thousands of euros)	Share capital	Share premiums	Consolidated reserves	Treasury shares	Net profit for the year	Cumulative translation reserve	Equity attributable to equity holders of Ipsen S.A.	Equity attributable to minority interests	Total equity
Balance at 31 December 2005	**84,025**	**708,994**	**(288,403)**	**-**	**119,230**	**(4,080)**	**619,766**	**1,334**	**621,100**
Income and expenses recognised directly in equity [1]	-	-	15,205	-	-	-	15,205	-	15,205
Net profit for the period	-	-	-	-	144,006	-	144,006	491	144,497
Total recognised income and expenses for the period	**-**	**-**	**15,205**	**-**	**144,006**	**-**	**159,211**	**491**	**159,702**
Allocation of net profit for the prior period	-	-	118,674	-	(119,230)	556	-	-	-
Dividends	-	-	(50,407)	-	-	-	(50,407)	(358)	(50,765)
Change in cumulative translation reserve	-	-	-	-	-	(4,265)	(4,265)	(48)	(4,313)
Share-based payments	-	-	3,282	-	-	-	3,282	-	3,282
Other changes	-	-	(28)	-	-	-	(28)	-	(28)
Own share purchases[2]	-	-	-	(3,853)	-	-	(3,853)	-	(3,853)
Own share disposals[2]	-	-	221	2,559	-	-	2,780	-	2,780
Balance at 31 december 2006	**84,025**	**708,994**	**(201,456)**	**(1,294)**	**144,006**	**(7,789)**	**726,486**	**1,419**	**727,905**

(1) See comments in note 10.2.

(2) As per the liquidity contract signed with Exane.

The accompanying notes form an integral part of these consolidated financial statements.

20.1.5 Notes to the consolidated financial statements

Note 1 ▶ Significant events and transactions during the period

▶ 1.1 Partnerships

1.1.1 Reloxin®

Reloxin®—North America and Japan: In March 2006, the Group and Inamed rescinded the development and distribution agreement concluded on 30 July 2002 for the products based on botulinum toxin type A, and Ipsen paid Inamed a non-recurrent amount of €8.4 million to recover all the rights on Reloxin®. On 20 March 2006, Ipsen and Medicis announced the completion of an agreement whereby Ipsen granted Medicis the rights to develop, distribute, and commercialise Ipsen's botulinum toxin product in the United States, Canada and Japan for aesthetic use by physicians. Medicis paid Ipsen $125.1 million in return for the corresponding exclusive distribution rights, and agreed to pay an additional $26.5 million upon the successful completion of various clinical and regulatory milestones, $75.0 million upon the product's approval by the US FDA (Food and Drug Administration), and $2.0 million upon regulatory approval of the product in Japan, thereby bringing the total sum to $228.6 million. Ipsen will manufacture and supply the product to Medicis for the duration of the agreement, due to expire in September 2019. Ipsen will receive royalties proportional to sales as well as a supply price, the total amounting to approximately 30% of net sales as defined in the agreement. Besides, Medicis will be responsible for Research & Development costs related to obtaining regulatory approval in the countries concerned.

1.1.2 Zoxan®

Zoxan®—France: On 23 April 2006, Ipsen and Pfizer terminated prematurely the co-promotion contract for Zoxan® signed in 2001, which was initially due to expire on 30 November 2006. In August 2006, Pfizer paid the Group a fixed and final settlement of €7.5 million, less the commissions paid on sales achieved by Pfizer in the first quarter 2006.

1.1.3 BIM 51077 (GLP-1 analogue)

BIM 51077 (GLP-1 analogue): On 19 July 2006, Roche exercised its option of exclusive licence, development and commercialisation of Ipsen's patented anti-diabetes compound, BIM 51077 (a GLP-1 analogue) which it held since October 2003. These rights are granted to Roche worldwide with the exception of Japan where they are shared with Teijin (Japanese partner of Ipsen) and in France where Ipsen may choose to exercise its co-marketing rights. The exercise of this option has resulted in Roche paying Ipsen €57.7 million. Ipsen may also receive an additional total payment of up to €170 million, depending on the success of the clinical development, manufacturing, regulatory and commercial milestones. Moreover, Ipsen will receive royalties on a sliding scale proportional to the product's worldwide sales. As of the date of the option's exercise, Roche becomes fully responsible for the product's development and manufacturing and will therefore hold the regulatory approvals. Roche will be wholly responsible for the next stages in the development of BIM 51077, with the exception of Japan where costs will be shared equally between Roche and Teijin.

1.1.4 Somatuline®

Somatuline®—North America and Increlex™—Europe: On 13 October 2006, Ipsen signed a series of agreements with US company Tercica Inc. (based in Brisbane, California), as follows:

1.1.4.1 Licensing agreements

- Ipsen acquired from Tercica Inc. the worldwide development and commercialisation rights to Increlex™, with the exception of the United States, Japan, Canada, the Middle East, and Taiwan. Ipsen paid Tercica Inc. an initial cash payment of €10 million at the closing of the transaction, and will have to pay an additional €15 million upon regulatory approval of Increlex™ in the European Union. As soon as Increlex™ will be commercialised in Ipsen's territory, Ipsen will pay Tercica Inc. royalties on a sliding scale from 15 to 25% of net sales, in addition to a supply price of 20% of net sales of the product.
- Tercica Inc. acquired from Ipsen the development and commercialisation rights for Somatuline® Autogel® in the United States and Canada. At the closing of the transaction, Tercica Inc. paid Ipsen an initial payment of $25.0 million, and will have to pay €30 million upon regulatory approval granted in the United States to Somatuline® Autogel® in the targeted indication. These payments have been and will be financed by the issue of convertible notes to Ipsen (see below). Once Somatuline® Autogel® has been launched on the territories of Tercica Inc., the latter will pay Ipsen royalties on a sliding scale of 15 to 25% of net sales, in addition to a supply price of 20% of net sales of the product.

1.1.4.2 Equity stake and issue of convertible notes

At the closing of the transaction:

- Equity stake: Ipsen acquired newly issued shares in Tercica Inc. common stock, representing a 25% stake (post transaction, on undiluted basis) at $6.17 per share. Consequently, Ipsen's total cash investment amounts to $77.3 million;
- Convertible note 1: in payment of the upfront licensing payment for Somatuline® Autogel® described above, Tercica Inc. will issue to Ipsen a convertible note for a principal amount of $25.0 million. The note, which will mature 5 years from the date of closing carries a coupon of 2.5% (payable in fine in Tercica Inc. common stock) and is convertible into Tercica Inc. common stock at a conversion price of $7.41 per share;
- Warrant: Tercica Inc. issued to Ipsen a warrant which may be exercised at any time by Ipsen for ordinary Tercica Inc. shares at a price of $7.41 until 12 October 2011.

At the date regulatory approval is granted to Somatuline® Autogel® in the United States in the product's targeted indication:

- Convertible note 2: Tercica Inc. will issue to Ipsen a convertible note for a principal amount of €30 million. The note, which will mature 5 years from the date of closing, carries a coupon of 2.5% (payable in fine in Tercica Inc. common stock), and is convertible into Tercica Inc. common stock at a conversion price of €5.92 per share. This note will be issued in payment of the second licensing payment for Somatuline® Autogel® described above;

- Convertible note 3: Tercica Inc. will issue to Ipsen a convertible note for a principal amount of $15.0 million. The note, which will mature 5 years from the date of closing, carries a coupon of 2.5% (payable in fine in Tercica Inc. common stock) and is convertible into Tercica Inc. common stock at a conversion price of $7.41 per share. Ipsen will purchase this note for cash.

Overall, these instruments will allow Ipsen to increase its stakeholding in Tercica to up to 40%, on a post transaction and on a fully diluted basis. Should Ipsen decide not to convert the notes, they would be repaid in cash at maturity.

1.1.5 Acapodene®

Acapodene®—Europe: On 7 September 2006, Ipsen signed with the company GTX Inc. (Memphis, Tennessee, USA) an exclusive license agreement for the development and commercialisation of Acapodene® in all its indications with the exception of breast cancer, in the European Union, Switzerland, Norway, Iceland, Liechtenstein and the Community of Independent States (CIS). Ipsen paid GTX Inc. an initial payment of €23 million which may be followed, upon the product's successful development and then launch in Europe in its different indications, by additional milestones payments totalling up to €39 million. As of the date of the signature of this agreement, Ipsen will be responsible for the development, registration and launching costs of Acapodene® in Europe, and also, under certain conditions, for part of the development costs borne by GTX Inc. to develop the product in the United States. Ipsen will pay GTX Inc. royalties amounting to approximately 15% of sales, but which may rise to approximately 25% based on the price reached. Ipsen will get the raw materials from a third party and is responsible for the manufacturing of the finished product.

▶ 1.2 Registration of new products

- On 17 July 2006, the public health authorities in Canada granted a marketing authorisation to Somatuline® Autogel® in the treatment of acromegaly. It is the first approval obtained by Somatuline® in North America. The product will be commercialised in Canada early 2007 by Tercica Inc., holder of the distribution rights to Somatuline® Autogel® in North America.
- On 28 June 2006, the approval granted in Germany gave Ipsen the first marketing authorisation for its botulinum toxin in aesthetic indications in Western Europe. The product was launched by Ipsen in July 2006.

▶ 1.3 Government measures

Governments continue to introduce various measures to reduce public health spending which have had an impact on 2006 sales and results.

- In France, the rate of the sales-based contribution of pharmaceutical laboratories was raised from 0.6% in 2005 to 1.76% as of 2006.

  Bedelix®, which generated sales of €9.0 million in 2005, was withdrawn from the list of drugs reimbursable under the national health plan on 1 March 2006. The price of Ginkor Fort®, which generated sales of €57.5 million in 2005, dropped 15% in February 2006. The French Authorities published on 25 January 2006 their decision to lower the reimbursement rate of Ginkor Fort® from 35% to 15% from 1 February 2006 to 31 December 2007, and to remove it from the list of reimbursable drugs on 1 January 2008. The price of Nutropin® also dropped by 7% on 1 August 2006 following a decision of the *Comité économique des produits de santé* (CEPS, or Economic Committee for Health Products);
- In Italy, following the repeal in October 2005 of the 6.8% discount on drug sales enacted in June 2004, a new 4.4% price discount (applicable on all reimbursed products) was implemented on 16 January 2006. An additional discount of 1.0%, granted to retailers by the laboratories is also applied. Furthermore, the newly elected government announced an additional 0.6% reduction on drug prices (effective as of 1 July 2006), followed by a second 5.0% reduction effective as of 1 October 2006;
- In Spain, after the government annulled the *pacto social,* an additional 2% price decrease was implemented as of 1 February 2006, following the 4.2% decreased implemented on 1 February 2005.

Furthermore, European governments continue to introduce various measures to reduce public spending which will influence the Group's future results. In France, on 26 October 2006, the Health Ministry announced that the 35% reimbursement rate of vasodilators, including Tanakan®, was to be maintained. The Minister asked the *Comité économique des produits de santé* (CEPS, or Economic Committee for Health Products) to introduce a price reduction of up to 20% for all these drugs as of the end of January 2007. On 16 March 2007, this price reduction has still not been implemented. The health authorities have also announced for Pfizer's product Artotec®, which is promoted by Ipsen since 2006, a reduction of the reimbursement rate from 65% down to 35% as well as a 7% price reduction, effective since 1 January 2007.

Finally, the 2007 social security finance act has fortunately reduced the sales-based contribution rate of pharmaceutical laboratories from 1.76% in 2006 to 1.0% as of 1 January 2007.

Note 2 ▶ Changes in the scope of consolidation

▶ 2.1 Changes in the scope of consolidation during the year

- Creation of companies

- Ipsen Ré—Luxemburg,
- Institut de produits de synthèse et d'extraction naturelle (Ipsen) AB—Sweden.

  These companies are wholly owned and controlled by the Group.

- Acquisitions

  The Group acquired a 25% equity stake in Tercica Inc. in October 2006 (see note 1.1.4.2).

- Consolidation of companies already owned by the Group on 31 December 2005

  The company Beaufour Ipsen Mexico, created at the end of 2005 following the conversion of a sales office of Beaufour Ipsen Pharma in Mexico into a subsidiary, is consolidated since 1 January 2006.

  The company Suraypharm SARL with no activity on 31 December 2005, is consolidated since 1 January 2006, as it acquired Tercica Inc. shares during the year.

- Mergers

  Although this is not strictly a change in the scope of consolidation, it should be noted that the companies Beaufour Ipsen Pharma SAS and

Beaufour Ipsen International SNC merged on 1 January 2006. This is also true for the companies Ipsen Inc. and Porton International Inc.

▶ 2.2 Changes in the scope of consolidation during the previous year

The publication of pro forma financial information on 31 December 2005 is justified by the changes in the scope of consolidation due to the Group's legal restructuring on 30 June 2005.

The scope of consolidation of the "Ipsen" Group was modified by company equities transferred directly or indirectly by the restructuring operation.

The companies concerned are:

- Ipsen Farmaceutica B.V.;
- BB et Cie S.A.S.;
- Elsegundo Ltd;
- Ipsen Manufacturing Ireland Ltd;
- Wallingstown Company;
- Portpirie Company;
- Perechin Company;
- Cara Partners;
- Ipsen Pharma GmbH;
- Intersan GmbH.

Furthermore, the transfer of 49.71% of Biomeasure Inc. and 46.59% of Ipsen Ltd. does not represent a change in the scope of consolidation *per se* but simply a change in the percentage control over these companies and their subsidiaries. They were in fact already controlled and therefore fully consolidated by the Group prior to the restructuring.

Finally, the transfer of Ipsen Farmaceutica BV, which holds minority interests in Ipsen S.p.A., Ipsen Produtos Farmaceuticos S.A. and Ipsen Pharma S.A., also led to a change in percentage control over these companies, which were already controlled and fully consolidated by the Group prior to the restructuring.

The assumptions chosen to prepare pro forma financial information and the impact on figures of these assumptions are described in the consolidated financial statement published on 31 December 2005.

Note 3 ▶ Principles and accounting methods and declaration of conformity

Preliminary remarks:

- All amounts are expressed in thousands of euros, unless stated otherwise.
- The closing date of consolidated financial statements is the 31 December of every year. Individual statements incorporated into consolidated statements are prepared at the closing date of the consolidated statements, i.e. 31 December, and cover the same period.
- The Group's consolidated statements were approved by the Board of Directors on 16 March 2007.

▶ 3.1 Basis of accounting

The main accounting methods used to prepare the consolidated financial statements are described below. Unless otherwise stated, these methods were used systematically for all the financial years presented.

In compliance with regulation 1606/2002 adopted on 19 July 2002 by the European Parliament and the European Council, the Group's consolidated financial statements for 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union on the date of preparation.

International accounting standards include International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), as well as the interpretations issued by the Standing Interpretations Committee (SIC), and the International Financial Reporting Interpretations Committee (IFRIC).

3.1.1 Amendments to previously published standards and coming into force in 2006

After examining the following amendments, the Group was not aware that any of them applied to the financial statements closed on 31 December 2006.

- IAS 19 revised (Employee benefits);
- IAS 21 revised (The Effects of Changes in Foreign Exchange Rates—Net Investment in a Foreign Operation);
- IAS 39 revised (Cash flow hedge accounting of forecast intragroup transactions);
- IAS 39 revised (Financial instruments) and IFRS 4 revised (Insurance contracts);
- IAS 39 revised (Fair value option);
- IFRIC 4 (Determining whether an Arrangement contains a Lease).

3.1.2 Standards not adopted prospectively by the Group

The Group did not adopt prospectively the IAS 1 revised (Presentation of financial statements—information on equity) and IFRS 7 (Financial instruments: disclosures) standards in 2006. On-going analyses have shown that the application of these standards in the Group's financial statements would have an impact on details of the information to disclose and would not modify the classification and evaluation of the Group's financial instruments.

3.1.3 Standards, amendments and interpretations which have come into force in 2006 but are not applicable to the Group

- IFRS 1 revised (1st adoption) and IFRS 6 (Exploration and evaluation of mineral resources);
- IFRIC 5 (Rights to interest arising from Decommissioning, Restoration and Environmental Funds);
- IFRIC 6 (Liabilities arising from participating in a specific market—Waste electrical and electronic equipment).

3.1.4 Interpretations of existing standards which have not yet come into force and not adopted prospectively by the Group

- IFRIC 7 (Applying the Restatement Approach under IAS 29);
- IFRIC 8 (Scope of IFRS 2);
- IFRIC 9 (Reassessment of embedded derivatives);
- IFRIC 10 (Interim financial reporting and impairment);
- IFRIC 11 (Group and treasury share transactions);
- IFRIC 12 (Service concession arrangements).

The application of these interpretations to operations carried out by Group would have no impact on the financial statements.

▶ 3.2 Measurement bases used in preparing the financial statements

The consolidated financial statements have been prepared using the historical cost convention, with the exception of certain asset and liability classes in accordance with IFRS. The assets and liabilities concerned are described in the notes below.

▶ 3.3 Use of estimates

In order to prepare its financial statements, the Group is required to make certain estimates and assumptions with respect to the value of assets and liabilities, income and expense items, and information given in the notes to the financial statements.

The Group's management has made these estimates and assumptions on the basis of its past experience and other factors deemed reasonable. Amounts appearing in subsequent financial statements may differ materially from these estimates should the assumptions change or if actual conditions are different.

The principal material estimates made by management concern particularly employee benefits, goodwill, intangible assets, derivative instruments, and provisions.

▶ 3.4 Consolidation methods

The subsidiaries over which the Group exercises exclusive control are fully consolidated.

Companies controlled jointly with a limited number of outside partners are proportionately consolidated.

Companies over which the Group exercises significant influence are accounted for using the equity method.

If the accounting methods used by the subsidiaries, associated companies and joint venture companies do not comply with those used by the Group, the necessary changes are made to the financial statements of these companies to make them compatible with the Group's accounting principles, as described in note 3.

Investments in companies which are not consolidated, even though they meet the above conditions, are recognised as equity investments.

The decision to exclude a company from the scope of consolidation is based on the following principles:

- companies which might have been accounted for using the equity method: the thresholds are determined by reference to the company's relative contribution to consolidated equity, results and goodwill;
- companies which might have been wholly or proportionately consolidated: the thresholds are determined by reference to the company's relative contribution to consolidated revenue, operating income, equity and total assets.

Given the particularly exhaustive nature of the Group's scope of consolidation, it has not yet been deemed necessary to define materiality thresholds.

If all these companies were consolidated, it would have no material impact on the consolidated financial statements as the exclusion of the whole companies from the scope of consolidation has to date never exceeded 1.5% of any of the consolidated aggregates referred to above.

▶ 3.5 Business combinations

Business combinations are accounted for using the purchase method. The cost of an acquisition is based on the fair value of the assets acquired, instruments of issued equity, and liabilities incurred or assumed at the date of the exchange, to which are added the costs directly attributable to the combination.

Therefore, on first-time consolidation of an exclusively controlled company, identifiable assets, liabilities, and contingent liabilities are valued at their fair value. Fair value adjustments are included in the assets and liabilities concerned, together with any minority interests. The difference between the purchase price and the Group's share in the fair value of the underlying net assets acquired is treated as goodwill (see also note "Impairment of assets"). In the case of consolidated companies using the equity method, the goodwill is included in the amount invested in associated companies.

When the cost of the acquisition is below the fair value of the Group's share in the net assets of the acquired subsidiary, the difference is recognised directly in the income statement.

▶ 3.6 Segment reporting

Segment reporting is based on the Group's internal organisation structure, which reflects the various levels of risks and rewards to which it is exposed.

Geographical area is the basis on which the Group reports its primary segment information, as defined by IAS 14.

The geographical areas are broken down as follows:

- Major western European countries: France, Italy, Spain, United Kingdom, and Germany;
- Rest of Europe: all other countries in Western and Eastern Europe;
- Rest of the world: all countries outside Europe.

The Group's business activities all fall within the same area, i.e. research, development, manufacture and sale of pharmaceutical products for human healthcare. It also sells the active ingredients and raw materials used in its pharmaceutical products, and provides research and development services in human healthcare.

Accordingly, the Group does not produce secondary segment information.

▶ 3.7 Conversion of financial statements into foreign currencies

The balance sheets of subsidiaries whose functional currency is not the euro, none of which operating in hyper-inflationary economies, are translated at the exchange rates prevailing on the reporting date. Their income statements and statements of cash flows are translated at the average rate for the year.

Exchange differences are transferred to the cumulative translation reserve, which forms an integral part of shareholders' equity, and to minority shareholders for the non-Group share.

These differences arise from:

- the impact on shareholders' equity of any difference between the rates used for the opening and closing balance sheets;
- the impact on net profit for the year of any difference between the year's average rate and closing rate.

Goodwill and fair value adjustments arising upon acquisition of a foreign entity are treated as assets and liabilities of the foreign entity. Accordingly, they are expressed in the entity's functional currency and translated at the rate prevailing on the reporting date.

During consolidation, exchange differences due to the conversion of net investments in businesses abroad and of loans and other exchange instruments designated as hedging instruments for these investments are recognised in equity. When a foreign entity is disposed of, these conversion differences initially treated as equity are recognised in transfer profit or loss.

▶ 3.8 Conversion of foreign currency transactions

Receivables and payables denominated in foreign currencies are initially translated at the exchange rates prevailing on the transaction date, and then revalued at the closing rates prevailing on the reporting date. Any resulting gains or losses are recognised in profit or loss. Income statement and cash flow items are translated at the rates prevailing on the transaction date.

The exchange losses and profits on foreign currency transactions are also treated as profit or loss if they are considered as eligible for fair value hedge accounting. However, if they are eligible for hedging of cash flow or net investment in a foreign-based business, they are recognised in equity.

▶ 3.9 Exchange differences with respect to intra-group transactions and cash flows

- Exchange differences arising from the elimination of foreign currency transactions between fully consolidated companies are transferred to the cumulative translation reserve under shareholders' equity and to minority interests for the non-Group share, to eliminate their impact on consolidated results;
- Exchange differences arising from foreign currency cash flow movements between fully consolidated companies are accounted for under a separate line item in the consolidated statement of cash flows.

▶ 3.10 Intangible assets (excluding goodwill)

Intangible assets are accounted for at cost, less cumulative amortisation and any impairment loss.

Intangible assets with a finite useful life are amortised over a period corresponding to their estimated useful lives. Amortisation periods are determined on a case-by-case basis depending on the type of asset concerned.

Intangible assets with an indefinite useful life are not amortised but tested annually for impairment (see note "Impairment of assets").

Patents are recognised as intangible assets at their acquisition cost and amortised over their useful period which does not exceed the period of protection.

Development expenses as defined by IAS 38 are activated: technical feasibility necessary to carry the project through, Group's intention to carry the project through, ability to use the asset, probability of future economic benefits, availability of resources and reliable evaluation of development expenses. Due to the risks and uncertainties associated with regulatory approvals and the process of research and development, the criteria are deemed to be fulfilled as soon as the marketing authorisation has been granted.

The development costs of software developed internally are identified as intangible assets as soon as they comply with the criteria defined in IAS 38. Such expenses include mainly the salaries of personnel involved in the project and the fees of external consultants. They are amortised on a straight-line basis for the duration of their useful lives.

Acquired development costs are recognised as assets if the Group considers that their probability of success is sufficient. The same applies to the acquisition of rights to pharmaceutical products which have not been granted a marketing authorisation. These rights are amortised on a straight-line basis for the duration of their useful lives.

This treatment is also applied to payments related to research and development agreements providing access to technologies or databases, as well as payments for the acquisition of generic files.

Brands and trademarks are not amortised.

Software licences are amortised on a straight-line basis for the duration of their useful lives (from 1 to 10 years).

▶ 3.11 Property, plant and equipment

Property, plant and equipment items are accounted for at their acquisition cost or production cost as applicable, less cumulative amortisation and any impairment loss.

Subsequent costs are included in the asset's carrying amount, or, if applicable, they are recognised as a separate asset if the future economic benefits associated with the asset are likely to go to the Group, and the cost of the asset can be measured reliably.

They are depreciated on a straight-line basis over the assets' estimated useful lives, as follows:

• Buildings, fixtures and fittings	10 to 50 years
• Plant & equipment	5 to 10 years
• Other	3 to 10 years

Land is not amortised.

Residual values and the duration of the assets' useful lives are revised and, if applicable, adjusted at each closing of the balance sheet.

The carrying amount of an asset is depreciated immediately to bring it back to its recoverable amount when the asset's carrying amount is greater than its estimated recoverable amount (see note "Impairment of assets").

Losses or profits on asset disposals are determined by comparing the disposal gain to the carrying amount of the disposed asset.

▶ 3.12 Leases

3.12.1 Financial leases

Assets acquired under finance leases are recognised on the balance sheet when the lease contract transfers substantially all the risks and rewards incidental to ownership to the Group. Criteria used to assess whether a contract should be classified as a finance lease include:

- the term of the lease compared with the estimated useful life of the asset;
- total future lease payments compared with the fair value of the asset financed;
- whether or not ownership of the asset is transferred at the end of the lease term;
- existence of a purchase option favourable to the lessee;
- the type of asset leased.

Leased assets recognised on the balance sheet are depreciated over the shorter of their estimated useful lives or the term of the lease contract.

3.12.2 Operating leases

Operating leases are lease contracts that are not classified as finance leases. Rental payments are recognised as expenses when they are incurred.

▶ 3.13 Financing costs

Financing costs are recognised in profit or loss in the period in which they are incurred.

▶ 3.14 Impairment of assets

Goodwill and intangible assets with an indefinite useful life are tested for impairment in accordance with the provisions of IAS 36 "Impairment of Assets", at least once a year and whenever there is an indication that the asset may be impaired. Annual impairment testing is carried out during the final quarter of the year.

Other non-current assets are also tested for impairment when events or changed circumstances indicate that an asset may be impaired.

Impairment testing consists of comparing an asset's carrying amount with its recoverable amount. Recoverable amount is the higher of fair value less costs to sell and value in use.

Value in use is the present value of the future cash flows expected to be derived from continuing use of an asset or cash-generating unit and its ultimate disposal.

Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal.

When tests indicate that the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Property, plant and equipment items are tested for impairment whenever there is an indication that an asset may be impaired.

When the recoverable amount of an asset or cash-generating unit is lower than its carrying amount, an impairment loss is recognised in profit or loss and deducted in priority from the goodwill allocated to that asset or cash-generating unit.

Impairment losses on goodwill are not reversible.

▶ 3.15 Government grants

Government grants received by the Group are treated as deferred income and recognised in profit or loss over the estimated useful lives of the assets financed.

▶ 3.16 Financial assets

Financial assets, excluding cash and derivative financial assets, are classified in one of the four following categories:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity investments;
- Available-for-sale financial assets.

Financial assets are classified upon initial recognition according to the Group's intention at the time of acquisition.

3.16.1 Assets at fair value through profit or loss

These include assets held for the purpose of selling or repurchasing them in the near term with the intention of making a profit, and assets voluntarily designated as at fair value through profit or loss. Derivative instruments are also treated as held for transaction purposes, unless they are qualified as hedges.

They are measured at fair value and any changes are recognised in profit or loss.

Assets in this category are designated as current assets.

3.16.2 Loans and receivables

Loans and receivables are non-derivative financial assets with a payment, which is fixed or can be determined, not listed on an active market. They are included in current assets, except those that mature more than 12 months after the closing date.

Loans and receivables are measured at amortised cost using the effective interest method. The carrying amount includes principal outstanding plus accrued interest. The recoverable amount of loans and advances is estimated whenever there is an indication that the asset may be impaired and at least on each reporting date. If the recoverable amount is lower than the carrying amount, an impairment loss is recognised in profit or loss.

3.16.3 Held-to-maturity investments

These are financial assets that the Group has the positive intention and ability to hold to maturity. They are measured at amortised cost using the effective interest method.

The recoverable amount of held-to-maturity investments is estimated whenever there is an indication that the asset may be impaired. If the recoverable amount is lower than the carrying amount, an impairment loss is recognised in profit or loss.

3.16.4 Available-for-sale financial assets

These are non-derivative financial assets that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. They are included in non-current assets, unless management expects to sell them within 12 months after the closing date.

Unrealised capital gains and losses are recognised in equity until the assets are sold, except for impairment losses, which are recognised in profit or loss.

Exchange differences on monetary assets denominated in foreign currencies are recognised in profit or loss. Exchange differences on non-monetary assets denominated in foreign currencies are recognised directly in equity.

This category includes mainly investments in non-consolidated companies and short-term investments that do not meet the definition of other categories of financial assets. They are classified under other non-current assets, current assets, and cash and cash equivalents.

3.16.5 Determination of fair value

For investments in listed equity instruments, fair value is the quoted market price. For investments in unlisted equity instruments, fair value is determined by reference to recent market transactions or using a valuation technique that provides reliable estimates of prices obtained in actual market transactions. If it is not possible to reasonably estimate the fair value of an asset, it is measured at cost. Available-for-sale financial assets are tested for impairment to determine their recoverable amount.

▶ 3.17 Non-current assets held for sale and discontinued operations

A non-current asset, or group of assets and liabilities, is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale and its sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and complete the plan must have been initiated. An operation is classified as discontinued if the conditions for classifying an asset as held for sale have been met, or the operation has been sold.

▶ 3.18 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the weighted average cost method.

Net realisable value is the estimated selling price less the estimated costs necessary to make the sale.

▶ 3.19 Cash and cash equivalents

Cash includes cash on hand and demand deposits with banks.

Cash equivalents are short-term, highly liquid investments (with a maturity of less than three months) and which are subject to an insignificant risk of changes in value. Mutual funds and term deposits therefore meet the definition of cash equivalents.

▶ 3.20 Stock option plans

Stock options are awarded to executive officers and some employees of the Group. As required by IFRS 2 Share-based Payments, these options are measured at their fair value on the date of grant. The fair value is expensed in personnel costs on a straight-line basis over the vesting period (period from the date of grant to maturity of the plan) with a corresponding increase in equity.

At each closing date, the Group re-examines the number of options likely to become exercisable. If applicable, the impact of the review of the estimates is recognised in profit and loss with a corresponding adjustment in equity.

As permitted by IFRS 2, this policy only applies to plans that were granted after 7 November 2002 and that had not vested at 1 January 2005.

▶ 3.21 Employee benefits

3.21.1 Post-employment benefits

Depending on the laws and practices of the countries in which the Group operates, employees may be entitled to compensation when they retire, or to a pension following their retirement.

The liability corresponding to the employees' vested rights is covered by:

- contributions to independent organisations (insurance companies) responsible for paying the pensions or other benefits;
- provisions taken in the balance sheet.

For State-managed plans and other defined contribution plans, the Group recognises the contributions in profit or loss when they become payable, as its constructive obligation is limited to the agreed amount of contributions.

For defined benefit plans, the Group's obligation is estimated by external actuaries using the projected unit credit method. Under this method, each period of service gives rise to an additional unit of benefit entitlement and each unit is accounted for separately to build up the final obligation.

The final amount of the obligation is then discounted. The main assumptions used to calculate the obligation are:

- discount rate;

- inflation rate;
- future salary increases; and
- employee turnover.

The Group's obligation is estimated annually for all plans.

Actuarial gains and losses may arise as a result of changes in actuarial assumptions or experience adjustments (differences between the previous actuarial assumptions and what has actually occurred) to the Group's obligation or the plan's assets. These gains and losses are recognised in profit or loss using the "corridor" method. Under this method, the amount in excess of 10% of the higher of the net obligation and the fair value of the plan's assets is deferred over the remaining working lives of the employees participating in the plan.

The Group's funds its post-employment obligation externally, including the deferred portion of actuarial gains and losses. If the plan's assets exceed its estimated obligation, a financial asset is recognised on the balance sheet, limited to the net total of:

- any unrecognised past service costs and net actuarial losses;
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

3.21.2 Other employee benefits

In some countries, employees are entitled to awards for long service. The Group recognises a provision in the balance sheet to cover its obligation in this respect.

▶ 3.22 Provisions

Provisions are recognised in accordance with IAS 37 to cover all obligations to third parties likely or certain to give rise to an outflow of resources embodying economic benefits, provided the amount of the provision can be reliably estimated. These provisions are estimated on the basis of the most likely assumptions on the reporting date.

In the case of restructurings, an obligation is recognised as soon as the restructuring has been announced and the Group has drawn up or started to implement a detailed restructuring plan.

Provisions are discounted if the time value is material. The present value is based on current market appreciations of the time value of money and the risks inherent to the obligation. The provision increase resulting from the restatement at historical value is recognised in financial expenses.

▶ 3.23 Derivative financial instruments

3.23.1 Interest rate risk and foreign exchange risk

The Group buys and sells derivative financial instruments with a view to managing and reducing its exposure to the risk of interest rate and exchange rate fluctuations. The Group deals only with first-class financial institutions. Under IAS 39, financial instruments may only be classified as hedges when the Group can demonstrate and document the effectiveness of the hedging relationship at inception and throughout the life of the hedge.

The effectiveness of the hedge is determined by reference to changes in the value of the derivative instrument and the hedged item. The ratio must remain within 80% to 125%.

Derivative financial instruments are recognised in the balance sheet at their market value on the reporting date. Changes in fair value are recognised as follows:

- cash flow hedges: the portion of the gain or loss on the financial instrument that is determined to be an effective hedge is recognised directly in equity. The ineffective portion is recognised in profit or loss;
- fair value hedges and financial instruments not designated as hedges: changes in fair value are recognised in profit or loss.

Market value is the price quoted by independent financial institutions.

3.23.2 Other derivative instruments

Warrants

Warrants issued by companies reporting according to the equity method are covered by the definition of derivative financial instruments under IAS 39 "Financial instruments: recognition and measurement". Consequently, warrants are recognised at their fair value in "Financial assets at fair value through profit and loss". At the reporting date, changes in fair value are recognised in financial income and expense.

Convertible bonds

Under IAS 39 "Financial instruments: recognition and measurement", the conversion option of convertible bonds issued by companies reporting according to the equity method is considered as an embedded derivative to be accounted for as a stand-alone derivative. This embedded derivative is measured first, based on the characteristics of the option it is representing. The fair value of the "bond" component is then obtained as the difference between the option's fair value thus measured and the fair value of the convertible bond as a whole.

The convertible bond is broken down into two components, both of which are recognised in "Non-current financial assets":

- the "bond" component, measured at its depreciated cost, is reported in "Loans and receivables", subsequent changes in fair value being recognised in financial income and expense.
- the "conversion option" component, measured at its fair value, is reported in "Derivative instruments", subsequent changes in fair value being recognised in financial income and expense.

▶ 3.24 Revenue recognition

The Group's revenues are generated mainly by the sales of pharmaceutical products.

Sales are recognised when all the following conditions are met:

- there is evidence of an agreement between the parties;
- the goods have been delivered or the service provided;
- the price is fixed or can be determined.

Sales of goods are recognised when the risks and rewards of ownership have passed to the buyer.

Rebates and discounts granted to customers are recognised at the same time as sale of the goods and are deducted from the value of the sale.

▶ 3.25 Other revenues

Other revenues include royalties received, and milestone payments received under partnership agreements and various service agreements.

Royalties received are recognised as revenues based on sales achieved by the partners and contractual royalty rates during the period.

Upfront payments are spread over the period of the binding service agreement. Milestone revenues are generally spread over the term of the contracts.

Revenues generated by various services provided are recognised as goods or services delivered to the other contracting party.

▶ 3.26 Deferred taxes

Deferred taxes are recognised on all temporary differences between the book value and tax base of assets and liabilities, and on tax losses, using the liability method.

Differences are temporary when they are expected to reverse within the foreseeable future.

Deferred tax assets arising from tax losses are recognised only if there is convincing evidence that sufficient taxable profit will be available in the future.

In accordance with IAS 12 "Income Taxes", tax assets and liabilities are not discounted.

Amounts recognised in the consolidated financial statements are calculated at the level of each tax entity included in the scope of consolidation.

▶ 3.27 Earnings per share

Basic earnings per share is calculated on the basis of the weighted average number of shares outstanding during the year, calculated according to movements in share capital, less any treasury shares held by the Group.

Diluted earnings per share is calculated by dividing net earnings for the year attributable to equity holders of Ipsen S.A. by the weighted average number of ordinary shares outstanding plus any dilutive potential ordinary shares.

▶ 3.28 Treatment of changes in the scope of consolidation in the cash flow statement

The net impact of the following items is identified on a separate line item in the cash flow statement:

- the amount paid or received by the Group on acquisition or disposal of consolidated companies;
- the cash held by those companies, which is added to or deducted from consolidated cash.

Note 4 ▶ Segment reporting

Segment reporting is based on the Group's internal organisation structure which reflects the various levels of risks and rewards to which it is exposed.

Geographical area is the basis on which the Group reports its primary segment information, as defined by IAS 14.

The breakdown used is as follows:

- Major western European countries: France, Italy, Spain, United Kingdom, and Germany;
- Rest of Europe: all other countries in Western and Eastern Europe;
- Rest of the world: all countries outside Europe.

The Group's business activities all fall within the same area, i.e. research, development, manufacture, and sale of pharmaceutical products for human healthcare. It also sells the active ingredients and raw materials used in its pharmaceutical products, and provides research and development services in human healthcare.

Accordingly, the Group does not produce secondary segment information.

▶ 4.1 Operating income by geographical area (Based on the location of the customers)

	31 December 2006		31 December 2005 *pro forma*		31 December 2005	
(in thousands of euros)	Amount	%	Amount	%	Amount	%
Major Western European countries	215,829	65%	219,652	72%	209,369	72%
Rest of Europe	71,516	22%	54,969	18%	52,266	18%
Rest of the world	42,309	13%	29,228	10%	28,205	10%
Total allocated	**329,654**	**100.0%**	**303,849**	**100%**	**289,840**	**100%**
Unallocated	(142,435)	-	(118,500)	-	(128,147)	-
TOTAL	**187,219**	**-**	**185,349**	**-**	**161,693**	**-**

Unallocated operating income includes expenses or income not attributable to a specific geographical area, i.e. mainly "Other operating income and expenses", most Research and Development expenses, and unattributable Group expenses.

▶ 4.2 Total revenue

4.2.1 Total revenue by geographical area (Based on the location of the customers)

(in thousands of euros)	31 December 2006		31 December 2005 *pro forma*		31 December 2005	
	Amount	%	Amount	%	Amount	%
Major Western European countries	564,528	65%	559,461	68%	544,973	68%
Rest of Europe	184,800	21%	156,258	19%	152,342	19%
Rest of the world	125,202	14%	103,934	13%	103,934	13%
Total allocated	**874,530**	**100%**	**819,653**	**100%**	**801,249**	**100%**
Unallocated	70,727	-	68,199	-	62,506	-
TOTAL	**945,257**	**-**	**887,852**	**-**	**863,755**	**-**

Within total revenue, only sales of goods and co-promotion income have been allocated. Other revenue (see note 4.2.3) has not been allocated, as it does not lend itself to this type of analysis.

4.2.2 Sales by geographical area (Based on the location of the customers)

(in thousands of euros)	31 December 2006		31 December 2005 *pro forma*		31 December 2005	
	Amount	%	Amount	%	Amount	%
Major Western European countries	551,674	64%	547,287	68%	532,798	68%
Rest of Europe	184,800	21%	155,893	19%	151,977	19%
Rest of the world	125,202	15%	103,934	13%	103,934	13%
TOTAL	**861,676**	**100%**	**807,114**	**100%**	**788,709**	**100%**

4.2.3 Other revenue

(in thousands of euros)	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Royalties received	41,650	45,049	39,358
Milestone payments received	20,199	21,126	21,126
Research and development expenses billed back to partners	10,548	2,023	2,023
Co-promotion income	11,184	12,540	12,539
TOTAL	**83,581**	**80,738**	**75,046**

▶ 4.3 Balance sheet items by geographical area (based on the location of the assets)

(in thousands of euros)	31 December 2006				
	Main Western European countries	Rest of Europe	Rest of the world	Eliminations	Total
Property, plant & equipment	144,069	28,999	25,118	-	198,186
Inventories	56,778	20,387	1,782	-	78,947
Trade receivables	178,771	26,886	10,891	(24,846)	191,702
Total segment assets	**379,618**	**76,272**	**37,791**	**(24,846)**	**468,835**
Trade payables	105,344	11,029	8,742	(24,846)	100,269
Total segment liabilities	**105,344**	**11,029**	**8,742**	**(24,846)**	**100,269**

(in thousands of euros)	31 December 2005				
	Main Western European countries	Rest of Europe	Rest of the world	Eliminations	Total
Property, plant & equipment	130,270	28,901	28,598	-	187,769
Inventories	55,531	17,571	1,288	-	74,390
Trade receivables	155,005	24,283	8,869	(23,476)	164,681
Total segment assets	**340,806**	**70,755**	**38,755**	**(23,476)**	**426,840**
Trade payables	110,532	11,629	8,360	(23,476)	107,045
Total segment liabilities	**110,532**	**11,629**	**8,360**	**(23,476)**	**107,045**

▶ 4.4 Other information

(in thousands of euros)	31 December 2006					
	Main Western European countries	Rest of Europe	Rest of the world	Unallocated	Eliminations	Total
Capital expenditure	(34,441)	(3,927)	(2,262)	(41,217)	-	(81,847)
Depreciation, amortisation and provision charges (excluding financial)	32,569	2,741	620	12,628	-	48,558
Share-based payment expense with no impact on cash flow	-	-	-	3,282	-	3,282

(in thousands of euros)	31 December 2005 *pro forma*					
	Main Western European countries	Rest of Europe	Rest of the world	Unallocated	Eliminations	Total
Capital expenditure	(30,245)	(3,887)	(2,347)	(7,944)	-	(44,423)
Depreciation, amortisation and provision charges and impairment losses	17,595	4,311	2,763	5,943	-	30,612
Share-based payment expense with no impact on cash flow	-	-	-	3,355	-	3,355

(in thousands of euros)	31 December 2005					
	Main Western European countries	Rest of Europe	Rest of the world	Unallocated	Eliminations	Total
Capital expenditure	(30,190)	(3,178)	(2,348)	(6,911)	-	(42,627)
Depreciation, amortisation and provision charges and impairment losses	17,635	3,412	2,763	5,040	-	28,850
Share-based payment expense with no impact on cash flow	-	-	-	3,355	-	3,355

Note 5 ▶ Personnel costs

▶ 5.1 Employees

The Group employed 3,821 employees at 31 December 2006 (3,800 at end 2005).

In 2006, the average number of employees was 3,811 (3,699 in 2005).

The following table shows movements in the number of employees by function:

Functions	31 December 2006	31 December 2005
Sales	1,530	1,525
Production	1,050	1,048
Research and Development	700	692
Administration	541	535
Total	**3,821**	**3,800**

The following table shows a geographical breakdown of employees at 31 December:

Geographical area	31 December 2006	31 December 2005
Main Western European countries	2,613	2,633
Rest of Europe	563	552
Rest of the world	645	615
Total	**3,821**	**3,800**

▶ 5.2 Personnel costs

The following table shows a breakdown of personnel costs, which are split in the income statement between the cost of goods sold, selling, general and administrative expenses and research and development expenses:

(in thousands of euros)	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Wages and salaries	(166,353)	(157,937)	(151,903)
Social security charges and payroll taxes	(66,256)	(61,056)	(59,676)
Sub-total	**(232,609)**	**(218,993)**	**(211,579)**
Share-based payment expense (note 5.3.3.4)	**(4,051)**	**(2,114)**	**(1,962)**
Stock options and bonus shares (note 5.4)	*(3,282)*	*(2,601)*	*(2,601)*
Discount	-	*(754)*	*(754)*
Sub-total with no impact on cash flow	**(3,282)**	**(3,355)**	**(3,355)**
Employer's top-up contribution	-	(1,265)	(1,265)
Share-based payment expense (note 5.4)	**(3,282)**	**(4,620)**	**(4,620)**
Employee profit-sharing	**(10,059)**	**(10,760)**	**(10,760)**
Total	**(250,001)**	**(236,487)**	**(228,921)**

In 2006, the average rate of employer social security contributions and payroll taxes was 38.7% in 2005 pro forma and, 39.8% of gross payroll (39.3% in 2005).

The Group's French subsidiaries have an employee profit-sharing agreement as required by law. Employees may invest their entitlement either in an interest-bearing savings account with the company or in an employee share ownership plan managed by an investment company.

▶ 5.3 Employee benefits

5.3.1 Benefit plans

5.3.1.1 Post-retirement benefits

In some companies, employees are entitled to supplemental pension benefits during their retirement or to end-of-career compensation payable on the date of retirement. The main countries concerned are France, the United Kingdom, Ireland, Spain, and Italy. In France, a limited number of employees also benefit from an additional top-up pension plan.

These plans are either defined contribution or defined benefit plans.

Under defined contribution plans, the Group has no constructive obligation other than payment of the agreed contributions. These payments are recognised as expenses when they are incurred.

5.3.2 Other long-term benefits

Some employees, mainly those in France, are entitled to long-service awards.

5.3.3 Measurement and recognition of liabilities

The Group's obligation in respect of employee benefits is calculated by an outside actuary using the actuarial models and assumptions that apply locally in the countries concerned.

Some liabilities are covered by financial assets held in funds invested with insurance companies (plan assets).

Surplus plan assets are recognised on the balance sheet under non-current financial assets.

Unfunded liabilities and plan deficits are recognised on the balance sheet under retirement benefit obligation.

5.3.3.1 Assumptions used

The main actuarial assumptions used at 31 December 2006 are:

	Europe (excluding United Kingdom)	United Kingdom	Asia—Pacific—Africa
Discount rate	4.13%	5.00%	7.60%
Expected return on plan assets	4.55%	7.20%	6.00%
Expected return on reimbursements rights	N/A	N/A	N/A
Expected salary increases	According to age	5.00%	7.25%
Future pension increases	N/A	3.00%	N/A
Average remaining working lives of employees *(years)*	19.10	16.30	10.00

The main actuarial assumptions used at 31 December 2005 are:

	Europe (excluding United Kingdom)	United Kingdom	Asia—Pacific—Africa
Discount rate	3.78%	4.90%	8.00%
Expected return on plan assets	4.23%	7.10%	6.00%
Expected return on reimbursements rights	N/A	N/A	N/A
Expected salary increases	According to age	4.90%	7.25%
Future pension increases	N/A	2.90%	N/A
Average remaining working lives of employees *(years)*	18.06	20.10	10.00

5.3.3.2 Breakdown of retirement benefit obligation recognised on the balance sheet

(in thousands of euros)	31 December 2006	31 December 2005
Post-employment benefits	**6,158**	**5,152**
Pension plans	6,158	5,152
Other plans	-	-
Other long-term benefits	**3,141**	**2,880**
Total	**9,299**	**8,032**

5.3.3.3 Reconciliation of assets and liabilities carried on the balance sheet

(in thousands of euros)	31 December 2006				31 December 2005
	Post-employment benefits		Other long-term benefits	Total benefits	Total benefits
	Pension plans	Other plans			
Breakdown of net amount carried in the balance sheet					
Present value of funded liabilities	49,907	-	258	50,165	41,134
Present value of unfunded liabilities	1,855	-	2,919	4,774	4,385
Sub-total	**51,762**	**-**	**3,177**	54,939	45,519
Fair value of plan assets	35,735	-	36	35,771	29,354
Net liabilities (a)	**16,027**	**-**	**3,141**	**19,168**	**16,165**
Unrecognised items					
Past service costs	755	-	-	755	(3,377)
Net actuarial losses or (gains)	11,492	-	-	11,492	12,668
Restriction of assets recognised	-	-	-	-	-
Fair value of reimbursement rights recognised as an asset	-	-	-	-	-
Total unrecognised items (b)	**12,247**	**-**	**-**	**12,247**	**9,291**
Net obligation (a-b)	**3,780**	**-**	**3,141**	**6,921**	**6,874**
Amount presented in the balance sheet:					
Retirement benefit obligation	6,158	-	3,141	9,299	8,032
Non-current financial assets	2,378	-	-	2,378	1,158
Net obligation	**3,780**	**-**	**3,141**	**6,921**	**6,874**

5.3.3.4 Reconciliation of expenses in the income statement

(in thousands of euros)	31 December 2006				31 December 2005 *pro forma*	31 December 2005
	Post-employment benefits		Other long-term benefits	Total benefits		
	Pension plans	Other plans				
Current service costs	3,413	-	331	3,744	2,303	2,117
Contributions from plan members	(223)	-	-	(223)	(230)	(189)
Interest costs	1,993	-	108	2,101	1,451	1,317
Expected return on plan assets	(1,558)	-	(1)	(1,559)	(1,273)	(1,112)
Expected return on reimbursement rights	-	-	-	-	-	-
Past service costs recognised	56	-	-	56	(162)	(162)
Actuarial losses (gains) recognised	483	-	(26)	457	426	419
Losses (gains) on curtailments and settlements	31	-	(15)	16	(223)	(223)
Change in asset ceiling	-	-	-	-	-	-
Total net expenses	**4,195**	**-**	**397**	**4,592**	**2,292**	**2,167**
- of which operating expenses	3,760	-	291	4,051	2,114	1,962
- of which financial expenses	435	-	106	541	178	205

5.3.3.5 Movements in net liability carried on the balance sheet

(in thousands of euros)	31 December 2006				31 December 2005 *pro forma*	31 December 2005
	Post-employment benefits		Other long-term benefits	Total benefits		
	Pension plans	Other plans				
Opening net liability	**3,994**	**-**	**2,880**	**6,874**	**6,859**	**7,031**
Exchange differences	36	-	(16)	20	68	68
Change in scope of consolidation	-	-	-	-	-	(97)
Charge for the year (see note 5.3.3.4.)	4,195	-	397	4,592	2,292	2,167
Transfers (from) / to plan assets	-	-	-	-	-	-
Contributions paid by employer	(4,235)	-	9	(4,226)	(1,882)	(1,832)
Reimbursement excess paid by employer	83	-	-	83	-	-
Benefits paid from reimbursement rights	-	-	-	-	-	-
Benefits paid from internal reserve	(293)	-	(129)	(422)	(463)	(463)
Effect of reimbursement rights recognised in charge	-	-	-	-	-	-
Change in asset ceiling	-	-	-	-	-	-
Closing net liability	**3,780**	**-**	**3,141**	**6,921**	**6,874**	**6,874**

5.3.3.6 Movements in defined benefit plan obligations

(in thousands of euros)	31 December 2006				31 December 2005 *pro forma*	31 December 2005
	Post-employment benefits		Other long-term benefits	Total benefits		
	Pension plans	Other plans				
Opening balance	**42,613**	**-**	**2,906**	**45,519**	**29,165**	**23,817**
Exchange differences	196	-	(17)	179	196	196
Change in scope of consolidation	-	-	-	-	-	5,668
Current service cost	3,413	-	331	3,744	2,303	2,117
Social security charges on service cost	-	-	-	-	-	-
Interest cost	1,993	-	108	2,101	1,451	1,317
Settlements/ curtailments	-	-	-	-	(311)	(311)
Benefits paid from plan assets	(489)	-	-	(489)	(1,094)	(1,094)
Benefits paid from reimbursement rights	-	-	-	-	-	-
Benefits paid from internal reserve	(293)	-	(129)	(422)	(463)	(463)
Actuarial gains and losses generated in the year	146	-	(28)	118	13,880	13,880
Past service cost	4,189	-	-	4,189	392	392
Transfers	-	-	-	-	-	-
Closing balance	**51,768**	**-**	**3,171**	**54,939**	**45,519**	**45,519**

5.3.3.7 Movements in plan assets

(in thousands of euros)	31 December 2006				31 December 2005 pro forma	31 December 2005
	Post-employment benefits		Other long-term benefits	Total benefits		
	Pension plans	Other plans				
Opening balance	**29,328**	**-**	**26**	**29,354**	**25,347**	**20,672**
Exchange differences	122	-	6	128	119	119
Change in scope of consolidation	-	-	-	-	-	4,927
Contributions from plan members	223	-	-	223	230	189
Expected return on plan assets	1,558	-	1	1,559	1,273	1,112
Settlements/curtailments	(35)	-	14	(21)	(45)	(45)
Transfers (from) / to unrecognised assets	-	-	-	-	-	-
Contributions paid by employer	4,235	-	(9)	4,226	1,882	1,832
Reimbursement excess contributions paid by employer	(83)	-	-	(83)	-	-
Benefits paid from plan assets	(489)	-	-	(489)	(1,094)	(1,094)
Gains and losses generated in the year	876	-	(2)	874	1,642	1,642
Past service cost generated in the year	-	-	-	-	-	-
Closing balance	**35,735**	**-**	**36**	**35,771**	**29,354**	**29,354**

5.3.3.8 Breakdown of plan assets

A breakdown of plan assets at 31 December 2006 and 31 December 2005 is given in the table below:

(in thousands of euros)	31 December 2006				31 December 2005			
	Shares	Notes	Other[1]	Total	Shares	Notes	Other[1]	Total
Europe (excluding United Kingdom)	8,642	15,980	3,983	28,605	7,344	13,910	3,313	24,567
United Kingdom	4,818	2,033	183	7,034	4,090	250	372	4,712
Asia—Pacific—Africa	105	27	-	132	60	15	-	75
Total	**13,565**	**18,040**	**4,166**	**35,771**	**11,494**	**14,175**	**3,685**	**29,354**

(1) Property, cash and other.

▶ 5.4 Share-based payments

Since 1999, the Board of Directors of Mayroy S.A. (Ipsen S.A.'s parent company) has granted stock options to some employees and senior executives of the Group at an agreed exercise price (see note 5.4.1).

Holders of options over Mayroy S.A. shares will be given a put option over the Mayroy shares they obtain when they exercise their options. Mayroy shares issued on exercise of the options and sold back to Mayroy S.A. will be exchanged for shares in Ipsen S.A. plus a cash balance.

The annual charge for all share-based payments is given below:

On 14 November 2005, the Board of Directors of Ipsen S.A. established a new stock option plan for the same category of beneficiaries (see note 5.4.2) and a bonus share plan for senior executives (see note 5.4.3).

Finally, on 12 December 2006, the Board of Directors of Ipsen S.A. also granted to the members of the board management committee and to executives of French and foreign subsidiaries a stock option plan as described in note 5.4.2. The Board of Directors also granted bonus shares to senior executives (see note 5.4.3).

(in thousands of euros)	31 December 2006	31 December 2005
Stock option plans granted by Mayroy S.A. (note 5.4.1.3)	2,371	2,538
Stock option plans granted by Ipsen S.A. (note 5.4.2.2)	668	47
Bonus shares (note 5.4.3)	243	16
Discount (note 5.2)	-	754
Total	**3,282**	**3,355**

5.4.1 Stock option plans granted by the parent company Mayroy S.A.

5.4.1.1 Attributes of the stock option plans

	STOCK OPTION PLANS										
	Before 7 November 2002			After 7 November 2002							
	1a	1b	1c	1d	3a	2a	2b	2c (Tr. 1)	2c (Tr. 2)	2c (Tr. 3)	3b
Date of grant	10 Nov. 1999	31 May 2000	3 Oct. 2001	18 Dec. 2003	13 Feb. 2004	5 Dec. 2002	18 Dec. 2003	25 March 2004	25 March 2004	25 March 2004	22 July 2004
Vesting date	10 Nov. 2004	31 May 2005	3 Oct. 2005	18 Dec. 2007	13 Feb. 2008	5 Dec. 2006	31 Dec. 2007	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	22 July 2008
Expiration date of the plan	10 Nov. 2009	31 May 2010	3 Oct. 2011	18 Dec. 2013	13 Feb. 2014	5 Dec. 2012	31 Dec. 2013	25 March 2014	25 March 2014	25 March 2014	22 July 2014
Number of options granted	20,000	6,150	24,025	3,500	15,750	2,760	2,760	7,360	2,760	2,760	250
Share entitlement per option	27	27	27	25	25	27	27	27	27	27	25
Exercise price	€11.28	€11.28	€12.03	€27.20	€27.20	€24.44	€24.44	€24.44	€24.44	€24.44	€27.20
Performance condition	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

5.4.1.2 Movements in options outstanding

Changes in the number of outstanding options for all the plans are given below:

(number of options)	31 December 2006	31 December 2005
Opening balance	**77,350**	**79,375**
Options granted	-	-
Options exercised	(28,580)	(775)
Options forfeited	(600)	(1,250)
Options expired	-	-
Closing balance	**48,170**	**77,350**

Breakdown of closing balance:

(in number of options)	31 December 2006	1 January 2006
Plans before 7 Nov. 2002		
1a	3,300	17,100
1b	1,550	4,350
1c	6,470	18,450
Plans after 7 Nov. 2002		
1d	3,500	3,500
3a	14,700	15,300
2a	2,760	2,760
2b	2,760	2,760
2c (Tr. 1)	7,360	7,360
2c (Tr. 2)	2,760	2,760
2c (Tr. 3)	2,760	2,760
3b	250	250
TOTAL	**48,170**	**77,350**

5.4.1.3 Valuation of plans

Plans granted after 7 November 2002 are valued as follows (see note 3.20):

	Plans after 7 Nov. 2002								
(in thousands of euros)	1d	3a	2a	2b	2c (Tr. 1)	2c (Tr. 2)	2c (Tr. 3)	3b	TOTAL
Opening value	1,020	4,532	783	772	2,112	777	792	73	10,861
Charge for the year	255	948	182	193	423	194	158	18	2,371

Main assumptions	Plans after 7 Nov. 2002							
	1d	3a	2a	2b	2c (Tr. 1)	2c (Tr. 2)	2c (Tr. 3)	3b
Valuation method used	**Black and Scholes revised**							
Value of shares on grant date	€27.20	€27.20	€24.44	€24.44	€24.44	€24.44	€24.44	€27.20
Exercise price	€27.20	€27.20	€24.44	€24.44	€24.44	€24.44	€24.44	€27.20
Expected volatility	40%	40%	40%	40%	40%	40%	40%	40%
Average life of option	7.0 years	7.0 years	7.0 years	7.0 years	7.9 years	7.4 years	7.9 years	7.0 years
Turnover	0%	0%	0%	0%	0%	0%	0%	0%
Discount rate	4.1%	3.8%	4.3%	4.1%	3.6%	3.6%	3.6%	4.0%
Fair value per option	**€11.66**	**€11.51**	**€10.51**	**€10.36**	**€10.63**	**€10.43**	**€10.63**	**€11.61**

5.4.2 Stock option plans granted by Ipsen S.A.

5.4.2.1 Attributes of the stock option plans

	Plan of 14 Nov. 2005	PLANS							
		Plan no.1 of 12 December 2006			Plan no.2 of 31 Dec. 2006	Plan no.3 of 31 December 2006			
		Tr. A	Tr. B	Tr. C	-	3.1	3.2	3.3	3.4
Date of grant	6 Dec. 2005	12 Dec. 2006	12 Dec. 2006	12 Dec. 2006	12 Dec. 2006	12 Dec. 2006	12 Dec. 2006	12 Dec. 2006	12 Dec. 2006
Vesting date	6 Dec. 2009	12 Dec. 2010	12 Dec. 2011	12 Dec. 2012	12 Dec. 2010	12 Dec. 2010	12 Dec. 2010	12 Dec. 2010	12 Dec. 2010
Expiration date of the plan	6 Dec. 2015	12 Dec. 2018	12 Dec. 2018	12 Dec. 2018	12 Dec. 2018	12 Dec. 2018	12 Dec. 2018	12 Dec. 2013	12 Dec. 2016
Number of options granted	327,000	266,666	266,666	266,668	18,000	42,000	10,500	7,500	21,500
Share entitlement per option	1	1	1	1	1	1	1	1	1
Exercise price	€22.20	€33.21	€35.86	€38.73	€33.21	€29.88	€33.21	€29.88	€29.88
Valuation method used	**Black and Scholes revised**								
Value of share on grant date	€22.20	€36.14	€36.14	€36.14	€36.14	€36.14	€36.14	€36.14	€36.14
Expected volatility	35%	35%	35%	35%	35%	35%	35%	35%	35%
Average life of option	7	8	8.5	9	8	8	8	5.5	7
Turnover	0%	0%	0%	0%	0%	0%	0%	0%	0%
Discount rate	3.14%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Dividends	Variable	Variable	Variable	Variable	Variable	Variable	Variable	Variable	Variable
Performance condition	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Fair value per option	**€8.34**	**€16.39**	**€16.00**	**€16.78**	**€16.39**	**€17.42**	**€16.39**	**€15.07**	**€16.59**

5.4.2.2 Valuation of plans

	Plan of 14 Nov. 2005	PLANS							
		Plan no.1 of 12 December 2006			Plan no.2 of 31 Dec. 2006	Plan no.3 of 31 December 2006			
		Tr. A	Tr. B	Tr. C	-	3.1	3.2	3.3	3.4
Initial valuation	2,727	4,371	4,267	4,475	295	732	172	113	357
Charge for the year	668	-	-	-	-	-	-	-	-
Total	**668**								

5.4.2.3 Trends in options outstanding

Changes in the number of outstanding options for all the plans are shown below:

(in number of options)	31 December 2006	31 December 2005
Opening balance	**327,000**	**-**
Options granted	899,500	327,000
Options exercised	-	-
Options forfeited	(5,800)	-
Options expired	-	-
Closing balance	**1,220,700**	**327,000**

5.4.3 Bonus share plans

On 14 November 2005 and 12 December 2006, the Board of Directors granted a total of 23,000 and 18,000 bonus shares, respectively, to the Chairman and Chief Executive Officer of the Company and to some senior executives, contingent upon the Group's achievement of certain performance conditions.

Note 6 ▶ Depreciation, amortisation, provisions and impairment losses

▶ 6.1 Net charge to depreciation, amortisation, provisions and impairment losses recognised as operating expenses

(in thousands of euros)	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Intangible assets	(12,631)	(4,274)	(3,473)
Property, plant and equipment	(27,079)	(25,831)	(24,679)
Total non-current assets	***(39,710)***	***(30,105)***	***(28,152)***
Other non-current assets	-	(500)	(500)
Total non-current assets [A]	**(39,710)**	**(30,605)**	**(28,652)**
Retirement benefit obligation	(3,712)	(1,176)	(1,075)
Provisions	(5,136)	1,169	877
Total provisions [B]	***(8,848)***	***(7)***	***(198)***
Total charge excluding current assets C = [A+B]	**(48,558)**	**(30,612)**	**(28,850)**
Inventories	(1,052)	2,569	2,569
Trade receivables and other current assets	(669)	(1,475)	(1,476)
Total current assets	***(1,721)***	***1,094***	***1,093***
Total	**(50,279)**	**(29,518)**	**(27,757)**
Goodwill impairment losses	-	-	-
TOTAL	**(50,279)**	**(29,518)**	**(27,757)**

The increase in amortisation and impairment losses is caused mainly by a €7.3 million impairment loss on the Testim® license. Testim® sales remained below the Group's expectations, with slower than expected growth and penetration. Moreover, difficulties to obtain reimbursement status in some of the main Western European countries, such as Italy, have had a negative impact on sales trends. Due to these uncertainties, the future cash flows that the Group intends to generate from the use of this asset no longer justify its recognition in assets. This is why it is fully amortised at 31 December 2006.

▶ 6.2 Depreciation, amortisation and impairment losses included in the cash flow statement

The following table shows the amount of amortisation, depreciation, and impairment losses added back to determine gross cash flow from operations:

(in thousands of euros)	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Operating—excluding current assets (see note 6.1- C)	(48,558)	(30,612)	(28,850)
Financial	(1,382)	9	(19)
Total	**(49,940)**	**(30,603)**	**(28,869)**

Operating amortisation, depreciation and impairment losses relating to current assets (net charge of €1,721 thousand in 2006 and €1,093 thousand in 2005) are shown as changes in working capital and calculated on the basis of net book values.

▶ 6.3 Breakdown of net charge to depreciation, amortisation and impairment losses on non-current assets

(in thousands of euros)	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Cost of goods sold	(15,270)	(14,237)	(13,320)
Research and development expenses	(6,759)	(6,931)	(6,618)
Selling expenses	(12,411)	(5,398)	(4,744)
General expenses	(5,270)	(3,539)	(3,470)
TOTAL (NOTE 6.1—A)	**(39,710)**	**(30,105)**	**(28,152)**

Note 7 ▶ Other operating income and expenses

This item includes mainly $10 million (i.e. €8.4 million) paid by the Group to Inamed, in March 2006, for the recovery of all its rights to Reloxin® and for the acquisition of the product's worldwide rights, pursuant to the termination agreement signed between the Group and this company in December 2005 (see note 1.1.1).

Note 8 ▶ Financial income and expense

▶ 8.1 Net finance cost

(in thousands of euros)	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Proceed of sale of short-term investments	6,784	1,430	786
Other financial income and expenses	1,190	522	526
Investment income	**7,974**	**1,952**	**1,312**
Interest on debt	(1,357)	(5,875)	(5,707)
Interest on employees' profit sharing fund	(577)	(615)	(615)
Financial expenses on rate option	(157)	(1,369)	(1,369)
Other	(51)	(11)	(10)
Investment expenses	**(2,142)**	**(7,870)**	**(7,701)**
NET FINANCE COST	**5,832**	**(5,918)**	**(6,389)**

The net finance cost was an income of €5.8 million at the end of December 2006, versus an expense of €5.9 million at the end of December 2005 (pro forma). This positive trend is mainly due to the major improvement of the Group's financial position following the increase in capital in December 2005, and to the amounts received in 2006 pursuant to the partnership agreements.

▶ 8.2 Other financial income and expenses

(in thousands of euros)	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Changes in the fair value of the warrant	(1,635)	-	-
Changes in the fair value of the conversion option	(1,099)	-	-
Changes in the fair value of the derivative financial instruments	**(2,734)**	**-**	**-**
Exchange differences on the fair value of the warrant	(409)	-	-
Exchange differences the fair value of the option	(275)	-	-
Other	(1,075)	(467)	(87)
Exchange income and expenses	**(1,759)**	**(467)**	**(87)**
Financial expenses on personnel benefits (note 5.3.3.4)	(2,101)	(1,451)	(1,317)
Other financial expenses	(845)	(523)	(535)
Total other financial expenses	**(7,439)**	**(2,441)**	**(1,939)**
Financial income on personnel benefits (note 5.3.3.4)	1,559	1,273	1,112
Other financial income	173	536	536
Total other financial income	**1,732**	**1,809**	**1,648**
Total other financial income and expenses	**(5,707)**	**(632)**	**(291)**

Changes in the line item other financial income and expenses are mainly due to the impact of the loss in fair value of derivative financial instruments (warrant and option on the Tercica Inc. convertible note) of €2.7 million on 31 December 2006, and to the impact of exchange differences over the period, for a negative amount of €1.8 million, versus €0.5 million in 2005 pro forma.

Note 9 ▶ Restructuring costs

No restructuring costs were recognised in 2005 and in 2006.

The income of €0.2 million in 2006 and €0.5 million in 2005 appearing on this line item represents the reversal of a provision taken in 2004 and partly unused.

Note 10 ▶ Income tax

▶ 10.1 Tax charge

10.1.1 Breakdown of the tax charge

(in thousands of euros)	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Current taxes	(75,118)	(38,925)	(37,160)
Deferred taxes	34,227	4,717	4,517
Actual tax charge	**(40,891)**	**(34,208)**	**(32,643)**

10.1.2 Effective tax rate

(in thousands of euros)	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Net profit from continuing operations	144,787	144,591	122,370
Share in results of associated companies	(1,666)	-	-
Pre-tax profit from continuing operations before the share in results of associated companies	**146,453**	**144,591**	**122,370**
Income taxes	(40,891)	(34,208)	(32,643)
Pre-tax profit from continuing operations before the share in results of associated companies and before tax	187,344	178,799	155,013
Effective tax rate	**21.8%**	**19.1%**	**21.1%**

At 31 December 2006, the Group's effective tax rate was 21.8% of the net profit from continuing operations before tax and share in the results of associated companies, versus 19.1% in 2005 pro forma.

The 2006 effective tax rate benefited from the non-recurrent effect of €7.1 million capital losses carried forward, mainly in the United Kingdom. The possibility to use such losses was uncertain, and so no deferred tax asset had been recognised in the United Kingdom. However, these losses can be used in 2006 due to the capital gain achieved on the Reloxin® agreement signed with Medicis.

The 2006 effective tax rate also benefited from (i) research tax credits in France, Spain, Ireland, the United Kingdom, and the United States amounting to €14.4 million, versus €9.0 million in 2005, (ii) a tax credit for reinvestment in Spain €2.6 million, and (iii) taxes at a favourable rate on €4.5 million in milestone payments received and recognised during the period, versus €21.5 million in 2005.

Save for these non-recurrent effects, the Group's effective tax rate would have been 25.6% in 2006, versus a rate excluding non-recurrent effects of 24.1% in 2005. In 2005, the Group's effective tax rate benefited from the non-recurrent effect of the recognition of deferred tax assets from its United Kingdom, Italian and Dutch subsidiaries whose profitability had improved.

10.1.3 Reconciliation between the actual tax charge and the theoretical tax charge

The following table shows a reconciliation between the effective tax charge and the theoretical charge based on pre-tax profit from continuing operations taxed at the standard French rate of 34.43% in 2006 and 34.93% in 2005.

(in thousands of euros)	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Pre-tax profit from continuing operations before share in the results of associated companies and before tax	187,344	178,799	155,013
Group tax rate	34.43%	34.93%	34.93%
Theoretical tax charge	**(64,503)**	**(62,454)**	**(54,146)**
Increase/decrease in the tax charge arising from:			
Tax credits	18,528	8,889	8,889
Non-recognition of tax effect of certain losses arising during the year	(993)	(578)	(578)
Utilisation of tax losses not recognised as deferred tax assets	7,138	4,000	3,028
Other permanent differences	(1,061)	15,935	10,164
Actual tax charge	**(40,891)**	**(34,208)**	**(32,643)**

▶ 10.2 Deferred tax assets and liabilities

Movements in deferred tax assets and liabilities in 2006:

(in thousands of euros)	31 December 2005	Movements during the year				31 December 2006
		Exchange differences (A)	Changes in the scope of consolidation (B)	Movement	Expense / income in the income statement (C)	
Deferred tax assets	13,096	485	-	15,205	35,239	64,025
Deferred tax liabilities	(1,358)	(1)	-	-	(1,012)	(2,371)
Net assets	**11,738**	**484**	**-**	**15,205**	**34,227**	**61,654**

- Following the Group's legal restructuring in June 2005, Ipsen Farmaceutica BV was granted the right to receive 50% of the financial rights due by Bayer ("Flux Bayer"). This allocation led to the recognition of an asset on the balance sheet of Ipsen Farmaceutica BV valued at the estimated future royalties. The restructuring being based on net book values, this asset is restated in the consolidated financial statements at its historical value for the Group, i.e. zero. The recent change in the income tax position of Ipsen Farmaceutica BV led to the recognition of deferred taxes for this company, and thus to the recognition of a deferred tax asset on "Flux Bayer" recognised directly in equity, the initial restatement having been treated as equity.
- The milestone payments received from various partners (Medicis, Roche, Tercica Inc.) are immediately taxable as they are recognised in income on a straight-line basis over the life of the contracts. This explains most of the changes seen in deferred taxes on the balance sheet.

Changes in tax assets and liabilities in 2005:

(in thousands of euros)	31 December 2004	Movements during the year				31 December 2005
		Exchange differences (A)	Changes in the scope of consolidation (B)	Movement	Expense / income in the income statement (C)	
Deferred tax assets	7,771	75	668	(286)	4,868	13,096
Deferred tax liabilities	(555)	(4)	(312)	(136)	(351)	(1,358)
Net assets	**7,216**	**71**	**356**	**(422)**	**4,517**	**11,738**

Note 11 ▶ Discontinued operations

In October 2005, the Group sold its business of its Spanish subsidiary related to the promotion and sales of primary care products sold exclusively in Spain. The transaction was treated in accordance with IFRS 5. In the income statement, all transactions relating to this business have been grouped together in a single line item entitled "discontinued operations".

In 2006, the income from discontinued operations was generated mainly by the recognition of a price adjustment in favour of the Group following the disposal of its primary care business in Spain in 2005. This income is offset by a tax provision recognised in the United States following a tax inspection related to the disposal of Dynport in 2004.

(in thousands of euros)	31 December 2006	31 December 2005 *Pro forma*	31 December 2005
Operating income	(406)	831	831
Divestment income	4,600	3,947	3,947
Taxes	(4,484)	(362)	(362)
Income from discontinued operations	**(290)**	**4,416**	**4,416**

Note 12 ▶ Goodwill

▶ 12.1 Net goodwill carried on the balance sheet

Movements during 2006:

(in thousands of euros)	31 December 2005	Movements during the year				31 December 2006
		Increases	Decreases	Changes in the scope of consolidation	Exchange differences	
Gross goodwill	199,500	-	-	-	240	199,740
Impairment losses	(10,664)	-	-	-	(240)	(10,904)
Net goodwill	**188,836**	**-**	**-**	**-**	**-**	**188,836**

Gross goodwill carried on the balance sheet at 31 December 2006 breaks down as follows:

- €135,321 thousand arising on the Group's acquisition of SCRAS and its subsidiaries on 17 December 1998;
- €10,904 thousand arising on the acquisition of Sterix Ltd;
- €53,515 thousand arising on the acquisition of BB et Cie (and indirectly Cara Partners).

Movements during 2005:

(in thousands of euros)	31 December 2004	Movements during the year				31 December 2005
		Increases	Decreases	Changes in the scope of consolidation	Exchange differences	
Gross goodwill	145,686	-	-	53,515	299	199,500
Impairment losses	(10,365)	-	-	-	(299)	(10,664)
Net goodwill	**135,321**	**-**	**-**	**53,515**	**-**	**188,836**

▶ 12.2 Impairment of goodwill

No impairment of goodwill was recognised in 2006.

The impairment loss recognised previously concerned the goodwill relating to Sterix Ltd.

Note 13 ▶ Impact of changes in scope of consolidation on the statement of cash flows

Impact at 31 December 2005:

(in thousands of euros)	31 December 2005 Acquisitions
Companies transferred	
Purchase price	(88,816)
Cash and cash equivalents acquired	37,411
Total	**(51,405)**

Note 14 ▶ Other intangible assets

▶ 14.1 Movements

Movements during 2006:

(in thousands of euros)	31 December 2005	Movements during the year						31 December 2006
		Increases	Decreases	Acquisitions	Exchange differences	Transfer to discontinued operations	Other movements	
Intellectual property	71,093	37,664	(744)	-	219	-	1,167	109,399
Intangible assets in progress	265	923	-	-	-	-	(27)	1,161
Advance payments	1,966	2,630	-	-	-	-	(988)	3,608
Cost	**73,324**	**41,217**	**(744)**	**-**	**219**	**-**	**152**	**114,168**
Depreciation and impairment losses	(33,524)	(12,631)	167	-	80	-	(57)	(45,965)
Net	**39,800**	**28,586**	**(577)**	**-**	**299**	**-**	**95**	**68,203**

Changes in cost value of the intellectual property line item are mainly due to an increase in "Licences" resulting mostly from the acquisition of the license to Increlex™ from Tercica Inc., and to the acquisition of the exclusive license to develop and market Acapodene® from GTX Inc. These transactions are detailed notes 1.1.4.1 and 1.1.5, respectively.

Changes in impairment losses are mainly due to impairment losses on the Testim® rights (see comment in note 6.1).

Movements during 2005:

(in thousands of euros)	31 December 2004	Movements during the year						31 December 2005
		Increases	Decreases	Acquisitions	Exchange differences	Transfer to discontinued operations	Other movements	
Intellectual property	51,750	5,087	(914)	13,878	51	(562)	1,803	71,093
Intangible assets in progress	-	282	-	-	-	-	(17)	265
Advance payments	920	1,542	-	-	1	-	(497)	1,966
Cost	**52,670**	**6,911**	**(914)**	**13,878**	**52**	**(562)**	**1,289**	**73,324**
Depreciation and impairment losses	(27,256)	(3,473)	867	(3,838)	(19)	384	(189)	(33,524)
Net	**25,414**	**3,438**	**(47)**	**10,040**	**33**	**(178)**	**1,100**	**39,800**

▶ 14.2 Breakdown by asset type

(in thousands of euros)	31 December 2006			31 December 2005		
	Cost	Amortisation & impairment[1]	Net	Cost	Amortisation & impairment[1]	Net
Brands and trademarks	21,521	(8,957)	12,564	21,567	(8,957)	12,610
Licences	50,267	(11,826)	38,441	17,048	(3,123)	13,925
Patents	6,996	(5,674)	1,322	5,799	(3,780)	2,019
Know-how	8,153	(922)	7,231	8,153	(922)	7,231
Software	19,857	(16,716)	3,141	16,376	(14,725)	1,651
Purchased goodwill	1,853	(1,851)	2	1,907	(1,905)	2
Other intangible assets	750	(19)	731	243	(112)	131
Intangible assets in progress	1,162	-	1,162	265	-	265
Advance payments	3,609	-	3,609	1,966	-	1,966
TOTAL	**114,168**	**(45,965)**	**68,203**	**73,324**	**(33,524)**	**39,800**
(1) of which impairment losses		*(20,469)*			*(11,784)*	

Changes in impairment losses are commented in note 14.1 above.

Note 15 ▶ Property, plant and equipment

▶ 15.1 Breakdown by asset type

Movements by asset type in 2006:

(in thousands of euros)	31 December 2005	Movements during the year						31 December 2006
		Increases	Decreases	Changes in scope of consolidation	Exchange differences	Transfer to discontinued operations	Other movements	
Land	17,263	29	(2)	-	(272)	-	7	17,025
Buildings	151,798	4,731	(337)	-	(2,263)	-	5,821	159,750
Plant & equipment	175,162	8,384	(2,270)	-	(813)	-	10,176	190,639
Other assets	77,246	7,581	(6,313)	-	(315)	-	2,027	80,226
Assets in progress	18,791	19,461	-	-	350	-	(17,686)	20,916
Advance payments	443	444	-	-	-	-	(516)	371
Cost	**440,703**	**40,630**	**(8,922)**	**-**	**(3,313)**	**-**	**(171)**	**468,927**
Depreciation and impairment losses	(252,934)	(27,114)	7,366	-	1,772	-	169	(270,741)
Net	**187,769**	**13,516**	**(1,556)**	**-**	**(1,541)**	**-**	**(2)**	**198,186**

The increase in property, plant & equipment was mainly due to the Group's capital expenditure in the United Kingdom (to complete the new quality control laboratory, and to initiate a project and increase production capacities in Wrexham), as well as other recurring capital expenditure in various Group entities.

Movements by asset type in 2005:

(in thousands of euros)	31 December 2004	Movements during the year						31 December 2005
		Increases	Decreases	Changes in scope of consolidation	Exchange differences	Transfer to discontinued operations	Other movements	
Land	14,936	33	-	2,998	561	-	(1,265)	17,263
Buildings	124,225	693	(67)	17,921	3,533	-	5,493	151,798
Plant & equipment	144,993	6,471	(4,339)	27,149	3,185	(5,205)	2,908	175,162
Other assets	72,488	8,253	(6,960)	1,803	1,009	(385)	1,038	77,246
Assets in progress	8,860	19,390	-	322	34	(882)	(8,933)	18,791
Advance payments	147	876	-	-	1	-	(581)	443
Cost	**365,649**	**35,716**	**(11,366)**	**50,193**	**8,323**	**(6,472)**	**(1,340)**	**440,703**
Depreciation and impairment losses	(212,863)	(24,808)	10,230	(25,548)	(2,968)	2,788	235	(252,934)
Net	**152,786**	**10,908**	**(1,136)**	**24,645**	**5,355**	**(3,684)**	**(1,105)**	**187,769**

▶ 15.2 Breakdown of property, plant & equipment, net of depreciation, by currency

The breakdown by currency of property, plant and equipment, net of depreciation, is as follows:

(in thousands of euros)	31 December 2006		31 December 2005	
	Closing rate	€ thousands	Closing rate	€ thousands
Euro	-	112,790	-	108,225
US dollar	1.3203	16,447	1.1797	18,453
Pound sterling	0.6702	57,351	0.68533	47,772
Swiss franc	1.6039	1,947	1.5551	1,979
Chinese yuan renminbi	10.3184	8,296	10.133755	9,661
Other currencies	-	1,355	-	1,679
TOTAL		**198,186**		**187,769**

Note 16 ▶ Equity investments

▶ 16.1 Movements

Movements during 2006:

(in thousands of euros)	31 December 2005	Movements during the year					31 December 2006
		Acquisitions and increases (A)	Capital reductions (B)	Change in scope of consolidation (C)	Exchange differences	Other movements	
Investments in non-consolidated companies	25,000	15	-	-	316	-	25,331
Impairment losses	(22,344)	(847)	-	-	(315)	-	(23,506)
Net book value	**2,656**	**(832)**	**-**	**-**	**1**	**-**	**1,825**

Movements during 2005:

(in thousands of euros)	31 December 2004	Movements during the year					31 December 2005
		Acquisitions and increases (A)	Capital reductions (B)	Change in scope of consolidation (C)	Exchange differences	Other movements	
Investments in non-consolidated companies	24,577	-	-	31	392	-	25,000
Impairment losses	(21,605)	(348)	-	-	(391)	-	(22,344)
Net book value	**2,972**	**(348)**	**-**	**31**	**1**	**-**	**2,656**

▶ 16.2 Breakdown of equity investments

Equity investments are investments in companies in which the Group owns at least 15% of the share capital, but which are not consolidated.

(in thousands of currency units)	Registered office	% voting rights held	NBV of investment *(euros)*		Financial data *(currency units)*			Interest in equity *(euros)*
			31 Dec. 2006	31 Dec. 2005	Currency	Equity	Net profit for the year	
Sofarm Eurl	Paris	100.00%	8	8	EUR	8	-	8
Technopolis Gie	Paris	27.00%	306	306	EUR	1,091	(55)	295
Sutrepa Sarl	Paris	100.00%	8	8	EUR	8	-	8
Montana Ltd	Cork (Ireland)	100.00%	-	-	EUR	-	-	-
Octagen Corporation	PA (USA)	21.45%	84	126	USD	207	(132)	34
Linnea Inc.	PA (USA)	50.00%	-	-	USD	16	(35)	6
Ipsen Pty	Victoria (Australia)	100.00%	28	28	AUD	564	149	335
Ly Yuan Ginkgo Company Ltd	Tancheng (China)	37.50%	482	482	RMB	7,700	250	280
Funxionale Therapeutics Ltd	Cambridge (UK)	15.58%	15	-	GBP	739	(314)	172
Pizhou Zhong Da Ginkgo Co. Ltd	Pizhou (China)	35.80%	284	284	RMB	5 666	258	197
Spirogen Ltd	Isle of Wight (UK)	17.10%	579	1,383	GBP	2,527	(1,028)	645
Specwood Ltd	London (UK)	100.00%	-	-	GBP	-	-	-
Pothold Ltd	London (UK)	100.00%	-	-	GBP	-	-	-
Petersfield Ltd	Hong Kong (HK)	50.00%	31	31	HKD	4,779	663	233
Socapharm Sarl	Paris	100.00%	-	-	EUR	-	-	-
Total			**1,825**	**2,656**				

▶ 16.3 Information on non-consolidated companies

The following table shows aggregated data for non-consolidated companies at 31 December 2006 (at 100%):

(in thousands of euros)	Sales	Operating income	Net profit	Equity	Total assets
Companies more than 50%-owned	-	142	89	351	375
Companies 50%-owned	3,724	40	40	478	513
Companies less than 50%-owned	2,612	(2,045)	(2,078)	7,507	8,265
TOTAL	**6,336**	**(1,863)**	**(1,949)**	**8,336**	**9,153**

Note 17 ▶ Investment in associated companies

At 31 December 2006, equity investment in associated companies is limited to the acquisition of 25% of Tercica Inc. equity (see note 1.1.4.2).

▶ 17.1 Acquisitions of equity in associated companies

The €63.1 million on this line item in the cash flow table is the price paid by the Group to acquire equity in Tercica Inc.

▶ 17.2 Carrying amount of equity investments in associated companies

Carrying amount of equity investments in associated companies at 31 December 2006:

(in thousands of euros)	31 December 2006
Share of fair value of acquired assets and liabilities in Tercica Inc.	38,858
Goodwill	16,077
Value at the transaction date	**54,935**
Share in the period's income	(1,666)
Consolidation restatements	(47)
Exchange differences	(2,390)
Carrying value at 31 december 2006	**50,832**

17.2.1 Assets and liabilities at their fair value

Using the purchase method has led the Group to recognise an intangible asset in the balance sheet of the acquired company, for the value of the product held in licence by Tercica Inc., and not recognised as an asset of the company at the date of transaction.

This intangible asset is recognised at $76.2 million net of deferred taxes in the financial statements of Tercica Inc. The share acquired by Ipsen is valued at $19.0 million, i.e. €15.0 million.

17.2.2 Goodwill

Goodwill relating to the acquisition of Tercica Inc.:

(in thousands of euros)	31 December 2006
Acquisitions of equity in Tercica Inc.	63,082
Warrant application [1]	(8,147)
Acquisition cost	**54,935**
Share in the fair value of acquired assets and liabilities	38,858
Goodwill	**16,077**

(1) The corresponding adjustment for this application is found in derivative instruments recognised at their fair value (notes 19 and 25.3).

Note 18 ▶ Net gains or losses on disposal of non-current assets

(in thousands of euros)	31 December 2006	31 December 2005 pro forma	31 December 2005
Capital gains or losses on disposal of intangible assets	63	47	47
Capital gains or losses on disposal of property, plant & equipment	(940)	185	168
Capital gains or losses on disposal of equity investments	-	-	-
Total	**(877)**	**232**	**215**

Note 19 ▶ Other non-current assets

Other non-current assets in 2006:

(in thousands of euros)	31 December 2005	Movements during the year: Other cash flows related to investing activities (A)	Change in plan assets (B)	Reclassification of derivatives [2] (C)	Fair value changes in profit & loss (D)	Exchange differences (E)	Other movements (F)	31 December 2006
Convertible note [1]	-	20,966		(5,477)	-	-	-	15,489
Loans—Non-consolidated companies	524	3		-	-	-	(500)	27
Deposits and other financial assets	989	1,025		-	-	(12)	500	2,502
Other	*1,513*	*1,028*		-	-	*(12)*	-	*2,529*
Loans, receivables and other assets	**1,513**	**21,994**		**(5,477)**	**-**	**(12)**	**-**	**18,018**
Net assets of post-employment benefit plans [3]	1,158	-	1,220	-	-	-	-	2,378
Conversion option of the convertible note	-	-		5,477	(1,099)	(275)	-	4,103
Warrant	-	-		8,147	(1,636)	(409)	-	6,102
Derivative instruments recognised at fair value	-	-		*13,624*	*(2,735)*	*(684)*	-	*10,205*
Financial assets at fair value	**1,158**	**-**	**1,220**	**13,624**	**(2,735)**	**(684)**	**-**	**12,583**
Total other non-current assets	**2,671**	**21,994**	**1,220**	**8,147**	**(2,735)**	**(696)**	**-**	**30,601**

Change on this line item are mainly due to the recognition of the convertible note issued by Tercica Inc. and of the derivative instruments related to the transaction with Tercica Inc. (see notes 1.1.4.1 and 25.3).

(1) Breakdown of the cash flow related to the convertible note amounting to €20.966 thousand:

(in thousands of euros)	31 December 2006
Convertible note	19,997
Issue expenses	691
Amortisation based on effective interest rate	175
Accrued interest	103
Total	**20,966**

(2) See note 25.3.

(3) See note 5.3.3.3.

Other non-current assets in 2005:

(in thousands of euros)	31 December 2004	Movements during the year					31 December 2005
		Other cash flows related to investing activities (A)	Change in plan assets (B)	Change in scope of consolidation (C)	Exchange differences (D)	Other movements (F)	
Loans	2,451	512		(2,439)	-	-	524
Deposits and other financial assets	1,482	(37)		-	44	(500)	989
Loans, receivables and other assets	**3,933**	**475**		**(2,439)**	**44**	**(500)**	**1,513**
Net assets of post-employment benefit plans [1]	515	-	474	169	-	-	1,158
Financial assets at fair value	**515**	**-**	**474**	**169**	**-**	**-**	**1,158**
Total other non-current assets	**4,448**	**475**	**474**	**(2,270)**	**44**	**(500)**	**2,671**

(1) See note 5.3.3.3

Note 20 ▶ Working capital items

▶ 20.1 Movements

Movements in 2006:

(in thousands of euros)	31 December 2005	Movements during the year							31 December 2006
		Change in w/cap related to operating activities (A)	Change in w/cap related to investing activities (B)	Change in w/cap related to financing activities (C)	Change in scope of consolidation (D)	Exchange differences (E)	Fair value changes in profit & loss (F)	Other movements (G)	
Inventories	74,390	4,644	-	-	-	(94)	-	7	78,947
Trade receivables	164,681	27,419	-	-	-	(12)	-	(386)	191,702
Trade payables	(107,045)	(7,121)	-	-	-	38	-	307	(100,269)
Current tax assets	10,951	(8,222)	-	-	-	(64)	-	-	2,665
Current tax liabilities	(2,223)	(24,829)	-	-	-	(163)	-	-	(27,215)
Current assets	*42,948*	*382*	*(31)*	*16*	-	*209*	-	*176*	*43,700*
Current derivative financial instruments	*18*	-	-	-	-	-	*883*	-	*901*
Other current assets	*42,966*	*382*	*(31)*	*16*	-	*209*	*883*	*176*	*44,601*
Other current liabilities	(113,525)	(8,064)	(5,765)	(186)	-	(118)	-	12,834	(114,824)
Other non-current liabilities	-	(158,460)	-	-	-	(1,573)	-	(12,237)	(172,270)
Interest on other financial liabilities [1]	(838)	-	-	(294)	-	(1)	-	336	(797)
TOTAL	**69,357**	**(160,009)**	**(5,796)**	**(464)**	**-**	**(1,854)**	**883**	**423**	**(97,460)**

(1) The change in interest on other financial liabilities is shown in note 24.1 (D).

Changes in other non-current assets are due to the recognition in deferred income of the payments received pursuant to the partnership agreements with Medicis, Recordati and Roche.

The income generated by these contracts being recognised on a straight-line basis over the life of the contracts, the part unrecognised as income is recognised in "other non-current liabilities" if it expires after 12 months, and in "other current liabilities" if it expires before 12 months.

Movements in 2005:

		Movements during the year							
(in thousands of euros)	31 December 2004	Change in w/cap related to operating activities (A)	Change in w/cap related to investing activities (B)	Change in w/cap related to financing activities (C)	Change in scope of consolidation (D)	Exchange differences (E)	Fair value changes in profit & loss (F)	Other movements (G)	31 December 2005
Inventories	65,087	8,100	-	-	3,542	400	(2,746)	7	74,390
Trade receivables	160,234	3,943	-	-	2,671	564	(3,175)	444	164,681
Trade payables	(99,944)	(8,049)	-	-	(1,304)	(807)	1,427	1,632	(107,045)
Current tax assets	1,710	8,904	-	-	6	41	-	290	10,951
Current tax liabilities	(8,079)	7,453	-	-	(1,548)	(49)	-	-	(2,223)
Current assets	*44,671*	*8,169*	*49*	-	*(10,259)*	*318*	-	-	*42,948*
Current derivative financial instruments	-	-	-	-	-	-	-	*18*	*18*
Other current assets	44,671	8,169	49	-	(10,259)	318	-	18	42,966
Other current liabilities	(92,481)	(29,139)	6,729	1,334	(682)	(872)	915	671	(113,525)
Interest on other financial liabilities [1]	(3,076)	-	-	2,106	-	(72)	-	204	(838)
Total	**68,122**	**(619)**	**6,778**	**3,440**	**(7,574)**	**(477)**	**(3,579)**	**3,266**	**69,357**

(1) The change in interest on other financial liabilities is shown in note 24.1 (D).

▶ 20.2 Breakdown

20.2.1 Inventories

(in thousands of euros)	31 December 2006	31 December 2005
Raw materials and supplies	22,590	22,259
Work in progress	18,088	17,522
Finished goods	38,269	34,609
TOTAL	**78,947**	**74,390**

20.2.2 Other current assets

(in thousands of euros)	31 December 2006	31 December 2005
Advance payments to suppliers	1,412	1,303
Receivables relating to sale of non-current assets	49	80
VAT recoverable	12,705	17,225
Other operating receivables	18,090	14,833
Other assets	1,972	2,040
Prepayments	9,472	7,467
Derivative financial instruments	901	18
Total	**44,601**	**42,966**

20.2.3 Other current and non-current liabilities

(in thousands of euros)	31 December 2006	31 December 2005
VAT payable	5,569	8,428
Other current tax liabilities	8,876	12,992
Employee-related liabilities	56,520	49,259
Amounts due to non-current asset suppliers	18,082	12,192
Other liabilities	10,935	8,119
Deferred income	14,842	22,535
Total other current liabilities	**114,824**	**113,525**
Non-current deferred income	172,270	-
Total other non-current liabilities	**172,270**	**-**
Total other current and non-current liabilities	**287,094**	**113,525**

Changes in other non-current liabilities are detailed in note 20.1.

Note 21 ▶ Cash and cash equivalents

▶ 21.1 Net cash and cash equivalents

21.1.1 Opening net cash and cash equivalents

(in thousands of euros)	Consolidated balance sheet at 1 January 2006	Consolidated balance sheet at 1 January 2005 *pro forma*	Consolidated balance sheet at 1 January 2005
Cash and cash equivalents—**assets**	202,034	94,321	19,299
Bank overdrafts—**liabilities**	(1,470)	(1,558)	(1,557)
Opening net cash and cash equivalents	**200,564**	**92,763**	**17,742**

21.1.2 Closing net cash and cash equivalents

(in thousands of euros)	Consolidated balance sheet at 31 December 2006	Consolidated balance sheet at 31 December 2005
Cash and cash equivalents—**assets**	285,459	202,034
Bank overdrafts—**liabilities**	(1,716)	(1,470)
Closing net cash and cash equivalents	**283,743**	**200,564**

▶ 21.2 Breakdown of cash and cash equivalents

(in thousands of euros)	31 December 2006	31 December 2005
Cash on hand	31,026	19,060
Short-term investments	243,670	174,458
Interest-bearing deposits	10,763	8,516
Cash and cash equivalents	**285,459**	**202,034**

Short-term investments include investments in risk-free mutual funds (mostly money market SICAVs or similar funds) which are carried at cost. Unrealised capital gains at the reporting dates were not material.

Short-term investments are immediately realisable. No interest bearing deposits held at 31 December 2006 matured after the end of January 2007.

Note 22 ▶ Consolidated equity

▶ 22.1 Share capital

At 31 December 2006, like at 31 December 2005, Ipsen S.A.'s share capital was €84,024,683 divided into 84,024,683 shares each with a nominal value of €1, including 58,605,000 with double voting rights.

▶ 22.2 Equity attributable to equity holders of the parent

22.2.1 Breakdown

(in thousands of euros)	31 December 2006	31 December 2005
Ipsen S.A. share capital	84,025	84,025
Share premiums	708,994	708,994
Ipsen S.A. statutory reserve	44,686	44,686
Other Ipsen S.A. reserves	274,983	257,832
Other consolidated reserves and retained earnings	(386,202)	(475,771)
Total	**726,486**	**619,766**

22.2.2 Movements in share capital and share premiums at 31 December 2005 and 31 December 2006

(in thousands of euros)	31 December 2006	31 December 2005
Share capital	84,025	84,025
Transfer premium	29,809	29,809
Share premium	679,185	679,185
Total premiums	**708,994**	**708,994**

▶ 22.3 Basic earnings per share

Basic earnings per share is calculated on the weighted average number of shares outstanding during the year (see note 3.27).

Movements in the number of outstanding shares over the two periods are shown in note 22.5.

22.3.1 Basic earnings per share on continuing operations

		31 December 2006	31 December 2005 pro forma	31 December 2005
Net profit on continuing operations—attributable to equity holders of the parent *(in thousands of euros)*	(a)	144,296	144,222	114,814
Average number of outstanding shares during the year	(b)	84,000,717	67,418,123	67,418,123
Basic earnings per share on continuing operations *(in euros)*	**(A) / (B)**	**1.72**	**2.14**	**1.71**

22.3.2 Basic earnings per share on discontinued operations

		31 December 2006	31 December 2005 pro forma	31 December 2005
Net profit from discontinued operations—attributable to equity holders of the parent *(in thousands of euros)*	(a)	(290)	4,416	4,416
Average number of outstanding shares during the year	(b)	84,000,717	67,418,123	67,418,123
Basic earnings per share on discontinued operations *(in euros)*	**(A) / (B)**	**0.00**	**0.06**	**0.06**

22.3.3 Basic earnings per share

		31 December 2006	31 December 2005 *pro forma*	31 December 2005
Net profit attributable to equity holders of the parent *(in thousands of euros)*	(a)	144,006	148,638	119,230
Average number of outstanding shares during the year	(b)	84,000,717	67,418,123	67,418,123
Basic earnings per share *(in euros)*	**(A) / (B)**	**1.71**	**2.20**	**1.77**

▶ 22.4 Diluted earnings per share

The Mayroy stock options plans granted by Mayroy are not dilutive.

The stock option plans granted by Ipsen in 2005 were not dilutive at 31 December 2005, but are dilutive at 31 December 2006.

The stock option plans granted by Ipsen Board of Directors on 12 December 2006 are dilutive at 31 December 2006.

The bonus shares granted are contingent upon the Group's achievement of certain performance conditions and were therefore not dilutive at 31 December 2005 nor at 31 December 2006.

Diluted earnings per share is calculated taking into account the dilutive instruments described above.

22.4.1 Diluted earnings on continuing operations

	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Diluted earnings on continuing operations—attributable to equity holders of the parent *(in thousands of euros)*	144,296	144,222	114,814
Average number of shares in issue during the year	84,024,179	67,418,123	67,418,123
Diluted earnings on continuing operations—attributable to equity holders of the parent *(in euros)*	**1.72**	**2.14**	**1.71**

22.4.2 Diluted earnings on discontinued operations

	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Diluted earnings on discontinued operations—attributable to equity holders of the parent *(in thousands of euros)*	(290)	4,416	4,416
Average number of shares in issue during the year	84,024,179	67,418,123	67,418,123
Diluted earnings on discontinued operations—attributable to equity holders of the parent *(in euros)*	**0.00**	**0.06**	**0.06**

22.4.3 Diluted earnings per share

	31 December 2006	31 December 2005 *pro forma*	31 December 2005
Diluted earnings—attributable to equity holders of the parent *(in thousands of euros)*	144,006	148,638	119,230
Average number of shares in issue during the year	84,024,179	67,418,123	67,418,123
Diluted earnings—attributable to equity holders of the parent *(in euros)*	**1.71**	**2.20**	**1.77**

▶ 22.5 Average number of shares in issue

22.5.1 Average weighted number of shares in issue to calculate basic earnings per share

22.5.1.1 Average weighted number of shares at 31 December 2006

Number of ordinary shares at 31 December 2005	84,024,683
Treasury shares (average weighted number)	(23,966)
Average number of shares in issue at 31 december 2006	**84,000,717**

22.5.1.2 Average weighted number of shares at 31 December 2005

Number of ordinary shares at 31 December 2004	29,302,500
Retrospective impact as of 1 January of the reduction in nominal value and two for one stock split (A)	58,605,000
Impact of transfers (30 June 2005) after the two for one stock split, on a time weighted basis (B)	8,165,745
Impact of new shares issued as a result of the IPO (6 December 2005), on a time-weighted basis (C)	647,378
Average number of shares in issue at 31 december 2005 (D = A+ B+ C)	**67,418,123**

22.5.2 Average weighted number of shares in issue to calculate diluted earnings per share

22.5.2.1 Average weighted number of shares at 31 December 2006

Average weighted number of shares in issue at 31 December 2006 used to determine the basic earnings per share	84,000,717
Dilutive effect of stocks options	23,462
Average weighted number of shares in issue at 31 december 2006	**84,024,179**

22.5.2.2 Average weighted number of shares at 31 December 2005

Number of ordinary shares at 31 December 2004	29,302,500
Retrospective impact as of 1 January of the reduction in nominal value and two for one stock split (A)	58,605,000
Impact of transfers (30 June 2005) after the two for one stock split, on a time weighted basis (B)	8,165,745
Impact of new shares issued as a result of the IPO (6 December 2005), on a time-weighted basis (C)	647,378
Average weighted number of shares in issue at 31 december 2005 (D = A+ B+ C)	**67,418,123**

▶ 22.6 Dividends

Dividends paid by Ipsen S.A. are as follows:

	December 2006	December 2005
Dividend payout *(in euros)*	50,407,010	29,302,500
Number of shares on the payment date	84,011,683	29,302,500
Dividend per share *(in euros)*	0.60	1.00

Note 23 ▶ Provisions

▶ 23.1 Movements

Movements in 2006:

(in thousands of euros)	31 December 2005	Change in scope of consolidation	Movements during the year					31 December 2006
			Charges	Reversals		Exchange differences	Other movements	
				Used	Released			
Business and operating risks	4,277	-	-	(476)	(842)	-	(110)	2,849
Legal risks	6,717	-	7,709	(691)	(285)	46	110	13,606
Restructuring	443	-	-	(242)	(115)	(13)	(65)	8
Interest rate risk	-	-	-	-	-	-	-	-
Other	138	-	94	(16)	-	-	65	281
Total provisions	**11,575**	**-**	**7,803**	**(1,425)**	**(1,242)**	**33**	**-**	**16,744**
current	**3,309**	-	3,256	(988)	(238)	(16)	-	**5,323**
non-current	**8,266**	-	4,547	(437)	(1,004)	49	-	**11,421**

Business and operating risks

These provisions cover business risks for amounts which the Group may have pay to solve various commercial disputes with a limited individual impact.

Legal risks

These provisions include:

- €8.0 million for the risk of tax reassessment in the Group's various subsidiaries, and for additional taxes which the Group may have to pay;
- €3.0 million for costs that the Group may incur with respect to industrial tribunal disputes;
- €2.6 million for other legal risks.

Restructuring costs

This item comprises restructuring costs connected with the discontinuation of Hyate:C® in 2004.

Movements in 2005:

(in thousands of euros)	31 December 2004	Change in scope of consolidation	Movements during the year					31 December 2005
			Charges	Reversals		Exchange differences	Other movements	
				Used	Released			
Business and operating risks	4,647	368	241	(855)	-	-	(124)	4,277
Legal risks	5,606	57	5,264	(3,366)	-	40	(884)	6,717
Restructuring	2,916	-	-	(1,620)	(530)	81	(404)	443
Interest rate risk	535	-	-	(535)	-	-	-	-
Other	148	-	6	(16)	-	-	-	138
Total provisions	**13,852**	**425**	**5,511**	**(6,392)**	**(530)**	**121**	**(1,412)**	**11,575**
current	**4,130**	25	2,716	(2,709)	(530)	81	(404)	**3,309**
non-current	**9,722**	400	2,795	(3,683)	-	40	(1,008)	**8,266**

▶ 23.2 Impact on results at 31 December 2006

(in thousands of euros)	Charges	Releases	Net impact
Operating income	7,803	(1,242)	6,561
Other financial income and expenses	-	-	-
Net profit—expense/(income)	**7,803**	**(1,242)**	**6,561**

Note 24 ▶ Bank loans and financial liabilities

▶ 24.1 Movements

Movements between 31 December 2005 and 31 December 2006:

(in thousands of euros)	31 December 2005	Additions (A)	Repayments (B)	Net change in short-term borrowings (C)	Net change in interest (D)	Changes in fair value (E)	Movements (F)	Change in scope of consolidation (G)	Exchange differences (H)	31 December 2006
Short-term debt	37,751	-	(31,644)	-	-	-	-	-	179	6,286
Other financial liabilities	15,508	-	-	-	242	-	(437)	-	-	15,313
Non-current	**53,259**	**-**	**(31,644)**	**-**	**242**	**-**	**(437)**	**-**	**179**	**21,599**
Short-term debt	7,074	-	-	(89)	-	-	-	-	(12)	6,973
Derivative financial instruments	*294*	-	-	-	-	*(290)*	-	-	-	*4*
Other financial liabilities	*1,466*	-	*(180)*	-	*52*	-	*909*	-	-	*2,247*
Financial liabilities	1,760	-	(180)	-	52	(290)	909	-	-	2,251
Current	**8,834**	**-**	**(180)**	**(89)**	**52**	**(290)**	**909**	**-**	**(12)**	**9,224**
Total	**62,093**	**-**	**(31,824)**	**(89)**	**294**	**(290)**	**472**	**-**	**167**	**30,823**

Movements between 31 December 2004 and 31 December 2005:

(in thousands of euros)	31 December 2004	Additions (A)	Repayments (B)	Net change in short-term borrowings (C)	Net change in interest (D)	Movements (E)	Change in scope of consolidation (F)	Exchange differences (G)	31 December 2005
Short-term debt	171,013	12,152	(189,868)	-	-	(22)	43,997	479	37,751
Other financial liabilities	23,093	900	(10,980)	-	364	1,788	-	343	15,508
Non-current	**194,106**	**13,052**	**(200,848)**	**-**	**364**	**1,766**	**43,997**	**822**	**53,259**
Short-term debt	648	-	-	(3,095)	-	-	9,523	(2)	7,074
Derivative financial instruments	-	-	-	-	-	*294*	-	-	*294*
Other financial liabilities	*3,216*	-	*(101)*	-	*(2,470)*	*749*	-	*72*	*1,466*
Financial liabilities	3,216	-	(101)	-	(2,470)	1,043	-	72	1,760
Current	**3,864**	**-**	**(101)**	**(3,095)**	**(2,470)**	**1,043**	**9,523**	**70**	**8,834**
Total	**197,970**	**13,052**	**(200,949)**	**(3,095)**	**(2,106)**	**2,809**	**53,520**	**892**	**62,093**

In 2006, drawdowns on the credit lines were very limited due to receipt of the proceeds from the initial public offering (€191.8 million) in December 2005, and to the receipt of significant amounts pursuant to the implementation of partnership agreement (see note 1). However, the lines are still available up to a maximum of €241.2 million at 31 December 2006.

In June 2005, Ipsen S.A. signed four bilateral credit agreements totalling €275.6 million for a period of five years. The new credit lines are multi-currency and multi-borrower and can be used in the form of short-term drawdowns from 1 to 12 months at the borrower's initiative, to adapt the Group's borrowings to its cash profile. Ipsen S.A. is required to guarantee drawdowns made its subsidiaries. The total sums drawn down must at all times remain below the following maximum limits, which decrease over time:

30 June 2006	€241.2 million
30 June 2007	€206.7 million
30 June 2008	€172.3 million
30 June 2009	€137.8 million
30 June 2010	-

At 31 December 2006, a total of €6.3 million was drawn down on the credit lines.

In addition to the customary contractual clauses, these credit lines require the Group to comply with various financial covenants on a consolidated basis on each reporting date. The covenants include a maximum ratio of net debt to equity and a maximum ratio of net debt to EBITDA.

The maximum ratios are as follows:

- Net debt to equity: 1
- Net debt to EBITDA: 2.5 to 3

In the event of default, the banks have the right to demand early repayment of the credit lines.

At 31 December 2005, the Group complied with these covenants.

Aggregated data used to calculate the ratios

(in thousands of euros)	December 2006	December 2005 *pro forma*
Balance sheet debt		
Non-current bank loans	6,286	37,751
Other financial liabilities	15,313	15,508
Current bank loans	6,973	7,074
Financial liabilities	2,251	1,760
Balance sheet debt (A)	**30,823**	**62,093**
Cash and cash equivalents		
Cash and cash equivalents	(285,459)	(202,034)
Bank overdrafts	1,716	1,470
Cash and cash equivalents (B)	**(283,743)**	**(200,564)**
Net debt used for calculation of ratio		
Balance sheet debt and cash and cash equivalents (A) + (B)	(252,920)	(138,471)
Derivative instruments	4	(294)
Net debt (I)	**(252,916)**	**(138,765)**
Equity (II):		
Equity attributable to equity holders of the parent		
Share capital	84,025	84,025
Share premiums and consolidated reserves	506,244	420,591
Net profit for the year	144,006	119,230
Exchange differences	(7,789)	(4,080)
Equity (II)	**726,486**	**619,766**
EBITDA (III):		
Net profit	**144,497**	**149,007**
Net profit from discontinued operations	290	(4,416)
Income taxes	40,891	34,208
Other financial income and expenses	5,707	632
Net finance cost	(5,832)	5,918
Operating income	**185,553**	**185,349**
Depreciation, amortisation, provisions and impairment losses	50,279	29,518
EBITDA (III)	**235,832**	**214,867**

Ratio calculation

(in thousands of euros)		December 2006	December 2005 *pro forma*
Net debt	(I)	(252,916)	(138,765)
Equity attributable to equity holders of the parent	(II)	726,486	619,766
EBITDA	(III)	235,832	214,867
Net debt / equity	**(I)/(II)**	**-0.35**	**-0.22**
Net debt / EBITDA	**(I)/(III)**	**-1.07**	**-0.65**

At 31 December 2006 like at 31 December 2005, the Group had a cash surplus; consequently the ratio calculation is presented exclusively to show the method of calculation.

▶ 24.2 Breakdown by maturity

The credit lines put in place as part of the refinancing can be utilised in the form of drawdowns of 1 to 12 months. Total drawdowns must comply with the maximum limits set out in note 24.1.

▶ 24.3 Breakdown by currency

The Group's financial liabilities by currency break down as follows:

	31 December 2006			31 December 2005		
(in thousands of euros)	Closing rate	Amount	%	Closing rate	Amount	%
Euro	-	23,894	77.53%	-	23,977	38.80%
Pound sterling	-	-	-	0.70505	30,714	49.70%
US dollar	1.32030	6,302	20.45%	1.17970	7,108	11.50%
Swiss franc	1.60390	623	2.02%	-	-	-
Total	**-**	**30,819**	**100.00%**	**-**	**61,799**	**100.00%**
Derivative financial instruments	**-**	**4**	**-**	**-**	**294**	**-**
Total long-term financial liabilities		**30,823**	**-**		**62,093**	**-**

▶ 24.4 Collateralised debt

At 31 December 2006, the Group had not granted any interest in collateral against its borrowings.

Note 25 ▶ Derivative financial instruments

▶ 25.1 Interest rate risk

In 1998, the interest rate risk on the floating rate syndicated loan was partially hedged through floating to fixed-rate swaps maturing in 2006. The hedges were left in place following the refinancing, and no new hedges were put in place. Since 1 January 2005, the swaps are no longer treated as interest rate hedges. At 31 December 2006, there are no remaining swaps as all those described above have matured.

▶ 25.2 Exchange rate risk

The Group uses derivative instruments to manage its operational exchange rate risk. Invoices issued by its subsidiaries in foreign currencies are hedged against exchange rate risk principally through forward currency contracts matching the invoice amounts.

	Fair value of items recognised in the balance sheet *(in thousands of currency units)*				Market value at 31 December 2006
	USD	PLN	GBP	CZK	
Forward currency contracts matching invoice amounts	10,728	13,217	23,500	19,254	897
Other forward contracts	300	-	-	-	N / S
Total					**897**

▶ 25.3 Other derivative instruments

Other derivative instruments include the warrant and the convertible note related to the Tercica Inc. transaction described in paragraph 1.1.4.2.

- The warrant attached to the Tercica Inc. shares is consolidated at equity and recognised at its fair value. The fair value determined using the Black & Scholes model at the date of transaction is €8.1 million. The warrant being intrinsically linked to the shares subscribed by the Group through the relevant capital increase, the counterpart of this financial asset corresponds to a reduction in the purchase price of the Tercica Inc. shares. At the reporting date, the change in the fair value initially defined is recognised in financial income and expenses as €2 million (including €0.4 million for the exchange rate impact), thereby bringing the warrant's value to €6.1 million at 31 December 2006;
- The conversion option is attached to the convertible note 1 issued by Tercica Inc.

The convertible note includes two components, both recognised in non-current financial assets:

- the "note" component, measured at its amortised cost, is recognised in loans and receivables, and subsequent changes in value are recognised in financial income and expenses,
- the "conversion option" component, measured at its fair value, is recognised in derivative financial instruments, and subsequent changes are recognised in financial income and expenses.

At the transaction date, the Group distributed the convertible note 1 subscription, issued by Tercica Inc. for a total amount of €20.7 million, the "note" component amounting to €15.2 million, and the « conversion option » component amounting to €5.5 million.

At 31 December 2006:

- The change in fair value of the "conversion option" component was recognised in financial income and expenses at €1.4 million (including €0.3 million for the exchange rate impact), thereby bringing the total to €4.1 million,
- Accrued interests and amortisation of the note using the effective interest method amount to, respectively, €0.1 million and €0.2 million, thereby bringing the value of the "note" component at the reporting date to €15.5 million.

▶ 25.4 Derivative financial instruments recognised in the balance sheet

Derivative financial instruments recognised in the balance sheet at 31 December 2006:

(in thousands of euros)	31 December 2006		31 December 2005	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Market value of interest rate instruments (note 25.1)	-	-	-	161
Market value of currency instruments (note 25.2)	901	4	18	133
Warrant (note 19)	6,102	-	-	-
Conversion option attached to the convertible note (note 19)	4,103	-	-	-
Total	**11,106**	**4**	**18**	**294**

▶ 25.5 Derivative financial instruments in the statement of cash flows

Fair value changes in profit and loss of derivative financial instruments at 31 December 2006 (in thousands of euros):

Fair value changes of exchange derivative financial instruments (Assets)—(note 20.1—F)	(883)
Fair value changes of exchange derivative financial instruments (Liabilities)—(note 24.1—E)	(290)
Fair value changes of exchange derivative financial instruments	**(1,173)**
Fair value changes of warrant	1,636
Fair value changes of conversion option	1,099
Fair value changes of other derivative financial instruments (note 19—D)	**2,735**
Net changes in fair value in profit and loss of derivative financial instruments	**1,562**

Note 26 ▶ Information on joint venture companies

▶ 26.1 Balance sheet items

26.1.1. Balance sheet at 31 December 2006

(in thousands of euros)	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Companies				
Cara Partners	8,553	5,871	303	6,806
Garnay Inc.	1,085	2,238	-	25
Linnea S.A.	2,076	9,142	761	5,298
Perechin Company	-	2	-	1
Portpirie Company	-	1	-	-
Saint-Jean d'Illac	2,587	64	91	2,270
Wallingstown Company	1,523	6,706	184	950
Wallingstown Company Ltd	-	77	1	3
Total	**15,824**	**24,101**	**1,340**	**15,353**

26.1.2 Balance sheet at 31 December 2005

(in thousands of euros)	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Companies				
Cara Partners	8,794	6,315	293	7,605
Garnay Inc.	1,225	2,326	-	42
Linnea S.A.	2,151	7,899	775	3,791
Perechin Company	-	6	-	4
Portpirie Company	-	1	-	-
Saint-Jean d'Illac	2,704	106	104	1,759
Wallingstown Company	1,603	8,538	368	1,135
Wallingstown Company Ltd	56	31	1	12
Total	**16,533**	**25,222**	**1,541**	**14,348**

▶ 26.2 Income statement items

26.2.1 Income statement for the year ended 31 December 2006

(in thousands of euros)	Non-current assets	Current assets	Non-current liabilities
Companies			
Cara Partners	1,876	(7,363)	6,742
Garnay Inc.	205	(732)	18
Linnea S.A.	8,811	(8,611)	(77)
Perechin Company	-	(1)	(2)
Portpirie Company	-	-	-
Saint-Jean d'Illac	301	(1,206)	162
Wallingstown Company	9,609	(2,050)	7,808
Wallingstown Company Ltd	-	(238)	(5)
TOTAL	**20,802**	**(20,201)**	**14,646**

26.2.2 Income statement for the year ended 31 December 2005

(in thousands of euros)	Non-current assets	Current assets	Non-current liabilities
Companies			
Cara Partners	1,960	(6,341)	6,703
Garnay Inc.	294	(806)	223
Linnea S.A.	8,995	(8,530)	268
Perechin Company	-	(1)	(3)
Portpirie Company	-	-	-
Saint-Jean d'Illac	505	(1,182)	789
Wallingstown Company	12,965	(4,667)	9,394
Wallingstown Company Ltd	-	(204)	(2)
Total	**24,719**	**(21,731)**	**17,372**

Note 27 ▶ Information on associated companies

The information presented below is based on the financial statements of Tercica Inc. under IFRS (at 100%).

	At 31 December 2006		Q4 2006 [1]	
(in thousands of dollars)	Assets	Liabilities	Sales	Income for the period
Companies				
Tercica Inc.	167,413	53,719	942	(7,586)
Total	**167,413**	**53,719**	**942**	**(7,586)**

(1) i.e. since the date of the transaction.

Note 28 ▶ Information on related parties

▶ 28.1 Directors' and senior executives' emoluments

- Emoluments paid in 2006 to Directors and members of the Executive Committee amounted to €1,987 thousand and €3,110 thousand respectively, bringing the total to €5,096 thousand.
- Pension and similar benefits for Directors and members of the Executive Committee amounted to €4,097 thousand and €2,438 thousand respectively at 31 December 2006, making a total of €6,535 thousand.
- The Board of Directors has undertaken to make certain payments to the Chairman in respect of his executive office (cash bonus and bonus shares), the amount of which is contingent upon the Group's achievement of certain performance conditions. The Chairman is also entitled to a departure package equal to thirty months of his emoluments as executive officer.

At 31 December 2006, there were no other commitments to current or former Group directors.

▶ 28.2 Transactions with related parties

28.2.1 Income statement items at 31 December 2006

(in thousands of euros)	Revenue	Operating expenses	Charge to provisions and losses on irrecoverable loans
Parent company	-	-	-
Non-consolidated subsidiaries	201	(2,987)	847
Joint ventures	7,363	(21,448)	
Companies over which the Group's executive officers exercise significant influence [1]	-	(1,726)	-
Total	**7,564**	**(26,161)**	**847**

(1) Rents due by certain Group companies to property companies belonging to certain executive officers of the Group.

28.2.2 Income statement items at 31 December 2005 pro forma

(in thousands of euros)	Revenue	Operating expenses	Charge to provisions and losses on irrecoverable loans
Parent company	1	(499)	-
Non-consolidated subsidiaries	589	-	348
Joint ventures	7,056	(21,523)	-
Companies over which the Group's executive officers exercise significant influence [1]	-	(1,612)	-
Total	**7,646**	**(23,634)**	**348**

(1) Rents due by certain Group companies to property companies belonging to certain executive officers of the Group.

28.2.3 Income statement items at 31 December 2005

(in thousands of euros)	Revenue	Operating expenses	Charge to provisions and losses on irrecoverable loans
Parent company	-	(420)	-
Non-consolidated subsidiaries	589	-	348
Joint ventures	4,723	(11,174)	-
Companies over which the Group's executive officers exercise significant influence [1]	-	(1,612)	-
Total	**5,312**	**(13,206)**	**348**

(1) Rents due by certain Group companies to property companies belonging to certain executive officers of the Group.

28.2.4 Balance sheet items at 31 December 2006

(in thousands of euros)	Loans / receivables	Trade receivables	Bank loans / payables	Trade payables
Parent company	-	-	-	-
Non-consolidated subsidiaries	-	24	88	74
Joint ventures	1,050	904	1,930	3,292
Companies over which the Group's executive officers exercise significant influence [1]	-	-	-	517
Total, gross	**1,050**	**928**	**2,018**	**3,883**
Less provisions for doubtful debts	-	-	-	-
Total, net	**1,050**	**928**	**2,018**	**3,883**

(1) Rents due by certain Group companies to property companies belonging to certain executive officers of the Group.

28.2.5 Balance sheet items at 2005

(in thousands of euros)	Loans / receivables	Trade receivables	Bank loans / payables	Trade payables
Parent company	-	-	-	-
Non-consolidated subsidiaries	-	32	-	26
Joint ventures	457	1,918	6,145	3,517
Companies over which the Group's executive officers exercise significant influence [1]	-	-	-	482
Total, gross	**457**	**1,950**	**6,145**	**4,025**
Less provisions for doubtful debts	-	-	-	-
Total net	**457**	**1,950**	**6,145**	**4,025**

(1) Rents due by certain Group companies to property companies belonging to certain executive officers of the Group.

28.2.6 Off-balance sheet commitments

These include rent commitments to companies over which executive officers of the Group exercise significant influence. The total amount of future rent payments due in respect of rented premises amounts to €3.5 million.

Note 29 ▶ Commitments and contingent liabilities

▶ 29.1 Operating commitments

As part of its business, and particularly its strategic development activities which involve seeking new partnerships, the Group regularly enters into agreements that can lead to future financial commitments contingent upon the occurrence of certain events. The main agreements in existence at 31 December 2006 were:

- As part of a development programme for recombinant proteins used in haematology, the Group has undertaken to make fixed payments over a period of several years contingent upon the achievement of various development milestones. If the development programme is completed, milestone payments will total $8.25 million. There is a strong probability that $6.5 million of this sum will not become due in view of current developments in the agreements. Royalties, with minimum levels, will also be payable once the products are put on the market;
- Following the acquisition of an anticancer agent, the Group undertook to make payments contingent upon the achievement of clinical development and regulatory approval milestones, which could total up to €30.8 million. The Group will also pay royalties on future sales;
- Under an agreement terminating the joint development of two anticancer candidates, the Group has undertaken to pay its partner a fixed sum of €5 million which decreases over time, should it subsequently grant rights over the two products to another party;
- Under a distribution agreement in endocrinology, the Group has undertaken to make additional milestone payments principally

contingent upon product registration and/or marketing approval in the countries covered by the agreement, plus a portion based on changes in the product supply prices proposed by the partner. The maximum potential payments are $5.3 million. The Group will also pay royalties on future sales.

▶ 29.2 Financial commitments

The Group has taken out a worldwide third-party insurance against the risks to which it is exposed for 2006. The insurance company is reinsured up to the first €10 million for any claim made to the captive reinsurance company Ipsen Ré, a wholly-owned subsidiary of the Ipsen Group. To cover this financial commitment, the Group issued to the insurer a €10 million bank guarantee from 1 March 2006 to 31 December 2006, renewable on tacit understanding for one-year periods.

This bank guarantee was renewed up to 31 December 2007.

▶ 29.3 General risks

- All of the Group's French companies that meet the legal requirements have elected to receive group tax relief. This system provides for various penalty provisions when entities leave the tax group, mentioned here for information purposes;
- Foreign currency cash flow hedges were not material at the year end;
- Unmatured discounted bills were not material at the year end;
- Counterparty risk:

  The Group has a policy of diversifying its counterparties to avoid the risk of over-concentration. It controls the credit risk arising from financial instruments by dealing only with first-class counterparties;
- Country risk:

  The Group's exposure to country risk is limited by the geographical breakdown of its sales and by its commercial policy.

▶ 29.4 Other commitments

29.4.1 Capital expenditure

The Group's capital expenditure commitments at 31 December 2006 amounted to €21.3 million, broken down as follows:

	Maturity			
Type of assets *(in thousands of euros)*	2007	2008	Beyond	Total
Industrial assets	11.9	4.7	0.8	17.4
Research and development assets	3.8	-	-	3.8
Other assets	0.1	-	-	0.1
Total	**15.8**	**4.7**	**0.8**	**21.3**

29.4.2 Rental agreements

Total future rent payments under existing property leases amounted to €30.1 million at 31 December 2006 (€34.8 million at 31 December 2005), payable as follows:

(in thousands of euros)	31 December 2006	31 December 2005
Under one year	8.8	8.4
One to five years	14.7	18.7
Over five years	6.6	7.7
TOTAL	**30.1**	**34.8**

Commitments under other rental agreements were not material at 31 December 2006.

29.4.3 Risk of acceleration of borrowings

The Group's exposure to this risk is described in note 24.1.

At 31 December 2006, there were no other commitments or contingent liabilities likely to have a material impact on the consolidated financial statements.

Note 30 ▶ Subsequent events

- **15 January 2007**—Ipsen announced that the US Food and Drug Administration (FDA) accepted the filing of its NDA (New drug Application) for Somatuline® Autogel® (60, 90, 120 mg) in the United States as a 28-day sustained release formulation to treat patients with acromegaly. This acceptation signifies the start of the review process of the NDA with a "prescription drug user fee act" goal date set for 30 August 2007. Subject to the approval of the drug by the FDA, Ipsen's partner Tercica Inc. will market Somatuline® Autogel® in the United States. Somatuline® Autogel® has received a marketing approval in Canada on 17 July 2006, and is currently being launched by Tercica Inc. under its distribution licence agreement with Ipsen, holder of the product's rights;
- **24 January 2007**—Ipsen announced it acquired an international patent application filed on 13 April 2006 owned by Erasmus University Medical Centre Rotterdam (Erasmus MC), the Netherlands, for the co-administration of a somatostatin analogue with a growth hormone antagonist for the treatment of acromegaly. The application is based on clinical findings by Professor Van der Lely, Head of Endocrinology in the Department of Internal Medicine at Erasmus MC. Preliminary clinical data 1 suggest that the combined treatment of acromegaly with monthly long-acting somatostatin analogue(s) and weekly subcutaneous pegvisomant administrations is effective, might increase compliance, and could greatly reduce the costs of medical treatment in some patients. Under the terms of the agreement, Ipsen will pay Erasmus MC an upfront payment of €1.25 million and up to €8.75 million in additional milestone payments if certain conditions are met, including milestone payments notably upon patent issue and market approvals of the product for the corresponding indication;
- **25 January 2007**—The Board of Directors decided to cover the 533,334 stock purchase options granted pursuant to the provisions of article L. 225-177 of the French *Code de commerce* within the framework of its share buyback programme launched on 2 June 2006. The Company has signed an agreement with a financial institution governing the implementation of this programme. To guarantee all its commitments in respect of this contract, Ipsen S.A. has pledged cash collateral in favour of the financial institution. Ipsen S.A. paid €6 million at the closing of the contract on 19 February 2007. Ipsen S.A. has agreed to pay the institution an additional €6 million on the following two dates: 4 April 2007 and 18 May 2007. On the date of delivery, and at the latest on 6 July 2007, the ownership (together with the risks and benefits) of the shares purchased by the financial institution will be transferred to Ipsen S.A. at the agreed purchase price;
- **30 January 2007**—Ipsen and MSD announced the signing of a co-marketing agreement under which MSD will grant Ipsen the marketing rights in France for Adrovance™, a fixed combination of alendronate sodium and cholecalciferol (vitamin D3), indicated for the weekly treatment of postmenopausal osteoporosis in patients at risk of vitamin D insufficiency. Adrovance™ reduces the risk of spine and hip fractures. MSD is currently marketing this proprietary product under the name Fosavance®. Under the terms of the agreement, MSD will supply the drug to Ipsen who will be responsible for its marketing and under the name Adrovance™ in France;
- **24 February 2007**—Ipsen and Galderma have entered into a partnership for the development, promotion and distribution of Ipsen's botulinum toxin type A for use in aesthetic medicine indications in Europe and certain other territories. Under the terms of this partnership, Ipsen grants Galderma exclusive rights to develop, promote and distribute its botulinum toxin type A product for aesthetic indications in the European Union, Russia and certain countries in the Middle East and Eastern Europe, as well as rights for future formulations. In addition, Ipsen also granted Galderma first rights of negotiation for aesthetic medicine indications in the rest of the world, excluding the United States, Canada and Japan. Galderma will pay Ipsen an upfront payment of €10 million and up to €20 million in additional payments upon the achievement of certain milestones, including market approvals and product launches in certain territories and an additional payment, to be negotiated, with respect to Russia. Ipsen will manufacture and supply Galderma's finished product at a fixed supply price. In addition, Galderma will pay royalties to Ipsen. The total of transfer price and royalties received by Ipsen will be approximately 40% of Galderma's net sales. The agreement is for an initial term expiring in September 2019 and will be extended for a total of 30 years upon the achievement of a milestone.

No other event has occurred between the reporting date and the date on which the financial statements were approved by the Board of Directors that might have a material impact on Ipsen S.A.'s consolidated financial statements or warrant disclosure in these notes.

Note 31 ▶ Scope of consolidation

The table below shows the following information for all companies included in the scope of consolidation:

- Country of incorporation;
- Place of registered office (State of incorporation for US companies);
- At each year end, the percentage of voting rights and share capital held (these percentages differ where the Group's holding is indirect and held through companies over which it does not have 100% control).

List of companies included in the scope of consolidation at 31 December 2006 and 31 December 2005

▶ 31.1 Fully consolidated companies

Name and legal form	Country	Registered office	31 December 2006		31 December 2005	
			% voting rights	% interest	% voting rights	% interest
Ipsen S.A. (parent company)	France	Paris (75)	100.0	100.0	100.0	100.0
Beaufour Srl	Italy	Milan	100.0	100.0	100.0	100.0
BB et Cie S.A.S.	France	Paris (75)	100.0	100.0	100.0	100.0
Beaufour-Ipsen Industrie S.A.S.	France	Dreux (28)	100.0	100.0	100.0	100.0
Beaufour-Ipsen International S.N.C. [1]	France	Paris (75)	-	-	100.0	100.0
Beaufour Ipsen Korea Ltd	Korea	Seoul	100.0	100.0	100.0	100.0
Beaufour Ipsen Mexico S. DE R.L. de C.V.	Mexico	Mexico	100.0	100.0	-	-
Beaufour Ipsen Pharma S.A.S. [1]	France	Paris (75)	100.0	100.0	100.0	100.0
Beaufour-Ipsen (Tianjin) Pharmaceutical Co. Ltd	China	Tianjin	96.0	96.0	96.0	96.0
Biomeasure Inc.	USA	Massachusetts	100.0	100.0	100.0	100.0
Elsegundo Ltd	Ireland	Cork	100.0	100.0	100.0	100.0
Institut für Pharmazeutische und Klinische Forschung GmbH (Intersan)	Germany	Ettlingen	100.0	100.0	100.0	100.0
Ipsen E.P.E.	Greece	Athens	80.0	80.0	80.0	80.0
Ipsen Ltd	UK	London	100.0	100.0	100.0	100.0
Ipsen N.V.	Belgium	Ghent	100.0	100.0	100.0	100.0
Ipsen S.p.A.	Italy	Milan	100.0	100.0	100.0	100.0
Ipsen Biopharm Ltd	UK	Wrexham	100.0	100.0	100.0	100.0
Ipsen Farmaceutica B.V.	The Netherlands	Hoofddorp	100.0	100.0	100.0	100.0
Ipsen Inc. [2]	USA	Massachusetts	-	-	100.0	100.0
Ipsen Pharma Biotech S.A.S.	France	Signes (83)	100.0	100.0	100.0	100.0
Ipsen Pharma GmbH	Germany	Ettlingen	100.0	100.0	100.0	100.0
Ipsen Pharma S.A.	Spain	Barcelona	100.0	100.0	100.0	100.0
Ipsen Pharmaceuticals Ltd	Ireland	Dublin	100.0	100.0	100.0	100.0
Ipsen Poland LLC	Poland	Warszawa	100.0	100.0	100.0	100.0
Ipsen Produtos Farmaceuticos S.A.	Portugal	Lisbon	100.0	100.0	100.0	100.0
Ipsen Ré S.A.	Luxemburg	Luxemburg	100.0	100.0	-	-
Ipsen Scandinavia A/S	Denmark	Copenhagen	100.0	100.0	100.0	100.0
Ipsen Manufacturing Ireland Ltd	Ireland	Dublin	100.0	100.0	100.0	100.0
Porton International Inc. [2]	USA	Delaware	100.0	100.0	100.0	100.0
Société de Conseils, de Recherche et d'Applications Scientifiques S.A.S. (SCRAS)	France	Paris (75)	100.0	100.0	100.0	100.0
Suraypharm SARL	France	Paris (75)	100.0	100.0	-	-
Sterix Ltd	U.K.	London	100.0	100.0	100.0	100.0

(1) Merger of Beaufour Ipsen International SNC and Beaufour Ipsen Pharma SAS.

(2) Merger of Ipsen Inc. and Porton International Inc.

▶ 31.2 Proportionately consolidated companies

Name and legal form	Country	Registered office	31 December 2006		31 December 2005	
			% voting rights	% interest	% voting rights	% interest
Cara Partners	Ireland	Cork	50.0	50.0	50.0	50.0
Garnay Inc.	USA	South Carolina	50.0	50.0	50.0	50.0
Linnea S.A.	Switzerland	Riazzino	50.0	50.0	50.0	50.0
Perechin Unlimited Company	Ireland	Cork	50.0	50.0	50.0	50.0
Portpirie Unlimited Company	Ireland	Cork	50.0	50.0	50.0	50.0
Saint-Jean d'Illac S.C.A.	France	Paris (75)	50.0	50.0	50.0	50.0
Wallingstown Company	Ireland	Cork	50.0	50.0	50.0	50.0
Wallingstown Company Ltd	Ireland	Cork	50.0	50.0	50.0	50.0

▶ 31.3 Companies consolidated at equity

Name and legal form	Country	Registered office	31 December 2006		31 December 2005	
			% voting rights	% interest	% voting rights	% interest
Tercica Inc.	USA	California	25.0	25.0	-	-

20.1.6 Statutory Auditors' Report on the consolidated financial statements

Ipsen S.A.

Registered office: 42, rue du Docteur Blanche - 75016 Paris

Share capital: €.84 024 683

Statutory auditors' report on the consolidated financial statements

Year ended 31 December 2006

In our capacity as statutory auditors to Ipsen S.A., we have audited the accompanying consolidated financial statements prepared by Ipsen S.A. for the year ended December 31, 2006.

The consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

1 Opinion on the consolidated financial statements

We conducted our audit in accordance with the professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements prepared in accordance with IFRS as endorsed by the European Union present fairly in all material respects the assets and liabilities, financial position and results of the consolidated group of companies.

2 Justification of our assessments

In accordance with the provisions of article L.823-9 of the Code de commerce on the justification of our assessments, we draw your attention to the following matters:

Asset impairment

Goodwill and assets with an indefinite useful life are tested for impairment on each reporting date and all non-current assets are examined for evidence of impairment using the methods described in note 3.14 to the consolidated financial statements. We reviewed the method of testing for impairment, together with the cash flow forecasts and assumptions made and verified the appropriateness of the information provided in note 12.2 to the consolidated financial statements.

Retirement benefit obligation

Note 3.21 to the consolidated financial statements describes the method of measuring post-employment and other long term benefits. These liabilities have been measured by independent actuaries. We reviewed the data used, evaluated the assumptions made and verified the appropriateness of the information provided in note 5.3 to the consolidated financial statements.

Derivative financial liabilities

Note 3.23 to the consolidated financial statements describes the method of measuring derivative financial liabilities. We reviewed the data used, evaluated the assumptions made and verified the appropriateness of the information provided in note 25 to the consolidated financial statements.

Our assessment of these matters formed an integral part of our overall audit of the consolidated financial statements, and therefore contributed to the opinion expressed in the first part of this report.

3 Specific procedures and disclosures

We also verified the information provided in the Group management report in accordance with the professional standards applicable in France. We have no matters to report regarding its fairness and consistency with the consolidated financial statements.

Paris La Défense and Neuilly-sur-Seine, 20 March 2007

The statutory auditors

KPMG Audit	Deloitte & Associés
Department of KPMG S.A.	
Catherine Porta	Christophe Perrau
Partner	Partner

21 Additional information

21.1 Share capital

21.1.1 Amount of share capital

At the date of this registration document, the Company's share capital amounted to €84,024,683, divided into 84,024,683 fully paid shares of the same class, each with a par value of €1.

21.1.2 Shares not representing capital

At the date of this registration document, the company had not issued any shares not representing capital.

21.1.3 Control, holding and purchase by the Company of its own shares

Acting on the authority conferred by the general meeting of shareholders on 19 September 2005, the Board of Directors of the Company decided on 14 December 2005 to set up a share repurchase programme and pursuant to this decision, the Company entered into a liquidity agreement with Exane BNP Paribas on 11 January 2006 complying with the Association Française des Entreprises d'Investissement's (AFEI) charter approved by the AMF.

On 2 June 2006, the general meeting of shareholders conferred to the Board of Directors a new authorization of share repurchase and cancelled the prior authorization. Acting on this authority, the Board of Directors decided on 2 June 2006 to set up the new share repurchase programme not exceeding 10% of the share capital, with a maximum outlay by the Company of € 420,123,400 and a maximum price per share of €50.

Between 16 January 2006, when the share repurchase programme was launched and 31 December 2006, the Company has acquired within the framework of this liquidity agreement, 127,124 shares with a total gross value of € 3,852,527 and sold 89,874 shares with a total gross value of €2,558,741. The management fee for the liquidity agreement stands at € 38,247 for 2006.

On 23 February 2007 the Group announced its decision to terminate this agreement and that it had mandated Natexis Bleichroder, a subsidiary of Natixis, to implement a liquidity contract for a period of one year with tacit renewal. This contract is compliant with the Business Ethics Charter of the AFEI (French Association of Investment Firms) which was approved on March 22, 2005 by the French Autorité des Marchés Financiers. As per the liquidity contract, the following assets appeared on the liquidity account: 46,838 shares and €1,259,939.79.

Furthermore, following the decision made by Ipsen's Board of Directors on December 12, 2006 to put in place a stock options programme totalling 899,500 shares, the Board of Directors decided on January 25, 2007, in order to cover these stock options, to allocate an amount of €21 million to Ipsen' share buyback programme. In the framework of this programme, the Company entered into an agreement with BNP Paribas on 19 February 2007, governing the partial management of the share buyback programme.

21.1.4 Potential share capital

▶ 21.1.4.1 Stock options

At the Extraordinary General Meeting of the company's shareholders on 19 September 2005, the shareholders authorised the Board of Directors to grant stock options to employees and executive officers subject to the company's shares being listed on a regulated market. The total nominal amount of capital increases that may be made pursuant to this authority may not exceed €1,200,000. The number of shares that may potentially be allotted upon exercise of the options granted may not exceed 1% of the company's share capital on the date of the Board of Directors' decision to grant the stock options. This authority is valid for a period of thirty-eight months expiring on 18 November 2008.

Pursuant to the authority, the company's Board of Directors decided on 14 November 2005 to grant 329,000 stock options (hereinafter "the Ipsen Options") to members of the Executive Committee (except for Jean-Luc Bélingard) and certain company managers. Each Ipsen Option entitles the holder to subscribe for one new share in the company at a price of €22.20.

At the General meeting of the company's shareholders on 2 June 2006, the shareholders cancelled the previous authorization and granted the Board of Directors a new authorization to grant stock options to employees and executive officers. The total nominal amount of capital increases that may be made pursuant to this authority may not exceed € 1,871,000. This authority is valid for a period of thirty-eight months expiring on 2 August 2009.

Pursuant to the authority, the company's Board of Directors decided on 12 December 2006 to grant 899,500 stock options including 533,334 stock purchase options (hereinafter "the Ipsen Options") to certain members of the Executive Committee (including Jean-Luc Bélingard) and certain company managers. Each Ipsen Option entitles the holder to obtain one share in the company. The price of the stock options varies.

The table below shows the terms and conditions of the Ipsen Options duly granted:

Date of shareholders' meeting	19 September 2005	2 June 2006
Date of the Board of Directors' meeting	14 November 2005	12 December 2006
Date stock options were granted	6 December 2005	12 December 2006
Number of authorised stock options	1,200,000	1,871,000
Number of stock options granted	329,000	899,500
Number of beneficiaries of the options granted	92	78
of which members of the Board of Directors	*0*	*1*
Number of stock options cancelled	7,800	1,000
Exercise price of the options granted	€22.20	from €29.88 to €38.73[1]
Earliest exercise date of the options granted	6 December 2009	From 12 December 2010 to 12 December 2012[2]
Date of expiry of the options granted	6 December 2015	From 12 December 2013 to 12 December 2018[2]
Number of new shares that may be issued upon exercise of the options granted	321,200	366,166
Maximum dilution resulting from the options granted	1.46%[3]	

(1) 53 beneficiaries hold options at an exercise price of €29.88; 20 beneficiaries hold options at an exercise price of €33.21; 5 beneficiaries hold options at an exercise price of €33.21, €35.86 and €38.73.

(2) Different dates depending on the various options tranches.

(3) On the basis of the share capital of the Company at 31 December 2006.

▶ 21.1.4.2 Bonus share issues

At the Extraordinary General Meeting of shareholders on 19 September 2005, the shareholders authorised the Board of Directors to make bonus issues of existing or new shares to employees and executive officers, subject to the company's shares being listed on a regulated market. The total nominal amount of capital increases that may be made pursuant to this authority may not exceed €1,200,000. The total number of bonus shares allotted may not exceed 1% of the Company's share capital on the date of the Board of Directors' decision to allot the bonus shares. This authority is valid for a period of thirty-eight months expiring on 18 November 2008.

Pursuant to this authority, the company's Board of Directors decided to allot:

- 23,000 shares to the Chairman and Chief Executive Officer and to certain members of the Executive Committee on 14 November 2005;
- 18,000 shares to the Chairman and Chief Executive Officer and to certain members of the Executive Committee on 12 December 2006

The rights to the Ipsen Bonus Shares will not vest for at least two years with effect from the date of allotment.

The following table shows the terms of the Ipsen Bonus Shares allotted, subject to the fulfilment, at such date, of the presence and performance conditions set by the Company's Board of Directors:

Date of shareholders' meeting	19 September 2005	19 September 2005
Date of the Board of Directors' meeting	14 November 2005	12 December 2006
Date shares were granted	6 December 2005	12 December 2006
Number of authorised shares	1,200,000	1,200,000
Number of new shares that may be issued	23,000	18,000
Number of beneficiaries of rights to shares	7	4
of which members of the Board of Directors	*1*	*1*
Date of final allotment of shares	6 December 2007	12 December 2008
Maximum dilution resulting from the bonus shares allotted	0.03%[1]	0.05%[1]

(1) On the basis of the share capital of the Company at 31 December 2006.

21.1.5 Information about the terms of any acquisition rights or any obligations over authorised but unissued capital or an undertaking to increase the share capital

None.

21.1.6 Information about the share capital of any member of the Group which is under an option or agreed conditionally or unconditionally to be put under an option and details of such options (including the identity of the persons to whom such options relate)

As far as the Company is aware, there are no options or conditional or unconditional agreements for the share capital of any member of the Group to be put under an option.

21.1.7 Changes to share capital

Date of shareholders' meeting	Transaction	Number of shares issued	Nominal amount of shares issued *(in euros)*	Share premium or contribution premium *(in euros)*	Cumulative share premiums *(in euros)*	Cumulative share capital *(in euros)*	Total number of shares	Par value per share *(in euros)*
24/04/2001	Capitalisation of reserves	0	149,392.24	0.00	0.00	446,863,125.00	29,302,500	15.25
30/06/2005	New share issue in exchange for contribution in kind	4,688,400	71,498,100.00	17,500,825.14	17,500,825.14	518,361,225.00	33,990,900	15.25
30/06/2005	New share issue for cash	3,477,345	53,029,511.25	12,970,496.85	30,471,321.99	571,390,736.25	37,468,245	15.25
18/07/2005	Reduction in the par value of shares	37,468,245	0.00	0.00	30,471,321.99	571,390,736.25	74,936,490	7,625
18/07/2005	Capital reduction by way of decrease of the par value of the shares and transfer to share premium account	0	496,454,245.25	496,454,245.25	526,925,568.24	74,936,490	74,936,490	1.00
07/12/2005	New share issue for cash	7,699,507	7,699,507	163,229,548.40	690,155,116.64	82,635,997	82,635,997	1.00
14/12/2005	Additional share issue for cash	1,139,008	1,139,008	24,146,969.60	714,302,086.24	83,775,005	83,775,005	1.00
28/12/2005	New share issue for cash reserved for Group employees	249,678	249,678	4,184,603.28	718,486,689.52	84,024,683	84,024,683	1.00

21.1.8 Authorised unissued share capital

At the Extraordinary General Meetings of the Company's shareholders on 19 September 2005 and 2 June 2006, the shareholders authorised the Board of Directors to increase the Company's share capital as follows:

Authority conferred on the Board of Directors by resolution of the Extraordinary General Meeting of shareholders	Date of General Meeting	Term	Nominal value[1]			
			Maximun authorised	Used in previous years	Used over the year	Residual amount At 31 December 2006
1- Issuance of securities conferring rights in the share capital with pre-emptive rights in favour of existing shareholders.	19/09/05	26 months	15,000,000[2]	0	0	5,541,807[3]
2- Issuance of securities conferring rights in the share capital with no pre-emptive rights in favour of existing shareholders, by means of public offering.	19/09/05	26 months	15,000,000[2]	8,838,515	0	5,541,807[3]
3- Issuance of securities conferring rights in the share capital, with no pre-emptive rights in favour of existing shareholders, to pay for contributions in kind received by the Company.	19/09/05	26 months	7,493,649	0	0	5,541,807[3]
4- Capital increase by way of capitalising reserves, earnings or share premiums.	19/09/05	26 months	100,000,000	0	0	100,000,000
5- Issuance of shares to employees who are members of an employee share ownership plan.	2/06/06	26 months	500,000	0	0	500,000
6- Allotment of bonus shares to employees and executive officers.	19/09/05	38 months	1,200,000	23,000[4]	18,000[4]	1,159,000
7- Allotment of stock options to employees and executive officers.	2/06/06	38 months	1,871,000	0	366,166[5]	1,504,834

(1) In euros.

(2) Issues made pursuant to authority granted under 1 and 2 are set off against issues made pursuant to authority granted under 3, and 6. Increases carried out pursuant to authority granted at the General Meeting on 19 September 2005 which are no longer valid.

(3) Residual amount under the aggregate ceiling of €15,000,000 taking into account issues already made pursuant to authorities granted with the same ceiling.

(4) 23,000 bonus shares were allotted in 2005 and 18,000 in 2006. These bonus shares are likely to be acquired at the end of the two-year vesting period subject to the fulfilment of performance conditions and will result in a capital increase of a nominal value of €41,000.

(5) These 366,166 stock options allotted are likely to be exercised subject to conditions and to result in a capital increase of €366,166 euros (899,500 options have been allotted including 533,334 stock purchase options).

21.2 Articles of Incorporation

21.2.1 Corporate objects (article 2 of the Articles of Incorporation)

The company's corporate purpose is the following, in France and any other country whether directly or indirectly:

- to invent, manufacture, process and sell pharmaceutical products, para-pharmaceutical products, cosmetics or any other manufactured products in the fields of drugs and fine chemicals, and all products and materials used to manufacture, process and sell such products;
- to conduct all industrial and commercial activities directly or indirectly related to the foregoing purpose, including research and design, acquiring, owning, exploiting and selling patents, licences, know-how and more generally all intellectual and industrial property rights;
- more generally, to conduct all industrial, commercial, financial or property transactions which may directly or indirectly facilitate or further the achievement of the foregoing purposes and any similar purposes.

21.2.2 Management of the Company

▶ 21.2.2.1 Board of Directors

The Company is governed by a Board of Directors.

The Board of Directors is responsible for defining and implementing the Company's strategic objectives. Subject to those powers expressly reserved for the general shareholders' meeting and within the limits of the company's corporate purpose, the Board of Directors is competent to consider and settle all issues involving the proper functioning of the company through the passing of its resolutions.

▶ 21.2.2.2 Executive management

As required by law, executive management of the company is the responsibility either of the Chairman of the Board of Directors, who then has the title of Chairman and Chief Executive Officer, or of another person appointed by the Board of Directors with the title of Chief Executive Officer.

The Board of Directors is responsible for electing one of these two options for a period which may not be less than one year.

21.2.3 Rights and obligations attached to shares

▶ 21.2.3.1 Distribution of profits (article 29 of the Articles of Incorporation)

After approval of the financial statements and recognition of a distributable profit within the meaning of the law, the general shareholders' meeting may resolve to transfer the distributable profit to one or more discretionary reserve accounts (for which they will fix the allocation or use) or retained earnings or to distribute it as a dividend. After deduction of any prior year losses, at least five percent of each year's net profit is transferred to the statutory reserve as required by law. This provision ceases to apply once the statutory reserve has reached one tenth of the company's share capital.

The general shareholders' meeting may decide to distribute amounts from reserves to which the shareholders are entitled. In this case, their resolution must expressly indicate which reserve accounts are to be used. However, dividends must be drawn in priority from the year's distributable profit.

The shareholders may resolve to offer payment of all or part of the dividend in cash or in shares at the personal choice of each shareholder.

A shareholder's right to the profits and contribution to losses is proportional to the percentage of share capital owned.

▶ 21.2.3.2 Legal form of shares (article 9 of the Articles of Incorporation)

The shares issued by the company may be registered or bearer shares at the holder's choice. Existence of the shares is evidenced by their registration on securities accounts held in the name of the holder for that purpose under the terms and conditions set out by law either by the Company or its appointed custodian in the case of registered shares or by an intermediary authorised for that purpose in the case of bearer shares.

21.2.4 General shareholders' meetings (articles 21 to 26 of the Articles of Incorporation)

▶ 21.2.4.1 Ordinary general meetings of the shareholders

At the ordinary general meeting, the Board of Directors' report and the Statutory Auditors' reports are read and the shareholders approve the annual financial statements and vote on the appropriation of profits. The shareholders appoint and dismiss the Directors set their remuneration as provided for in law and the Articles of Incorporation, appoint the Statutory Auditors.

The shareholders may delegate authority to the Board of Directors at the Board's request to deal with all matters that are not specifically reserved for an extraordinary shareholders' meeting.

More generally, all matters that do not entail a direct or indirect alteration to the Articles of Incorporation qualify as ordinary business.

An ordinary general meeting is held every year no later than six months after the end of the previous financial year-end, unless this time period is extended by court order.

▶ 21.2.4.2 Extraordinary general meetings of the shareholders

At the Extraordinary General Meetings of the shareholders, the shareholders may amend the provisions of the Articles of Incorporation. However, the shareholders may not increase their liability or change the nationality of the Company except under the terms and conditions set out by law or international treaties.

Only an Extraordinary General Meeting is qualified to verify and approve any contributions in kind or special benefits.

▶ 21.2.4.3 Notice of shareholders' meetings

General meetings are called by the Board of Directors or failing that, by the Statutory Auditors or any other person duly empowered by law. They take place at the registered office or any other place indicated in the notice of the meeting.

The agenda is set by the person calling the meeting. However, one or more shareholders or the works council may table agenda items and propose resolutions under the terms and conditions set out by law. The shareholders may not consider items of business which are not on the agenda. However, they may in any event remove one or more Directors from office and elect replacements. The agenda may not be revised for an adjourned meeting.

All shareholders have the right to attend shareholders' meetings and take part in the vote either in person or by proxy, regardless of the number of shares they hold, simply by providing evidence of their status as shareholder.

▶ 21.2.4.4 Quorum

The quorum required for a meeting to transact ordinary business is the effective presence, in person, by proxy or by postal vote, of shareholders owning at least one fifth of the shares with voting rights. No quorum is required for an adjourned meeting. The quorum is calculated on the basis of all the shares comprising the share capital less any shares disqualified for voting purposes pursuant to the law or the provisions of the Company's Articles of Incorporation.

The quorum required for a meeting to transact extraordinary business is the effective presence, in person, by proxy or by postal vote, of shareholders owning at least one quarter of the shares with voting rights. The quorum required for an adjourned meeting is one fifth of the shares with voting rights. If the quorum required for an adjourned meeting is not reached, the meeting may be adjourned for a second time to a date no later than two months after the first adjournment.

Shareholders attending the meeting by videoconferencing or other means of telecommunication that permits their identification and complies with the provisions of the law are counted as present for the purpose of calculating the quorum.

21.2.5 Articles of Incorporation likely to have an impact on a change of control

None.

21.2.6 Threshold (article 10.3 of the Articles of Incorporation)

In addition to the legal disclosure requirements set out in article L.233-7 of the *Code de commerce*, any person or legal entity, acting either alone or in concert with other persons or legal entities, that comes to hold by any means a number of shares representing one percent of the share capital or voting rights, or any further multiple thereof, must, no later than five business days after occurrence, advise the Company by fax of the total number and percentage of shares and voting rights held, with written confirmation sent the same day by recorded delivery mail.

Such persons are also required to advise the company if their holding falls back below those thresholds, under the same terms and conditions.

Failure to comply with these requirements will result in the shares that should have been disclosed being disqualified for voting purposes at all general meetings held for a period of two years after the date on which the requisite disclosure is finally made, if requested by one or more shareholders separately or together holding at least one percent of the Company's share capital and voting rights and duly recorded in the minutes at the meeting. Disqualification is automatic in the case of failure to make the legal disclosures required under article L.233-7 of the *Code de commerce*.

21.2.7 Identification of bearer shareholders (article 10.2 of the Articles of Incorporation)

The company may at any time, in accordance with the law and at its own expense, ask its clearing organisation for information about the name or corporate name, nationality and address or registered office of holders of securities conferring the right to vote at general meetings either immediately or in the future, as well as the number of securities held and any restrictions attached thereto.

21.2.8 Specific provisions governing changes in share capital

The share capital and the rights related to the shares can be changed in conformity with the provisions of law. The Articles of Incorporation of the Company do not provide for any specific clause in that respect.

21.2.9 Financial year (article 27 of the Articles of Incorporation)

Each financial year has a term of twelve months beginning on 1 January and ending on 31 December.

21.3 Dividends

21.3.1 Dividends paid in the past five years

In the last five financial years ended respectively 31 December 2002, 31 December 2003, 31 December 2004, 31 December 2005 and 31 December 2006, the Company paid the following dividends:

	Year ended 31 December				
	2006	2005	2004	2003	2002
Net distribution *(in € 000s, excluding tax credit)*	50,414.8	29,302.5	91,900	0	0
Net dividend per share *(in €, excluding tax credit)*	0.60	1.00	3.14	0	0

21.3.2 Dividends and reserves distribution policy

The dividend payout policy is determined by the company's Board of Directors based on an analysis of the Company's results and financial position. The Company's objective for future years is to develop a payout policy consistent with its growth strategy, which should lead to a dividend payout of about 30% of consolidated net earnings. This is not an undertaking on the company's part, and the company may decide to change its distribution policy or not pay a dividend at all based on its financial performance, investment needs and debt management imperatives.

21.3.3 Statute of limitations

Dividends which are not claimed within five years of their payment date shall lapse and become the property of the State.

21.4 Market in Ipsen shares

21.4.1 Trading in Ipsen shares

Listing	Eurolist by Euronext™ market - Compartment A
Code ISIN	FR0010259150
Ticker Symbol	IPN
FTSE classification	486 – Pharmaceuticals
ICB sector	4577 – Pharmaceuticals

21.4.2 Share price performance on the stock exchange

Shares in Ipsen SA have been traded on the Eurolist by Euronext™ market since 7 December 2005, when their IPO (Initial Public Offering) price was €22.20 per share. Trading volumes were very high during the first few sessions following the IPO, which is normal under the circumstances. The share price has consistently held up above the IPO price since listing.

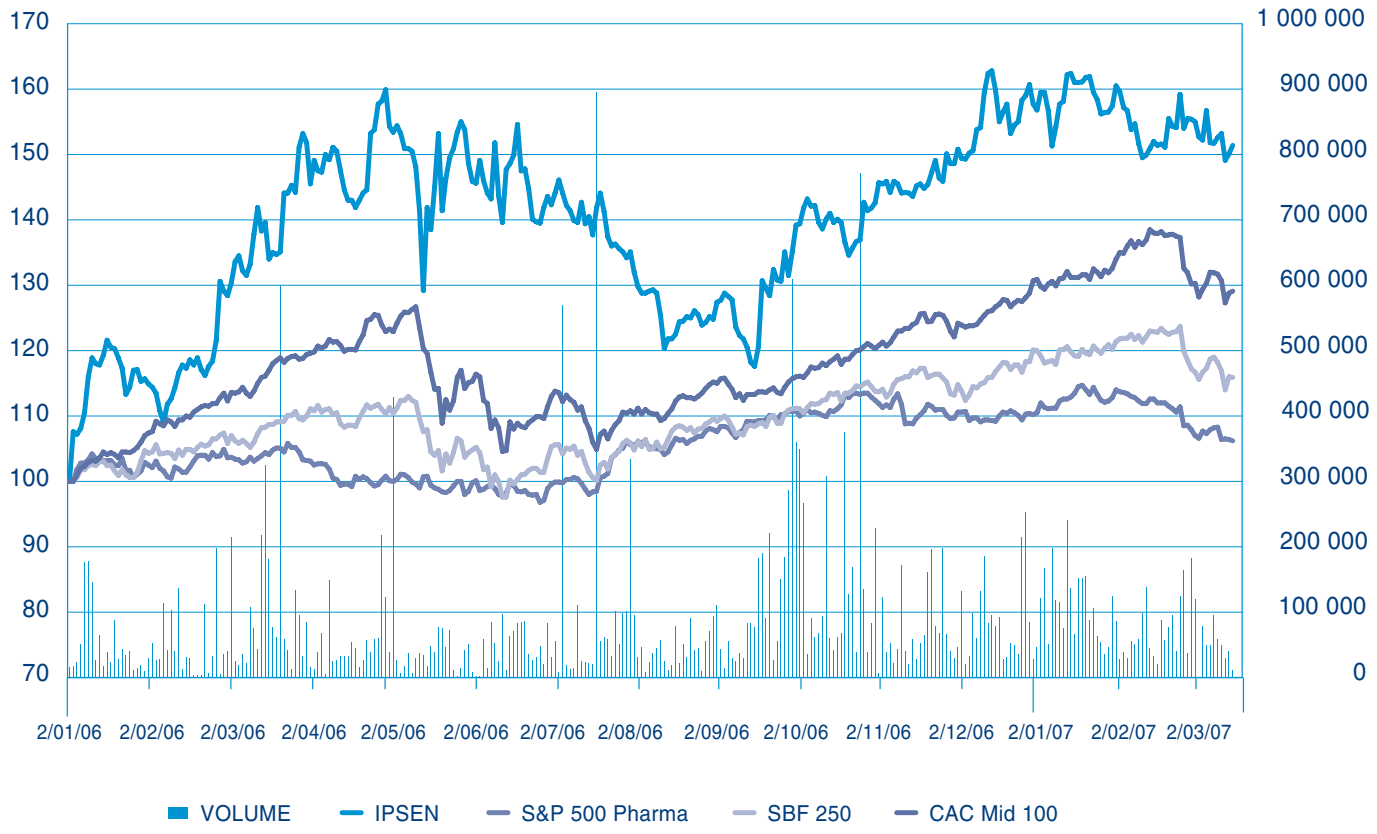
Ipsen shares joined the SBF250 index on 24 February 2006.

Ipsen shares joined the Deferred Settlement System on 28 March 2007.

Number of shares issued: 84,024,683.

Average share price between 1 January 2006 and 16 March 2007	€31.22
High	€36.14
Low	€23.8
% change (between the high and 1 January 2006)	51.3%
Average daily trading volume between 1 January 2006 and 16 March 2007	84,152

▶ Comparison between Ipsen S.A's share price performance and the performance of the principal stock market indicators between 1 January 2006 and 16 March 2007 (Source: Bloomberg)



22 Material contracts

The Group markets its products either directly through its sales force or through third parties to which it has entrusted responsibility for selling its products under licensing or other agreements. Furthermore, the Group has earned the confidence of third parties, which have entrusted it with selling their products, such as, for instance, Decapeptyl®, NutropinAq®, Testim®, Nisis® and Nisisco®. In certain cases, the Group has entered into agreements with third party companies to manufacture drugs or raw materials under its marketing agreements.

The Group complements implementation of its internal Research and Development programme by entering into partnership agreements with university teams and pharmaceutical and biotechnology companies. These partnerships help the Group to gain access to cutting-edge technologies in complex areas of expertise.

This partnership strategy helps the Group to finance development of its products while extending its range of existing products. The Group is constantly looking to forge high-quality, complementary and long-lasting marketing and Research and Development partnerships.

22.1 Agreements in the targeted therapeutic areas by the Group

22.1.1 Agreements in oncology

▶ 22.1.1.1 Debiopharm (Lausanne, Switzerland)

The Group has maintained an ongoing relationship with Debiopharm since 1983, when it agreed its first licensing deal with Debiopharm to manufacture and market Decapeptyl®. This licensing agreement was renewed in October 2002. It covers Debiopharm's expertise and patents relating to the active substance triptorelin and its various salts (particularly the pamoate formulation), which it sells under the Decapeptyl® registered trademark. The acetate formulations of Decapeptyl®, which accounted for 33% of Decapeptyl®'s sales in 2005, are no longer protected by an invention patent.

The licensing agreement with Debiopharm gives the Group (i) the right to manufacture Decapeptyl® around the world (with the exception of North America and certain other countries, principally Sweden and Israel), ii) the exclusive right to market Decapeptyl® worldwide (with the exception of North America and certain other countries, principally Sweden, Israel, Iran and Japan) and (iii) the co-exclusive right (shared with Debiopharm) to market Decapeptyl® in Iran, Japan, Central America and South America.

This licensing agreement is due to remain in place in the various countries until the following dates: (i) 31 July 2010 for each country covered by the agreement and not covered by a Debiopharm patent and for each country covered by the agreement where Debiopharm's patent protection is due to expire prior to 31 July 2010, and (ii) the expiry date of the last of the patents covered by the agreement in other countries. Under this agreement, the Group pays different levels of royalties to Debiopharm varying according to the sales territory and volume, with an increase in royalty levels above a certain sales threshold. The Group is also entitled to a reduction in royalties in the event of competition from a generic product, with this reduction diminishing if Decapeptyl®'s market share falls significantly below a certain threshold determined on a market-by-market basis. The agreement entered into by the Group does not provide for any minimum royalty clause. The agreement contains stipulations about future cooperation with Debiopharm to continue developing and improving Decapeptyl®. This agreement also contains a control event clause, which may be triggered if either of the parties undergoes a change in control causing substantial prejudice to the interests of the other party in relation to Decapeptyl®. At the registration date of this registration document, the Group was not aware of any change in control affecting Debiopharm.

▶ 22.1.1.2 GTx, Inc. (Memphis, Tennessee, United States)

On 7 September 2006, GTx INc. granted the Group an exclusive licence to develop and market Acapodène® (toremifene citrate) which is a drug that can modulate the activity of the estrogen receptor in an organ-selective manner (Selective Estrogen Receptor Modulator - SERM) and all other products containing toremifene for all its indications, except from breast cancer, in the European Union, Switzerland, Norway, Iceland, Liechtenstein and the Community of Independent States (CIS) (collectively defined as the "European Territory"). They have also mutually granted each other the right to first negotiation for the development, marketing, sales and distribution of all new products containing a SERM in the field of prevention and treatment of prostate cancer and of the side effects of this treatment or any other indications decided upon by the parties.

Acapodene®, a selective estrogen receptor modulator (SERM), is intended to exploit a new strategy of estrogen receptors modulation which could translate into a tangible clinical benefit in both the chemo prevention of prostate cancer in high-risk men and the treatment of multiple side effects from androgen deprivation therapy in advanced prostate cancer. (ADT indication –anti-androgenic therapy).

Acapodene® is currently being developed in separate pivotal Phase III clinical trials for two indications. Final data from the ADT trial is expected in the second half of 2007 with an anticipated New Drug Application filing in the United States in 2008. GTx expects to conduct an interim efficacy analysis between the second half of 2007 and first quarter of 2008 for the HGPIN indication. If the statistical parameters are achieved, GTx will proceed with the filing of a New Drug Application in the United States.

The Group has agreed to pay GTx a €23 million upfront payment including €1.5 million which will be paid in equal instalments over a three year period. In addition, GTx may receive milestone payments from Ipsen of €39 million for Acapodene®, depending on the successful development and European launch of Acapodene® and subject to certain conditions for the HGPIN indication. This may include up to €9 million for the ADT Indication, up to €20 million for the HGPIN Indication and up to €10 million as additional milestone payments. As from execution of the agreement, the Group will pay all clinical development, regulatory and launch expenses to commercialise Acapodene® in the European Territory for the two indications ADT and HGPIN. GTx Inc will remain liable for all development costs outside the European Territory. However, the Group

may pay a portion of GTx's Acapodene® development costs in the United States if certain conditions are met.

Pursuant to this agreement, the Group must notify GTx Inc it if elects to retain the right to market Acapodene® and all other products containing toremifene in the HGPIN indication ("the Election"). If the Group exercises such an Election and depending on its date, the Group agrees to pay GTx Inc an additional payment and a premium on its proportion of past development costs paid by GTx Inc in the United Sates for the development of this indication. If the Group does not notify GTx Inc of its Election in a given period, the Group will not be bound to reimburse GTx Inc for its proportion of past development costs paid by GTx Inc in the United Sates for the development of this indication and GTx Inc will be able to withdraw all Ipsen's rights to market the product for this indication on the European Territory. In such a case, the Group will have to transfer all its rights in Acapodene® for the HGPIN indication (including clinical data for this product in this indication and all related marketing applications and authorisations) to GTx Inc.

The Group has agreed to pay GTx a graduating royalty on net sales of products containing toremifene (including Acapodene®) in the mid-teens which could reach the mid-twenties based on certain sales price thresholds being met and depending on the indication for which the product is sold. This payment may be reduced in the event of competition from generic products or if the Group is obliged to acquire licences of intellectual property rights owned by third parties which would be counterfeited due to the marketing of Acapodene®. GTx Inc remains liable for paying royalties on Acapodene® to Orion Corporation and to the University of Tennessee Research Foundation. In addition the Group may be released from its duty to market the product in a country where it would not be commercially viable to launch the product. Ipsen will procure the raw material from a third party and is responsible for manufacturing the finished product.

The parties have set up a joint development committee, with the Group and GTx Inc having an equal number of representatives. This committee will meet at least once a quarter to discuss the development and marketing programmes on the parties' respective territories. The joint development committee will make recommendations for the parties' initial development programmes and their related budgets on their specific territories and for joint development programmes and budgets. If the joint development committee is unable to reach a consensus on a decision concerning GTx Inc's development activities which are the basis of the Group's development activities on the European Territory, the Group retains the right to refuse to finance its share of the joint development costs. The joint development committee should also act as a discussion forum for future development for improvements of the products covered by this licence.

Once the obligation to pay royalties has expired, the Group will benefit from a free licence on those patents and know-how granted by GTx Inc. The parties may terminate the contract if the terms and conditions are breached or in the event liquidation proceedings have started. In addition, the Group has the right to terminate the contract subject to respecting certain notice conditions.

▶ 22.1.1.3 Spirogen (London, United Kingdom)

In May 2003, the Group signed a partnership agreement with Spirogen, a UK biotechnology company. This partnership comprises a development and licensing agreement covering the development and marketing by the Group of a patented anti-cancer drug, namely BN 2629 (SJG-136) and a research agreement for other anti-cancer compounds through implementation of a gene targeting technology patented by Spirogen. Should Spirogen discover a compound that acts on a sequence of target genes under the research agreement, the Group will have a period of three months from the presentation of this compound to the Group to enter into a worldwide licensing agreement covering the compound with Spirogen.

Pursuant to the development and licensing agreement, the Group holds an exclusive worldwide licence on Spirogen's patents and expertise related to the manufacture, use and sale of BN 2629 and its analogue or replacement compounds. This agreement will remain in force until all the payments due to be made by the Group to Spirogen under this agreement have been made. At such time, the licences and rights granted to the Group by Spirogen will become non-exclusive, irrevocable and free of any payment obligation. Spirogen has also granted the Group a worldwide non-exclusive licence under which the latter is allowed to use and operate the gene screening technique patented by Spirogen.

Under the development and licensing agreements, the Group agreed to make certain milestone payments to Spirogen upon signature of the agreement and upon attainment of certain stages of development. The Group also agreed to pay certain royalties on sales of products containing BN 2629 with reductions in specific royalties for sales territories not covered by patents or those open to competition from generic drugs. Royalties are payable on sales of drugs containing BN 2629 in territories covered by a patent until the later of the following two dates: (i) the tenth anniversary of the date of the product's marketing launch, and (ii) the patent's expiry date in the relevant country. Royalties are payable on sales of drugs containing BN 2629 in territories not covered by a patent until the first of the following two dates: (i) the tenth anniversary of the date of the product's marketing launch, and (ii) the expiry date of the last of the patents protecting BN 2629 worldwide.

The agreement also provides for lower royalties should the Group be obliged to obtain a licence to use intellectual property rights and expertise from a third party to be able to continue manufacturing, using or selling BN 2629 or analogue or replacement compounds. The Group agrees to bear costs arising from the manufacture of all clinical and commercial supplies of BN 2629 and of any drug containing the compound.

The Group has the right to terminate the development and licensing agreement during the development stages provided that it observes a notice period of six months. In the event of termination, all rights and all licences granted to the Group pursuant to this agreement will be null and void and any information acquired about BN 2629 and the products containing it will be returned to Spirogen.

In May 2003, the Group acquired a shareholding in Spirogen's capital by subscribing for preference shares issued by the company. At 31 December 2006. the Group held 17.10% of Spirogen's share capital.

22.1.2 Agreements in endocrinology

▶ 22.1.2.1 Tulane University (New- Orleans, United States)

Pursuant to an agreement sealed in June 1990, Tulane University granted the Group an exclusive worldwide licence to manufacture, use and sell Lanreotide, the active substance in Somatuline® and Somatuline® Autogel®. This agreement remains in force until the corresponding patents have expired. Furthermore, the agreement covers any future formulation using this active substance until the corresponding patents have expired. The Group pays different levels of royalties to Tulane University, which vary from territory to territory. The agreement does not provide for any minimum royalty clause. The length of the agreement's exclusivity period varies from territory to territory: (i) in territories where Tulane University holds a patent, including the United States, the exclusivity period runs until expiry of the corresponding patent, and (ii) in territories where Tulane University does not hold a patent, the exclusivity period runs for ten years from the initial commercial sale of the relevant product.

▶ 22.1.2.2 Genentech (San Francisco, United States)

Distribution agreement covering NutropinAq®

The exclusive distribution agreement entered into in September 2002 by the Group with Genentech covers NutropinAq®, a liquid formulation of human growth hormone for daily use produced using recombinant DNA technology. Under this agreement, the Group has the exclusive right to market worldwide (with the exception of North America, Mexico and Japan) NutropinAq® and the NutropinAq® Pen Cartridge® (*i.e.* the configuration used for the daily administration of the liquid formulation of NutropinAq®) and any improvement made to these products for a period of 20 years starting from the date on which NutropinAq® was launched on the market®. The Group also has the right to use Genentech's existing brand names, namely NutropinAq®, NutropinAq® Pen and NutropinAq® Pen Cartridge®, as well as any new brand name that Genentech uses to market the products in territories not governed by the distribution agreement with the Group.

The Group agreed to pay Genentech milestone payments when certain net sales figures are reached. The Group has to agree with Genentech on sales milestone payments for each product before filing any application for regulatory approval for the marketing of any such product. The Group also agreed to pay royalties based on the total amount of annual sales of each product in the territory covered by the distribution agreement. In accordance with this agreement, the Group must, at its own expense, secure the requisite regulatory approval in relation to the marketing and the sale of products. Any intellectual property rights resulting from research carried out by the parties pursuant to this agreement will be the property of the party that made the relevant discovery, except for joint discoveries, in respect of which the relevant intellectual property rights will be jointly owned. NutropinAq® is covered by a European patent owned by Genentech which expires on 29 July 2013. A European patent (EP 587.858) covering the liquid formulations of human growth hormone belonging to Pharmacia may also have covered this pharmaceutical compound. However, the limitation of claims by the Opposition division of the European Patent Office following Genentech's opposition should mean that NutropinAq® escapes the clutches of this patent. This ruling by the European Patent Office's Opposition Division was appealed by Pharmacia on 6 June 2005. European Patent Office's Technical Board of Appeal published its decision on 18 July 2006. The terms of Pharmacia's patent's main claim were partially restored but, for usual procedural reasons, the details of the Technical Board of Appeal's decision are at present undisclosed. If Pharmacia claims that NutropinAq® has infringed its patent and, assuming the latter's action were successful, the Group may have to pay compensatory royalty to Pharmacia

Genentech has the right to terminate this agreement in certain cases, notably if the Group is unable to market products by the agreed deadlines or if it fails to reach certain objectives. If the annual sales of a product in a specific country fall below a predetermined threshold, the rights and licences granted may become non-exclusive in the relevant country, if Genentech so decides.

Research and Development agreement

Following the agreement covering NutropinAq®, the Group signed a Research and Development agreement in November 2004 covering the development of sustained-release formulations of recombinant growth hormones using the technology platforms of Genentech, the Group and third parties. This agreement was entered into for an initial research period of two years and has been renewed until 31 March 2007. At the end of this period, Genentech and the Group may decide either to extend the research period or to develop jointly or individually the products resulting from the research or to terminate the contract. The Group has the right to use the product of worldwide research, except in the United States, Canada, Mexico and Japan in return for the payment of royalties to Genentech. Genentech has the right to use the product in the United States, Canada, Mexico and Japan in return for the payment, subject to certain conditions, of royalties to the Group. Any intellectual property rights resulting from Research and Development activities carried out pursuant to this agreement will be the property of the party that made the relevant discovery. Joint discoveries will be owned jointly by the Group and Genentech, with the latter also being responsible for securing and maintaining the relevant patents.

▶ 22.1.2.3 Auxilium (Philadelphia, United States)

In March 2004, the Group entered into a licensing agreement with Auxilium to distribute Testim® 50mg Gel, a gel applied to the skin described in section 6.1.1.3.2.2 of this registration document, worldwide, except for the United States, Mexico, Canada and Japan. This product was developed by Auxilium using patents belonging to Bentley Pharmaceuticals. The Group will hold any marketing authorisations awarded. The licence also includes the right to use the Testim® brand name, which belongs to Auxilium.

The agreement also gives the Group an option to license any new products acquired or developed by Auxilium containing testosterone, as well as any new therapeutic uses of the product. This agreement will remain in place for a period determined on a country-by-country basis and end no later than on either the expiry date of the patents held by Bentley Pharmaceuticals in the relevant country or the expiry of a ten-year period starting on the product's commercial launch date in the relevant country. When the agreement expires, the Group will benefit from a free and perpetual licence to use all Auxilium's intellectual property rights to the product, as well as to use the Testim® brand name. Auxilium will supply the finished product directly to the Group. In the event of delivery failures or delays, the Group will be entitled to manufacture the product itself.

Under this agreement, the Group pays Auxilium royalties based on net sales by the Group and its sub-licensees. These royalties will be reduced in the event of competition from generic drugs or licensing agreements

being signed with third parties with intellectual property rights preventing the product from being marketed in a market under consideration. The agreement does not provide for any minimum royalty clause. In addition, the Group buys the finished products at a price that is inversely proportional to the volumes ordered. Should Auxilium manage to lower the price to below the forecast price, the Group will pay it fixed amounts calculated in advance and will increase by one or two points the level of royalties paid by the Group depending on the price cut obtained.

▶ 22.1.2.4 Roche (Basle, Switzerland)

Pursuant to an agreement signed by the Group in October 2003 with various companies in the Roche group, on 19 July 2006 Roche exercised its option on an exclusive licence to the rights to develop and market a class of anti-diabetic GLP-1 drugs discovered by the Group's research activities and notably including the BIM 51077 compound. This GLP-1 analogue has shown its efficiency and the latest data from the phase I and II clinical trials have shown that the molecule could potentially be administered more easily than other molecules in its class, which makes it easier to observe the patients. These rights are granted worldwide with the exception of Japan where these rights are shared with Teijin the Group's Japanese partner and in France where the Group may decide to exercise its co-marketing rights.

The exercise of this option has resulted in Roche paying the Group €56 million plus an extra €1.7 million in December 2006. Ipsen may also receive an additional total payment of up to €170 million, depending on the success of the clinical development, manufacturing, regulatory and commercial milestones. Moreover, the Group will receive royalties on a sliding scale proportional to the product's worldwide sales. As of the date of the option's exercise, Roche becomes fully responsible for the product's development and manufacturing and will therefore hold the regulatory approvals. Roche will be wholly responsible for the next stages in the development of BIM 51077, with the exception of Japan where costs will be shared equally between Roche and Teijin.

Until 7 November 2008, Roche will have the option of selecting the compounds to be developed from the library of GLP-1 compounds. After 7 November 2008, Roche will have the right of first refusal on the GLP-1 compounds not selected by this date.

Roche will also pay royalties to the Group under the licence agreement calculated proportionally to sales. Roche will hold the marketing authorisations and will be responsible vis-à-vis the national authorities for marketing the product. Roche will also manufacture and deliver the finished products from the phase III trials onwards.

The licensing agreement will expire on: (i) the expiry of the last of the patents on the relevant product, or (ii) the end of a ten-year period starting on the date of the commercial launch in the relevant country, whichever shall be the later. Upon expiry of the agreement, Roche will hold a free and perpetual licence to the rights granted. Roche will be entitled to terminate the agreement: (a) within 90 days following receipt of the phase I report for any scientific or commercial reasons, (b) at any time in the event of exceptional toxicity or safety problems, (c) prior to the first application for marketing authorisation in return for a notice period of six months, and (d) at any time subsequent to the first application for marketing authorisation subject to a notice period of 18 months.

▶ 22.1.2.5 Teijin (Tokyo, Japan)

In July 2003, the Group entered into a Research and Development partnership with Teijin. The Teijin group is a Japanese industrial conglomerate specialising in the production and sale of pharmaceutical, medical and homecare products, as well as fibres, chemicals and plastics. This partnership covers the development of four of the Group's products and the marketing of the products that complete the development programme by Teijin in Japan. Secondly, this partnership covers the development and marketing by the Group in Europe (*i.e.* in the European Union and countries located to the west of Russia, including Russia) of Febuxostat, a product owned by Teijin and used in the treatment of the symptoms associated with hyperuricaemia and known as TMX-67.

the Group has granted Teijin rights to develop and market in Japan the following products:

- Somatuline® Autogel for the treatment of acromegaly, SSTR-2 for the treatment of diabetic retinopathy and BIM 44058 (PTHrP analogue) in the treatment of severe osteoporosis. The Group has granted Teijin exclusive rights to these products;
- a glucagon like peptide-1 analogue (GLP-1) known as BIM 51077 in the treatment of type II diabetes, for which the Group has granted Teijin co-exclusive rights together with Roche. In February 2004, the Group and Teijin added the first additional clause to the BIM 51077 partnership agreement. Pursuant to this additional clause, the Group granted Teijin an option on all the compounds belonging to it and forming part of the GLP-1 class.

Somatuline® Autogel® is marketed by the Group in 26 European countries, and in October 2006 filed a New Drug Application with the FDA in the United States (see section 6.1.1.3.2 of this registration document). Teijin started phase II trials in Japan with Somatuline® Autogel® in February 2007 and continues phase I trials with BIM 51077 and pre-clinical trials with BIM 44058.

Teijin will bear the entire burden of costs related to the development of SSTR-2 and PTH and 50% of the costs resulting from the development of Somatuline® Autogel® and GLP-1. The agreements covering GLP-1, SSTR-2 and PTH and Somatuline® Autogel® give the Group the power to veto publications.

For each of these products, marketing rights will revert to the Group upon expiry of a ten-year period of commercial use.

In addition, in July 2003, Teijin granted the Group the exclusive rights in "Europe" to develop and market Febuxostat, whose code name is TMX-67.

Pursuant to the distribution and promotion agreement signed on 24 July 2006 by Teijin and the Group, the parties have determined the definitive terms of Ipsen's exclusive rights to the product in Europe. Febuxostat's development costs in Europe will be borne by the Group, except for the cost of conducting clinical trials that may be requested by the regulatory authorities prior to the registration of Febuxostat in Europe, which will be shared between Teijin and the Group. Marketing rights will revert to Teijin upon expiry of a ten-year period of commercial use. The agreement covering Febuxostat contains a reciprocal clause for the advance notification of planned publications.

Submissions for the registration of Febuxostat are currently being made in Japan (Teijin) and in the United States (TAP) and in Europe, where the Group's registration file was accepted by the EMEA on 2 October 2006 for central registration procedure.

▶ 22.1.2.6 Asterion Ltd (Sheffield, United Kingdom)

In December 2003, the Group and Asterion entered into a research and licensing agreement, pursuant to which Asterion is conducting a research programme into the generation of growth hormone agonists and antagonists. This research programme was due to be completed during the first quarter of 2006, and has been prolonged until March 2008 to carry out

new research. The Group contributes to the financing of this programme by paying fixed sums. The strategic priorities and progress of the research work are supervised by a steering committee composed of representatives from the Group and Asterion. The results of this research belong to the Group.

Furthermore, the Group holds an exclusive worldwide licence to use Asterion's patents and expertise related to Asterion's technology with a view to the development and commercial use of any growth hormone agonists or antagonists. This licence has been granted for the duration of the patents, in return for the payment by the Group to Asterion of different fixed sums, payment of which depends on progress on the development front, the attainment of sales thresholds with these compounds and the payment of royalties based on these sales.

▶ 22.1.2.7 Radius (Cambridge, United States)

In September 2005, the Group signed a licensing agreement with Radius under the terms of which the Group granted Radius the exclusive right to develop, manufacture and distribute a compound belonging to the Group known as BIM 44058 (as well as its analogues) using the sustained-release formulation technology developed by the Group for the development of a drug used in the treatment of osteoporosis.

This licence has been granted for the entire world, with the exception of Japan (except for the manufacture), where the Group has already granted an exclusive licence concerning this compound to the Japanese group Teijin (see earlier description of the agreement). Furthermore, the Group will have the option of promoting and selling the finished product on a co-marketing basis with Radius in France. Radius is responsible for the overall development of the compound and will incur all the relevant costs. Radius will also hold the marketing authorisations and be responsible vis-a-vis the national regulatory authorities for marketing the product. The Group will also manufacture the compound until completion of the phase II trials. Subsequently, following the transfer of the technology, Radius will be responsible for manufacturing the compound and the end product marketed. Radius will then supply Teijin for the purposes of marketing the product in Japan.

Radius shall pay the Group different fixed sums depending on the success of the various development phases and registration of the end product, as well as according to the level of sales generated by the finished product. Lastly, Radius will pay the Group royalties calculated on a pro rata sales basis. Radius will have the option of subcontracting or sub-licensing all or part of its obligations, notably in connection with the phase III development work, subject to compliance by the sub-licensees and sub-contractors with all the terms and conditions of the agreement entered into with the Group. If it grants a sub-licence, Radius shall pay the Group a portion of the payments received from its sub-licensees. The licensing agreement will end upon the latest of (i) the expiry of the last remaining patent covering the product or (ii) the expiry of a period of ten years from the date on which the product was first sold, whichever is the later. Upon expiry of the agreement, Radius is set to benefit from a free and perpetual licence to the licensed rights. Furthermore, Radius has the right to terminate the agreement at any time after submission to the Group of the results of the phase I results.

▶ 22.1.2.8 Tercica Inc. (Brisbane, California, United States)

On 12 October 2006 the General Meeting of the shareholders of Tercica Inc. approved the agreements entered into in July 2006 with the Group consisting of two cross licensing agreements and the acquisition by the Group of a 25% stake in Tercica Inc.'s capital, with certain rights to increase this stake. This transaction, which includes the agreements set out below, was finalised on 13 October 2006.

The licensing agreements

The licensing agreements covering Somatuline® Autogel® and Increlex™ include similar conditions, the main ones being:

- each company has granted to the other the right to pursue development of new indications and improvements to Somatuline® Autogel® and Increlex™, either jointly or on its own, with the other party retaining a right to "opt in" to co-fund later. This right to opt in to co-fund includes a sliding premium depending on the date the party opts in to co-fund. It is expressed as a percentage of the development costs paid by the party who carried out the development activities on its own. If the licensee does not opt to co-fund within thirty days of the licensor receiving marketing authorisation for the new indication or improvement, the licensor may terminate the contract, except in certain cases depending on the relevance of the elements provided by the licensee;
- each company has granted the other a right of first negotiation for products in its endocrine pipeline, and has agreed on a framework for joint clinical development and subsequent marketing of endocrine products on a worldwide basis;
- the two companies have set up an executive committee whose role is to define and monitor the development activities of Somatuline® Autogel® and Increlex™; this committee is comprised of 4 representatives from each of the parties and is due to meet at least twice a year. Resolutions are by majority vote of its members, although the licensor has the deciding vote. The agreements also provide for the creation of a financial committee which reports to the executive committee. The role of this committee is to determine the development costs and allocate them between the parties, and to approve the sales and royalties due between the parties;
- the agreements include a change of control clause which gives the licensor the right to terminate the contract (i) without any compensation if the licensor's controlling shareholder is one of the licensor's competitors and (ii) with compensation if the licensor's controlling shareholder is not one of the licensor's competitors.

Somatuline® Autogel® licence

The Group granted Tercica Inc. the exclusive license to develop and market Somatuline® Autogel® in the United States and Canada. The Canadian authorities approved this product in July 2006. The FDA accepted the filing of Somatuline® Autogel®'s New Drug Application in December 2006. Tercica Inc. made an upfront payment of $25.0 million to the Group upon closing of this transaction, and will pay an additional €30 million upon United States approval of Somatuline®' Autogel® for the targeted indication. Both of these milestones will be financed through the issuance by Tercica Inc. of convertible notes to the Group (see below). Once Somatuline® Autogel® is launched in Tercica Inc.'s territory, Tercica Inc. will pay royalties to the Group on a sliding scale from 15% to 25% of net sales, in addition to a supply price of 20% of net sales of the product.

Development activities will be 60% funded by Tercica Inc. and 40% by the Group.

Increlex™ licence

Tercica Inc. granted the Group the exclusive license to develop and market Increlex™ worldwide except for the United States, Japan, Canada, Taiwan and certain countries in the Middle East and North Africa. This product has received marketing authorisation and is sold by Tercica Inc. in the United Sates and Canada where it benefits from orphan drug exclusivity. Increlex™ has been filed in Europe with the EMEA which has granted it orphan drug exclusivity.

Increlex™ is indicated in the long-term treatment of growth failure in children with severe primary insulin-like growth factor-1 deficiency.

Ipsen made an upfront cash payment of €10.0 million to Tercica Inc. upon the closing of this transaction, and will pay an additional €15.0 million on approval of the Increlex™ Medical Marketing Application in the European Union for the targeted indication. Once Increlex™ is launched in Ipsen's territory, the Group will pay royalties to Tercica Inc. on a sliding scale from 15% to 25% of net sales, in addition to a supply price of 20% of net sales of the product.

Development activities will be 60% funded by Tercica Inc. and 40% by the Group.

Equity investment

The Group acquired 12,527,245 newly issued ordinary shares at $6.17 per share representing a 25% stake in Tercica Inc., post transaction, on an non-diluted basis (*i.e.* a total of $77,293,101), and a warrant to acquire 4,948,795 of Tercica Inc. shares. Tercica Inc. also issued to the Group a convertible note for a principal amount of around $25 million. This note will be issued in payment of the upfront licensing payment for Somatuline Autogel in the United States and Canada. Upon approval of Somatuline® Autogel® in the United States for the targeted indication Tercica Inc. will issue 2 additional convertible notes. These instruments will allow the Group to increase its stake holding in Tercica Inc. to up to 40%, on a post transaction and fully diluted basis. Tercica Inc. will use the funds from the first additional convertible note to pay its royalties linked to the marketing authorisation in the United States for Somatuline® Autogel®, whilst the funds from the second and third convertible notes will be used for working capital.

In accordance with the contractual relationship between Tercica Inc. and the Group, the Group has the right to appoint two members to Tercica Inc.'s nine-member Board of Directors, replacing two current directors. On 13 October 2006 Tercica Inc.'s Board of Directors appointed Jean-Luc Bélingard and Christophe Jean, respectively Chairman-Chief Executive Officer and Group Vice-President Transactions to replace two of its directors.

Convertible note 1

On 13 October 2006, Tercica Inc. issued to the Group a convertible note for a principal amount of $25.0 million. The note, which will mature 5 years from the date of closing carries a coupon of 2.5% and is convertible into Tercica Inc. common stock at a conversion price of $7.41 per share. This note was issued in payment of the upfront licensing payment for Somatuline Autogel described above

Warrant

On 13 October 2006, Tercica Inc. issued a warrant to the Group, with an exercise price of $7.41 per share, which is convertible into Tercica Inc. common stock at any time until 12 October 2011. The purpose of this warrant is to allow the Group to reach 40% in Tercica Inc.'s share capital on a fully diluted basis post transaction.

Convertible note 2

Tercica Inc. will issue to the Group a convertible note for a principal amount of €30.0 million. The note, which will mature 5 years from the date of closing, carries a coupon of 2.5% and is convertible into Tercica Inc. common stock at a conversion price of €5.92 ($7.41) per share. This note will be issued in payment of the second licensing payment for Somatuline® Autogel® described above.

Convertible note 3

Tercica Inc. will issue to the Group a convertible note (once the FDA has approved Somatuline® Autogel®) for a principal amount of $15.0 million. The note, which will mature 5 years from the date of closing, carries a 2.5% coupon (payable in shares *in fine*) and is convertible into Tercica Inc. common stock at a conversion price of $7.41 per share. Ipsen will purchase this note for cash.

Overall, these instruments will allow the Group to increase its stake holding in Tercica Inc. to up to 40%, on a post transaction and fully diluted basis. Should the Group decide not to convert the notes, they would be repaid in cash at maturity.

The agreement also provides for special rights including an approval right related to specified material transactions and actions by Tercica Inc. and the implementation of an anti-dilution plan providing for the issuance of warrants the exercise of which remains optional, in the event of a significant equity investment by a third party.

22.1.3 Agreements related to Dysport®

▶ 22.1.3.1 Health Protection Agency (HPA) (Porton Down, United Kingdom)

The licensing agreement entered into by the Group with the HPA covers the botulinum toxin type A complex, which is the active substance in Dysport®. Pursuant to its agreement of 1994 with the HPA, the Group holds an exclusive worldwide licence until September 20 19 to use and sell the botulinum neurotoxin type A produced by the HPA and the co-exclusive right with the HPA to manufacture this toxin using the HPA's processes. Under an additional clause signed in September 2001, the Group has built the requisite installations for the production by the Group of botulinum toxin type A, with production having started up during 2004. The Group is now free of the obligation to purchase botulinum toxin from the HPA. Pursuant to this agreement, the Group pays the HPA royalties based on revenues generated from the sale of products containing botulinum toxin type A, particularly those realised under the Dysport® brand name, together with minimum royalty clauses.

▶ 22.1.3.2 Medicis, (Scottsdale, United States)

In March 2006, the Group entered into a development and distribution agreement with Aesthetica Ltd, a fully controlled subsidiary of Medicis, covering certain botulinum toxin formulations for aesthetic medicine in the United States, Canada and Japan under a brand name other than Dysport®, which may be Reloxin®. The initial expiry date of this agreement is in September 20 19. The Group sold Aesthetica the right to use the Reloxin® brand worldwide, and the Group will be licensed to use the Reloxin® brand name or any other brand name adopted outside the United States, Canada and Japan. Pursuant to a guarantee agreement signed at the same time, Medicis has undertaken to guarantee all of Aesthetica's obligations.

Under this agreement, Aesthetica finances and conducts the development programme helping to secure the registrations and approvals required to sell the products in the United States, Canada and Japan. According to the terms of this agreement, the Group files and becomes the owner

of the Biologics Licence Applications for products. However, pursuant to an amendment in November 2006, the Group has made Aesthetica responsible for filing New Drug Applications with the FDA in the United Sates and this marketing authorisation will be owned by the Group once it has been approved.

Aesthetica agreed to make certain milestone payments to the Group: $90.1 million upon signature of the agreement, plus $26.5 million at certain key development milestones; $75.0 million upon approval of the product by the FDA; $2.0 million upon approval of the product in Japan; *i.e.* a total of $ 193.6 million. The Group will manufacture and supply the product to Aesthetica throughout the agreement and will receive from Aesthetica royalties and a delivery price equal to 30% of the net sales generated by Aesthetica.

On 12 July 2006 the Group and Medicis announced that they had stopped negotiations concerning a distribution agreement covering the Group's botulinum toxin Reloxin®, in countries other than the United States, Canada and Japan. As a result Medicis paid the Group $35million.

▶ 22.1.3.3 Galderma (Lausanne, Switzerland)

Under the terms of this agreement, Ipsen granted Galderma Pharma SA. a Swiss company jointly owned by Nestlé and L'Oréal, exclusive rights to develop, promote and distribute a specific formulation for the aesthetic medicine indications of its botulinum toxin type A product in the European Union, Russia (subject to an additional payment) and certain territories in Eastern Europe and Central Asia, Israel and the Lebanon. In addition, the Group also granted Galderma first rights of negotiation for aesthetic medicine indications in the rest of the world, excluding the United States, Canada and Japan, as well as rights for future formulations. This agreement is due to expire in September 20 19, and may be renewed by Galderma subject to certain conditions, therefore terminating in December 2036.

The product will be distributed under a brand to be determined by Galderma.

Ipsen and Galderma will work together on the development and regulatory strategy of the product in aesthetic medicine indications. Galderma will carry out and fund any future development activity for new aesthetic indications. Ipsen will own all regulatory approvals and all data arising from development activities.

Galderma will pay the Group an initial milestone of €10 million and up to an additional €20 million if certain conditions are satisfied, such as marketing authorisation and product launches on certain territories. The Group will provide Galderma with the finished product at a fixed price and Galderma will pay the Group royalties based on sales, which together will represent approximately 40% of Galderma's net sales.

22.2 Agreements in primary care

22.2.1 Schwabe (Karlsruhe, Germany)

The Group has longstanding links with Schwabe concerning in particular Ginkgo biloba extracts and EGb 761®, the active substance in Tanakan®. The relationship between the Group and Schwabe was summarised in the cooperation agreement dated 27 July 2005 concerning (i) the procurement and supply of Ginkgo biloba leaves, (ii) the manufacture of Ginkgo biloba extracts and notably EGb 761®, (iii) the patents, expertise and EGb 761® brand name and drugs containing EGb 761® extract, and (iv) research and development activities concerning the EGb 761® extract and drugs containing EGb 761®. This cooperation agreement records the fact that the Group and Schwabe hold joint shareholdings in the following companies, which form the manufacturing chain for either EGb 761® or of other plant extracts:

- Agricultural companies:

- Schwabe and the Group each hold 50% of the share capital of two companies, Saint Jean d'Illac and Garnay located in France and the United States, respectively, which cultivate Ginkgo biloba trees and dry their leaves (from which EGb 761® is extracted),

- Schwabe and the Group each hold an equal percentage (37.5% or 35.75%, depending on the case) of the share capital in two companies located in the provinces of Shangdon and Jiangsu in China, the activities of which consist in buying and drying the green Ginkgo biloba leaves sold to Cara Partners (described below) and to Schwabe;

- Irish companies:

- Schwabe and the Group each hold 50% of the partnership shares in Wallingstown Company Limited based in Cork in the Republic of Ireland, which is involved in the manufacture of EGb 761®,

- Schwabe and the Group each hold 50% of the joint rights in Cara Partners located in Cork in the Republic of Ireland, which manufactures and sells EGb 761®. Cara Partners' partnership deed was renewed with effect from February 2003. Thereafter, the partnership deed will be considered as being for an unlimited duration, with each of the partners having the right to terminate it after observing a notice period of six months; and

- Linnea:

- Schwabe and the Group each hold 50% of the share capital of Linnea, a Swiss-registered company based in Locarno in Switzerland and whose activities are manufacturing and selling Ginkgo biloba extracts other than EGb 761® and other plant extracts.

This agreement provides for exclusive procurement of the Group's Ginkgo biloba leaves and EGb 761® extracts from the aforementioned companies. Under the terms of the cooperation agreement, the Group and Schwabe have agreed to form a steering committee defining procedures for: (i) purchases of Ginkgo biloba leaves by the Irish companies and Linnea from the agricultural companies, (ii) the manufacture and supply of EGb 761® extract by the Irish companies to the Group and to Schwabe exclusively, and (iii) the storage of Ginkgo biloba leaves and extracts.

Concurrently, Schwabe, which owns the patents covering EGb 761® extract and its method of manufacture, has reserved the right to manufacture EGb 761® extract to meet its needs in the German market and granted: (i) to the Irish companies a free licence to use its patents (without the right to sub-license them) to manufacture EGb 761® extract and to sell it exclusively to the Group and Schwabe, and (ii) to the Group a free licence to use its patents (with the right to sub-license them to third parties) to manufacture and sell drugs based on EGb 761®. The Group's licence covering France is exclusive, and Schwabe has reserved the exclusive right to market EGb 761® extract-based drugs in Germany.

Furthermore, under the terms of this cooperation agreement, the Group and Schwabe have reciprocally and at no charge granted, subject to certain conditions, the right to use the EGb 761® brand and the right to grant sub-licences to it to third parties everywhere this trademark is registered in relation to EGb 761® extract-based drugs. Lastly, this cooperation agreement has been entered into for the duration of Cara Partners' partnership deed.

22.2.2 Novartis (Basle, Switzerland), Sanofi-Aventis (Strasbourg, France)

In November 1997, Sanofi-Aventis entered into an agreement with Novartis to market Nisis®, the brand name used to market valsartan (an angiotensin II antagonist) and Nisisco®, the brand name used to market a fixed combination of valsartan and hydrochlorothiazide. Sanofi-Aventis owned the brand names used for both products and secured marketing authorisations allowing it to distribute, sell and administer these products in France. In March 2003, the Group entered into an agreement with Novartis and Sanofi-Aventis under which Sanofi-Aventis agreed to terminate its agreement with Novartis and to transfer to the Group the Nisis® and Nisisco® brand names and the corresponding marketing authorisations. At the same date, the Group entered into an agreement to transfer the brands and a temporary cooperation agreement with Sanofi-Aventis.

Under these agreements, Sanofi-Aventis agreed to transfer to the Group ownership of the Nisis® and Nisisco® brands, as well as its customer lists and expertise with respect to these products. In accordance with the brand transfer agreement, the Group paid Sanofi-Aventis certain amounts for the transfer of the brands upon signature of the related agreements described below and upon the transfer to the Group of marketing authorisations for Nisis® and Nisisco® and of Sanofi-Aventis' customer lists and expertise. The transfer of marketing authorisations for Nisis® and Nisisco® was completed on 30 April 2003.

In March 2003, the Group also signed a distribution agreement with Novartis concerning Nisis® and Nisisco®. In accordance with this agreement, the Group has a co-exclusive right (together with Novartis, which retains its right to use the products for its own benefit) to market and distribute Nisis®, Nisisco® and any other enhancement made to these products in France, Andorra and Monaco. The Group has undertaken to purchase certain quantities of Nisis® and Nisisco® from Novartis at prices varying according to the dosage and subject to minimum sales targets revised annually. Should sales fall below a given threshold, Novartis will be entitled to terminate the agreement after observing a notice period of 90 days. Novartis may also terminate the agreement, subject to a notice period of 60 days, should a control event affect the Group's ownership. The distribution agreement will remain in force until valsartan's patent expires in May 2011.

22.2.3 Indena (Milan, Italy)

Aside from the Schwabe patent covering the aforementioned Ginkgo biloba extracts, Indena holds a patent covering the manufacture of Ginkgo biloba extracts containing EGb 761® and products containing Ginkgo biloba extracts owned by Indena. Pursuant to the licensing agreement that it entered into with Indena in July 1996, the Group holds an exclusive right to manufacture, use and sell Ginkgo biloba extracts, including EGb 761® for use in drugs in connection with Indena's patent and using the latter's expertise within the European Union.

For its part, Indena retains the right to sell Ginkgo biloba extracts to customers located in the United Kingdom, Denmark, Sweden and Finland, but solely for use in non-pharmaceutical finished products (such as in health foods, food supplements and cosmetics). This agreement remains in force until the patent covering the European Union expires, *i.e.* in 2009. The Group has agreed to pay Indena royalties calculated on the basis of net sales in each relevant country provided that: (i) the relevant patent is valid in the relevant country, and (ii) Indena's expertise remains confidential in the relevant country, but in this case until 4 July 2006 at the latest.

22.2.4 Merck Sharp & Dohme Ltd (Hoddesdon, United Kingdom)

The Group signed an agreement with MSD in January 2007, for the use in France of Adrovance™, within the framework of a co-marketing agreement. This fixed association of alendronate sodium trihydrate and colecalciferol (vitamin D3) is used in the treatment of post-menopausal osteoporosis for patients at risk with low vitamin D levels. Pursuant to this 10-year agreement, the Group will market and sell this product under the name Adrovance in France which it will purchase exclusively from Merck Sharp & Dohme Ltd.

22.3 Other agreements

22.3.1 Bayer (Leverkusen, Germany)

In accordance with the royalty agreement entered into by the Group in January 1985, the latter granted Bayer an exclusive licence to use and sell products whose biological activity and chemical structure is similar to that of the procoagulating proteins of human factor VIII worldwide, except in the Americas, Japan, Taiwan, South Korea, Hong Kong, Indonesia, the Philippines, Thailand, Singapore, Malaysia, Australia, Germany, Austria and Switzerland. This agreement notably covers the use and sale by Bayer of Kogenate®, a human factor VIII product originally developed as part of a partnership between Genentech and Speywood (acquired by the Group in 1994). In accordance with the partnership agreement with Genentech, the Group has the exclusive right to use and sell human factor VIII products, including Kogenate®, worldwide except in the excluded territories listed above in which Genentech has the right to use and to sell Kogenate®.

As a guide, the royalties received by the Group under this agreement amounted to, €30.5 million in 2004 and €42 million in 2005 and €38.7 million in 2006. For the aforementioned reasons, the Group does not and cannot know with any certainty the royalties that it will receive in the future, since they are likely to vary both upwards and downwards and to a significant extent.

This agreement will terminate on the later of the following two dates: (i) 15 years from the launch date of the relevant human factor VIII product, and (ii) the expiry date of the last remaining patent protecting this product. Kogenate® was launched on the market during the second half of 1994 and the last of the patents protecting Kogenate® expires in April 2009.

22.3.2 Octagen and Emory University (Atlanta, United States)

In September 1998, the Group acquired a shareholding in Octagen, a US biotechnology company. At 31 December 2006, this shareholding stood at 21.45%. Under the agreement entered into by the Group with Octagen, which includes a partnership with Emory University, it is able to benefit from the cooperation of international experts in protein engineering. Pursuant to this agreement, Emory University, which holds the patents licensed to Octagen and which is also one of the shareholders in this company, conducts research aimed at identifying new biotechnology products for use in the treatment of haemophilia. Octagen oversees the pre-clinical and clinical development of these products, and the Group is responsible for managing special projects and the switch to large-scale production.

In May 1998, Octagen concluded a worldwide exclusive licensing agreement with Emory University. This agreement covers the latter's expertise and patents and authorises Octagen to use, sell and manufacture low antigenicity products (LAP) and low immunogenicity products (LIP), notably including genes corresponding to the LAP and LIP compounds in gene therapy and protein infusion. This agreement will end on the expiry date of the corresponding patents, *i.e.* no later than in 2021. Pursuant to this agreement, Octagen issued ordinary shares to Emory University. Octagen has agreed to make milestone payments to Emory University and variable royalty payments based on sales, subject to minimum annual royalties. Octagen has also agreed to pay to Emory University a portion of all the royalties paid to Octagen by sub-licensees. Pursuant to this agreement, Emory University has agreed to conduct permanent research programmes into LAPs and LIPs to identify new biotechnology products for use in the treatment of haemophilia. These research programmes are financed by Octagen.

In September 1998, Octagen in turn signed a worldwide exclusive sublicensing agreement with the Group authorising the latter to use, sell and manufacture products incorporating LAPs and LIPs. This agreement will end three years after the expiry date of the corresponding patents, *i.e.* in 2024 in most countries. Pursuant to this agreement, the Group agreed to make certain milestone payments to Octagen, including payments linked to Investigational New Drug Applications (IND) at the beginning of clinical trial phases and to registration with the FDA in the United States. Under this agreement, the Group also pays variable royalties based on sales, subject to a reduction in royalties if sales do not reach a minimum threshold. The Group has the right to terminate the agreement at any time and for any reason, subject to observance of a notice period of one year subsequent to which Octagen retains all rights to data generated under the agreement. In accordance with this agreement, Octagen agreed to conduct pre-clinical and clinical trials financed by the Group. The Group's participation in financing this research, which lasted for three years, is now at an end. The agreement stipulates that the Group will manage any project or dossier (including the payment of filing costs) and will be the owner of any registration or regulatory approval dossier.

As part of the relationship between the Group and Octagen and the corresponding licensing and sub-licensing agreements, the Group is currently pursuing phase II clinical trials with a compound known as OBI-1.

23 Third party information, statements by experts and declarations of any interests

None.

24 Consultation of legal documents

The Articles of Incorporation, this registration document and other corporate documents to be made available to shareholders as required by law can be consulted at the Company's registered office.

Copies of this registration document are available free of charge at the Company's registered office (42, rue du Docteur Blanche, 75016 Paris - Tel.: +33 (0)1 44 30 43 43), through Ipsen's website **(www.ipsen.com)** and through the AMF's website **(www.amf-france.org)**.

25 Information on holdings

The Company has shareholdings in Group companies only. Such shareholdings are described in Chapter 7 "Organisational Structure" and their financial impact is set out in the annexes to the Company's consolidated accounts included in Chapter 20 "Financial information on the assets, the financial position and the results of the Company" of this registration document.

Ipsen
42, rue du Docteur Blanche
75016 Paris

Téléphone : +33 1 44 30 43 43
Télécopie : +33 1 44 30 43 21

www.ipsen.com

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