

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

RHONE POULENC RORER INC

CIK: **217028** | IRS No.: **231699163** | State of Incorpor.: **PA** | Fiscal Year End: **1231**
Type: **10-K** | Act: **34** | File No.: **001-05851** | Film No.: **94516508**
SIC: **2834** Pharmaceutical preparations

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934 (FEE REQUIRED)
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1993

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 1-5851

RHONE-POULENC RORER INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

PENNSYLVANIA

23-1699163

(STATE OF INCORPORATION)

(I.R.S. EMPLOYER IDENTIFICATION NO.)

500 ARCOLA ROAD
COLLEGEVILLE, PENNSYLVANIA

19426

(ADDRESS OF PRINCIPAL EXECUTIVE
OFFICES)

(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: 610-454-8000

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|--|
| Common shares (without par value), stated value \$1 per share | New York Stock Exchange |
| Market Auction Preferred Shares (without par value), liquidation preference \$1,000 per share | Paris Stock Exchange |
| Flexible Money Market Preferred Stock (without par value), liquidation preference \$100,000 per share | |

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

As of January 31, 1994, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately \$1,488,636,713.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents have been incorporated by reference in this report:

| DOCUMENT ----- | PARTS INTO WHICH INCORPORATED ----- |
|--|--|
| Proxy Statement dated March 21, 1994 in connection with the April 28, 1994 Annual Meeting of Shareholders | Part III |

The Exhibit Index is located on page 60.

RHONE-POULENC RORER INC.
ANNUAL REPORT ON FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 1993

PART I

ITEM 1. BUSINESS

Description of the Business

Rhone-Poulenc Rorer Inc., a Pennsylvania corporation, formerly known as Rorer Group Inc., (the "Company" or "RPR"), is the business formed in the 1990 combination of Rorer Group Inc. ("Rorer") and substantially all of the Human Pharmaceutical Business ("HPB") of Rhone-Poulenc S.A. ("RP"). RP, based in Paris, France, owns approximately 68 percent of the Company's common shares as of January 31, 1994 and controls the Company.

The combination of Rorer and HPB increased Rorer's ability to compete effectively on a worldwide basis through the achievement of overall critical mass, increased investment in research and development, a substantial presence in Europe and the United States, and the opportunity to expand its operations in Japan. For HPB, the combination provided access for future products to the world's single largest pharmaceutical market--the United States--where HPB had no previous marketing or distribution network. For both entities, the combination afforded a substantial opportunity to achieve production, marketing and administrative synergies and better leverage the significant research and development activities of the combined Company.

The Company is primarily engaged in the discovery, development, manufacture and marketing of a broad line of pharmaceutical products for human use. On the basis of sales, the Company is the leading pharmaceutical group in France, among the top three in Europe and among the largest in the world. The Company also has a growing presence in North America, in developing markets, and in Japan. The Company's products are manufactured in more than 30 countries and the Company has a commercial presence in all major markets of the world.

The Company's pharmaceutical products are primarily comprised of prescription medicines, over-the-counter ("OTC") medicines and plasma derivatives. In addition, the Company manufactures and sells certain bulk pharmaceuticals and limited quantities of other chemicals.

Pursuant to a strategy of focusing on pharmaceutical products, the Company sold its dietetic and nutritional products business (principally Dietetique et Sante in France and Dietisa in Spain) in 1991.

In 1993, the Company acquired a 37% interest in Applied Immune Sciences, Inc. ("AIS"), a pioneer in cell therapy, and the right to purchase majority ownership interest around 60%. The Company also launched a long-term gene and cell therapy research and development collaboration with AIS and entered into agreements for current and future joint ventures for the marketing and distribution of cell therapy products and services. These agreements and other similar collaborations should strategically position the Company to play a major role in the development of commercial opportunities in both cell and gene therapies.

Financial Information about Industry Segments and Foreign and Domestic Operations

See note 14 to the consolidated financial statements, "Industry Segment and Operations by Geographic Area" appearing on page 41 of this report.

Principal Products

The Company's pharmaceutical products are primarily comprised of prescription medicines, OTC medicines and plasma derivatives. The Company's principal product focus can be categorized generally in

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the following major therapeutic areas: cardiovascular; infectious disease/oncology; bone metabolism/ rheumatology; central nervous system/analgesia; hypersensitivity; plasma derivatives; and gastroenterology. In addition, the Company manufactures and sells certain bulk chemicals, OTC products and pharmaceuticals in other therapeutic areas including dermatology. No single product contributed more than 6% of 1993 and 1992 sales, and the ten largest products as a group contributed 36% of the Company's 1993 sales (1992-35%). The following principal therapeutic areas accounted for the indicated percentages of the Company's total net sales.

<TABLE>
<CAPTION>

| THERAPEUTIC AREA | PERCENTAGE OF NET SALES* | | |
|---|--------------------------|------|------|
| | 1993 | 1992 | 1991 |
| Cardiovascular products, including Clexane (R)/Lovenox (R), Lozol (R), Sermion (R), Frumil (R), Dilacor XR (R) and Selectol (R)..... | 21% | 22% | 20% |
| Infectious disease/oncology products, including Flagyl (R), Josacine (R), Peflacin (R), Rovamycine (R) and Oroken (R)..... | 13% | 13% | 13% |
| Bone metabolism/rheumatology products, including Orudis (R)/Profenid (R)/Oruvail (R) and Calsynar (R)/Calcimar (R) and DDAVP (R)..... | 12% | 13% | 12% |
| Central nervous system/analgesia products, in- cluding Doliprane (R) and Imovane (R)/Amoban (R)..... | 9% | 9% | 9% |
| Hypersensitivity products, including Azmacort (R) and Nasacort (R)..... | 10% | 10% | 8% |
| Plasma derivatives, including Albuminar (R) and Monoclalte-P (R)..... | 10% | 8% | 7% |
| Gastroenterology products, including Maalox (R).. | 12% | 12% | 13% |
| All other..... | 13% | 13% | 18% |
| Total net sales..... | 100% | 100% | 100% |

</TABLE>

* Certain reclassifications have been made from amounts shown in prior periods for therapeutic areas to conform to classifications now used by the Company.

The Company's principal pharmaceutical products include the following: Maalox (R), a magnesium and aluminum hydroxide-based antacid for treatment of gastric hyperacidity; Orudis (R)/Profenid (R)/Oruvail (R) (ketoprofen), a non-steroid anti-inflammatory agent used in the treatment of rheumatoid arthritis; Calsynar (R)/Calcimar (R) (calcitonin) for the treatment of metabolic bone diseases such as post-menopausal osteoporosis; Albuminar (R), a protein replacement agent and plasma volume expander for loss of intra-vascular volume; Clexane (R)/Lovenox (R) (enoxaparin), a low molecular weight heparin used in the prevention and treatment of deep vein thrombosis after surgery; Azmacort (R), an inhaled corticosteroid for asthma; Monoclalte-P (R), a pasteurized antihemophilic factor VIII:C product; Lozol (R) (indapamide), a diuretic used to treat hypertension; Doliprane (R) (paracetamol), an analgesic; Rovamycine (R) (spiramycine), a macrolide anti-infective; Sermion (R) (nicergoline), a cerebral vasodilator used in the treatment of memory disturbance due to aging and cognitive disorders;

Imovane (R)/Amoban (R) (zopiclone), a non-benzodiazepine sleeping agent; Nasacort (R) (triamcinolone acetonide), an inhaled corticosteroid for allergic rhinitis; Flagyl (R) (metronidazole), an antiparasitic used in the treatment of trichomoniasis, amebiasis and anaerobic bacterial infections; Peflacine (R) (pefloxacin), an anti-infective quinolone product; DDAVP (R), primarily for treatment of nocturnal enuresis in children; Josacine (R) (josamycin), a macrolide antibiotic to treat upper respiratory infections; Sectral (R) (acebutolol), a beta-blocker used in the treatment of hypertension and angina; Slo-bid (TM)/Slo-Phyllin (R), a theophylline bronchodilator; Captea (R)/Captolane (R) (captopril), ACE inhibitors; Oroken (R) (cefixim), a third-generation cephalosporin anti-infective; Dilacor XR (R) (diltiazem), a calcium channel blocker used for treatment of hypertension; Selectol (R) (celiprolol), a highly cardioselective vasodilating beta-blocker used in the treatment of hypertension; Vasten (R) (pravastatin), a reductase inhibitor for treatment of hypercholesterolemia; Nitrong (R)/Nitrolingual (R) (nitroglycerin), used for the prevention and treatment of angina pectoris; and Frumil (R) (furosemide/amiloride HCl), a diuretic for hypertension.

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While the above products as well as others are important to the Company's strategy and focus in specific geographic markets, not all products are marketed by the Company in all three of the largest pharmaceutical markets of the world (Europe, United States and Japan).

Customers, Marketing and Distribution

The Company markets its products in more than 140 countries throughout the world. The Company's prescription products are sold primarily to drug wholesalers, retail pharmacies, hospitals and government authorities, while over-the-counter products are sold, in addition to the foregoing, to food chains and other retail outlets, particularly in the United States. The Company's products are sold to a large number of diverse customers. No one customer accounted for as much as 10 percent of the Company's consolidated net sales in 1993.

Promotion of the Company's prescription products is directed primarily to physicians, hospitals and pharmacists through personal visits by professional sales representatives. In addition, this activity is supported by the Company's participation in scientific seminars, medical journal advertising and by direct distribution of samples and other printed material. Promotion of OTC products includes advertising directed at the end consumer through media such as television, radio or print.

In France, where the Company enjoys the leading position, its prescription pharmaceutical marketing activities are presently conducted through three laboratories: Specia, Theraplix and Bellon. The Company's OTC business in France is carried on principally through its RP Labo subsidiary. Through the laboratories, the Company is party to certain arrangements in France with affiliates of Bristol-Myers Squibb, Bayer, and Astra to co-market such products as Vasten (R), a cholesterol-lowering agent; Captea (R), a combination ACE inhibitor and diuretic; Captolane (R), an ACE inhibitor; Nidrel (R), a calcium channel blocker and Zoltum (R), a proton pump inhibitor. In 1993, just over 34 percent of the Company's sales were in France. Also through its operations in France, the Company has entered into joint venture agreements for the development and possible future marketing throughout Western Europe of new compounds discovered by joint venture partners Dainippon and Chugai.

The Company conducts its marketing efforts in the United States in four divisions: (1) Rhone-Poulenc Rorer Pharmaceuticals, the prescription pharmaceuticals division; (2) Rhone-Poulenc Rorer Consumer Pharmaceutical Products, which markets OTC products; (3) Armour Pharmaceutical Company, which markets plasma derivatives to hospitals; and (4) Dermik Laboratories, which markets prescription dermatological products principally to dermatologists. In 1993, just under 28 percent of the Company's sales were in the United States.

The U.S. pharmaceutical industry is currently undergoing fundamental changes to the way health care is administered and provided. See "Governmental Regulation". These changes will necessitate that relationships with a smaller number of large customers (i.e., managed care organizations) be developed in addition to the traditional marketing focus on the individual physician. At the end of 1993, the Company reorganized on a regional basis its U.S. prescription

pharmaceuticals division to better respond to this emerging managed care environment. An emerging markets unit will focus on nationally-organized managed care plans and will also be responsible for Arcola Laboratories, formed in mid-1993 to market generic versions of RPR products after patent or market exclusivity expiration in the United States.

Operations in Other Europe (excluding France) contributed approximately 24 percent of 1993 consolidated sales. The Company's largest operations are in Germany, Italy and the United Kingdom. The Company conducts its prescription products operation in Germany under the names of Nattermann, Rorer and Rhone-Poulenc Pharmaceuticals. Plasma derivatives are marketed by Armour Pharmaceuticals. The OTC business in Germany is conducted through the Nattermann and Dr. Schieffer units. In 1991, the Company sold the Woelm trade name along with the Eschwege facility (and certain OTC products produced there) to an affiliate of Johnson & Johnson/Merck Consumer Pharmaceutical Co. In Italy, the Company

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conducts business through its Rhone-Poulenc Rorer S.p.A. subsidiary under the names Rhone-Poulenc and Rorer. In the United Kingdom, the Company markets branded prescription pharmaceuticals through its Rhone-Poulenc Rorer and May & Baker divisions. Plasma derivatives are marketed by Armour Pharmaceuticals. In addition, generic pharmaceuticals are marketed and distributed in the U.K. under the name of APS-Berk. In 1992, the RPR Family Health Division was created in the U.K. to develop OTC line extensions and new brand launches. In 1993, the Company strengthened and expanded its operations in Eastern Europe, building a sales force and entering into local production, warehousing and distribution arrangements.

In the aggregate, geographic regions comprising the Rest of World area accounted for 14 percent of RPR's 1993 sales. The Company maintains a presence in Africa, Asia, Latin America, Canada, Australia and Japan. During 1991, the Company consolidated its activities in Japan, including its joint venture with Chugai, in Rhone-Poulenc Rorer Japan Inc. The Company's operations there are conducted primarily through this subsidiary; in addition, the Company has several licensing arrangements with Yamanouchi and other Japanese companies for the sale of RPR products in that market.

Raw Materials and Manufacturing

Substantial amounts of the active ingredients used in the Company's prescription and OTC medicines are manufactured at its bulk pharmaceutical and chemical facilities at Villeneuve la Garenne and Vitry-sur-Seine (near Paris, France), Dagenham (near London, England), Cologne (Germany), Lewes, Delaware (United States) and Marseilles (France). Other chemicals and botanicals are purchased from other companies. These materials are generally processed, compounded and packaged in facilities which the Company operates. See "Properties".

The Company manufactures a substantial amount of the active ingredients contained in its pharmaceutical products and does not depend on other suppliers for these materials. Other raw materials and packaging supplies for the Company's pharmaceutical products generally are available in ample quantities under normal conditions. Such supplies were adequate in 1993, and no shortages are currently anticipated.

During 1993, the Company produced virtually all of the magnesium and aluminum hydroxides used in its antacid products sold in the United States and a substantial portion of the magnesium and aluminum hydroxides used in products sold to the rest of the world. Armour's Plasma Alliance subsidiary, through the plasmapheresis process, collects all of the plasma used in the U.S. and substantially all of the plasma used worldwide at 21 collection centers throughout the southern and mid-western United States.

Patents, Trademarks and Licenses

Patents and Licenses. The Company has obtained patents in France, the United States, and other countries for the significant products discovered or developed through its research and development activities. Patent protection is available in the United States, France and most other developed countries for new active ingredients, as well as for pharmaceutical formulations or manufacturing processes. In some other countries, patent protection is

available only for manufacturing processes. The Company also licenses patents and other know-how from third parties.

Certain of the Company's licensed and owned products are covered by patents principally in the United States, France and/or other countries. These patents cover such principal products as Nasacort (R); Monoclalte-P (R); Clexane (R)/Lovenox (R); Azmacort (R); Peflacine (R); Imovane (R) and Selectol (R). The Company's licensed or owned patents expire at various times through the next twenty years. The Company has been granted Supplementary Certificates of Protection to extend the patent terms of several of the Company's products in Europe. The U.S. Azmacort (R) patent expired in 1993. The U.S. Lozol (R) patent expired in 1988 and Lozol (R) U.S. FDA exclusivity expired in mid-1993.

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Product patent protection is no longer available in nearly all major markets for the active ingredients (such as ketoprofen, metronidazole, calcitonin, acebutolol and spiramycine) used in a number of the Company's leading products. However, the Company does not believe that the expiration of patent protection for the active ingredients used in these and other products has generally had a significant adverse effect on the Company because of the Company's ability thus far to develop and patent new processes, formulations and uses; to position many of its products in specific market niches; and because of the absence of a generic market in France.

The Company believes that no single patent or license is material to the Company as a whole.

The Company is routinely engaged in disputes over its patented products and processes, the more significant of which are discussed in "Legal Proceedings" herein.

Trademarks. The Company also maintains numerous trademarks protected by registrations in the countries where its products are marketed. The Company's trademark for a pharmaceutical product generally assumes increasing importance when the patent for such product expires in a particular country. Except for trademarks relating to Maalox (R) products, no single trademark is considered material to the Company as a whole. There are currently no significant disputes concerning its trademarks.

Competition

Generally, the Company operates in an intensely competitive domestic and international environment, encountering competition in all of its geographical markets from large national and international competitors. Among the Company's chief competitors are Sandoz, Ciba-Geigy, Glaxo, Bayer, Merck, Upjohn, Roche, SmithKline Beecham and Schering-Plough. These and other competitors have substantial resources available for research, development and marketing activities.

In general, a pharmaceutical product may be subject to competition from alternative therapies during the period of patent protection and thereafter it may also be open to competition from generic products. The launch by other companies of new products or processes with therapeutic advantages can result in product obsolescence and/or significant price erosion despite the existence of patent protection or recognized trademarks. Medical utility, product quality and marketing are other major competitive factors. Manufacturers of generic products typically do not invest as heavily in research and development and, consequently, are able to offer generic products at considerably lower prices than brand equivalents. A research-based pharmaceutical company may therefore seek to achieve a sufficient margin and sales volume during the period of patent protection to recover the original investment and to fund research for the future. There are, however, a number of factors that can enable products to remain profitable once all forms of patent protection (product, process, formulation and use) have ceased. These include a) creating for the prescriber or the consumer a strong brand identification supported by an active trademark registration and enforcement policy, b) offering a range of alternative formulations that generic manufacturers typically cannot produce, or c) complexity of manufacture of the active compound.

Increasing governmental and other pressures in many countries in favor of the dispensing of generic products in substitution for brand-name products may

increase competition for some of the Company's products which are no longer covered by patents.

The Company believes that its competitive position in the medium- to long-term depends largely upon the ability of its research and development organization to discover and develop innovative products, as well as upon increasing productivity through improved manufacturing methods and marketing efforts.

Research and Development

The Company invests heavily in research and development, which management believes is critical to growth and competitiveness in the pharmaceutical industry.

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Research and development expenditures were \$561 million in 1993, \$521 million in 1992 and \$445 million in 1991. Such expenditures represented 14%, 13% and 12% of net sales in 1993, 1992 and 1991, respectively.

Following its combination with HPB, the Company concentrated research efforts at three research centers, in France, the United States, and the United Kingdom. See also "Properties."

The Company has centralized and redirected its research in selected areas deemed by management to be of long-term market potential. Research and development programs are concentrated in several therapeutic areas: cardiovascular, cancer, infectious diseases/AIDS, respiratory, bone metabolism/rheumatology, and central nervous system. The Company has development projects in various stages which include, but are not limited to, the following:

- . Taxotere (R), an antitumor agent with potential therapeutic benefit against breast, lung and other forms of cancer;
- . Ebastine, an antihistaminic compound for treatment of seasonal or perennial allergic rhinitis;
- . an AIDS virus-derived immunotherapeutic agent designed to elicit an immune system response which might prevent or delay the onset of AIDS;
- . Menorest (R), an estrogen patch for female hormone replacement, as well as Combi-patch, an estrogen/progestin combination transdermal patch for the relief of menopausal symptoms;
- . Zagam (TM), a potential first-line therapy broad spectrum anti-infective compound (being developed in North America and co-developed in Europe through a joint venture with Dainippon);
- . Synercid (TM), an injectable streptogramin antibiotic for hospital-acquired infections;
- . Aprim (R) (aprikalim), a potassium channel opener for treatment of angina;
- . a potent and selective inhibitor of the enzyme phosphodiesterase type IV indicated in the inflammatory process in the lung;
- . new indications for the marketed anti-thrombotic drug, Lovenox (R), in the U.S.; and
- . a novel compound, Riluzole, for the treatment of Amyotrophic Lateral Sclerosis (ALS).

There can be no assurance that these or other compounds in various stages of development will ultimately be approved for commercial sale.

In 1993, the Company launched a long-term gene and cell therapy research and development collaboration with AIS. This arrangement and other similar collaborations should strategically position the Company to play a major role in the development of commercial opportunities in both cell and gene therapies.

The introduction of new prescription pharmaceutical products is regulated in all countries where the Company does business. Regulatory requirements generally relate to the safety and efficacy of the product as well as to the manufacturing processes for and the packaging and labeling of such products. Clinical testing is required for pharmaceutical products. Completion of the lengthy application and testing process for required governmental approvals is costly and can significantly delay the introduction of new products in a given market.

In the French prescription pharmaceutical market, direct price controls have maintained prices at a low level compared to other markets and have typically prevented the emergence of generic competition. The government is currently considering cost containment measures to respond to the nation's health care deficit, including physician prescribing guidelines to limit the volume of prescriptions written. A three-year policy agreement between pharmaceutical manufacturers and the French government signed in January 1994 will

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limit annual growth of prices for reimbursable pharmaceuticals to a level expected to be in line with the average inflation rate. In Germany, physician prescribing guidelines have been established and the selling prices of prescription products were reduced by 5% in 1993 and remain frozen through December 1994. A new reimbursement system was instituted in Italy in 1993 resulting in the removal of certain products from government reimbursement lists and price cuts of 2.5% to 4.5%. Effective October 1993, the U.K. Pharmaceutical Price Regulation Scheme enacted price reductions of up to 2.5% and limited the ability of companies at certain profitability levels to seek price increases. In Spain, decreases in pharmaceutical prices averaging 3% became effective in November 1993.

In the European Community ("EC"), the Single Market formally came into being on January 1, 1993. The Maastricht Treaty creating the European Union was eventually ratified and came into effect in November 1993. The Single Market program was extended to five of the European Free Trade Association countries (Finland, Sweden, Norway, Austria and Iceland) through the creation of the European Economic Area effective January 1994. Directives relating to advertising, wholesale distribution, product classification and labelling/package inserts adopted during 1992 are now being implemented by the Member States. A regulation compensating the pharmaceutical industry for time lost during product development by providing extended patent protection for up to 15 years from the date of first marketing authorization in the EC also came into effect. The future systems package establishing the new European regulatory procedures and the European Medicines Evaluation Agency was adopted in mid-1993; operation of the new procedures will commence in January 1995.

The Company's products sold in the United States are subject to the Food, Drug and Cosmetic Act, and accordingly are subject to investigation and pre-market approval of "new drugs" (as such term is defined in the Act), strict standards regarding their manufacture, safety and efficacy and detailed requirements with respect to labeling, promotion and, with respect to prescription drugs, advertising. All states have enacted generic substitution laws which permit, or in some instances require, the dispensing pharmacist to substitute a different manufacturer's version of a drug for the one prescribed.

A variety of legislative proposals to expand public health care programs and/or impose pharmaceutical price or other restrictions in the U.S. have been discussed in recent years. During 1993, the Clinton Administration proposed the Health Security Act ("HSA") which would provide universal health coverage through standardized benefits for all U.S. citizens and would, by 1998, make sweeping structural and financial changes to the U.S. health care delivery system. Health care coverage would be provided primarily under managed-care arrangements available through regional or corporate health alliances determined at the state level. Elements of HSA and other proposals will be debated by legislators at various levels in the coming year. The precise form and effect of any final legislation cannot be predicted; however, most pharmaceutical manufacturers, including RPR, have reorganized to adapt to an emerging U.S. managed care environment which dictates that product offerings satisfy payor objectives aimed at lowering health care costs.

U.S. Federal and state governments also continue to seek means to reduce

costs of Medicare and Medicaid programs. Under the HSA, selected service cuts and spending caps on these programs would be imposed beginning in 1996. Medicare and Medicaid recipients would, in many instances, obtain coverage through regional alliances and be entitled to receive, among other things, outpatient prescription drug benefits. Drug manufacturers would be required to sign rebate agreements with the Department of Health and Human Services in order to participate in the Medicare and Medicaid prescription drug benefit. The exact form of these measures and whether additional restrictions on reimbursement for, or access to, certain drug products will be enacted is yet to be determined. Currently the Company operates under a Medicaid Rebate Agreement entered into with the U.S. Government under Section 4401 of the Omnibus Budget Reconciliation Act of 1990. Pursuant to the agreement, as of January 1, 1991, in order for federal reimbursement to be available for prescription drugs under state Medicaid plans, the Company must pay certain statutorily-prescribed rebates on Medicaid purchases. Effective in 1991, the law also denies federal Medicaid reimbursement for drug products of the original New Drug Application (NDA)-holder if a less expensive generic version of such drug is available from another manufacturer, unless the prescriber indicates

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on the prescription that the branded product is medically necessary. In addition to the agreement with the U.S. Federal Government, the Company has entered into similar rebate agreements with several state reimbursement programs. The Company does not believe that continued operation of these agreements will have a material adverse impact on the Company's financial condition in the foreseeable future.

In most other developed markets governments exert controls over pharmaceutical prices either directly or by controlling admission to, or levels for, reimbursement by government health programs. The nature of such controls and their effect on the pharmaceutical industry varies greatly from country to country. It is not possible to predict the extent to which the Company or the pharmaceutical industry might be affected by the matters discussed above.

Environmental Matters

In 1993, the Company formed an Environmental Council to administer its worldwide environmental compliance policy. The Company believes that its operations comply in all material respects with applicable environmental laws and regulations including those of U.S. Federal, state and local authorities. The Company routinely makes, and expects that from time to time it will continue to make, capital expenditures for environmental compliance. It does not, however, anticipate that such future expenditures will materially affect its earnings or competitive position.

Like many manufacturers, the Company has been advised of its potential responsibility relating to past waste disposal practices, including potential involvement at two sites on the U.S. National Priority List created by the Comprehensive Environmental Response Compensation and Liability Act (Superfund). The Company believes its share of liability for such matters, if any, to be negligible.

Employees

As of January 31, 1994, the Company and its subsidiaries had approximately 22,300 employees. In general, the Company considers its relations with employees worldwide to be satisfactory.

Non-U.S. Operations

Non-U.S. operations of the Company and its subsidiaries are subject in varying degrees to a number of risks inherent in conducting business outside of the United States. These include fluctuating currency exchange rates and the possibility of nationalization, expropriation or restrictive actions by local governments. The Company, in general, does not currently consider these factors to be deterrents to maintaining or expanding such operations.

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Executive Officers of the Company

The identity of the Company's current executive officers and certain biographical information concerning such individuals are set forth below.

<TABLE>

<CAPTION>

NAME (AND AGE) OF EXECUTIVE
OFFICER, POSITIONS AND OFFICES
HELD WITH THE COMPANY

BUSINESS EXPERIENCE

| ----- | ----- |
|--|--|
| <S> | <C> |
| Robert E. Cawthorn (58)..... Chairman and Chief Executive Officer | Mr. Cawthorn became Chairman in 1986, having be- come Chief Executive Officer in 1985. He was President of the Company from 1984 to 1986 and from 1988 to 1991. |
| Michel de Rosen (43)..... President and Chief Operating Officer | Mr. de Rosen was appointed in September 1993, having served as Chief Executive Officer of the Fibers and Polymers sector of RP since 1988. From 1986 to 1988, he was Chief of Staff for the Minister of Industry of the French Govern- ment. Prior to this, Mr. de Rosen served as General Manager of Pharmuka since 1984. |
| Alain Audubert (50)..... Senior Vice President, Worldwide Industrial Operations | Mr. Audubert joined the Company in his present position in December 1993, having served as Chief Executive Officer of Pasteur Merieux Connaught since 1990. Prior to this, he was Chief Executive Officer of the Institut de Se- lection Animale since 1983. |
| Yves Barou (46)..... Senior Vice President, Human Resources | Mr. Barou has served as Senior Vice President, Human Resources since April 1993, having been Corporate Vice President, Human Resources since 1991. Mr. Barou was Managing Director of the Vitry-Alfortville Research Center in France be- tween 1989 and 1991 and Deputy to the Chief Ex- ecutive of RP's Health segment from 1987 to 1989. |
| John B. Bartlett (55)..... Senior Vice President, General Counsel and Secretary | Mr. Bartlett was elected Senior Vice President in 1988, having served as Vice President, Gen- eral Counsel and Secretary since 1986. |
| Gilles D. Brisson (42)..... Senior Vice President, Corporate Development | Mr. Brisson was Area Vice President of Northern Europe, the United Kingdom and Australasia and General Manager of United Kingdom Health Care for RP from 1989 to 1990. From 1987 to 1989, he served as Deputy Senior Vice President of Worldwide Pharmaceutical Operations of Rhone- Poulenc Sante. |
| Manfred E. Karobath, MD (53). Senior Vice President and President, Research and Development | Dr. Karobath joined the Company in 1992, having been Senior Vice President, Research and Devel- opment at Sandoz Pharma Ltd. in Basle, Switzer- land since 1989. Prior to this, as Deputy Head, he was responsible for Preclinical Research (1987-1989) and Head of Preclinical CNS Re- search (1983-1989) at Sandoz. |
| Patrick Langlois (48)..... Senior Vice President and Chief Financial Officer | Mr. Langlois served as Senior Vice President, Corporate Finance and Acquisitions of RP from 1988 to 1990. In the years 1975 to 1986, he served as Director of International Financings of RP, Finance Director for RP's Health segment and Finance Director of Rhone-Poulenc, Inc. |

</TABLE>

<TABLE>

<CAPTION>

NAME (AND AGE) OF EXECUTIVE
OFFICER, POSITIONS AND OFFICES
HELD WITH THE COMPANY

BUSINESS EXPERIENCE

| | |
|--|--|
| <p><S></p> <p>John D. Michelmore (51)..... Senior Vice President, Europe</p> <p>Philippe Maitre (37)..... Vice President and Treasurer</p> <p>Daniel J. Pedriani (44)..... Vice President and Corporate Controller</p> | <p><C></p> <p>Mr. Michelmore was appointed to his current position in December 1993. Prior to that date, he had been Senior Vice President, Northern Europe since 1990. Mr. Michelmore served as Area Vice President of Rorer International Pharmaceuticals from June 1988 to June 1990 and as General Manager of Rorer Healthcare from June 1986 to June 1988.</p> <p>Mr. Maitre was appointed to his current position in January 1994, having joined the Company as Group Vice President Finance and Planning for North America and Pacific Rim countries in June 1993. Mr. Maitre previously held various finance positions with RP, including General Manager Finance and Planning of Rhone-Poulenc Japan from 1991 to 1993 and Assistant Treasurer of Rhone-Poulenc Sante S.A. from 1986 to 1991.</p> <p>Mr. Pedriani has served as Vice President and Corporate Controller, since 1989, having been Vice President, Finance of the Company's international subsidiary from 1988 to 1989.</p> |
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</TABLE>

No executive officer of the Company has any family relationship with any other.

ITEM 2. PROPERTIES

A substantial portion of the Company's pharmaceutical production in most product categories is conducted in France, the United States, Germany, and the U.K. The Company has a total of 45 pharmaceutical plants throughout the world: in France (9), United States (5), elsewhere in Europe excluding France (9), Canada (1), Africa (7), Japan (2), other Asia (7) and Latin America (5). Included in the above are 6 plants dedicated solely or partially to the production of bulk pharmaceuticals and chemicals. These plants are located in France (3), the United Kingdom (1), the United States (1) and Germany (1).

Research and development activities are conducted in facilities in Vitry-sur-Seine, France; in Collegeville, Pennsylvania, United States and Dagenham, United Kingdom. U.S.-based research operations were consolidated and relocated to the new research center/corporate office facility during 1992.

The Company generally either owns its facilities or leases them under long-term leases. In December 1992, the Company sold its U.S. research center/corporate office facility to a third party for \$258.0 million and leased it back on a triple net basis for an initial term of thirty years with options to renew for a longer period. The Company also leased the underlying land to the third party for sixty years and subleased it back with the facility. The Company believes that its properties are well maintained and generally adequate to meet its needs for the foreseeable future.

Capital expenditures were \$250 million in 1993 and \$284 million in both 1992 and 1991. In 1992 and 1991, \$63 million and \$102 million, respectively, were for the U.S. research center/corporate office facility.

ITEM 3. LEGAL PROCEEDINGS

Diethylstilbestrol ("DES") Litigation

There are approximately two hundred legal actions pending against one or more subsidiaries of the Company and various groupings of more than one hundred pharmaceutical companies, in which it is generally alleged that "DES daughters" and/or their offspring were injured as a result of the development of various reproductive tract abnormalities in the "DES daughters" because of their in utero exposure to DES. Typically, William H. Rorer, Inc. ("WHR") and Kremers-Urban Company ("K-U"), two former operating subsidiaries of the Company, are named as defendants, along with numerous other former DES manufacturers, when

the claimant is unable to identify the manufacturer of the DES to which she was exposed. While the aggregate monetary damages sought in all of these DES actions are substantial, the Company believes that both WHR and K-U have adequate defenses to DES claims. All pending cases are currently being defended by insurance carriers, sometimes under a reservation of rights. The Company is also responsible for the obligations of Nattermann & Cie GmbH ("Nattermann") with respect to DES-related legal actions brought against certain of its former U.S. subsidiaries. Under the terms of the 1990 Acquisition Agreement, Rhone-Poulenc S.A. is obligated to indemnify the Company for amounts expended on the Nattermann DES claims in excess of \$2 million. The Company believes that the former Nattermann subsidiaries have adequate defenses to DES claims.

AHF Litigation

There are approximately one hundred sixty one pending lawsuits in the United States, twenty five in Canada and fifty three in Ireland against the Company's Armour Pharmaceutical Company ("Armour") subsidiary, and in some instances, the Company, in which individuals with hemophilia and infected with the Human Immunodeficiency Virus ("HIV"), or their representatives, claim that their infection with HIV and, in some cases, resulting illnesses, including Acquired Immune Deficiency Syndrome-related conditions or death therefrom, may have been caused by administration of anti-hemophilic factor ("AHF") concentrates processed by Armour in the early and mid-1980's; none of these cases involve Armour's currently distributed AHF concentrates. In most of these suits, Armour is one of a number of defendants, including other fractionators who supplied AHF during that period. To date, approximately sixty three claims have been resolved either by dismissal by the plaintiffs or the Court or through settlement. A majority of the currently pending lawsuits was filed in 1993, and management believes the number of lawsuits filed will continue to trend upward. It is not possible, however, to predict with certainty the number of additional lawsuits that may eventually be filed alleging HIV-related claims.

Trials took place in three of the above lawsuits during 1993. In January 1993, a jury in Florida held that Armour was liable to the parents of a deceased HIV-infected hemophiliac for damages of approximately \$2 million. Armour believes this verdict to be inconsistent with evidence specific to the case and, accordingly, it filed motions with the trial court seeking reversal or, alternatively, a new trial. The trial court has denied both motions. Armour has appealed this judgment to the United States Court of Appeals for the Eleventh Circuit. Regardless of the outcome of this case, and because the facts vary widely in such cases, the Company does not view this verdict as predictive of, or as precedent for, decisions in any other cases. Juries in other AHF cases have determined that Armour and the other plasma fractionators acted responsibly and were not negligent. In October 1993, Armour obtained a directed verdict dismissing it from a lawsuit pending in Louisiana State Court on the basis that the plaintiff had not presented evidence sufficient to maintain an action against Armour. Additionally, a jury verdict in favor of Armour and the other plasma fractionators was obtained in an action pending in the United States District Court for the Northern District of Illinois in November 1993. The jury concluded that the fractionators of Factor VIII concentrate in the early 1980's were not negligent in any of the ways charged and accordingly were not liable to the claimant. Plaintiff has filed a post-trial motion seeking a new trial. Although there are no other actions pending against Armour which are presently at trial, Armour reasonably expects that other cases will proceed to trial in the future.

In July 1993, attorneys for certain plaintiffs filed a Petition with the Federal Multi-District Litigation Panel seeking the consolidation of all AHF litigation pending in U.S. Federal Courts for purposes of pre-trial discovery. This Petition was subsequently withdrawn. In October 1993, a new petition was filed, by attorneys for certain plaintiffs, with the Federal Multi-District Litigation Panel seeking consolidation to the U.S. District Court for the Northern District of Illinois. The Panel authorized consolidation in December 1993. In August 1993, a proposed class action lawsuit was filed in New Jersey State Court against several fractionators, including Armour, on behalf of HIV-infected hemophiliacs in New Jersey and their families (D.K., et al. v. Armour Pharmaceutical Company, et al., Sup. Ct., Middlesex County, NJ). In September 1993, a proposed national class action lawsuit was filed purportedly on behalf of up to ten thousand HIV-infected hemophiliacs and their families in the U.S. District Court for the Northern District of Illinois against Armour, RPR, other

AHF fractionators and the National Hemophilia Foundation ("NHF") (Wadleigh, et al. v. Armour Pharmaceutical Company, et al.; United States District Court, Northern District, Illinois). Additionally, another proposed federal class action lawsuit was filed against Armour and other fractionators in October 1993 purportedly on behalf of all HIV-infected hemophiliacs residing in Idaho, Utah and Oregon and their families (Richard Roe and his mother, Jane Roe v. Armour Pharmaceutical Company, et al.; United States District Court, Idaho District). As the facts in each individual lawsuit vary widely, Armour does not believe that class action status is warranted. One U.S. federal court and one state court have denied previous petitions for class action certification. The Company intends to vigorously oppose the petitions requesting class action certification.

In the U.S., Armour and other plasma fractionators have participated in discussions with representatives of the hemophilia community, including the NHF, concerning the issue of assistance for U.S. hemophiliacs infected with HIV. During 1993, the fractionators and representatives of the hemophilia community discussed several alternative proposals which included financial assistance and units of AHF concentrate which would be provided by the fractionators over periods spanning several years. Conditions of fractionator participation in such a plan included, among other things, participation by a substantial majority of HIV-infected hemophiliacs who would agree to forego legal proceedings against the fractionators. These discussions are not active at this time. While Armour will continue to vigorously defend its position in all cases and claims brought against it, the Company will evaluate alternative ways of resolving pending and threatened litigation.

In Canada, representatives of the provincial governments have agreed to the participation of several fractionators, including Armour, in a recently announced Multi-Provincial Assistance Program for HIV-infected hemophiliacs. Under the provisions of this program, participants will release contributing parties, including Armour, from all legal claims related to infection with HIV. Armour's share of the fractionator's contribution to this Program was provided to the Canadian Provincial Governments in December 1993.

The Company has contractual rights to certain insurance coverage provided by insurance carriers to Revlon, Inc., the party from which it purchased the Armour business in 1986 ("Revlon carriers"). The Company also believes it has certain insurance coverage from another principal insurance carrier ("principal carrier") and from an umbrella insurance carrier. In addition, the Company believes it has access to "excess" liability insurance coverage from other carriers, effective in 1986, for certain of these cases if certain self-insured retention levels from relevant insurable losses are exceeded. The Company has been involved in litigation with the principal and umbrella carriers as well as with certain of the Revlon carriers, relative to carrier defense and indemnity obligations associated with AHF litigation. A trial in the insurance coverage litigation, if necessary, would take place in United States District Court for the Eastern District of Pennsylvania sometime in 1994. In August 1993, the Court granted the Company's motion for partial summary judgment, deciding that the principal carrier is obligated to provide a defense to the Company for the AHF litigation. The Company and certain of the carriers have recently engaged in extensive discussions aimed principally at settling the extent and other conditions of coverage of those carriers. Based upon these discussions, the Company believes that, although not a certainty, a substantial level of coverage (including substantial coverage for legal defense expenditures) for the Company's estimated liability determined in accordance with Statement of Financial Accounting Standards No. 5 ("SFAS 5") is probable of occurrence.

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Shareholder Litigation

In 1990, a former shareholder initiated a purported class action lawsuit against the Company, its Chairman, and two of its employees in the United States District Court for the Southern District of New York. This action was purportedly brought on behalf of all persons who sold the Company's common shares, convertible debentures and call options between August 8, 1989 and January 15, 1990. The plaintiff alleged, among other things, violations of federal securities laws arising from alleged false and misleading statements made prior to the public announcement of the 1990 transaction with Rhone-Poulenc S.A. and sought compensatory and punitive damages in an unspecified amount. The Court issued a decision permitting this action to proceed as a class action, although the scope of the class has not been defined. Three

additional shareholder lawsuits were initiated in 1991, two purported class actions and one brought individually against the Company, its Chairman, and certain present and former employees. These lawsuits involve allegations and claims which are substantially similar to those made in the case described above. In the two additional purported class actions, the plaintiffs sought to represent all persons who sold the Company's common shares, the Company's convertible debentures, and call options between August 3, 1989 and January 15, 1990. The Court has refused to permit these actions to proceed as class actions and certain of the plaintiffs have chosen to proceed individually.

The Company and the employee-defendants have asserted various defenses denying all liability. However, in order to avoid the expense and disruptive effects typically associated with defending these types of claims, the Company and the employee-defendants have agreed to settle these cases. The proposed settlement agreement was approved by the Court in December 1993.

Antitrust Litigation

The Company has been named as a defendant in six antitrust actions pending in state and federal courts in Northern California, eleven in Federal Court in the Southern District of New York, and single actions in the District of Minnesota, the District of South Carolina, the Southern District of Ohio, and the Southern District of Georgia. The suits allege that RPR, certain other pharmaceutical companies and wholesalers and a large mail order concern discriminated against independent community pharmacist plaintiffs with respect to the prices charged for pharmaceutical products and further conspired to maintain prices at artificially high levels to the detriment of these pharmacies. The federal actions purport to be class actions, as do three of the four state cases. Plaintiffs in these lawsuits seek injunctive relief and a monetary award for past damages alleged. While the cases are in their early stages, the Company believes that the claims are without merit and it intends to vigorously defend these lawsuits.

Additionally, Petitions were filed with the Judicial Panel on Multi-District Litigation seeking to consolidate the federal actions in which the Company has been named with several other federal actions in which the Company has not been named for purposes of coordinating overlapping pre-trial proceedings, like discovery. The Panel heard oral argument on the Petitions in January 1994.

Patent and Intellectual Property Litigation

In 1987, Choay S.A. ("Choay") and Dropic, affiliates of Sanofi S.A. ("Sanofi"), filed suit against two subsidiaries of the Company alleging the Company's Lovenox (R) enoxaparin product infringes the French patent issued to Choay. In 1992, Choay filed patent infringement suits against the Company in the United States District Court for the Southern District of New York as well as in Italy, the United Kingdom and Germany. In April 1993, the Company reached an agreement with Sanofi which settles the above lawsuits.

The Company was a plaintiff in three patent infringement lawsuits filed in United States District Courts involving the patent licensed exclusively to the Company by the Scripps Research Institute ("Scripps") covering the antihemophilic Factor VIII:C. Two suits are in the state of California where, procedurally, they have been consolidated, and one was in the state of Delaware. In January 1993, the Company settled its patent dispute with Miles Inc., defendant in one of the California cases. In December 1993, the Company settled its dispute with Miles' co-defendant, Genentech Inc. Settlement papers have been approved by the Court and

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the case has been dismissed. The Court in the remaining California case involving Chiron Corporation is considering pending summary judgment motions. If this case goes to trial, such trial is likely to be scheduled to commence within the next six to twelve months.

In May 1993, the Company settled its patent dispute with Baxter Healthcare Corporation and Baxter International, Inc. ("Baxter"), defendant in the Delaware case. The court entered a consent judgment dismissing the case and acknowledging the validity of the Scripps patent and infringement by the Baxter plasma-derived and recombinant Factor VIII:C products. Pursuant to the settlement papers filed in the U.S. District Court in Delaware, Baxter paid the Company \$105 million in June 1993 and agreed to pay ongoing royalties based on

sales of its Factor VIII:C concentrates. The Company also granted Baxter a worldwide non-exclusive license covering its Factor VIII:C concentrates and entered into a supply agreement under which Baxter will provide the Company with recombinant Factor VIII:C.

In February 1993, Tanabe Seiyaku Company ("Tanabe") of Japan and their U.S. licensee, Marion Merrell Dow Inc. ("MMD") initiated an action in the International Trade Commission ("ITC"), the administrative agency responsible for handling complaints of imports which allegedly infringe U.S. patent rights. The complaint names ten domestic and foreign respondents, including the Company, and alleges infringement of a Tanabe U.S. patent, claiming a process for preparing bulk diltiazem, the active ingredient in the Company's Dilacor XR (R) product. Tanabe and MMD are requesting relief in the form of an Exclusion Order and a Cease and Desist Order. The Company has raised several defenses, including lack of jurisdiction, patent invalidity, and non-infringement. The ITC has suspended the proceeding indefinitely in view of an ongoing reexamination proceeding involving the Tanabe U.S. process patent.

The eventual outcomes of the above matters of pending litigation cannot be predicted with certainty. The defense of these matters and the defense of expected additional lawsuits related to these matters may require substantial legal defense expenditures. The Company follows SFAS 5 in determining whether to recognize losses and accrue liabilities relating to such matters. Accordingly, the Company recognizes a loss if available information indicates that a loss or range of losses is probable and reasonably estimable. The Company estimates such losses on the basis of current facts and circumstances, prior experience with similar matters, the number of claims and the anticipated cost of administering, defending and, in some cases, settling such claims. The Company has also recorded as an asset insurance recoveries which are determined to be probable of occurrence on the basis of the status of current discussions with its insurance carriers. If a contingent loss is not probable, but is reasonably possible, the Company discloses this contingency in the notes to its consolidated financial statements if it is material. Based on the information available, the Company does not believe that reasonably possible uninsured losses in excess of amounts recorded for the above matters of litigation would have a material adverse impact on the Company's financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET PRICE OF AND DIVIDENDS ON COMMON EQUITY

The price range at which the Company's common stock traded and the quarterly dividends paid per share during the last eight quarters are as follows:

<TABLE>
<CAPTION>

| QUARTER ENDED | HIGH | LOW | DIVIDEND PAID |
|-------------------------|----------|----------|---------------|
| <S> | <C> | <C> | <C> |
| December 31, 1993..... | \$48.500 | \$32.625 | \$.28 |
| September 30, 1993..... | 48.875 | 43.000 | .26 |
| June 30, 1993..... | 54.000 | 46.375 | .24 |
| March 31, 1993..... | 48.000 | 42.500 | .22 |
| December 31, 1992..... | \$50.750 | \$44.375 | \$.20 |
| September 30, 1992..... | 59.250 | 45.625 | .18 |
| June 30, 1992..... | 59.750 | 51.500 | .16 |
| March 31, 1992..... | 69.375 | 55.625 | .14 |

</TABLE>

Rhone-Poulenc Rorer Inc. (RPR) common shares are listed and traded on the New York and Paris Stock Exchanges and are traded, unlisted, on the Philadelphia, Boston, Pacific and Midwest Stock Exchanges.

On January 31, 1994, there were approximately 7,336 holders of record of Rhone-Poulenc Rorer Inc. common shares.

ITEM 6. SELECTED FINANCIAL DATA

RHONE-POULENC RORER INC. AND SUBSIDIARIES
NINE-YEAR SELECTED FINANCIAL DATA (UNAUDITED)
(DOLLARS AND SHARES IN MILLIONS EXCEPT PER SHARE DATA)

<TABLE>

<CAPTION>

| | YEAR ENDED DECEMBER 31, | | | | | | | | |
|---|-------------------------|-----------|-----------|-----------|-----------|-----------|----------|----------|---------|
| | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 | 1985 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| INCOME STATEMENT DATA: | | | | | | | | | |
| Net sales..... | \$4,019.4 | \$4,095.9 | \$3,824.3 | \$2,917.4 | \$1,182.2 | \$1,041.6 | \$ 928.8 | \$ 844.6 | \$338.1 |
| Operating income..... | 675.3 | 675.0 | 558.5 | 88.9 | 125.5 | 144.1 | 122.7 | 52.9 | 59.9 |
| Income from continuing operations..... | 421.1 | 423.3 | 326.5 | 1.0 | 86.5 | 61.8 | 54.3 | 3.5 | 36.0 |
| Discontinued operations, net of tax: | | | | | | | | | |
| Gain on sale..... | -- | -- | -- | -- | -- | -- | -- | 122.1 | -- |
| Earnings from operations..... | -- | -- | -- | -- | -- | -- | -- | -- | .8 |
| Cumulative effect of change in accounting for income taxes..... | -- | 15.0 | -- | -- | -- | -- | (35.5) | -- | -- |
| Net income available to common shareholders.... | 408.7 | 428.2 | 326.1 | 1.0 | 85.0 | 61.8 | 18.8 | 125.6 | 36.8 |
| Primary earnings per common share: | | | | | | | | | |
| Continuing operations.. | 2.96 | 2.99 | 2.37 | .01 | 1.33 | .98 | .84 | .05 | .56 |
| Discontinued operations: | | | | | | | | | |
| Gain on sale..... | -- | -- | -- | -- | -- | -- | -- | 1.88 | -- |
| Earnings from operations..... | -- | -- | -- | -- | -- | -- | -- | -- | .01 |
| Cumulative effect of change in accounting for income taxes..... | -- | .11 | -- | -- | -- | -- | (.55) | -- | -- |
| Primary earnings per common share..... | 2.96 | 3.10 | 2.37 | .01 | 1.33 | .98 | .29 | 1.93 | .57 |
| Fully diluted earnings per common share..... | 2.96 | 3.10 | 2.37 | .01 | 1.21 | .97 | .29 | 1.93 | .57 |
| Cash dividends per common share..... | 1.00 | .68 | .445 | .42 | .405 | .40 | .386 | .376 | .373 |
| Research and development expenses..... | 561.2 | 521.3 | 444.5 | 350.1 | 121.8 | 104.0 | 82.7 | 69.7 | 17.9 |
| BALANCE SHEET DATA: | | | | | | | | | |
| Working capital..... | 446.6 | 667.1 | 407.0 | 391.3 | 436.9 | 312.4 | 226.6 | 155.7 | 53.9 |
| Property, plant & equipment, at cost..... | 1,958.6 | 1,855.9 | 2,027.8 | 1,930.7 | 488.2 | 395.7 | 363.5 | 333.0 | 150.6 |
| Capital expenditures: | | | | | | | | | |
| U.S. corporate offices, research center and site..... | -- | 63.1 | 102.1 | 92.1 | 29.3 | 10.8 | -- | -- | -- |
| Other..... | 250.4 | 221.2 | 181.6 | 124.8 | 82.1 | 59.9 | 45.1 | 36.7 | 14.5 |
| Total assets..... | 4,050.2 | 3,858.3 | 4,115.5 | 4,085.0 | 1,791.7 | 1,388.0 | 1,240.5 | 1,110.1 | 444.4 |
| Long-term debt (including payable to RP)..... | 432.2 | 779.7 | 960.5 | 1,634.3 | 882.5 | 564.6 | 509.7 | 444.3 | 37.3 |
| Shareholders' equity.... | 1,821.2 | 1,568.3 | 1,298.6 | 693.5 | 439.9 | 414.2 | 368.8 | 390.4 | 265.7 |
| Common shares outstanding at year-end..... | 137.0 | 138.3 | 137.9 | 137.4 | 63.1 | 63.6 | 62.9 | 65.4 | 64.9 |
| Book value per common share..... | 10.37 | 9.17 | 7.24 | 5.05 | 6.97 | 6.51 | 5.86 | 5.97 | 4.09 |
| OTHER DATA: | | | | | | | | | |
| Employees..... | 22,300 | 22,900 | 22,500 | 23,500 | 8,500 | 8,400 | 7,400 | 7,500 | 8,900 |
| Sales per employee (thousands)..... | 180 | 180 | 170 | 150 | 140 | 132 | 124 | 103 | 84 |

</TABLE>

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Results include the accounts of the Human Pharmaceutical Business ("HPB") of Rhone-Poulenc S.A. from May 5, 1990.

Results include pretax restructuring and other charges of \$93.8 million in 1993, \$73.6 million in 1991, \$289.3 million in 1990, and \$10.0 million in 1989. Results for 1993 also include \$105.0 million proceeds from litigation settlement and pretax charges of \$29.1 million related to an investment in AIS, including acquired research and development expense. Pretax gains on sales of product rights and non-strategic assets totaled \$30.2 million in 1993, \$23.1 million in 1992, \$95.7 million in 1991, \$78.8 million in 1990 and \$30.9 million in 1989. Results for 1989 also include a \$19.9 million pretax gain on contract termination fee.

Effective January 1, 1992, the Company adopted SFAS 109, "Accounting for Income Taxes," and recorded a cumulative effect adjustment increasing 1992 income by \$15.0 million (\$.11 per share). Prior years reflect the application of SFAS 96, "Accounting For Income Taxes," effective January 1, 1987. The year 1985 has been restated to reflect operations discontinued on February 28, 1986.

Employees and sales per employee for the year 1990 have been restated on a pro forma basis to include HPB as if it were part of the Company from January 1, 1990.

All share and per share data have been adjusted to reflect a two-for-one common stock split effective June 7, 1991.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Rhone-Poulenc Rorer Inc. ("RPR" or "the Company") is one of the largest research-based pharmaceutical companies in the world. RPR was formed in July 1990 by the combination of Rorer Group Inc. and substantially all of the human pharmaceutical business of Rhone-Poulenc S.A. ("RP"), based in Paris, France. RP owns approximately two-thirds of RPR's common stock and controls the Company.

PHARMACEUTICAL INDUSTRY ENVIRONMENT

As government and private payors seek means to reduce the rate of growth in health care expenditures in virtually all worldwide markets, the pharmaceutical industry continues to be affected by initiatives to limit both pharmaceutical prices and prescriptions written by physicians. As a result, annual prescription pharmaceutical revenue growth rates in major strategic markets have slowed from prior year levels. The degree to which pharmaceutical companies are individually affected will depend upon each company's product portfolio and its ability to manage in the environment specific to each country.

In France, where the Company enjoys a leading position, the government is considering measures which include physician prescribing guidelines which would limit the volume of prescriptions written. A three-year policy agreement between pharmaceutical manufacturers and the French government signed in January 1994 will restrict annual growth of prices for reimbursable pharmaceuticals to an average inflation rate. Although these steps are not likely to affect RPR revenues significantly in the near term, future governmental actions cannot be determined.

In the U.S., prior legislation requiring payment of rebates to state Medicaid programs reduced the Company's sales by \$34 million in 1993, \$21 million in 1992 and \$12 million in 1991. During 1993, the Clinton Administration proposed the Health Security Act ("HSA"), which would provide universal health coverage through standardized benefits for all U.S. citizens and would, by 1998, make sweeping structural and financial changes to the U.S. health care delivery system. Elements of HSA and other proposals will be debated by legislators at various levels in the coming year. The precise form and effect of any final legislation cannot be predicted; however, most pharmaceutical manufacturers, including RPR, have reorganized to adapt to an emerging U.S. managed care environment which dictates that product offerings satisfy payor objectives aimed at lowering health care costs.

In Germany, physician prescribing guidelines have been established and selling prices of prescription products remain frozen through December 1994. In Italy, new legislation affecting health care reimbursement lists was recently

instituted, resulting in the removal of certain products from government reimbursement lists and price reductions of 2.5% to 4.5%. In October 1993, the U.K. Pharmaceutical Price Regulation Scheme enacted price reductions of up to 2.5% and will restrict certain more profitable companies from seeking pharmaceutical price increases in that country. In Japan, a biannual price reduction will take effect in April 1994, and in Spain, decreases in pharmaceutical prices averaging 3% took effect in November 1993.

These measures, while indicative of a global trend toward more governmental control over health care expenditures, are neither new to the industry nor to RPR. In certain cases, the legislation may allow companies to negotiate other terms or conditions which can minimize the effect on revenues; however, these measures tend to restrict future revenue growth derived from existing products and, as a result, companies in the industry must look increasingly to achieve profitability objectives through more rapid commercialization of highly innovative therapies, integrated prescription, OTC and generic product strategies, aggressive cost reduction, strategic alliances with others and creative marketing solutions to meet the needs of payors.

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RESULTS OF OPERATIONS

Principal Product Sales

In the table and discussion which follows, percentage comparisons of year-to-year sales by therapeutic area and principal products are presented excluding the effects of exchange rate fluctuations. Certain reclassifications have been made from amounts shown in prior periods for therapeutic area totals to conform to classifications now used by the Company.

<TABLE>

<CAPTION>

| THERAPEUTIC AREA/PRINCIPAL PRODUCTS | 1993 | % CHANGE* | 1992 | % CHANGE* | 1991 |
|---|-----------------------|-----------|-------|-----------|-------|
| | (DOLLARS IN MILLIONS) | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| TOTAL CARDIOVASCULAR..... | \$834 | + 1% | \$878 | + 9% | \$777 |
| Clexane (R)/Lovenox (R)..... | 153 | +30% | 127 | +33% | 90 |
| Lozol (R)..... | 104 | -13% | 119 | +14% | 104 |
| Dilacor XR (R)..... | 51 | N/A | 20 | N/A | -- |
| Selectol (R)/Selector (R)..... | 50 | +43% | 37 | +31% | 28 |
| Vasten (R)..... | 48 | +11% | 46 | +49% | 29 |
| TOTAL INFECTIOUS DISEASE/ONCOLOGY..... | 542 | +11% | 530 | + 5% | 486 |
| Rovamycine (R)..... | 94 | +26% | 82 | +30% | 61 |
| Peflacin (R)..... | 76 | + 9% | 75 | + 7% | 68 |
| Oroken (R)..... | 55 | +23% | 47 | + 8% | 42 |
| TOTAL HYPERSENSITIVITY..... | 407 | + 5% | 396 | +28% | 304 |
| Azmacort (R)..... | 143 | +13% | 127 | +48% | 86 |
| Nasacort (R)..... | 79 | +37% | 58 | N/A | 13 |
| TOTAL PLASMA DERIVATIVES..... | 400 | +20% | 337 | +18% | 281 |
| Albuminar (R)..... | 154 | + 6% | 139 | +15% | 119 |
| Monoclalte-P (R)..... | 114 | + 7% | 112 | +15% | 97 |
| TOTAL CENTRAL NERVOUS SYSTEM/ANALGESIA..... | 365 | + 2% | 386 | + 6% | 354 |
| Doliprane (R)..... | 102 | +23% | 88 | + 2% | 81 |
| Imovane (R)/Amoban (R)..... | 85 | + 9% | 84 | +43% | 57 |
| TOTAL GASTROENTEROLOGY..... | 490 | +10% | 471 | -10% | 514 |
| Maalox (R)..... | 239 | + 4% | 240 | - 8% | 258 |
| TOTAL BONE METABOLISM/RHEUMATOLOGY..... | 465 | - 2% | 514 | + 9% | 465 |
| Orudis (R)/Profenid (R)/Oruvail (R)..... | 173 | + 3% | 186 | + 2% | 180 |
| Calcitonins..... | 163 | -10% | 198 | + 6% | 186 |
| DDAVP (R)..... | 73 | - 4% | 76 | +34 | 56 |
| OTHER THERAPEUTIC AREAS..... | 516 | - 5% | 584 | -12% | 643 |

</TABLE>

* % change excludes currency translation effects.

On net sales of \$4,019 million in 1993, net income available to common shareholders was \$409 million (\$2.96 per share), 5% below \$428 million reported in 1992 (\$3.10 per share). Earnings per share benefitted by \$.63 in 1993 from \$105 million of proceeds from the settlement of litigation and \$30 million of gains from sale of certain product rights and investments. In addition, 1993 results include an \$11 million (\$.08 per share) after-tax benefit from the extension in depreciation lives for certain production machinery and equipment effective January 1. Earnings in 1993 were reduced by \$.59 per share due to \$94 million of restructuring and other charges and \$29 million of costs related to the Company's equity investment in Applied Immune Sciences, Inc. ("AIS"). Results for 1992 benefitted by \$.12 per share from gains on the sale of assets and \$.11 per share from adoption of Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes."

The Company's 1993 reported net sales of \$4,019 million were down 2% from 1992. The 2% decline consists of currency fluctuations (which reduced sales by 6%), divested products (-1%), price increases (less than +1%), and volume gains (+4%). No single product contributed more than 6% of worldwide sales in 1993, and the ten largest products contributed approximately 36%. Sales of the Company's key strategic products--to which particular marketing emphasis is directed and which, as a group, comprised 43% of 1993 sales--increased by 10%, approximately twice the 5% overall rate of sales growth, on a basis which excludes the effects of currency fluctuations and divested products.

Sales in France, the Company's largest market, were \$1,375 million in 1993 on an as-reported basis. Excluding the effects of fluctuating currency rates and product divestitures, sales increased 8% in 1993, driven primarily by demand for anti-infectives and analgesics following a strong influenza season. In the United States, prescription pharmaceuticals and over-the-counter products contributed to a 12% increase in sales, to \$1,120 million, despite a fourth quarter decision to curtail year-end trade incentives on certain prescription pharmaceuticals. Sales in Other Europe of \$978 million fell 8% due principally to the impact of restrictive government programs in Germany (where prescription product sales were down 26%) and Italy (down 31%). The sales decline in these countries was partially offset by higher branded product sales in Eastern and Southern Europe and generic products in Northern Europe. Sales in the Rest of World area increased 13% to \$546 million, led principally by Japan. If the effects of restructuring charges and gains on asset sales are excluded from reported geographic area results in the years, income before income taxes as a percentage of sales ("IBT margin") increased in 1993 in the U.S., France and Rest of World but fell in Other Europe, triggered by market conditions in Italy and Germany.

Sales of the Company's cardiovascular products in 1993 were led by Clexane (R)/Lovenox (R), a global low molecular weight heparin product, which performed well in France and was launched in the U.S. early in the year. The FDA exclusivity of Lozol (R), a diuretic sold principally in the U.S., expired in mid-1993. The Company introduced a half-strength presentation of Lozol (R) during the year as well as a generic indapamide product through its newly-established Arcola Labs unit in anticipation of further generic competition, the overall result of which is expected to be a decline in Lozol (R) sales. Dilacor XR (R), a once daily calcium channel blocker launched in the U.S. in mid-1992, attained steady prescription growth throughout 1993. Other cardiovascular products Frumil (R) (-19%), a leading diuretic facing generic competition in the U.K., and Biosinax (R) (-66%), a ganglioside sold in Italy, experienced sales declines as anticipated.

Sales of infectious disease/oncology products were higher in 1993 on stronger first and fourth quarter demand for upper respiratory disease products in France.

Sales of plasma derivatives by the Company's Armour Pharmaceutical Company ("Armour") were led by Albuminar (R) human serum albumin in Japan and Monoclata-P (R) (pasteurized antihemophilic Factor VIII:C) in Other Europe markets. In the U.S., Monoclata-P (R) encountered competition from a recombinant form that entered the market in 1993; the Company launched its own recombinant version in the U.S. in late 1993 with a worldwide launch anticipated in 1994. Mononine (TM), launched in the U.S. in late 1992 for

treatment of hemophilia B, also contributed to 1993 plasma derivatives sales growth.

Hypersensitivity products were led by sales of the inhaled steroids Azmacort (R) and Nasacort (R) in North America. During the year, the Company entered into an agreement with U.K.-based Fisons to co-promote Azmacort (R) and Fisons' Tilade (R) in the U.S., further bolstering the Company's respiratory product position. Sales of Slo-bid (TM)/Slo-Phyllin (R), a theophylline bronchodilator sold primarily in the U.S., declined due to a shift in use to inhaled steroids, although brand market share was maintained.

Sales of central nervous system/analgesia products were headed by the analgesic Doliprane (R), driven by a higher incidence of influenza in France, and Imovane (R)/Amoban (R), a non-benzodiazepine sleeping agent, which performed well in France and Japan.

Sales of gastroenterology products benefitted from higher Maalox (R) antacid sales in the U.S., Canada and Japan which exceeded declines in Other Europe. Expansion of the U.S. antacid market contributed to

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higher factory sales in the U.S. although the brand's share of the highly competitive antacid market trailed 1992. In 1993, the Company launched Anti-Gas and Anti-Diarrheal line extensions of Maalox (R). Sales of Zoltum (R), a peptic ulcer medication co-marketed in France, more than doubled in 1993.

A decline in sales of bone metabolism/rheumatology products included lower sales of calcitonin products for bone disorders and DDAVP (R) for nocturnal enuresis. Calcitonin products encountered competition and unfavorable legislation in Italy, their largest market and further sales declines are anticipated in 1994 under expected lower levels of government reimbursements. Calcitonins faced generic competition in the United States, where the Company's Arcola Labs unit also launched a generic version in the second half of 1993. Elsewhere, RPR recorded higher calcitonin sales in Spain and Japan in 1993. Sales of Orudis (R)/Profenid (R)/Oruvail (R), a ketoprofen anti-inflammatory, were marginally higher, led by sales in Japan.

Sales in other therapeutic categories included sales of prescription skin care products marketed to dermatologists by Dermik Laboratories ("Dermik"), which increased 15%.

Gross profit, as a percentage of sales, improved one percentage point in 1993 to 67% due to cost control and product mix-related improvements. Management will continue to emphasize productivity enhancements to achieve further gross profit margin improvements in the coming years.

Selling, delivery and administrative expenses were 36.5% of sales compared to 36.7% sales in 1992. Higher expenses in support of selling and promotion of U.S. prescription pharmaceuticals and in Japan were more than offset by expense reductions in Europe, particularly Germany and Italy. Significant financial resources in support of selling and promotional activities will continue to be necessary for the Company to maintain its competitive position in all major markets.

Research and development expenses increased 8% to \$561 million, or 14% of sales, in 1993. The Company's research and development efforts continue to focus on innovative global products and technologies, particularly those with potential to prolong significantly and/or improve the quality of life worldwide. The Company's most important projects are Taxotere (R), for certain solid malignant tumors; Zagam (TM), a broad spectrum quinolone antibiotic; and an AIDS immunotherapeutic vaccine being developed in partnership with The Immune Response Corporation ("IRC"). Certain issues regarding the joint and individual responsibilities of RPR and IRC are currently in arbitration; such proceedings are not expected to impact the progress of the project. In addition, the Company's 1993 alliance with AIS represents an important entry into gene and cell therapy technology which, beyond the promise of AIS's immediate product line, is likely to affect how pharmaceutical research is conducted by the industry in the future. The Company's research and development efforts will also concentrate on bringing existing products to new markets, developing more effective dosage forms and drug delivery systems, and maximizing the benefits of new business alliances. At comparable exchange rates, research and development expenses are expected to approach \$600 million

in 1994.

Restructuring and other charges of \$94 million recorded in 1993 include the costs of restructuring marketing and manufacturing operations in the German and Italian prescription pharmaceutical businesses, the planned divestiture of a portion of a manufacturing facility in Monts, France, and increased provisions for certain litigation. In 1994, the Company expects to aggressively pursue other cost-reduction steps which offer attractive payback opportunities in the present environment. Such steps may give rise to a restructuring charge during the year; however, there are no specific plans at this time and it is not possible to estimate the costs or associated benefits of any such program which might be pursued.

Excluding restructuring and other charges and litigation proceeds, operating income was approximately 16.5% of sales in 1993 and 1992. In 1993, the effects of expense controls in manufacturing and administration exceeded relatively higher research and development spending and lower selling price increases. In the current business environment, more aggressive product cost and administrative expense reduction policies will be major contributors to maintaining this profitability measure in the near term.

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Net interest expense declined by \$44 million to \$61 million in 1993 as a result of lower average net debt balances and worldwide interest rates. Approximately 92% of combined short- and long-term debt was at variable rates (principally in Europe) at December 31, 1993 and 1992. The remainder at December 31, 1993 is fixed either by its terms or by interest rate swap contracts expiring primarily in 1994. In 1994, net interest expense is anticipated to continue to decline due to lower average net debt.

Other expense, net increased to \$54 million from \$12 million in 1992 due primarily to higher losses associated with equity-method investments, including \$29 million of non-cash losses related to AIS including acquired research and development.

The Company's effective income tax rate for 1993 was 28.7% compared with 27.2% for 1992 as a result of reduced tax benefits from Puerto Rico operations and reduced utilization of net operating losses outside the United States. In August 1993, the U.S. Omnibus Budget Reconciliation Act of 1993 (the "Act") was signed into law. The Act provides, among other things, a limitation on the Company's use of the Possessions Tax Credit beginning in December 1994, an increase in the U.S. corporate tax rate from 34% to 35% effective January 1, 1993, and a retroactive reinstatement of the Research and Experimentation Credit to July 1, 1992. These provisions gave rise to a retroactive rate adjustment for U.S. deferred taxes but had minimal impact overall on the Company's effective income tax rate in 1993. Although it is not expected to significantly change the Company's 1994 effective tax rate, the Act could increase the Company's effective rate by up to three percentage points in 1995 and thereafter as a result of the reduction in the Possessions Tax Credit benefit. However, the Company will seek to mitigate this effect through routine tax planning measures.

In 1993, the Company issued \$175 million of money market preferred stock in the U.S. with initial dividend rates fixed for two to five years and redeemed \$75 million of Market Auction Preferred Shares ("MAPS"). At \$12 million, dividends on preferred shares were higher than in 1992 due to the \$100 million net increase in outstanding preferred shares, partially offset by the effect on auction rate dividends of lower U.S. short-term interest rates earlier in the year.

1992 Compared with 1991

On net sales of \$4,096 million, net income available to common shareholders increased 31% to \$428 million in 1992 (\$3.10 per share). Sales growth, measured on a basis which excludes the effects of divested products, was just over 11%. Of such growth, price increases contributed just over two percentage points, currency fluctuations added three percentage points, and higher volume accounted for just under six percentage points. Sales of the Company's key strategic products increased by 17% in 1992, excluding currency fluctuation effects.

Sales in 1992 were in the following geographic areas: France--\$1,388 million

(+5% over 1991, excluding the effects of fluctuating exchange rates and divested products); U.S.--\$1,000 million (+17%); Other Europe--\$1,218 million (+6%); and Rest of World--\$490 million (+9%). IBT margin, excluding effects of restructuring charges and gains on asset sales, improved significantly on higher sales in the U.S. and, to a lesser degree, in France. IBT margin fell in Other Europe, triggered by market conditions in Italy and Eastern Europe, and in the Rest of World area due to higher operating costs in Japan and Mexico.

Sales of cardiovascular products were led by growth of Clexane (R)/Lovenox (R) in France and other European markets. Dilacor XR (R), launched in the U.S. in June 1992, also advanced sales growth in the category.

While France contributes most of the infectious disease/oncology sales, 1992 sales growth came principally from other markets in Asia, Africa and Northern Europe. A lower incidence of influenza in 1992 held sales of anti-infectives in France approximately level compared to 1991.

Sales of bone metabolism/rheumatology products were led by calcitonin products and Orudis (R)/Profenid (R)/Oruvail (R). Higher sales of calcitonin in Japan and in Spain, following introduction of the intranasal spray, more than offset a 27% decline in Italy stemming from competitive pressures and legislative effects. Sales of Orudis (R)/Profenid (R)/Oruvail (R) benefitted from the introduction of new dosage forms to combat generic entries in some markets.

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Sales of central nervous system/analgesia products advanced on the performance of Doliprane (R) and Imovane (R)/Amoban (R). Sales growth of Imovane (R)/Amoban (R) was broad-based throughout France, Other Europe, Canada and Japan.

Sales of hypersensitivity products were led by growth in the U.S. of Azmacort (R) and Nasacort (R). Following its second half 1991 launch, Nasacort (R) sales increased by threefold in 1992.

Led by Monoclote-P (R) in Europe and Albuminar (R) in Japan and China, plasma derivative sales nearly doubled in markets outside the United States. Mononine (TM) was launched in the U.S. following FDA approval in August 1992.

Sales of gastroenterology products, principally the Maalox (R) brand of antacid, declined during the year. Maalox (R) U.S. sales and market share trailed 1991 levels but were supported by launch of Maalox (R) HRF tablets and Maalox (R) caplets and new promotional initiatives in the second half of 1992. Elsewhere, Maalox (R) posted sales gains in Europe, Canada and in Japan, where Maalox (R) Plus entered the over-the-counter market. In France, Zoltum (R) contributed to 1992 sales growth following its late-1991 launch in a co-marketing arrangement.

Sales performance of products in all other therapeutic categories was led by Dermik skin care products (+19%).

Gross profit margin increased one percentage point from 65% of sales in 1991 to 66% in 1992, as selling price increases and productivity improvements exceeded the effects of unfavorable sales mix. Selling, delivery and administrative expenses were 36.7% of sales in 1992 compared to 36.8% in 1991. A lower ratio in the U.S. prescription pharmaceuticals business was offset by the effects of sales force expansions and higher marketing expenses in France, Germany and in Armour's U.S. operations. Administrative expenses in 1992 were limited to growth of 1% excluding currency effects. The Company's investment in research and development increased 17% from \$445 million (11.6% of sales) in 1991 to \$521 million (12.7% of sales) in 1992.

In 1991, the Company recorded \$74 million of restructuring charges for facility divestitures in Germany and the U.K., relocation of U.S. corporate offices and research facilities, and other costs.

Lower average net debt and a greater concentration of lower cost dollar-denominated debt reduced net interest expense by \$44 million in 1992.

In 1992, the Company recorded gains of \$23 million (\$.12 per share) related principally to sales of product rights in the U.S. and France. In 1991, the Company sold its dietary products business in France and a product line in the

U.S. and recorded a before-tax gain of \$96 million.

Other expense, net of \$11 million in 1992 included foreign exchange gains of \$8 million, most of which were realized on foreign currency forward contracts entered into and expiring during the fourth quarter.

The Company's effective income tax rate for 1992 was 27.2% under SFAS 109, compared to 32.3% in 1991 under Statement of Financial Accounting Standards No. 96. The lower 1992 rate was the result of recognition of deferred tax benefits on certain non-U.S. net operating losses, an increase in the benefit from Puerto Rico operations and other adjustments.

Dividends on Market Auction Preferred Shares, issued in December 1991, were \$10 million in 1992.

Inflation

Although its effect has stabilized at historically low levels in most developed countries in recent years, price inflation continues to increase the Company's cost of goods and services. As a result, limited ability to raise selling prices in the current environment exposes companies in the industry to risk of profit erosion.

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The Company attempts to mitigate such adverse inflationary effects through quality initiatives to improve productivity and control costs.

FINANCIAL CONDITION

Cash Flows

Net cash provided by operating activities was \$721 million in 1993, \$357 million in 1992, and \$468 million in 1991. In 1993, operating cash flows include \$105 million proceeds from the settlement of litigation. Operating cash flows were substantially higher in 1993 than in 1992 because of lower outlays for income taxes (lower by \$114 million), working capital needs and restructuring activities. In addition, 1993 earnings included non-cash charges for rent and AIS research costs totaling \$52 million. In 1992, operating cash flows were lower than in 1991 as higher cash requirements for taxes and working capital exceeded lower restructuring outlays. 1992 tax payments included settlement of an examination of the Company's 1986 consolidated U.S. tax return and substantial payments of 1991 taxes which had been deferred in several European subsidiaries following legal entity restructurings after the 1990 formation of RPR. Because certain 1993 operating cash flows will not recur, cash flows from operating activities are expected to be lower in 1994.

Investing activities used cash of \$346 million in 1993 and \$88 million in 1991 and provided cash of \$51 million in 1992. In 1993, the Company acquired a 37% interest in AIS for \$117 million, while 1992 and 1991 investing cash flows benefitted from significantly higher proceeds from the sale of assets. Cash outlays for capital expenditures were \$250 million in 1993, down from \$284 million in years 1992 and 1991.

Financing activities used cash of \$375 million in 1993, \$500 million in 1992 and \$409 million in 1991. Net proceeds from issuances of preferred shares were \$97 million in 1993 and \$296 million in 1991, while net repayments of third party and RP borrowings were \$265 million in 1993, \$403 million in 1992, and \$647 million in 1991. In 1993, the Company repurchased approximately two million of its common shares (\$76 million) for a newly-established Employee Benefits Trust to fund employee benefits in the United States. Cash dividends paid to common shareholders were \$138 million in 1993 (\$1.00 per share), \$94 million in 1992 (\$.68 per share) and \$61 million in 1991 (\$.445 per share). In January 1994, the Board of Directors declared a first quarter cash dividend of \$.28 per share, a 12% increase above the average 1993 quarterly dividend.

Liquidity

As a result of debt repayments, the Company's net debt (short- and long-term debt including notes payable to RP, less cash and cash equivalents, short-term investments and time deposits) to net debt plus equity ratio improved to .26 to 1 at December 31, 1993 from .38 to 1 at December 31, 1992.

At December 31, 1993, the ratio of current assets to current liabilities was 1.37 to 1 compared to 1.63 to 1 a year ago. The change is principally due to a reduction of certain third party bank borrowings classified as long-term at December 31, 1992 and a higher level of temporary borrowings from RP classified as short-term at December 31, 1993 even though RPR has a continuing ability to refinance these borrowings on a long-term basis under committed bank lines.

At December 31, 1993, the Company has committed lines of credit totaling \$1.4 billion with no borrowings outstanding under these lines. Of this amount, \$700 million relates to a long-term revolving credit facility unconditionally guaranteed by RP; the amount available under this facility reduces by \$200 million per year until expiration of the facility in 1997. In a separate agreement with RP related to the issuance of MAPS, the Company must maintain as unused under this facility the smaller of \$325 million or the principal amount of debt outstanding (excluding borrowings from, or guaranteed by, RP). The Company has an additional \$250 million available under revolving credit agreements due in 1996. During 1993, the Company entered into several new multicurrency line of credit agreements with various banks totaling \$495 million and maturing in one to five years. At December 31, 1993, the Company has the ability and intent to renew,

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or to refinance under these facilities, approximately \$255 million of short-term third party borrowings for at least one year. Accordingly, this amount has been classified as long-term debt.

Pursuant to a \$500 million shelf registration filed in 1993, the Company issued \$175 million of money market preferred stock and has the ability to issue an additional \$325 million in debt or equity securities.

In 1993, Moody's Investors Service ("Moody's") and Standard & Poor's ("S&P") lowered the Company's preferred stock credit ratings, attributing the change to the privatization of RP. As a result, the Company's preferred stock issues are now rated BBB by S&P and Baal by Moody's. The Company's senior unsecured debt ratings have been affirmed as BBB+ by S&P and A3 by Moody's.

Other noncurrent assets increased at December 31, 1993 compared to 1992 due to early adoption of FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts" ("FIN 39") with regard to probable insurance recoveries related to certain litigation liabilities, the equity investment in AIS and higher deferred tax assets. An increase in other noncurrent liabilities at December 31, 1993 included the impact of FIN 39 and pension accruals.

Management believes that cash flows from operations, supplemented by financing expected to be available from external sources, will provide sufficient liquidity to meet its needs for the foreseeable future. Long-term liquidity is dependent upon the Company's competitive position, including its ability to discover, develop and market innovative new therapies.

Insurance and Litigation

The Company maintains significant levels of excess catastrophic general and products liability insurance obtained from independent third-party insurers. In light of the risks attendant to the Company's business activities, the limits and coverage terms of such insurance are believed reasonable in amount and scope and comparable to the insurance carried by others in the industry.

The Company is involved in litigation incidental to its business including, but not limited to: (1) approximately 239 lawsuits pending in the United States, Canada and Ireland against RPR and its Armour subsidiary, in which it is claimed by individuals infected with the Human Immunodeficiency Virus ("HIV") that their infection with HIV and, in some cases, resulting illnesses, including Acquired Immune Deficiency Syndrome-related conditions or death therefrom, may have been caused by administration of antihemophilic factor ("AHF") concentrates processed by Armour in the early and mid-1980's. Armour has also been named as a defendant in three proposed class action lawsuits filed on behalf of HIV-infected hemophiliacs and their families. None of these cases involves Armour's currently distributed AHF concentrates; (2) legal actions pending against one or more subsidiaries of the Company and various groupings of more than one hundred pharmaceutical companies, in which it is generally alleged that certain individuals were injured as a result of the development of various reproductive tract abnormalities because of in utero

exposure to diethylstilbestrol ("DES") (typically, two former operating subsidiaries of the Company are named as defendants, along with numerous other DES manufacturers, when the claimant is unable to identify the manufacturer); (3) antitrust actions alleging that the Company engaged in price discrimination practices to the detriment of certain independent community pharmacists; (4) an alleged infringement by the Company of a process patent for the manufacture of bulk diltiazem, an ingredient in the Company's product Dilacor XR (R); these proceedings have been indefinitely suspended; and (5) potential responsibility relating to past waste disposal practices, including potential involvement, for which the Company believes its share of liability, if any, to be negligible, at two sites on the U.S. National Priority List created by Superfund legislation. In addition, the Company agreed to settle shareholder litigation for an amount which is fully accrued at December 31, 1993.

The eventual outcomes of the above matters of pending litigation cannot be predicted with certainty. The defense of these matters and the defense of expected additional lawsuits related to these matters may require substantial legal defense expenditures. The Company follows Statement of Financial Accounting

Standards No. 5 in determining whether to recognize losses and accrue liabilities relating to such matters. Accordingly, the Company recognizes a loss if available information indicates that a loss or range of losses is probable and reasonably estimable. The Company estimates such losses on the basis of current facts and circumstances, prior experience with similar matters, the number of claims and the anticipated cost of administering, defending and, in some cases, settling such claims. The Company has also recorded as an asset certain insurance recoveries which are determined to be probable of occurrence on the basis of the status of current discussions with its insurance carriers. If a contingent loss is not probable, but is reasonably possible, the Company discloses this contingency in the notes to its consolidated financial statements if it is material. Based on the information available, the Company does not believe that reasonably possible uninsured losses in excess of amounts recorded for the above matters of litigation would have a material adverse impact on the Company's financial position or results of operations.

Recently Issued Accounting Standards

In November 1992, the Financial Accounting Standards Board issued Statement of Financial Accounting No. 112, "Employers' Accounting for Postemployment Benefits". RPR does not expect this new standard, which will be adopted in 1994, or various other recently issued accounting standards to materially affect financial position or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

RHONE-POULENC RORER INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF INCOME
 (DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

<TABLE>
 <CAPTION>

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|----------------------------------|------------|------------|
| | 1993 | 1992 | 1991 |
| <S> | <C> | <C> | <C> |
| Net sales..... | \$ 4,019.4 | \$ 4,095.9 | \$ 3,824.3 |
| Cost of products sold..... | 1,326.3 | 1,394.6 | 1,340.1 |
| Selling, delivery and administrative ex- penses..... | 1,467.8 | 1,505.0 | 1,407.6 |
| Research and development expenses..... | 561.2 | 521.3 | 444.5 |
| Restructuring and other charges..... | 93.8 | -- | 73.6 |
| Proceeds from litigation settlement..... | 105.0 | -- | -- |
| Operating income..... | 675.3 | 675.0 | 558.5 |
| Interest expense..... | 71.2 | 125.3 | 164.9 |

| | | | |
|---|----------|----------|----------|
| Interest income..... | (10.4) | (20.4) | (15.7) |
| Gain on sale of non-strategic assets..... | (30.2) | (23.1) | (95.7) |
| Other expense, net..... | 54.2 | 11.5 | 23.0 |
| | ----- | ----- | ----- |
| Income before income taxes..... | 590.5 | 581.7 | 482.0 |
| Provision for income taxes..... | 169.4 | 158.4 | 155.5 |
| | ----- | ----- | ----- |
| Net income before accounting change..... | 421.1 | 423.3 | 326.5 |
| Cumulative effect of accounting change..... | -- | 15.0 | -- |
| | ----- | ----- | ----- |
| Net income..... | 421.1 | 438.3 | 326.5 |
| Dividends on preferred stock..... | 12.4 | 10.1 | .4 |
| | ----- | ----- | ----- |
| Net income available to common shareholders..... | \$ 408.7 | \$ 428.2 | \$ 326.1 |
| | ===== | ===== | ===== |
| Primary earnings per common share: | | | |
| Net income before cumulative effect of accounting change..... | \$ 2.96 | \$ 2.99 | \$ 2.37 |
| Cumulative effect of accounting change..... | -- | .11 | -- |
| | ----- | ----- | ----- |
| Net income available to common shareholders..... | \$ 2.96 | \$ 3.10 | \$ 2.37 |
| | ===== | ===== | ===== |

</TABLE>

See Notes to Consolidated Financial Statements.

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RHONE-POULENC RORER INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN MILLIONS)

<TABLE>
<CAPTION>

| | DECEMBER 31, | |
|---|--------------|-----------|
| | 1993 | 1992 |
| | <C> | <C> |
| ASSETS | | |
| Current: | | |
| Cash and cash equivalents..... | \$ 35.4 | \$ 39.5 |
| Short-term investments, at cost..... | -- | 6.6 |
| Trade accounts receivable less reserves of \$68.3(1992: \$66.6)..... | 746.6 | 736.4 |
| Inventories..... | 504.1 | 531.3 |
| Other current assets..... | 382.7 | 424.5 |
| | ----- | ----- |
| Total current assets..... | 1,668.8 | 1,738.3 |
| Time deposits, at cost..... | 64.3 | 43.8 |
| Property, plant and equipment, net..... | 1,032.0 | 974.5 |
| Goodwill, net..... | 676.5 | 739.2 |
| Intangibles, net..... | 206.1 | 205.7 |
| Other assets..... | 402.5 | 156.8 |
| | ----- | ----- |
| Total assets..... | \$4,050.2 | \$3,858.3 |
| | ===== | ===== |
| LIABILITIES | | |
| Current: | | |
| Short-term debt..... | \$ 108.6 | \$ 153.8 |
| Notes payable to Rhone-Poulenc S.A. & affiliates..... | 201.3 | 100.0 |
| Accounts payable..... | 365.6 | 358.1 |
| Income taxes payable..... | 55.8 | 24.1 |
| Accrued employee compensation..... | 121.0 | 112.7 |
| Other current liabilities..... | 369.9 | 322.5 |
| | ----- | ----- |
| Total current liabilities..... | 1,222.2 | 1,071.2 |
| Long-term debt..... | 432.2 | 779.7 |
| Deferred income taxes..... | 29.5 | 29.8 |
| Other liabilities..... | 545.1 | 409.3 |
| | ----- | ----- |

| | | |
|---|-----------|-----------|
| Total liabilities..... | 2,229.0 | 2,290.0 |
| Contingencies..... | | |
| SHAREHOLDERS' EQUITY | | |
| Market Auction Preferred Shares, without par value (liquidation preference \$1,000 per share); authorized, issued and outstanding 225,000 shares (1992: 300,000 shares)..... | 225.0 | 300.0 |
| Money market preferred stock, without par value (liquidation preference \$100,000 per share); issued and outstanding 1,750 shares..... | 175.0 | -- |
| Common stock, without par value; stated value \$1 per share; authorized 200,000,000 shares; issued and outstanding 136,996,345 shares (1992: 138,298,771 shares)..... | 139.0 | 138.3 |
| Capital in excess of stated value..... | 290.0 | 269.0 |
| Retained earnings..... | 1,207.3 | 936.9 |
| Employee Benefits Trust..... | (75.8) | -- |
| Cumulative translation adjustments..... | (139.3) | (75.9) |
| | ----- | ----- |
| Total shareholders' equity..... | 1,821.2 | 1,568.3 |
| | ----- | ----- |
| Total liabilities and shareholders' equity..... | \$4,050.2 | \$3,858.3 |
| | ===== | ===== |

</TABLE>

See Notes to Consolidated Financial Statements.

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RHONE-POULENC RORER INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN MILLIONS)

<TABLE>

<CAPTION>

| | FOR THE YEARS ENDED DECEMBER 31, | | |
|---|----------------------------------|----------|----------|
| | 1993 | 1992 | 1991 |
| | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income..... | \$ 421.1 | \$ 438.3 | \$ 326.5 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization..... | 167.9 | 197.7 | 189.6 |
| Provision for deferred income taxes..... | (40.9) | (20.9) | 44.9 |
| Cumulative effect of accounting change.. | -- | (15.0) | -- |
| Gain on sale of non-strategic assets.... | (30.2) | (23.1) | (95.7) |
| Increase in trade accounts receivable, net..... | (33.0) | (66.8) | (44.6) |
| (Increase) decrease in inventories..... | 2.5 | (22.8) | 67.2 |
| Increase in accounts payable..... | 39.4 | 47.5 | 29.2 |
| Increase (decrease) in income taxes pay- able..... | 77.3 | (67.7) | 37.2 |
| Restructuring charges..... | 44.6 | (64.2) | (51.2) |
| Other items, net..... | 72.1 | (45.7) | (35.5) |
| | ----- | ----- | ----- |
| Net cash provided by operating activi- ties..... | 720.8 | 357.3 | 467.6 |
| | ----- | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Capital expenditures..... | (250.4) | (284.3) | (283.7) |
| Equity investment in Applied Immune Sci- ences, Inc..... | (117.3) | -- | -- |
| Investment in time deposits, net..... | (13.8) | 5.9 | 5.8 |
| Proceeds from sale of assets..... | 35.9 | 329.1 | 189.8 |
| | ----- | ----- | ----- |
| Net cash provided by (used in) invest- ing activities..... | (345.6) | 50.7 | (88.1) |
| | ----- | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Issuance of money market preferred stock.. | 171.9 | -- | -- |

| | | | |
|--|---------|----------|----------|
| Redemption of Market Auction Preferred Shares..... | (75.0) | -- | -- |
| Issuance of Market Auction Preferred Shares..... | -- | -- | 295.9 |
| Proceeds from issuance of long-term debt.. | 108.2 | 292.6 | 634.4 |
| Repayment of long-term debt..... | (133.0) | (993.8) | (944.2) |
| Short-term borrowings, net..... | (240.0) | 298.3 | (337.2) |
| Issuances of common stock..... | 17.8 | 6.1 | 3.7 |
| Shares repurchased for Employee Benefits Trust..... | (75.8) | -- | -- |
| Dividends paid..... | (149.2) | (103.4) | (61.3) |
| | ----- | ----- | ----- |
| Net cash used in financing activities. | (375.1) | (500.2) | (408.7) |
| | ----- | ----- | ----- |
| Effect of exchange rate changes on cash... | (4.2) | (4.1) | (1.4) |
| | ----- | ----- | ----- |
| Net decrease in cash and cash equivalents. | (4.1) | (96.3) | (30.6) |
| Cash and cash equivalents at beginning of year..... | 39.5 | 135.8 | 166.4 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of year.. | \$ 35.4 | \$ 39.5 | \$ 135.8 |
| | ===== | ===== | ===== |
| NONCASH INVESTING AND FINANCING ACTIVITIES: | | | |
| Issuance of common stock under employee benefit plans..... | \$ 4.0 | \$ 5.7 | \$ 9.2 |
| CASH PAID DURING YEAR FOR: | | | |
| Interest, net of amounts capitalized.... | \$ 82.4 | \$ 128.2 | \$ 202.7 |
| Income taxes..... | 133.0 | 247.0 | 73.4 |

</TABLE>

See Notes to Consolidated Financial Statements.

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RHONE-POULENC RORER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Rhone-Poulenc Rorer Inc. and subsidiaries which are more than 50 percent owned. All subsidiaries are consolidated on the basis of twelve-month periods ending December 31. Certain prior year items have been reclassified to conform to current classifications.

Investments in corporate joint ventures and other companies in which the Company has a 20 to 50 percent ownership are accounted for by the equity method. Cost investments, less than 20 percent owned, are carried at their original cost which approximated \$34.7 million at December 31, 1993 (1992: \$47.7 million). The carrying amount of cost investments for which it was practicable to estimate fair values was \$21.2 million at December 31, 1993 (1992: \$34.3 million), and the fair value of such investments, as determined by quoted market prices and pricing models, was \$18.8 million (1992: \$57.7 million). Equity and cost investments are included in other assets in the financial statements.

Cash and Cash Equivalents and Time Deposits

The Company considers cash on hand, cash in banks, certificates of deposit, time deposits and U.S. government and other short-term securities with maturities of three months or less when purchased as cash and cash equivalents. Investments with a maturity period of greater than three months but less than one year are classified as short-term investments. Certain mortgage-backed certificates, repurchase obligations and certificates of deposit with maturities of more than one year are classified as long-term time deposits. Due to the short maturity period of short-term investments and the variable rate nature of long-term time deposits, the carrying amount of these instruments approximates their fair values.

Inventories

Inventories are valued at the lower of cost or market, using the first-in, first-out (FIFO) or average cost methods.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. For financial accounting purposes, depreciation is computed principally on the straight-line method over the estimated useful lives of the assets. For income tax purposes, certain assets are depreciated using accelerated methods. Effective January 1, 1993, the Company extended the depreciation lives for certain production machinery and equipment. The change in estimate increased 1993 earnings by \$11.1 million after taxes (\$.08 per share).

Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair market value of net assets of businesses acquired. Goodwill is amortized on a straight-line basis over a period not to exceed forty years, and is reported net of accumulated amortization of \$172.1 million in 1993 and \$158.3 million in 1992. Intangibles, which principally represent the cost of acquiring patents and product lines, are amortized over their estimated useful lives and are reported net of accumulated amortization of \$96.5 million in 1993 and \$91.7 million in 1992.

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RHONE-POULENC RORER INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Income Taxes

The Company and substantially all of its United States subsidiaries file a consolidated federal income tax return. No provision has been made for United States income taxes or withholding taxes on the unremitted earnings of non-U.S. subsidiaries which are intended to be indefinitely reinvested. Effective January 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 109 ("SFAS 109"), "Accounting for Income Taxes," and recorded a cumulative effect adjustment increasing 1992 net income by \$15.0 million (\$.11 per share).

Foreign Currency Translation

Financial information relating to the Company's subsidiaries located outside the United States is translated using the current rate method. Local currencies are considered the functional currencies except in countries with highly inflationary economies.

Financial Instruments

The Company enters into foreign exchange contracts to hedge exposures related to firm foreign currency commitments. Gains or losses from the contracts are recognized in the basis of the transaction being hedged. Gains and losses arising from foreign exchange contracts which are designated and effective as economic hedges of the Company's net foreign investments are recorded as translation adjustments. Cash flows from hedging contracts are classified in the same category as the cash flows from the items being hedged.

At December 31, 1993, the Company was party to forward exchange and currency swap contracts to purchase \$105.8 million equivalent in foreign currencies and to sell \$373.7 million in foreign currencies during the first quarter of 1994. Such contracts totaled \$111.9 million and \$339.6 million, respectively, at December 31, 1992. The carrying values of the contracts approximated their fair values.

The Company utilizes various instruments to hedge interest rate risk. The net receivable or payable under these arrangements is recognized as an adjustment to interest expense over the life of the contracts. At December 31, 1993, the Company was party to \$332.5 million notional amount of swap contracts which fix interest rates over various periods, and \$198.9 million notional amount of swap contracts which give rise to variable interest rate exposure over various periods. Such contracts totaled \$340.8 million and \$117.2 million, respectively, at December 31, 1992. The fair value of all such outstanding interest rate swap contracts, as determined through bank pricing models, was

approximately equal to their December 31 carrying value.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of trade receivables, cash investments and time deposits, and foreign currency and interest rate swap contracts. Credit risk with respect to trade receivables is limited due to a large customer base in a wide geographic area. The Company places its cash investments and time deposits with credit worthy, high quality financial institutions and, by policy, limits the amount of credit exposure to any one institution. The Company does not anticipate nonperformance by the counterparties to its financial instruments.

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RHONE-POULENC RORER INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 2. RESTRUCTURING AND OTHER CHARGES, PROCEEDS FROM LITIGATION SETTLEMENT, AND GAIN ON SALE OF NON-STRATEGIC ASSETS

In 1993, the Company recorded charges of \$93.8 million for the costs of certain restructuring and manufacturing streamlining programs and increased provisions for certain litigation. The programs, principally in Europe, include restructuring of marketing and manufacturing operations in the Company's German and Italian prescription pharmaceutical businesses following governmental actions aimed at limiting prices and prescription volume. The programs also include a plan to divest a portion of a manufacturing facility in Monts, France by the end of 1995. In 1991, restructuring charges of \$73.6 million were provided for facility divestitures in Germany and the U.K., relocation of U.S. corporate offices and research facilities, professional fees and other costs. At December 31, 1993 and 1992, amounts included in other current liabilities for restructuring were \$37.9 million and \$26.0 million, respectively.

In 1993, the Company received \$105.0 million cash proceeds from the settlement of a longstanding patent lawsuit with Baxter International concerning Factor VIII:C concentrates for the treatment of hemophilia.

Gains from asset sales totaled \$30.2 million in 1993 and included sales of product rights and certain investments. In 1992, the Company recorded gains of \$23.1 million related principally to the sales of product rights in the U.S. and France.

In 1991, the Company recorded \$95.7 million of gains from the sales of non-strategic assets (principally a dietary products business in France and certain product rights in the U.S.).

NOTE 3. EQUITY INVESTMENT IN APPLIED IMMUNE SCIENCES, INC.

In 1993, the Company acquired for \$117.3 million, including expenses, a 37% interest in Applied Immune Sciences, Inc. ("AIS") and a right to purchase majority ownership of approximately 60%. The companies also agreed to establish joint ventures related to cell therapy products and services. The Company recorded as other expense \$29.1 million (\$.14 per share) in 1993 for noncash equity losses associated with AIS, including acquired research and development of approximately 60% of the excess of the purchase price over the Company's share of the fair market value of the tangible net assets of AIS. The Company may be required by the terms of the acquisition agreement to purchase up to four million additional shares of AIS common stock at a cost of up to \$100.0 million between 1995 and 1997 if AIS achieves certain development milestones and/or certain sales and earnings targets.

NOTE 4. OTHER EXPENSE, NET

<TABLE>
<CAPTION>

| | 1993 | 1992 | 1991 |
|----------------------------------|-----------------------|--------|--------|
| | ----- | ----- | ----- |
| | (DOLLARS IN MILLIONS) | | |
| <S> | <C> | <C> | <C> |
| Equity losses of affiliates..... | \$50.0 | \$15.8 | \$19.3 |
| Minority interest..... | 3.8 | 2.0 | 3.9 |

| | | | |
|--------------------------------------|--------|--------|--------|
| Foreign exchange (gains) losses..... | (2.5) | (8.1) | 3.6 |
| Other (income) expense, net..... | 2.9 | 1.8 | (3.8) |
| | ----- | ----- | ----- |
| | \$54.2 | \$11.5 | \$23.0 |
| | ===== | ===== | ===== |

</TABLE>

RHONE-POULENC RORER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

NOTE 5. EARNINGS PER SHARE

Earnings per common share were computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding. The weighted average number of shares used to compute primary earnings per common share were 138,168,739; 138,073,872 and 137,708,866 for the years 1993, 1992 and 1991, respectively. Common share equivalents in the form of stock options were excluded from the calculation as their dilutive effect was not material.

NOTE 6. INVENTORIES

<TABLE>
<CAPTION>

| | 1993 | 1992 |
|---------------------------------|-----------------------|---------|
| | ----- | ----- |
| | (DOLLARS IN MILLIONS) | |
| <S> | <C> | <C> |
| Finished goods..... | \$235.3 | \$247.2 |
| Work in process..... | 111.5 | 128.8 |
| Raw materials and supplies..... | 157.3 | 155.3 |
| | ----- | ----- |
| | \$504.1 | \$531.3 |
| | ===== | ===== |

</TABLE>

NOTE 7. PROPERTY, PLANT AND EQUIPMENT, NET

<TABLE>
<CAPTION>

| | 1993 | 1992 |
|---|-----------------------|----------|
| | ----- | ----- |
| | (DOLLARS IN MILLIONS) | |
| <S> | <C> | <C> |
| Land..... | \$ 58.0 | \$ 57.3 |
| Buildings..... | 568.7 | 521.6 |
| Machinery and equipment..... | 1,197.2 | 1,132.9 |
| Construction in progress..... | 134.7 | 144.1 |
| | ----- | ----- |
| | 1,958.6 | 1,855.9 |
| Less accumulated depreciation..... | 926.6 | 881.4 |
| | ----- | ----- |
| Property, plant and equipment, net..... | \$1,032.0 | \$ 974.5 |
| | ===== | ===== |

</TABLE>

The Company incurred \$75.5 million and \$139.9 million in interest cost in 1993 and 1992, respectively, of which \$4.3 million and \$14.6 million, respectively, was capitalized as part of the cost of additions to property, plant and equipment.

NOTE 8. DEBT

Short-term debt consisted of the following:

<TABLE>
<CAPTION>

| | 1993 | 1992 |
|-----|-----------------------|-------|
| | ----- | ----- |
| | (DOLLARS IN MILLIONS) | |
| <S> | <C> | <C> |

| | | |
|---|---------|---------|
| Notes payable to banks..... | \$ 86.6 | \$128.5 |
| Current portion of long-term debt..... | 22.0 | 25.3 |
| | ----- | ----- |
| | \$108.6 | \$153.8 |
| | ===== | ===== |
| Notes payable to Rhone-Poulenc S.A. and affiliates..... | \$201.3 | \$100.0 |
| | ===== | ===== |

</TABLE>

RHONE-POULENC RORER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Long-term debt, net of current portion, consisted of the following:

<TABLE>

<CAPTION>

| | 1993 | 1992 |
|--|-----------------------|----------|
| | ----- | ----- |
| | (DOLLARS IN MILLIONS) | |
| <S> | <C> | <C> |
| Notes payable at variable rates (expected to be refinanced long-term)..... | \$ 255.2 | \$ 570.7 |
| Revolving credit agreements due 1996 at variable rates averaging 8.7%..... | -- | 4.3 |
| 9.15% Series A Senior Notes due 2004, with interest payable quarterly (guaranteed by Rhone-Poulenc S.A.). | 60.1 | 63.2 |
| 8.95% Series B Senior Notes due 1997, with interest payable quarterly (guaranteed by Rhone-Poulenc S.A.). | 12.9 | 17.2 |
| Notes, mortgages and capitalized lease obligations at various rates averaging 9.0% (1992: 9.5%)..... | 74.4 | 90.3 |
| | ----- | ----- |
| | \$402.6 | \$745.7 |
| Notes payable to Rhone-Poulenc S.A. and affiliates principally due in 1997 at rates averaging 6.0% (1992: 8.2%)..... | \$ 29.6 | \$ 34.0 |
| | ----- | ----- |
| | \$432.2 | \$779.7 |
| | ===== | ===== |

</TABLE>

The Company has classified \$255.2 million of various short-term borrowings from banks as long-term debt in accordance with the Company's intention and ability to refinance such obligations on a long-term basis. The \$255.2 million of notes payable classified as long-term consists of borrowings in various currencies and interest rates as follows: \$96.3 million in U.S. dollars at 3.4%, \$54.2 million in British pounds at 6.5%, \$45.7 million in French francs at 6.6%, \$42.8 million in Japanese yen at 3.6% and \$16.2 million in German marks at 7.0%.

At December 31, 1993, after the effect of interest rate swap contracts, approximately 92% of the Company's outstanding debt was at variable rates of interest. The aggregate maturities of all long-term debt, including related party debt, were: \$22.0 million in 1994, \$21.7 million in 1995, \$36.5 million in 1996, \$78.4 million in 1997, \$194.9 million in 1998 and \$100.7 million thereafter.

At December 31, 1993, the Company had committed lines of credit totaling \$1.4 billion with no borrowings outstanding under these lines. Of this amount, \$700.0 million related to the Revolving Credit Facility Agreement dated April 30, 1990 ("the Facility"). The Facility is unconditionally guaranteed by Rhone-Poulenc S.A. ("RP") and expires in \$100.0 million installments semi-annually through April 30, 1997. In connection with the 1991 issuance of Market Auction Preferred Shares, the Company agreed to maintain as unused a portion of the Facility of not less than the smaller of \$325.0 million or total indebtedness (excluding amounts owed to or guaranteed by RP). Terms of the Facility contain certain covenants regarding the financial condition of RP, the most restrictive of which is the maintenance of minimum stockholders' equity and ratio of total indebtedness to net worth. The Company has an additional \$250.0 million available under revolving credit agreements due in 1996. During 1993, the Company entered into several multicurrency credit line agreements with various banks totaling \$495.0 million. These lines mature in one to five years.

Borrowings under the above facilities can be made in various currencies, principally U.S. dollars, French francs, German marks and British pounds; interest rates vary with the respective currency's interbank offering rate. Amounts available under unused uncommitted lines of credit approximated \$562.0 million at December 31, 1993.

Pursuant to a \$500.0 million shelf registration filed in 1993, the Company issued \$175.0 million of money market preferred stock during the year and has the ability to issue an additional \$325.0 million in debt or equity securities.

RHONE-POULENC RORER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 9. LEASE COMMITMENTS

Rent expense was \$49.4 million, \$28.2 million and \$27.0 million in 1993, 1992 and 1991, respectively. Future minimum lease commitments under all leases with initial or remaining noncancelable lease terms in excess of one year at December 31, 1993 are as follows:

<TABLE>
<CAPTION>

| | CAPITAL LEASES | OPERATING LEASES |
|--|-----------------------|---------------------|
| | ----- | ----- |
| | (DOLLARS IN MILLIONS) | |
| <S> | <C> | <C> |
| 1994..... | \$ 6.4 | \$ 53.5 |
| 1995..... | 4.6 | 48.3 |
| 1996..... | 4.0 | 40.5 |
| 1997..... | 3.4 | 45.8 |
| 1998..... | 3.3 | 33.3 |
| Thereafter..... | 24.7 | 585.6 |
| | ----- | ----- |
| Minimum lease payments..... | 46.4 | \$ 807.0 |
| | | ===== |
| Less imputed interest..... | (17.6) | |
| | ----- | |
| Present value of minimum lease payments (current--\$3.8, noncurrent--\$25.0)..... | \$ 28.8 | |
| | ===== | |

</TABLE>

In December 1992, the Company sold its U.S. corporate offices and research facility to a third party for \$258.0 million and leased it back for an initial term of thirty years with options to renew for a longer period. The Company also leased the underlying land to the third party for sixty years and subleased it back for thirty years with the facility. The Company pays taxes, insurance and maintenance costs associated with the facility. Average annual accounting rent is \$22.5 million; under terms of the agreement, the first cash rental payment is in July 1994.

NOTE 10. INCOME TAXES

Effective January 1, 1992, the Company adopted SFAS 109, "Accounting for Income Taxes," which modifies the liability method prescribed by SFAS 96, particularly with respect to recognition of deferred tax benefits in certain circumstances. Upon adoption, the Company recorded a cumulative effect adjustment increasing 1992 net income by \$15.0 million (\$.11 per share). The components of income before income taxes are:

<TABLE>
<CAPTION>

| | 1993 | 1992 | 1991 |
|--------------------|-----------------------|---------|---------|
| | ----- | ----- | ----- |
| | (DOLLARS IN MILLIONS) | | |
| <S> | <C> | <C> | <C> |
| United States..... | \$289.1 | \$258.9 | \$161.3 |
| Non-U.S..... | 301.4 | 322.8 | 320.7 |
| | ----- | ----- | ----- |
| | \$590.5 | \$581.7 | \$482.0 |

</TABLE>

RHONE-POULENC RORER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The provisions for income taxes are:

<TABLE>
<CAPTION>

| | 1993 | 1992 | 1991 |
|--------------------|-----------------------|---------|---------|
| | (DOLLARS IN MILLIONS) | | |
| <S> | <C> | <C> | <C> |
| Current: | | | |
| United States..... | \$ 100.2 | \$ 62.9 | \$ 37.8 |
| Non-U.S..... | 110.0 | 116.4 | 72.8 |
| | ----- | ----- | ----- |
| | 210.2 | 179.3 | 110.6 |
| | ----- | ----- | ----- |
| Deferred: | | | |
| United States..... | (31.0) | 2.2 | 1.9 |
| Non-U.S..... | (9.8) | (23.1) | 43.0 |
| | ----- | ----- | ----- |
| | (40.8) | (20.9) | 44.9 |
| | ----- | ----- | ----- |
| | \$169.4 | \$158.4 | \$155.5 |
| | ===== | ===== | ===== |

</TABLE>

Deferred income taxes are provided for temporary differences between book and tax bases of the Company's assets and liabilities. Temporary differences giving rise to a significant portion of the deferred tax assets and liabilities at December 31 are:

<TABLE>
<CAPTION>

| | 1993 | 1992 |
|--|-----------------------|---------|
| | (DOLLARS IN MILLIONS) | |
| <S> | <C> | <C> |
| Assets (liabilities): | | |
| Pension..... | \$ 51.8 | \$ 48.5 |
| Depreciation and amortization..... | (65.0) | (36.7) |
| Intercompany profit in ending inventory..... | 30.5 | 33.8 |
| Distributable non-U.S. earnings..... | (14.7) | (14.7) |
| Net operating loss carryforwards..... | 13.2 | 14.0 |
| Equity investment write-down..... | 10.7 | -- |
| Other, including nondeductible accruals..... | 68.5 | 11.8 |
| | ----- | ----- |
| | 95.0 | 56.7 |
| Less valuation allowance..... | (8.9) | (16.2) |
| | ----- | ----- |
| Deferred income taxes, net..... | \$ 86.1 | \$ 40.5 |
| | ===== | ===== |

</TABLE>

The portion of the above net deferred tax asset classified as current was \$60.3 million. At December 31, 1993, total deferred tax assets were \$269.2 million and total deferred tax liabilities were \$174.2 million before netting. As of January 1, 1993, similar temporary differences gave rise to total deferred tax assets of \$185.6 million and total deferred tax liabilities of \$128.9 million.

The differences between the U.S. statutory income tax rate and the Company's effective income tax rate are:

<TABLE>
<CAPTION>

| | 1993 | 1992 | 1991 |
|--|-------|-------|-------|
| | ----- | ----- | ----- |

| | (PERCENT OF INCOME BEFORE INCOME TAXES) | | | |
|---|---|-----|-------|-------|
| <S> | <C> | <C> | <C> | <C> |
| U.S. statutory income tax rate. | 35.0% | | 34.0% | 34.0% |
| Non-U.S. tax rate differential. | (1.7) | | 1.5 | 1.4 |
| Puerto Rico operations..... | (3.6) | | (4.9) | (2.0) |
| Research and development tax credits..... | (1.8) | | -- | (1.2) |
| Non-U.S. net operating losses.. | -- | | (1.6) | -- |
| Other, net..... | 0.8 | | (1.8) | 0.1 |
| | ----- | | ----- | ----- |
| Effective income tax rate..... | 28.7% | | 27.2% | 32.3% |
| | ===== | | ===== | ===== |

</TABLE>

RHONE-POULENC RORER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The Company has subsidiaries in Puerto Rico and Ireland, where earnings are either exempt or substantially exempt from income taxes under local government incentive programs, the latest of which expires in the year 2010.

The Company has non-U.S. net operating loss carryforwards of \$37.4 million for tax return purposes which expire principally through the years 1994-1998.

The U.S. tax returns for the years 1987-1989 are currently being examined by the IRS; the Company's French tax returns have been examined through the year 1990. Neither the IRS nor the French tax authorities have proposed any adjustments of a material nature.

Unremitted earnings of non-U.S. subsidiaries which are intended to be indefinitely reinvested were \$851.0 million at December 31, 1993. Withholding taxes payable if the entire amount of these earnings were remitted would be \$54.2 million. U.S. income taxes payable if these earnings were remitted would be substantially offset by available foreign tax credits.

NOTE 11. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Pensions

The Company has several defined benefit pension plans which cover a majority of its employees throughout the world. In the United States, the Company's funding policy is to contribute funds to a trust as necessary to provide for current service and for any unfunded projected benefit obligation over a reasonable period. To the extent that these requirements are fully covered by assets in the trust, a contribution may not be made in a particular year. Obligations under non-U.S. plans are systematically provided by depositing funds with trustees, under insurance policies or through book reserves.

The funded status of the Company's plans at December 31 was as follows:

<TABLE>

<CAPTION>

| | 1993 | | 1992 | |
|--|--|--|--|--|
| | PLANS WHOSE ASSETS EXCEED ACCUMULATED BENEFITS | PLANS WHOSE ACCUMULATED BENEFITS EXCEED ASSETS | PLANS WHOSE ASSETS EXCEED ACCUMULATED BENEFITS | PLANS WHOSE ACCUMULATED BENEFITS EXCEED ASSETS |
| | (DOLLARS IN MILLIONS) | | | |
| <S> | <C> | <C> | <C> | <C> |
| Vested benefit obligations..... | \$ (128.7) | \$ (317.9) | \$ (188.4) | \$ (188.7) |
| Nonvested benefits..... | (4.1) | (54.4) | (6.2) | (52.6) |
| | ----- | ----- | ----- | ----- |
| Accumulated benefit obligation..... | (132.8) | (372.3) | (194.6) | (241.3) |
| | ----- | ----- | ----- | ----- |
| Projected future salary increases..... | (9.0) | (62.3) | (42.5) | (31.1) |
| | ----- | ----- | ----- | ----- |

| | | | | |
|---|---------|------------|---------|------------|
| Projected benefit obligation..... | (141.8) | (434.6) | (237.1) | (272.4) |
| Fair value of plan assets (invested primarily in equities and bonds)..... | 158.8 | 132.2 | 231.4 | 30.8 |
| Plan assets in excess of (less than) projected benefit obligation..... | 17.0 | (302.4) | (5.7) | (241.6) |
| Unrecognized net transition (asset) liability. | (.9) | 5.9 | (7.7) | 12.7 |
| Unrecognized net (gain) loss..... | (4.9) | 78.3 | 11.4 | 28.3 |
| Unrecognized prior service cost..... | 7.5 | 3.6 | 8.9 | 5.4 |
| Adjustment required to recognize minimum liability..... | -- | (52.7) | -- | (36.0) |
| Prepaid (accrued) pension cost..... | \$ 18.7 | \$ (267.3) | \$ 6.9 | \$ (231.2) |

</TABLE>

RHONE-POULENC RORER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The accumulated benefit obligation of U.S. plans included in the above table was \$148.8 million in 1993 and \$122.5 million in 1992. U.S. plan assets were \$128.5 million and \$121.7 million at December 31, 1993 and 1992, respectively. Of the net accrued pension cost, \$262.6 million and \$241.4 million are included in other noncurrent liabilities in 1993 and 1992, respectively.

The following items are the components of net periodic pension cost for the years ended December 31:

<TABLE>
<CAPTION>

| | 1993 | 1992 | 1991 |
|-----------------------------------|-----------------------|---------|---------|
| | ----- | ----- | ----- |
| | (DOLLARS IN MILLIONS) | | |
| <S> | <C> | <C> | <C> |
| Service cost..... | \$ 16.9 | \$ 17.0 | \$ 16.3 |
| Interest cost..... | 42.7 | 41.2 | 39.1 |
| Actual return on plan assets..... | (49.9) | (25.5) | (40.4) |
| Amortization and deferral..... | 27.2 | 2.3 | 18.7 |
| Net periodic pension cost..... | \$ 36.9 | \$ 35.0 | \$ 33.7 |

</TABLE>

Net periodic pension cost for U.S. plans included in the above amounts are \$8.5 million, \$8.2 million and \$7.5 million for 1993, 1992 and 1991, respectively.

The following weighted average assumptions, which are based on the economic environment of each applicable country, were used to determine the return on plan assets and benefit obligations:

<TABLE>
<CAPTION>

| | 1993 | 1992 | 1991 |
|--|-------|-------|-------|
| | ---- | ---- | ---- |
| <S> | <C> | <C> | <C> |
| Discount rate..... | 7.7% | 9.0% | 8.8% |
| Expected return on plan assets..... | 10.4% | 10.1% | 10.4% |
| Rate of future compensation increases..... | 4.6% | 5.4% | 5.4% |

</TABLE>

For U.S. plans, the discount rate was 7.5% in 1993 and 8.25% in 1992 and

1991. The expected return on plan assets of 9.5% remained constant from 1991 through 1993. The rate of future compensation increases was 5% in 1993 and 6% in 1992 and 1991.

Savings Plans

The Company sponsors defined contribution savings plans covering substantially all U.S. employees. Company contributions to the plans may not exceed the greater of 3% of employee compensation or three thousand dollars per employee. Amounts charged to expense were \$6.2 million, \$4.8 million and \$3.8 million in 1993, 1992 and 1991, respectively.

Postretirement Benefits Other Than Pensions

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions" and is amortizing the \$6.0 million accumulated postretirement benefit obligation over twenty years. The Company's non-U.S. affiliates generally contribute to government insurance programs during the employees' careers and do not sponsor additional postretirement programs. In the United States, the Company grants retirees access to its medical, prescription and life insurance programs for a premium targeted to equal the cost of such benefits.

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RHONE-POULENC RORER INC. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Postemployment Benefits

In November 1992, the Financial Accounting Standards Board issued Statement of Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" ("SFAS 112"). SFAS 112, which will be adopted in the first quarter of 1994, requires recognition of the obligation to provide benefits to former or inactive employees after employment but before retirement. Adoption of the new standard will not materially affect the Company's financial position or results of operations.

NOTE 12. STOCK PLANS

Stock options and restricted shares have been granted to employees under plans approved by the shareholders in 1982 and 1985, as amended in 1988 ("Stock Plan"). The aggregate number of shares originally available for issuance or transfer to employees under these plans was 7,000,000. Option prices are equal to the fair market value of the shares on the date of grant. Options are exercisable during a period determined by the Company, but in no event later than ten years from the date granted. Shares issued under a restricted grant may not be sold or otherwise disposed of for a period designated by the Company. Restricted shares are returned to the Company if the grantee's employment terminates during the period of restriction. During the restriction period, the grantee is entitled to vote the shares and receive any dividends paid. The 1985 Stock Plan, as amended, permits the Company to grant stock appreciation rights in tandem with stock options. As of December 31, 1993, no such rights have been granted. The Equity Compensation Plan adopted in 1990 supplements the Stock Plan by providing for an additional 6,000,000 shares that may be issued to participants after all shares authorized pursuant to the terms of the Stock Plan have been utilized. The terms of the Equity Compensation Plan are substantially the same as those of the Stock Plan.

Effective January 1, 1993, the Company substantially curtailed the granting of restricted shares to employees. In 1992 and 1991, respectively, 90,146 and 217,125 restricted shares were granted to employees under the Stock Plan. Due to employee terminations 12,312; 23,561 and 22,148 restricted shares were returned to the Company in 1993, 1992 and 1991, respectively. In connection with the 1990 transaction with RP, the Company granted to certain executives options to purchase a total of 1,090,008 shares at a price of \$30.18 per share and 78,872 shares at a price of \$49.25 per share. These options vest but are exercisable according to a schedule based upon the maturity of RP contingent value rights. In 1993, 375,347 options were exercised and 573,417 options were canceled. The remaining options expire in the year 2000.

Stock option activity shown below reflects the two-for-one stock split

effective June 7, 1991:

<TABLE>
<CAPTION>

| | 1993 | 1992 | 1991 |
|---|--------------|--------------|--------------|
| <S> | <C> | <C> | <C> |
| Shares under option at beginning of year..... | 4,999,932 | 4,165,969 | 3,098,220 |
| Additions (deductions): | | | |
| Granted..... | 2,342,582 | 1,323,120 | 1,479,268 |
| Exercised..... | (662,711) | (336,325) | (264,166) |
| Canceled..... | (864,169) | (152,832) | (147,353) |
| Shares under option at year-end.... | 5,815,634 | 4,999,932 | 4,165,969 |
| Options exercisable at December 31.. | 2,455,205 | 2,165,050 | 956,923 |
| Shares reserved for future grants... | 4,272,384 | 5,738,561 | 6,975,434 |
| Price range of options exercised.... | \$7.92-41.63 | \$4.67-45.63 | \$0.88-32.28 |
| Price range for all options out-standing..... | \$4.67-63.00 | \$4.67-63.00 | \$4.67-58.50 |
| Price range for all options exercisable..... | \$4.67-63.00 | \$4.67-58.50 | \$4.67-32.31 |

</TABLE>

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RHONE-POULENC RORER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 13. SHAREHOLDERS' EQUITY

<TABLE>
<CAPTION>

| | MARKET AUCTION PREFERRED SHARES | MONEY MARKET PREFERRED STOCK | COMMON STOCK AT STATED VALUE | CAPITAL IN EXCESS OF STATED VALUE | RETAINED EARNINGS | EMPLOYEE BENEFITS TRUST | CUMULATIVE TRANSLATION ADJUSTMENTS |
|--|---------------------------------|------------------------------|------------------------------|-----------------------------------|-------------------|-------------------------|------------------------------------|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| (DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA) | | | | | | | |
| Balance, January 1, 1991: | \$ -- | \$ -- | \$ 68.7 | \$ 318.8 | \$ 337.8 | \$ -- | \$ (31.8) |
| Net income--1991..... | -- | -- | -- | -- | 326.5 | -- | -- |
| Common stock split..... | -- | -- | 68.9 | (68.9) | -- | -- | -- |
| Cash dividends, \$.445 per common share..... | -- | -- | -- | -- | (61.3) | -- | -- |
| Issuance of Market Auction Preferred Shares..... | 300.0 | -- | -- | (5.1) | -- | -- | -- |
| Dividends on Market Auction Preferred Shares..... | -- | -- | -- | -- | (.4) | -- | -- |
| Issuance of shares under employee benefit plans..... | -- | -- | .3 | 12.1 | -- | -- | -- |
| Translation adjustments, including hedging (net of \$.7 tax effect)..... | -- | -- | -- | -- | -- | -- | 33.0 |
| Balance, December 31, 1991: | 300.0 | -- | 137.9 | 256.9 | 602.6 | -- | 1.2 |
| Net income--1992..... | -- | -- | -- | -- | 438.3 | -- | -- |
| Cash dividends, \$.68 per common share..... | -- | -- | -- | -- | (93.9) | -- | -- |
| Dividends on Market Auction Preferred Shares..... | -- | -- | -- | -- | (10.1) | -- | -- |
| Issuance of shares under employee benefit plans..... | -- | -- | .4 | 12.1 | -- | -- | -- |
| Translation adjustments, including hedging (net of \$1.7 | | | | | | | |

| | | | | | | | |
|---|---------|---------|---------|---------|-----------|----------|-----------|
| tax effect)..... | -- | -- | -- | -- | -- | -- | (77.1) |
| Balance, December 31, 1992: | 300.0 | -- | 138.3 | 269.0 | 936.9 | -- | (75.9) |
| Net income--1993..... | -- | -- | -- | -- | 421.1 | -- | -- |
| Cash dividends, \$1.00 per common share..... | -- | -- | -- | -- | (138.3) | -- | -- |
| Dividends on preferred shares..... | -- | -- | -- | -- | (12.4) | -- | -- |
| Issuance of money market preferred stock..... | -- | 175.0 | -- | (3.1) | -- | -- | -- |
| Redemption of Market Auction Preferred Shares..... | (75.0) | -- | -- | -- | -- | -- | -- |
| Shares repurchased for Employee Benefits Trust..... | -- | -- | -- | -- | -- | (75.8) | -- |
| Issuance of shares under employee benefit plans..... | -- | -- | .7 | 24.1 | -- | -- | -- |
| Translation adjustments, including hedging (net of \$11.6 tax effect) | -- | -- | -- | -- | -- | -- | (63.4) |
| Balance, December 31, 1993..... | \$225.0 | \$175.0 | \$139.0 | \$290.0 | \$1,207.3 | \$(75.8) | \$(139.3) |
| | ===== | ===== | ===== | ===== | ===== | ===== | ===== |

</TABLE>

In December 1991, the Company issued \$300.0 million of Market Auction Preferred Shares ("MAPS") represented by four series, each consisting of 75,000 shares. Each series of MAPS is sold in units of 100 shares and is identical except as to dividend terms. Dividend rates, which are determined at separate auctions for each series, averaged 3.01% during 1993 (1992: 3.14%). Dividends are paid every 49 days, subject to certain exceptions.

In 1993, the Company issued \$175.0 million of money market preferred stock. A portion of the proceeds was used to redeem \$75.0 million MAPS Series B. The money market preferred stock was issued in three series, consisting of 750 shares, 500 shares and 500 shares, respectively. The initial dividend period for all series commenced on August 1, 1993 at initial dividend rates of 4.7% per annum for a two-year period for Series 1; 5.125% per annum for a three-year period for Series 2; and 5.84% per annum for a five-year period for Series 3. After the initial dividend periods expire, dividends will be determined at separate auctions for each series.

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RHONE-POULENC RORER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The MAPS and money market preferred stock (collectively, "the Preferred Shares") rank prior to common shares of the Company as to dividends. Holders of Preferred Shares have no voting rights except in the event that preferred dividends are in arrears for at least 180 consecutive days. In such event, the authorized number of the Company's Board of Directors would be increased by two and the holders of record of the respective Preferred Shares may elect these additional directors. The Preferred Shares are not convertible into common stock or other shares of the Company and holders thereof have no preemptive rights. Upon the liquidation, dissolution, or winding up of the Company, or upon redemption of the Preferred Shares at the Company's option, holders would be entitled to a liquidation preference of \$1,000 per share for MAPS or \$100,000 per share for money market preferred stock, plus any accumulated and unpaid dividends thereon.

In connection with the issuance of MAPS, the Company entered into a support agreement with RP pursuant to which both parties agreed that 1) RP will own a majority of the outstanding common stock of the Company entitled to elect directors; 2) RP will make a capital contribution to the Company if certain debt-to-capitalization or tangible net worth ratios do not meet specified levels or if the Company fails to pay a declared dividend on MAPS on a timely basis; and 3) RP, as guarantor of the Revolving Credit Facility Agreement dated

April 30, 1990, will maintain such facility in full force, and the Company will maintain, as of any date, the unused portion of such facility in an amount equal to all principal, interest and premium amounts payable in the next twelve months with respect to short- and long-term debt other than amounts owed to RP or guaranteed by RP, subject to certain requirements and exceptions. In connection with the support agreement, the Company pays RP an annual fee which in 1993 approximated \$.4 million (\$.5 million in 1992). The support agreement does not constitute a guarantee by RP of any obligation of the Company, including MAPS, and is not enforceable by any holder of MAPS. The units of each series of MAPS must be redeemed in the event of breach of certain covenants in the support agreement.

At December 31, 1993, there were 2,451,800 preferred shares without par value authorized and unissued (1992: 2,551,800).

In March 1993, the Company's Board of Directors approved the repurchase from time to time of up to 5 million of its common shares on the open market. As of December 31, 1993, 1,873,300 shares had been acquired at a cost of \$75.8 million and are being held in an Employee Benefits Trust to fund future employee benefits in the United States. At December 31, 1993, repurchase commitments existed for an additional 108,700 shares at a cost of \$4.0 million.

NOTE 14. INDUSTRY SEGMENT AND OPERATIONS BY GEOGRAPHIC AREA

The Company's operations are conducted in one industry segment. Operations involve the production and sale of pharmaceuticals, primarily cardiovascular products, bone metabolism/rheumatology products, gastroenterology products, central nervous system/analgesia products, infectious disease/oncology products, hypersensitivity products, and plasma derivatives. In addition, the Company manufactures and markets a number of other products, including bulk pharmaceuticals and chemicals.

Information about the Company's operations for the years 1993, 1992 and 1991 by geographic area is shown below. Inter-area affiliated sales are not significant. Corporate loss before income taxes includes corporate administrative expenses incurred in the U.S., worldwide net interest expense, and worldwide equity losses from unconsolidated affiliates. Corporate loss before income taxes also includes corporate administrative expenses incurred in France of \$49.2 million in 1993, \$54.3 million in 1992 and \$40.2 million in 1991.

RHONE-POULENC RORER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-- (CONTINUED)

<TABLE>
<CAPTION>

| | 1993 | 1992 | 1991 |
|---|-----------------------|-----------|-----------|
| | ----- | ----- | ----- |
| | (DOLLARS IN MILLIONS) | | |
| <S> | <C> | <C> | <C> |
| Net sales: | | | |
| United States..... | \$1,119.9 | \$ 999.7 | \$ 853.2 |
| France..... | 1,374.8 | 1,388.1 | 1,318.5 |
| Other Europe..... | 977.8 | 1,218.4 | 1,197.3 |
| Rest of World..... | 546.9 | 489.7 | 455.3 |
| | ----- | ----- | ----- |
| Total net sales..... | \$4,019.4 | \$4,095.9 | \$3,824.3 |
| | ===== | ===== | ===== |
| Income (loss) before income taxes: | | | |
| United States..... | \$ 385.2 | \$ 268.0 | \$ 159.9 |
| France..... | 280.7 | 274.6 | 293.0 |
| Other Europe..... | 64.6 | 216.5 | 214.4 |
| Rest of World..... | 62.1 | 44.2 | 63.4 |
| Corporate..... | (202.1) | (221.6) | (248.7) |
| | ----- | ----- | ----- |
| Total income (loss) before income taxes.... | \$ 590.5 | \$ 581.7 | \$ 482.0 |
| | ===== | ===== | ===== |
| Identifiable assets: | | | |
| United States..... | \$1,205.2 | \$1,025.2 | \$1,088.3 |
| France..... | 1,295.6 | 1,344.0 | 1,337.8 |
| Other Europe..... | 882.1 | 992.3 | 1,024.0 |

| | | | |
|--------------------------------|-----------|-----------|-----------|
| Rest of World..... | 405.9 | 362.5 | 334.6 |
| Corporate..... | 261.4 | 134.3 | 330.8 |
| | ----- | ----- | ----- |
| Total identifiable assets..... | \$4,050.2 | \$3,858.3 | \$4,115.5 |
| | ===== | ===== | ===== |

</TABLE>

Income before income taxes ("IBT") for the U.S. in 1993 includes income of \$68.0 million from litigation settlement proceeds and gains on asset sales net of restructuring charges. France IBT includes \$19.5 million of restructuring charges net of gains on asset sales in 1993 and \$69.4 million of gains on asset sales in 1991. Other Europe IBT includes restructuring charges net of gains on asset sales totaling \$30.2 million in 1993 and \$50.2 million in 1991.

NOTE 15. RELATED PARTY TRANSACTIONS

The entities comprising the Company manage their cash separately. In the largest countries such as the U.S., France, the U.K. and Germany, the local entities have access to RP cash pooling arrangements whereby they can, at their own request, lend to or borrow from RP at market terms and conditions.

Amounts receivable from RP and affiliates totaled \$35.8 million and \$55.0 million at December 31, 1993 and 1992, respectively. The 1993 balance includes \$11.3 million of accounts receivable from sales of products and services to RP (1992: \$10.8 million) and \$24.6 million classified as other current assets (1992: \$44.2 million).

Accounts payable related to purchase of materials and services from RP and affiliates were \$6.3 million at December 31, 1993 (1992: \$6.5 million); accrued and other liabilities due to RP at December 31, 1993 were \$12.9 million (1992: \$11.9 million). In 1993, sales to RP and affiliates were \$34.5 million; materials purchased from RP totaled \$44.4 million. In 1992, these amounts were \$37.2 million and \$53.1 million, respectively. In 1993, RP also compensated the Company \$1.7 million in cost of products sold related to the transfer of certain production activities.

RHONE-POULENC RORER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONCLUDED)

At December 31, 1993, debt with RP and affiliates totaled \$230.8 million (1992: \$134.0 million). Related interest expense for 1993 was \$24.9 million (1992: \$46.4 million). During 1993, the Company paid \$.6 million in debt guarantee fees to RP (1992: \$1.0 million).

RP charges the Company for expenses incurred on its behalf, including research, data processing, insurance, legal, tax, advertising, public relations and management fees. Such charges are reflected in the financial statements and amounted to approximately \$20.2 million in 1993 (1992: \$19.6 million). Management believes that the expenses so charged are representative of amounts that the Company would have incurred if it had been operated as an unaffiliated entity.

NOTE 16. CONTINGENCIES

The Company is involved in litigation incidental to its business including, but not limited to: (1) approximately 239 pending lawsuits in the United States, Canada and Ireland against the Company and its Armour Pharmaceutical Company subsidiary ("Armour"), in which it is claimed by individuals infected with the Human Immunodeficiency Virus ("HIV") that their infection with HIV and, in some cases, resulting illnesses, including Acquired Immune Deficiency Syndrome-related conditions or death therefrom, may have been caused by administration of antihemophilic factor ("AHF") concentrates processed by Armour in the early and mid-1980's. Armour has also been named as a defendant in three proposed class action lawsuits filed on behalf of HIV-infected hemophiliacs and their families. None of these cases involve Armour's currently distributed AHF concentrates; (2) legal actions pending against one or more subsidiaries of the Company and various groupings of more than one hundred pharmaceutical companies, in which it is generally alleged that certain individuals were injured as a result of the development of various reproductive tract abnormalities because of in utero exposure to diethylstilbestrol ("DES") (typically, two former operating subsidiaries of the Company are named as

defendants, along with numerous other DES manufacturers, when the claimant is unable to identify the manufacturer); (3) antitrust actions alleging that the Company engaged in price discrimination practices to the detriment of certain independent community pharmacists; (4) an alleged infringement by the Company of a process patent for the manufacture of bulk diltiazem, an ingredient in the Company's product Dilacor XR (R); these proceedings have been indefinitely suspended; and (5) potential responsibility relating to past waste disposal practices, including potential involvement, for which the Company believes its share of liability, if any, to be negligible, at two sites on the U.S. National Priority List created by Superfund legislation. In addition, the Company agreed to settle shareholder litigation for an amount which is fully accrued at December 31, 1993.

The eventual outcomes of the above matters of pending litigation can not be predicted with certainty. The defense of these matters and the defense of expected additional lawsuits related to these matters may require substantial legal defense expenditures. The Company follows Statement of Financial Accounting Standards No. 5 in determining whether to recognize losses and accrue liabilities relating to such matters. Accordingly, the Company recognizes a loss if available information indicates that a loss or range of losses is probable and reasonably estimable. The Company estimates such losses on the basis of current facts and circumstances, prior experience with similar matters, the number of claims and the anticipated cost of administering, defending and, in some cases, settling such claims. The Company has also recorded as an asset certain insurance recoveries which are determined to be probable of occurrence on the basis of the status of current discussions with its insurance carriers. If a contingent loss is not probable but is reasonably possible, the Company discloses this contingency in the notes to its consolidated financial statements if it is material. Based on the information available, the Company does not believe that reasonably possible uninsured losses in excess of amounts recorded for the above matters of litigation would have a material adverse impact on the Company's financial position or results of operations.

As of December 31, 1993 the Company had unused standby letters of credit outstanding of \$23.6 million. The letters of credit are issued primarily in the form of guarantees or performance bonds.

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RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Rhone-Poulenc Rorer Inc. is responsible for the information and representations contained in this report. Management believes that the financial statements have been prepared in conformity with generally accepted accounting principles and that the other information in this annual report is consistent with those statements. In preparing the financial statements, management is required to include amounts based on estimates and judgments which it believes are reasonable under the circumstances.

In fulfilling its responsibilities for the integrity of the data presented and to safeguard the Company's assets, management employs a system of internal accounting controls designed to provide reasonable assurance, at appropriate cost, that the Company's assets are protected and that transactions are appropriately authorized, recorded and summarized. This system of control is supported by the selection of qualified personnel, by organizational assignments that provide appropriate delegation of authority and division of responsibilities, and by the dissemination of written policies and procedures. This control structure is further reinforced by a program of internal audits including a policy that requires responsive action by management.

Coopers & Lybrand, the Company's independent accountants, performs audits in accordance with generally accepted auditing standards. The independent accountants conduct a review of internal accounting controls to the extent required by generally accepted auditing standards and perform such tests and procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements presented herein.

The Board of Directors, through the Audit Committee comprised solely of directors who are not employees of the Company, meets with management, the internal auditors and the independent accountants to ensure that each is properly discharging its respective responsibilities. Both the independent accountants and the internal auditors have free access to the Audit Committee,

without management present, to discuss the results of their work, including internal accounting controls and the quality of financial reporting. The Audit Committee met three times in 1993.

/s/ Robert E. Cawthorn
 Robert E. Cawthorn
 Chairman and
 Chief Executive Officer

/s/ Patrick Langlois
 Patrick Langlois
 Senior Vice President
 and Chief Financial Officer

/s/ Daniel J. Pedriani
 Daniel J. Pedriani
 Vice President and
 Corporate Controller

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of Rhone-Poulenc Rorer Inc.:

We have audited the accompanying consolidated balance sheets of Rhone-Poulenc Rorer Inc. and subsidiaries as of December 31, 1993 and 1992, and the related consolidated statements of income and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Rhone-Poulenc Rorer Inc. and subsidiaries as of December 31, 1993 and 1992, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 10 to the consolidated financial statements, the Company changed its method of accounting for income taxes in 1992.

/s/ COOPERS & LYBRAND
 Coopers & Lybrand
 Philadelphia, Pennsylvania
 January 26, 1994

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RHONE-POULENC RORER INC. AND SUBSIDIARIES
 QUARTERLY DATA (UNAUDITED)
 (DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA)

<TABLE>
 <CAPTION>

| | QUARTER ENDED 1993 | | | | QUARTER ENDED 1992 | | | |
|-------------------|--------------------|-----------|----------|-----------|--------------------|---------|-----------|-----------|
| | MARCH 31 | JUNE 30 | SEPT. 30 | DEC. 31 | MARCH 31 | JUNE 30 | SEPT. 30 | DEC. 31 |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
| Net sales..... | \$916.3 | \$1,008.1 | \$960.1 | \$1,134.9 | \$897.8 | \$971.1 | \$1,049.2 | \$1,177.8 |
| Gross profit..... | 607.5 | 681.7 | 637.5 | 766.4 | 585.9 | 639.1 | 688.6 | 787.7 |

| | | | | | | | | |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| Net income available to common shareholders.... | 94.2 | 119.6 | 71.0 | 123.9 | 83.7 | 86.7 | 90.6 | 167.2 |
| Earnings per common share..... | .68 | .87 | .51 | .90 | .61 | .63 | .66 | 1.21 |
| Market price per common share: | | | | | | | | |
| High..... | 48.000 | 54.000 | 48.875 | 48.500 | 69.375 | 59.750 | 59.250 | 50.750 |
| Low..... | 42.500 | 46.375 | 43.000 | 32.625 | 55.625 | 51.500 | 45.625 | 44.375 |
| Common dividends paid... | .22 | .24 | .26 | .28 | .14 | .16 | .18 | .20 |

</TABLE>

Results for 1993 include pretax income of \$105.0 million proceeds from litigation settlement in the second quarter. Results also includes \$77.2 million and \$16.6 million of restructuring and other charges recorded in the second and fourth quarters, respectively and a \$27.0 million pretax charge for acquired research and development expense in the third quarter. Gains from sales of product rights and certain investments totaled \$10.2 million, \$2.5 million, \$2.7 million and \$14.8 million in each of the four quarters, respectively.

Results for the first quarter of 1992 include a cumulative effect adjustment increasing earnings by \$15.0 million as a result of adoption of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," effective January 1, 1992. Results also include \$6.5 million and \$16.6 million of gains on sales of non-strategic assets in the 1992 third and fourth quarter, respectively.

Earnings per share amounts for each quarter are required to be computed independently and, therefore, the sum of the four quarters does not necessarily equal the amount computed for the total year.

Rhone-Poulenc Rorer Inc. (RPR) common shares are listed and traded on the New York and Paris Stock Exchanges, and are traded, unlisted, on the Philadelphia, Boston, Pacific and Midwest Stock Exchanges. On January 31, 1994, there were 7,336 holders of record of RPR common shares.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to the directors of the Company entitled, "Election of Directors," in the Company's Proxy Statement dated March 21, 1994 is incorporated herein by reference. For information relating to the executive officers of the Company, refer to "Executive Officers of the Company" on pages 10 through 11 of this report.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation immediately before "Certain Relationships and Related Transactions," of the Company's Proxy Statement dated March 21, 1994, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information relating to security ownership of certain beneficial owners and management entitled, "Ownership of Shares" immediately before "Control of the Company," of the Company's Proxy Statement dated March 21, 1994, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information entitled, "Certain Relationships and Related Transactions" in the Company's Proxy Statement dated March 21, 1994, is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report:

<TABLE>
<CAPTION>

| | PAGE IN THIS FORM 10-K ----- |
|--|------------------------------------|
| <C> <S> | <C> |
| 1. Consolidated financial statements: | |
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| Consolidated Statements of Cash Flows..... | 29 |
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| Valuation and Qualifying Accounts (Schedule VIII)..... | 57 |
| Short-Term Borrowings (Schedule IX)..... | 58 |
| Supplementary Income Statement Information (Schedule X).... | 59 |
| Schedules not listed above have been omitted because they are not applicable. | |
| 3. Exhibits: | |
| A complete listing of exhibits required is given in the Exhibit Index which precedes the exhibits filed with this Report. | |

</TABLE>

(b) No Current Reports on Form 8-K were filed during the fourth quarter.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED, THERETO DULY AUTHORIZED.

Rhone-Poulenc Rorer Inc.

March 8, 1994

By /s/ Robert E. Cawthorn

ROBERT E. CAWTHORN CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THIS REPORT HAS BEEN SIGNED BELOW BY THE FOLLOWING PERSONS ON BEHALF OF THE REGISTRANT AND IN THE CAPACITIES AND ON THE DATES INDICATED.

| NAME | TITLE | DATE |
|---|--|---------------|
| /s/ Robert E. Cawthorn ----- ROBERT E. CAWTHORN | Chairman, Chief Executive Officer and Director | March 8, 1994 |
| /s/ Patrick Langlois ----- PATRICK LANGLOIS | Senior Vice President and Chief | March 8, 1994 |

/s/ Daniel J. Pedriani

 DANIEL J. PEDRIANI Vice President-- March 8, 1994
 Corporate
 Controller (Chief
 Accounting Officer)

Jean-Jacques Bertrand*

 JEAN-JACQUES BERTRAND Director March 8, 1994

Jean-Marc Bruel*

 JEAN-MARC BRUEL Director March 8, 1994

Michel de Rosen*

 MICHEL DE ROSEN Director President March 8, 1994
 and Chief Operating
 Officer

Charles-Henri Filippi*

 CHARLES-HENRI FILIPPI Director March 8, 1994

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NAME

TITLE

DATE

Claude Helene*

 CLAUDE HELENE Director March 8, 1994

Michael H. Jordan*

 MICHAEL H. JORDAN Director March 8, 1994

Manfred E. Karobath, MD*

 MANFRED E. KAROBATH, MD Director, Senior March 8, 1994
 Vice President,
 Research and
 Development

Igor Landau*

 IGOR LANDAU Director March 8, 1994

Peter J. Neff*

 PETER J. NEFF Director March 8, 1994

James S. Riepe*

 JAMES S. RIEPE Director March 8, 1994

Edward J. Stemmler, MD*

 EDWARD J. STEMMLER, MD Director March 8, 1994

Jean-Pierre Tirouflet*

 JEAN-PIERRE TIROUFLET Director March 8, 1994

* By his signature set forth below, John B. Bartlett, pursuant to duly authorized powers of attorney filed with the Securities and Exchange Commission, has signed this report on behalf of the persons whose signatures are printed above, in the capacities set forth opposite their respective names.

/s/ John B. Bartlett

 General Counsel, March 8, 1994
 (Attorney-in-fact)

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of Rhone-Poulenc Rorer Inc.:

Our report on the consolidated financial statements of Rhone-Poulenc Rorer Inc. and subsidiaries is included on page 45 of this Form 10-K. In connection with our audits of the financial statements, we have also audited the related financial statement schedules listed in the index on page 48 this Form 10-K.

In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

/s/ Coopers & Lybrand

COOPERS & LYBRAND

Philadelphia, Pennsylvania
January 26, 1994

SCHEDULE II

RHONE-POULENC RORER INC. AND SUBSIDIARIES
AMOUNTS RECEIVABLE FROM RELATED PARTIES
AND UNDERWRITERS, PROMOTERS, AND EMPLOYEES
OTHER THAN RELATED PARTIES
FOR THE YEARS 1993, 1992 AND 1991
(DOLLARS IN MILLIONS)

<TABLE>
<CAPTION>

| NAME OF DEBTOR | BALANCE AT BEGINNING OF PERIOD | ADDITIONS | DEDUCTIONS | | BALANCE AT END OF PERIOD | |
|------------------------|--------------------------------------|-----------|----------------------|------------------------|-----------------------------|----------------|
| | | | AMOUNTS COLLECTED | AMOUNTS WRITTEN OFF | CURRENT | NOT CURRENT |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| 1993: | | | | | | |
| Rhone-Poulenc, S.A.... | \$ 55.0 | 34.5 | 53.7 | -- | \$ 35.8 | \$-- |
| 1992: | | | | | | |
| Rhone-Poulenc, S.A.... | \$107.5 | 37.2 | 89.7 | -- | \$ 55.0 | \$-- |
| 1991: | | | | | | |
| Rhone-Poulenc, S.A.... | \$ 93.2 | 53.5 | 39.2 | -- | \$107.5 | \$-- |

</TABLE>

SCHEDULE IV

RHONE-POULENC RORER INC. AND SUBSIDIARIES
INDEBTEDNESS TO RELATED PARTIES--NOT CURRENT
FOR THE YEARS 1993, 1992 AND 1991
(DOLLARS IN MILLIONS)

<TABLE>
<CAPTION>

| NAME OF PERSON | INDEBTEDNESS OF | | | | INDEBTEDNESS TO | | | |
|----------------|--------------------------------------|-----------|------------|--------------------------------|--------------------------------------|-----------|------------|--------------------------------|
| | BALANCE AT BEGINNING OF PERIOD | ADDITIONS | DEDUCTIONS | BALANCE AT END OF PERIOD | BALANCE AT BEGINNING OF PERIOD | ADDITIONS | DEDUCTIONS | BALANCE AT END OF PERIOD |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |

| <S> | <C> | <C> | <C> | <C> | <C> | <C> | <C> | <C> |
|------------------------|-----|-----|-----|-----|---------|------|-------------|--------------|
| 1993: | | | | | | | | |
| Rhone-Poulenc, S.A.... | -- | -- | -- | -- | \$ 34.0 | -- | 4.4 | \$29.6 (/1/) |
| 1992: | | | | | | | | |
| Rhone-Poulenc, S.A.... | -- | -- | -- | -- | \$ 41.3 | 21.6 | 28.9 (/2/) | \$34.0 (/3/) |
| 1991: | | | | | | | | |
| Rhone-Poulenc, S.A.... | -- | -- | -- | -- | \$495.0 | -- | 453.7 (/4/) | \$41.3 (/5/) |

- </TABLE>
-
- (1) The \$29.6 million is denominated in British pounds at a variable interest rate of 6.0%.
 - (2) Of the \$28.9 million, approximately \$18.5 million represents transfers to current.
 - (3) Of the \$34.0 million, \$30.4 million is denominated in British pounds at a variable interest rate of 7.8%.
 - (4) Of the \$453.7 million, approximately \$151.0 million represents transfers to current.
 - (5) Of the \$41.3 million, \$37.4 million is denominated in British pounds at a variable interest rate of 12.2%.

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SCHEDULE V

RHONE-POULENC RORER INC. AND SUBSIDIARIES
PROPERTY, PLANT AND EQUIPMENT FOR THE YEARS 1993, 1992 AND 1991
(DOLLARS IN MILLIONS)

<TABLE>
<CAPTION>

| CLASSIFICATION | BALANCE AT BEGINNING OF PERIOD | ADDITIONS AT COST (/1/) | RETIREMENTS | OTHER CHANGES (/2/) | BALANCE AT END OF PERIOD |
|------------------------------------|--------------------------------------|----------------------------|---------------|------------------------|--------------------------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> | <C> |
| 1993: | | | | | |
| Land..... | \$ 57.3 | \$.1 | \$.1 | \$.7 | \$ 58.0 |
| Buildings..... | 521.6 | 5.0 | 4.9 | 47.0 | 568.7 |
| Machinery & equipment. | 1,132.9 | 20.3 | 34.4 | 78.4 | 1,197.2 |
| Construction in pro- gress..... | 144.1 | 210.5 | -- | (219.9) | 134.7 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$1,855.9 | \$ 235.9 | \$ 39.4 | \$ (93.8) | \$1,958.6 |
| | ===== | ===== | ===== | ===== | ===== |
| 1992: | | | | | |
| Land..... | \$ 50.9 | \$ 9.1 | \$.3 | \$ (2.4) | \$ 57.3 |
| Buildings..... | 530.7 | 283.5 | 263.2 | (29.4) | 521.6 |
| Machinery & equipment. | 1,125.6 | 159.4 | 64.7 | (87.4) | 1,132.9 |
| Construction in pro- gress..... | 320.6 | (167.7) | .6 | (8.2) | 144.1 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$2,027.8 | \$ 284.3 (/3/) | \$328.8 (/4/) | \$ (127.4) | \$1,855.9 |
| | ===== | ===== | ===== | ===== | ===== |
| 1991: | | | | | |
| Land..... | \$ 61.9 | \$ 3.8 | \$ 6.1 | \$ (8.7) | \$ 50.9 |
| Buildings..... | 569.0 | 36.8 | 67.3 | (7.8) | 530.7 |
| Machinery & equipment. | 1,093.6 | 124.3 | 81.8 | (10.5) | 1,125.6 |
| Construction in pro- gress..... | 206.2 | 118.8 | 3.5 | (.9) | 320.6 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$1,930.7 | \$ 283.7 (/3/) | \$158.7 | \$ (27.9) | \$2,027.8 |
| | ===== | ===== | ===== | ===== | ===== |

</TABLE>

-
- (1) Additions reflect normal expenditures for expansion, replacement and modernization of the Company's facilities, and property, plant and equipment obtained through acquisition.
 - (2) Includes reclassifications among property, plant and equipment accounts and the effect of foreign currency rate changes.
 - (3) Includes approximately \$63 million and \$102 million in 1992 and 1991, respectively, related to new U.S. corporate offices, research center and site in Montgomery County, Pa.
 - (4) Includes approximately \$258 million related to the sale of the new U.S.

SCHEDULE VI

RHONE-POULENC RORER INC. AND SUBSIDIARIES
 ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT
 FOR THE YEARS 1993, 1992 AND 1991
 (DOLLARS IN MILLIONS)

<TABLE>
 <CAPTION>

| CLASSIFICATION | BALANCE AT BEGINNING OF PERIOD | ADDITIONS CHARGED TO COSTS AND EXPENSES (/1/) | RETIREMENTS | OTHER changes (/2/) | BALANCE AT END OF PERIOD |
|------------------------|--------------------------------------|--|-------------|------------------------|--------------------------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> | <C> |
| 1993: | | | | | |
| Buildings..... | \$214.8 | \$ 32.3 | \$ 3.1 | \$ (11.6) | \$232.4 |
| Machinery & equipment. | 666.6 | 93.7 | 29.8 | (36.3) | 694.2 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$881.4 | \$126.0 | \$ 32.9 | \$ (47.9) | \$926.6 |
| | ===== | ===== | ===== | ===== | ===== |
| 1992: | | | | | |
| Buildings..... | \$202.4 | \$ 35.6 | \$ 11.8 | \$ (11.4) | \$214.8 |
| Machinery & equipment. | 652.8 | 117.9 | 53.1 | (51.0) | 666.6 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$855.2 | \$153.5 | \$ 64.9 | \$ (62.4) | \$881.4 |
| | ===== | ===== | ===== | ===== | ===== |
| 1991: | | | | | |
| Buildings..... | \$185.9 | \$ 33.5 | \$ 28.4 | \$ 11.4 | \$202.4 |
| Machinery & equipment. | 615.7 | 112.4 | 57.4 | (17.9) | 652.8 |
| | ----- | ----- | ----- | ----- | ----- |
| | \$801.6 | \$145.9 | \$ 85.8 | \$ (6.5) | \$855.2 |
| | ===== | ===== | ===== | ===== | ===== |

</TABLE>

-
- (1) Depreciation has been computed principally on the straight-line method for buildings and machinery and equipment at rates ranging from 2% to 20% and 5% to 50% per annum, respectively.
 - (2) Includes reclassifications among property, plant and equipment accumulated depreciation accounts and the effect of foreign currency rate changes.

SCHEDULE VII

RHONE-POULENC RORER INC. AND SUBSIDIARIES
 GUARANTEES OF SECURITIES OF OTHER ISSUERS
 FOR THE YEARS 1993, 1992 AND 1991
 (DOLLARS IN MILLIONS)

<TABLE>
 <CAPTION>

| NAME OF ISSUER OF SECURITIES GUARANTEED | TITLE OF ISSUE OF SECURITIES GUARANTEED | TOTAL AMOUNT GUARANTEED AND OUTSTANDING | NATURE OF GUARANTEE |
|---|---|---|------------------------|
| ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> |
| 1993: | | | |
| Immune Response Corporation (/1/) | Operating lease through October 2000 | \$1.0 | Lease rentals |
| 1992: | | | |
| Immune Response Corporation (/1/) | Operating lease through October 2000 | \$1.2 | Lease rentals |
| 1991: | | | |
| Immune Response Corporation (/1/) | Operating lease through October 2000 | \$1.3 | Lease rentals |

</TABLE>

(1) The Company's stock investment in Immune Response Corporation which is accounted for at cost totaled 8.9% at December 31, 1993 and 1992 and 9.6% at December 31, 1991.

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SCHEDULE VIII

RHONE-POULENC RORER INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS 1993, 1992 AND 1991
(DOLLARS IN MILLIONS)

<TABLE>
<CAPTION>

| DESCRIPTION | BALANCE AT BEGINNING OF PERIOD | ADDITIONS CHARGED TO COSTS AND EXPENSES | DEDUCTIONS (/1/) | BALANCE AT END OF PERIOD |
|--------------------------------------|--------------------------------------|---|------------------|-----------------------------|
| <S> | <C> | <C> | <C> | <C> |
| Year ended December 31, 1993 | | | | |
| Accounts receivable reserves..... | \$66.6 | 129.7 | 128.0 | \$68.3 |
| Year ended December 31, 1992 | | | | |
| Accounts receivable reserves..... | \$56.6 | 104.1 | 94.1 | \$66.6 |
| Year ended December 31, 1991 | | | | |
| Accounts receivable reserves..... | \$42.3 | 103.9 | 89.6 | \$56.6 |

</TABLE>

(1) Accounts charged off, net of recoveries and the effect of foreign currency rate changes.

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SCHEDULE IX

RHONE-POULENC RORER INC. AND SUBSIDIARIES
SHORT-TERM BORROWINGS
FOR THE YEARS 1993, 1992 AND 1991
(DOLLARS IN MILLIONS)

<TABLE>
<CAPTION>

| CATEGORY OF AGGREGATE SHORT-TERM BORROWINGS | BALANCE AT END OF PERIOD | WEIGHTED AVERAGE INTEREST RATE | MAXIMUM AMOUNT OUTSTANDING DURING THE PERIOD (/1/) | AVERAGE AMOUNT OUTSTANDING DURING THE PERIOD (/2/) | WEIGHTED AVERAGE INTEREST RATE DURING THE PERIOD (/3/) |
|--|--------------------------------|---|--|--|--|
| <S> | <C> | <C> | <C> | <C> | <C> |
| 1993: | | | | | |
| Bank loans (/4/) | \$287.9 | 6.5% | \$546.1 | \$349.5 | 7.5% |
| 1992: | | | | | |
| Bank loans (/4/) | \$228.5 | 8.3% | \$928.0 | \$631.7 | 9.3% |
| 1991: | | | | | |
| Bank loans (/4/) | \$519.2 | 10.8% | \$920.5 | \$808.4 | 10.5% |

</TABLE>

- (1) At the end of any month.
(2) Month-end average.
(3) Calculated by relating appropriate interest expense to average aggregate borrowings.
(4) Includes bank loans and short-term notes payable to Rhone-Poulenc S.A.

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SCHEDULE X

RHONE-POULENC RORER INC. AND SUBSIDIARIES
 SUPPLEMENTARY INCOME STATEMENT INFORMATION
 FOR THE YEARS 1993, 1992 AND 1991
 (DOLLARS IN MILLIONS)

| <TABLE> <CAPTION> | COLUMN A | COLUMN B | | |
|--|----------|-------------------------------|---------|-------|
| ITEM | ----- | ----- | | |
| ----- | ----- | CHARGED TO COSTS AND EXPENSES | | |
| ----- | ----- | YEARS ENDED DECEMBER 31 | | |
| ----- | ----- | 1993 | 1992 | 1991 |
| ----- | ----- | ----- | ----- | ----- |
| <S> | <C> | <C> | <C> | <C> |
| Repairs & maintenance..... | \$ 57.6 | \$ 37.8 | \$ 39.3 | |
| Amortization of intangible assets..... | 41.9 | 44.2 | 43.1 | |
| Advertising..... | 177.0 | 191.6 | 138.9 | |
| Royalties..... | 47.5 | 34.5 | 36.8 | |

EXHIBIT INDEX

- (3) a. The By-laws of the Company are incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1990.
- b. The Amended and Restated Articles of Incorporation of the Company as of January 31, 1992.
- c. Articles of Amendment dated July 16, 1993 to The Amended and Restated Articles of Incorporation of the Company as of January 31, 1992.
- (4) a. \$1,600,000,000 Revolving Credit Facility Agreement dated April 30, 1990 is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1991.
- b. Deposit Agreement dated July 19, 1993 among Rhone-Poulenc Rorer Inc., Bankers Trust Company as Depositary, and the holders from time to time of the Depositary Receipts is incorporated herein by reference to the Company's Current Report on Form 8-K dated July 12, 1993.
- (10) Material Contracts.
 - a. Form of Lease Agreement among the Company, Rhone-Poulenc Rorer Pharmaceuticals Inc. and the Owner Trustee is incorporated herein by reference to Exhibit 4.2.2 of the Company's Registration Statement No. 33-53378 on Form S-3, filed with the Securities and Exchange Commission on October 16, 1992.
 - b. Armour Pharmaceutical Company Pension Program Amended and Restated effective January 1, 1989 is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1991.
 - c. Pension Plan of Rhone-Poulenc Rorer Inc. Amended and Restated effective January 1, 1989 is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1991.

- d.
Rhone-Poulenc Rorer Pharmaceuticals Inc. Fort Washington Hourly Employees' Pension Plan effective January 1, 1990 is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1991.
- e.
Rhone-Poulenc Rorer Employee Savings Plan as Amended and Restated effective January 1, 1992 is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1991.
- f.
Amendment 1992-1 to the Rhone-Poulenc Rorer Employee Savings Plan as Amended and Restated effective January 1, 1992 is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.
- g.
Amendment 1993-1 dated September 1, 1993 to the Rhone-Poulenc Rorer Employee Savings Plan as Amended and Restated effective January 1, 1992.
- h.
The Rorer Group Inc. Stock Plan, adopted April 23, 1985, is incorporated herein by reference to the Registration Statement on Form S-8 (No. 33-2403) dated December 23, 1985.
- i.
The Rhone-Poulenc Rorer Inc. Amended and Restated Stock Plan, adopted March 12, 1990, is incorporated herein by reference to the Company's Proxy Statement dated June 29, 1990, filed in connection with the July 31, 1990 Annual Meeting of Shareholders.
- j.
The Rhone-Poulenc Rorer Inc. Equity Compensation Plan is incorporated herein by reference to the Company's Proxy Statement dated June 29, 1990, filed in connection with the July 31, 1990 Annual Meeting of Shareholders.
- k.
The Rorer Group Inc. Incentive Stock Option Plan, adopted April 27, 1982, is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.
- l.
Amendment to the Rhone-Poulenc Rorer Inc. Incentive Stock Option Plan, effective March 11, 1990, is incorporated herein by reference to the Form 8, Amendment No. 1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.
- m.
The Rorer Group Inc. Non-Qualified Stock Option Plan, adopted April 24, 1973, is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.
- n.
The Rhone-Poulenc Rorer Inc. Annual Performance Incentive Plan is incorporated herein by reference to the Form 8, Amendment No. 1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.
- o.
The Rhone-Poulenc Rorer Inc. Retirement Plan for Outside Directors, adopted January 1, 1988, is incorporated herein by reference to the Form 8, Amendment No. 1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.
- p.
The Rhone-Poulenc Rorer Inc. Supplemental Executive Retirement Plan, adopted January 1, 1988, is incorporated herein by reference to the

Form 8, Amendment No. 1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.

q.

The Rhone-Poulenc Rorer Inc. Director Deferred Compensation Plan, effective March 1, 1987, is incorporated herein by reference to the Form 8, Amendment No. 1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.

r.

Acquisition Agreement, dated as of March 12, 1990, between Rorer Group Inc. and Rhone-Poulenc S.A., is incorporated herein by reference to the Company's Current Report on Form 8-K dated March 12, 1990.

s.

Employment agreement with Robert E. Cawthorn, dated March 12, 1990, is incorporated herein by reference to the Company's Current Report on Form 8-K, dated March 12, 1990.

t.

Employment agreement with Manfred Karobath, dated January 27, 1992, is incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.

u.

The Indemnification Agreements between Rorer Group Inc. and Indemnified Representatives effective July 1, 1987, are incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1987.

v.

Supplemental Benefit and Deferred Compensation Trust Agreement, dated May 10, 1988, between Rorer Group Inc. and Philadelphia National Bank, as Trustee, is incorporated herein by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.

(11)

Statement re: Computation of Earnings per Share.

(12)

Statement re: Computation of Ratios.

(21)

Subsidiaries of the Registrant.

(23)

Consent of Independent Accountants.

(24)

Powers of Attorney.

X

----- The amendment shall be effective upon filing these Articles of Amendment in the Department of State.

----- The amendment shall be effective on: _____ at _____
Date Hour

6. (Check one of the following):

X

----- The amendment was adopted by the shareholders (or members) pursuant to 15 Pa.C.S. Section 1914(a) and (b).

----- The amendment was adopted by the board of directors pursuant to 15 Pa.C.S. Section 1914(c).

7. (Check, and if appropriate complete, one of the following):

X

----- The amendment adopted by the corporation, set forth in full, is as follows:

RESOLVED, that the proposed amendments to the Articles of Incorporation of the Company be and they are hereby adopted and that the Articles of Incorporation, as so amended, be and they are hereby restated to read in full as set forth in Exhibit A attached hereto and made a part hereof.

----- The amendment adopted by the corporation as set forth in full in Exhibit A is attached hereto and made a part hereof.

DSCS:15-1915 (REV 90)-2

8. (Check if the amendment restates the Articles):

X

----- The restated Articles of Incorporation supersede the original Articles and all amendments thereto.

IN TESTIMONY WHEREOF, the undersigned corporation has caused these Articles of Amendment to be signed by a duly authorized officer thereof this 31st day of January, 1992.

---- ----- --

RHONE-POULENC RORER INC.

BY: /s/ John D. Bartlett

(Signature)

TITLE: Senior Vice President, Secretary

and General Counsel

Exhibit A

RHONE-POULENC RORER INC.

AMENDED AND RESTATED ARTICLES OF INCORPORATION

FIRST: The name of the Corporation is Rhone-Poulenc Rorer Inc.

SECOND: The location and post office address of its registered office in the Commonwealth of Pennsylvania is 500 Virginia Drive, Fort Washington, Montgomery County, Pennsylvania.

THIRD: The purpose or purposes for which the Corporation is incorporated under the Business Corporation Law or the Commonwealth of Pennsylvania are to engage in, and do any lawful act concerning, any or all lawful business for which corporations may be incorporated under said Business Corporation Law, including but not limited to manufacturing, processing, research and development.

FOURTH: The term for which it is to exist is perpetual.

FIFTH: The authorized Capital Stock of the corporation shall be 203,000,000 shares, to be divided into two classes consisting of (a) 3,000,000 Preferred Shares, without par value, and (b) 200,000,000 Common Shares, without par value. The following shares shall be uncertificated shares: all previously issued shares of the Corporation owned by it and those Common Shares that may be issued under the Rhone-Poulenc Rorer Inc. Amended and Restated Stock Plan or the Rhone-Poulenc Rorer Inc. Equity Compensation Plan and are subject to any restrictions under either of such plans.

The Board of Directors shall have the power, by resolution, to issue from time to time, in whole or in part, the kinds and classes of shares herein authorized.

The following is a statement of the voting rights, designations, preferences, limitations and other special rights in respect of the shares of

each class.

DIVISION ONE -- PREFERRED SHARES

PART A - GENERAL TERMS

1. Issuance of Preferred Shares in Series. The Board of Directors is

hereby authorized by resolution to divide into and issue the Preferred Shares in series, and to fix the voting

rights, preferences, limitations and special rights of any such series.

Except as may be provided by the resolution establishing and designating such series, the Board of Directors is hereby further authorized by resolution to increase or decrease the authorized number of shares of each series (but not below the number of shares thereof then outstanding).

2. Dividends. The holders of each series of Preferred Shares shall be

entitled to receive, when and as declared by the Board of Directors, out of any funds legally available for the purpose under 15 Pa.C.S. (S) 1551 (relating to distributions to shareholders) or any superseding provision of law subject to any additional limitations in the express terms of the series, cash dividends at the rate or rates and on the terms which shall have been fixed by or pursuant to the authority of the Board of Directors with respect to such series and no more, payable quarterly or at such other time or times as may be fixed by or pursuant to the authority of the Board of Directors. If and to the extent provided by the express terms of any series of Preferred Shares, the holders of the series shall be entitled to receive such other dividends as may be declared by the Board of Directors.

The dividend rate of a series of the Preferred Shares may vary from time to time dependent upon facts ascertainable outside of these articles of incorporation if the manner in which the facts will operate to fix or change the dividend rate is set forth in the express terms of the series or upon terms incorporated by reference to an existing agreement between the Corporation and one or more other parties or to another document of independent significance and the dividend payment dates of a series having auction or other variable dividend rates may vary from time to time as provided by or pursuant to the express terms of the series.

3. Liquidation of the Corporation. In the event of voluntary or

involuntary liquidation of the Corporation, the holders of Preferred Shares shall be entitled to receive from the assets of the Corporation (whether capital or surplus), prior to any payment to the holders of Common Shares or of any other class of stock of the Corporation ranking as to assets subordinate to the Preferred Shares, the amount per share which shall have been fixed and determined by the Board of Directors with respect thereto, plus the accrued and unpaid dividends thereon computed to the date on which payment thereof is made

available, whether or not earned or declared.

4. Conversion Privileges. In the event any series of the Preferred

Shares is issued with the privilege of

-2-

conversion, such stock may be converted, at the option of the record holder thereof, at any time or from time to time, as determined by the Board of Directors, in the manner and upon the terms and conditions stated in the resolution establishing and designating the series and fixing and determining the relative rights and preferences thereof.

5. Redemption. The Corporation, at its option to be exercised by its

Board of Directors, may redeem the whole or any part of the Preferred Shares or of any series thereof at such time or times as may be fixed by the Board, at the applicable price for each share, and upon the terms and conditions which shall have been fixed and determined by the Board with respect thereto.

6. Voting Rights. Each holder of record of Preferred Shares shall have

full, limited, multiple, fractional, conditional or no voting rights as shall be stated in the resolution or resolutions of the Board of Directors providing for the issue of such shares. Unless provided in such resolution or resolutions, no holder of Preferred Shares shall have cumulative voting rights.

PART B - DESIGNATION AND STATEMENT OF THE VOTING RIGHTS, PREFERENCES, LIMITATIONS AND SPECIAL RIGHTS OF THE MARKET AUCTION PREFERRED SHARES, SERIES A THROUGH D

1. Designation; Amount and Series. The four Series of Preferred Shares

authorized in this Part B are 300,000 shares designated as "Market Auction Preferred Shares" (referred to as the "Auction Preferred" or the "Preferred Stock") issuable in the following Series: 75,000 shares designated "Market Auction Preferred Shares, Series A" (the "Series A Auction Preferred"), 75,000 shares designated "Market Auction Preferred Shares, Series B" (the "Series B Auction Preferred"), 75,000 shares designated "Market Auction Preferred Shares, Series C" (the "Series C Auction Preferred") and 75,000 shares designated "Market Auction Preferred Shares, Series D" (the "Series D Auction Preferred"). The shares of each Series of Auction Preferred will be sold in units (each a "Unit") of 100 shares per Unit, which number of shares per Unit may be adjusted from time to time under certain circumstances by the Corporation pursuant to the terms hereof. Each share of each separate Series of Auction Preferred shall be identical and equal in all aspects to every other share of such Series, and the shares of all of the Series shall, except as expressly provided in this Part B be identical and equal in all respects.

2. Definitions. Any references to Sections or subsections that are

made in this Part B shall be to Sections

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or subsections contained in this Part B. Unless the context or use indicates another or different meaning or intent, the following terms shall have the following meanings when used in this Part B, whether used in the singular or plural:

"Act" means the Securities Act of 1933, as amended.

"Additional Directors" has the meaning specified in Section 5(b) below.

"Affiliate" means any Person controlled by, in control of, or under

common control with, the Corporation.

"Applicable 'AA' Composite Commercial Paper Rate" means, on any date,

in the case of any Standard Dividend Period or Short Dividend Period of (1) 49 days or more but less than 70 days, the interest equivalent of the 60-day rate, (2) 70 days or more but less than 85 days, the arithmetic average of the interest equivalent of the 60-day and 90-day rates, (3) 85 days or more but less than 120 days, the interest equivalent of the 90-day rate, (4) 120 days or more but less than 148 days, the arithmetic average of the interest equivalent of the 90-day and 180-day rates, (5) 148 days or more but less than 184 days, the interest equivalent of the 180-day rate, in each case, on commercial paper placed on behalf of issuers whose corporate bonds are rated "Aa" by Moody's or "AA" by Standard & Poor's, or the equivalent of such rating by another rating agency, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date. In the event that the Federal Reserve Bank of New York does not make available any of the foregoing rates, then such rates shall be the 60-day rate or the arithmetic average of such rates, as the case may be, as quoted on a discount basis or otherwise, by the Commercial Paper Dealers to the Auction Agent as of the close of business on the Business Day next preceding such date. If any Commercial Paper Dealer does not quote a rate required to determine the Applicable "AA" Composite Commercial Paper Rate, the Applicable "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers (if any) and any Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers selected by the Corporation to provide such rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or, if the Company does not select any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers. For purposes of this definition, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security.

"Applicable Determining Rate" means (i) for any Standard Dividend Period

or Short-Dividend Period of 183 days or less, the Applicable "AA" Composite Commercial Paper Rate, (ii) for any Short Dividend Period of 184 to 364 days, the Applicable Treasury Bill Rate and (iii) for any Long Dividend Period, the Applicable Treasury Note Rate.

"Applicable Rate" means the rate per annum at which dividends are

payable on a Series for any Dividend Period for such Series established pursuant to Section 3(c) below.

"Applicable Treasury Bill Rate" for any Short Dividend Period in excess

of 183 days and "Applicable Treasury Note Rate" for any Long Dividend Period, on

any date, with respect to any Series of Auction Preferred, means the interest equivalent of the rate for direct obligations of the United States Treasury having an original maturity which is equal to, or next lower than, the length of such Short Dividend Period or Long Dividend Period, as the case may be, as published weekly by the Federal Reserve Board in "Federal Reserve Statistical Release H.15 (519)--Selected Interest Rates," or any successor publication by the Federal Reserve Board, within five Business Days preceding such date. In the event that the Federal Reserve Board does not publish weekly such per annum interest rate, or if such release is not available, the Applicable Treasury Bill Rate or Applicable Treasury Note Rate shall be the arithmetic mean of the secondary market bid rates as of approximately 3:30 p.m., New York City time, on the Business Day next preceding such date of the U.S. Government Securities Dealers furnished to the Auction Agent for the issue of direct obligations of the United States Treasury, in an aggregate principal amount of at least \$1,000,000, with a remaining maturity equal to, or next lower than, the length of such Short Dividend Period or Long Dividend Period, as the case may be. If any U.S. Government Securities Dealer does not quote a rate required to determine the Applicable Treasury Bill Rate or the Applicable Treasury Note Rate, as the case may be, such rate shall be determined on the basis of the quotation or quotations furnished by the remaining U.S. Government Securities Dealer or Dealers (if any) or any Substitute U.S. Government Securities Dealer or Dealers selected by the Corporation to provide such rate or rates not being supplied by any U.S. Government Securities Dealer or Dealers, as the case may be, or, if the Corporation does not select any such Substitute U.S. Government Securities Dealer or Dealers, by the remaining U.S. Government Securities Dealer or Dealers; provided that, in the event the Corporation is unable to cause such

quotations to be furnished to the Auction Agent by such sources, the Corporation may cause the Applicable Treasury Bill Rate or the Applicable Treasury Note Rate, as the case may be, to be furnished to the Auction Agent by such alternative source or sources as the Corporation in good faith deems to be reliable. For purposes of this

definition, the "interest equivalent" of a rate stated on a discount basis shall be equal to the quotient of (A) the discount rate divided by (B) the difference between 1.00 and the discount rate.

"Auction" means each periodic operation of the Auction Procedures.

"Auction Agent" means Bankers Trust Company, unless or until another

bank or trust company has been appointed as such by a resolution of the Board of Directors of the Corporation.

"Auction Agreement" has the meaning set forth in Section 7 below.

"Auction Date" means the first Business Day preceding the first day of

Dividend Period other than the initial Dividend Periods.

"Auction Preferred" or "Preferred Stock" means all of the Series.

"Auction Procedures" means the procedures for conducting Auctions set

forth in Section 9 below.

"Board of Directors" means the Board of Directors of the Corporation or

any duly authorized committee of the Board of Directors acting on behalf thereof.

"Business Day" means a day on which the New York Stock Exchange is open

for trading and which is not a day on which banks in The City of New York are authorized or obliged by law to close.

"Capital Stock" means, with respect to any Person, any and all shares,

interests, participations or other equivalents (however designated) of such Person's capital stock, whether outstanding on the Date of Original Issue or thereafter.

"Charter Default" has the meaning set forth in Section 6(b) below.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commercial Paper Dealers" means Morgan Stanley, First Boston and

Lehman Brothers or, in lieu of any thereof, their respective affiliates or
successors.

"Common Stock" means all shares now or hereafter issued of the class of

common stock of the Corporation

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presently authorized and any other shares of stock into which such stock may
hereinafter be changed from time to time.

"Corporation" means Rhone-Poulenc Rorer Inc., a Pennsylvania

corporation, or its successor.

"Date of Original Issue", with respect to any share of Auction

Preferred, means the date on which the Corporation originally issued such share
of Auction Preferred.

"Default Period" has the meaning set forth in Section 5(b) below.

"Default Rate" means the higher of the Maximum Applicable Rate obtained

by multiplying the Applicable Determining Rate, determined as of the Business
Day next preceding the date of the Failure to Deposit that, pursuant to Section
3(c)(i)(B), caused the application of such Default Rate, by the percentage (as
it may be adjusted from time to time) for the lowest credit rating category
applicable to the Auction Preferred, and (i) if the Corporation has failed
timely to pay dividends, the dividend rate in effect for the Dividend Period in
respect of which such Failure to Deposit occurred, or (ii) if the Corporation
has failed timely to pay the redemption price (including accumulated and unpaid
dividends) of shares of any Series called for redemption, the dividend rate in
effect on the applicable Redemption Date, provided that, if a Failure to Deposit

occurs in the event that a Mandatory Redemption is required due to a Charter
Default, the Default Rate for each Series shall be 15% for each Dividend Period
commencing after the Initial Dividend Period for such Series.

"Dividend Payment Date" has the meaning set forth in Section 3(b)(vi)

below.

"Dividend Period" has the meaning set forth in Section 3(b)(vii) below.

"Dividend Period Days" has the meaning set forth in Section 3(b)(v)

below.

"Dividends - Received Deduction" or "DRD" has the meaning set forth in

Section 3(b)(v) below.

"Downgrade" has the meaning set forth in Section 6(b) below.

"Existing Holder" means a Person who has signed a Purchaser's Letter

and is listed as the beneficial owner of Units of Auction Preferred in the records of the Auction Agent or, if there is no Securities Depository, in the Stock Books.

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"Failure to Deposit" means, with respect to any Series of Auction

Preferred, the failure by the Corporation to irrevocably deposit with the Paying Agent by noon on the Business Day immediately preceding a Dividend Payment Date or Redemption Date sufficient next-day funds for the payment of the dividends (whether or not earned or declared) or the full redemption price (including accumulated and unpaid dividends), as the case may be, to be paid on such Dividend Payment Date or Redemption Date and to give the Paying Agent irrevocable instructions to apply such funds and, if applicable, the income and proceeds therefrom, to the payment of such dividends or redemption price on such Dividend Payment Date or Redemption Date.

"Federal Reserve Board" means the Board of Governors of the Federal

Reserve System.

"First Boston" means The First Boston Corporation.

"Holder" means the holder of shares of the Auction Preferred as the

same appears on the Stock Books.

"Initial Dividend Payment Date" has the meaning set forth in Section

3(b)(vii) below.

"Junior Capital Stock" means, with respect to the Corporation, any and

all Capital Stock of the Corporation, ranking junior to the Auction Preferred with respect to the payment of dividends or the distribution of assets upon liquidation.

"Lehman Brothers" means Lehman Brothers, a Division of Shearson Lehman

Brothers Inc.

"Long Dividend Period" has the meaning set forth in Section 3(b) (vii)

below.

"Mandatory Redemption" has the meaning set forth in Section 6(b) below.

"Maximum Applicable Rate", on any Auction Date, shall mean the rate

obtained by multiplying the Applicable Determining Rate on such Auction Date by a percentage (as it may be adjusted from time to time by the Board of Directors in accordance with the provisions hereof) determined as set forth below based on the lower of the credit rating or ratings assigned to the Auction Preferred by Moody's and Standard & Poor's (or if Moody's or Standard & Poor's or both shall not make such rating available, the equivalent of either or both of such ratings by a Substitute Rating Agency or two Substitute Rating Agencies, as the case may be, or, in the event that only

one such rating shall be available, the percentage shall be based on such rating).

<TABLE>

<CAPTION>

Credit Rating

| Moody's | Standard & Poor's | Applicable Percentage of Applicable Determining Rate |
|------------------|-------------------|--|
| <S> | <C> | <C> |
| "aa3" or Above | AA- or Above | 150% |
| "a3" to "a1" | A- to A+ | 200% |
| "baa3" to "baa1" | BBB- to BBB+ | 225% |
| Below "baa3" | Below BBB- | 275% |

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The Corporation shall take all reasonable action necessary to enable Moody's and Standard & Poor's to provide a rating for each Series of Auction Preferred. If either Moody's or Standard & Poor's shall not make such rating available or neither Moody's nor Standard & Poor's shall make such a rating available, the Corporation shall select a Substitute Rating Agency or two Substitute Rating Agencies, as the case may be, and the Corporation will take all reasonable action necessary to enable such Substitute Rating Agency or Agencies to provide a rating for each Series of Auction Preferred.

"Minimum Holding Period" has the meaning set forth in Section 3(b) (v)

below.

"Moody's" means Moody's Investors Service, Inc., or its successor, so

long as such agency (or successor) is in the business of rating securities of the type of the Auction Preferred and, if such agency is not in such business, then a Substitute Rating Agency.

"Morgan Stanley" means Morgan Stanley & Co. Incorporated.

"Non-Auction Rate" has the meaning set forth in Section 3(c)(i) below.

"Normal Dividend Payment Date" has the meaning set forth in Section

3(b)(ii) below.

"Notice of Long Dividend Period" has the meaning set forth in Section

3(b)(viii) below.

"Notice of Percentage Increase" has the meaning set forth in Section

3(c)(iii) below.

"Notice of Redemption" has the meaning set forth in Section 6(c)(i)

below.

"Notice of Removal" has the meaning set forth in Section 3(b)(viii)

below.

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"Notice of Revocation" has the meaning set forth in Section 3(b)(viii)

below.

"Optional Redemption" has the meaning set forth in Section 6(a) below.

"Outstanding" means, as of any date, Auction Preferred theretofore

issued except, without duplication, (i) any Auction Preferred theretofore cancelled, delivered to the Corporation for cancellation or redeemed and (ii) as of any Auction Date, any Units of Auction Preferred subject to redemption on the next following Business Day.

"Parity Capital Stock" means any and all shares of Capital Stock

ranking on a parity with or equal to the Auction Preferred as to the payment of dividends and distribution of assets.

"Parity Securities" has the meaning set forth in Section 5(b) below.

"Paying Agent" means the Auction Agent unless another bank or trust

company has been appointed for such purpose by resolution of the Board of
Directors.

"Person" means and includes an individual, a partnership, a

corporation, a trust, an unincorporated association, a joint venture or other
entity or a government or any agency or political subdivision thereof.

"Purchaser's Letter" means a Master Purchaser's Letter substantially in

the form of Appendix C to the Prospectus delivered to the initial purchasers of
the Auction Preferred which each prospective purchaser of Auction Preferred will
be required to sign as a condition to purchasing Auction Preferred or
participating in an Auction.

"Rating Agencies" means Moody's and Standard & Poor's.

"Redemption Date" means any date upon which a redemption of shares of

Auction Preferred is scheduled to occur in accordance with the terms hereof and
specified in the related Notice of Redemption, provided that, in case a
Mandatory Redemption is required under Section 6(b) below and no Notice of
Redemption is given specifying a Redemption Date within the period required
under Section 6(b), then for purposes of the definition of "Failure to Deposit"
the Redemption Date with respect to such required Mandatory Redemption shall be
deemed to be the 30th day following the related Major Support Agreement Default
or Downgrade.

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"RP" means Rhone-Poulenc S.A., a French societe anonyme.
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"Securities Depository" means The Depository Trust Company or any other

securities depository selected by the Corporation that agrees to follow the
procedures required to be followed by such securities depository in connection
with the Auction Preferred.

"Series" means any of the Series A-D of the Auction Preferred

authorized by this Part B.

"Short Dividend Period" has the meaning set forth in Section 3(b)(vii)

below.

"Standard Dividend Period" has the meaning set forth in Section

3(b) (vii) below.

"Standard & Poor's" or "S&P" means Standard & Poor's Corporation, or

its successor, so long as such agency (or successor) is in the business of rating securities of the type of the Auction Preferred and, if such agency is not in such business, then a Substitute Rating Agency.

"Stock Books" means the stock transfer books of the Corporation

maintained by the Paying Agent.

"Substitute Commercial Paper Dealer" means Goldman, Sachs & Co. or

Merrill Lynch, Pierce, Fenner & Smith Incorporated, or, in lieu of each thereof, their respective affiliates or successors or, if neither furnishes commercial paper quotations, a leading dealer in the commercial paper market selected by the Company in good faith.

"Substitute Rating Agency" means a nationally recognized statistical

rating organization (as that term is used in the rules and regulations of the Securities Exchange Act of 1934) selected by the Corporation, subject to approval by Morgan Stanley, First Boston and Lehman Brothers, such approval not to be unreasonably withheld.

"Substitute U.S. Government Securities Dealer" means Goldman, Sachs &

Co. or Merrill Lynch, Pierce, Fenner & Smith Incorporated, or, in lieu of each thereof, their respective affiliates or successors or, if neither provides quotes in U.S. government securities, a leading dealer in the government securities market selected by the Company in good faith.

"Support Agreement" means the Support Agreement, dated as of December

19, 1991, between the Company and RP.

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"Support Agreement Default" has the meaning set forth in Section 6(b)

below.

"Unit" has the meaning set forth in Section 1 above.

"U.S. Government Securities Dealers" means Morgan Stanley, First Boston

and Lehman Brothers or, in lieu of any thereof, their respective affiliates or

successors.

3. Dividends. (a) Holders of shares of Auction Preferred shall be

entitled to receive, when, as and if declared by the Board of Directors, subject to applicable law, out of surplus (net assets in excess of stated capital) or net profits of the Corporation for the fiscal year in which the dividend is declared and for the preceding fiscal year, cumulative cash dividends at the applicable dividend rate determined as set forth in Section 3(c)(i) below, and no more, payable on the respective dates set forth below.

(b) (i) Dividends on the shares of each Series shall accumulate at the respective Applicable Rates for such Series (whether or not declared) from the Date of Original Issue.

(ii) Dividends on the shares of each Series with a Standard Dividend Period shall be payable commencing on the Initial Dividend Payment Date for such Series and thereafter, except as provided below in this Section 3(b), on each seventh Tuesday following the preceding Dividend Payment Date for such Series. Dividends on the shares of each Series with a Short Dividend Period shall be payable, except as provided below in this Section 3(b), on the day following the last day of such Short Dividend Period and shall also be payable on such other Dividend Payment Dates as may be established by the Board of Directors at the time such Short Dividend Period is determined. Dividends on the shares of each Series with a Long Dividend Period shall be payable, except as provided below in this Section 3(b), on the day following the last day of such Long Dividend Period and, if occurring prior to the last day of such Long Dividend Period, on the first day of the fourth month after the commencement of such Long Dividend Period and on the first day of each succeeding third month thereafter. Each day on which dividends on shares of a Series would be payable as determined as set forth in this clause (ii) but for the provisions set forth below in this Section 3(b) is referred to herein as a "Normal Dividend Payment Date."

(iii) In the case of dividends payable on the shares of a Series with a Standard Dividend Period or a Short Dividend Period, if:

(A) (I) The Securities Depository shall continue to make available to its members and participants the amounts

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due as dividends on the shares of such Series in next-day funds on the dates on which such dividends are payable and (II) a Normal Dividend Payment Date for such Series is not a Business Day, or the day next succeeding such Normal Dividend Payment Date is not a Business Day, then dividends shall be payable on the first Business Day preceding such Normal Dividend Payment Date that is next succeeded by a Business Day; or

(B) (I) The Securities Depository shall make available to its members and participants the amounts due as dividends on the shares of such Series in immediately available funds on the dates on which such dividends are payable (and the Securities Depository shall have so advised the Auction

Agent) and (II) a Normal Dividend Payment Date for such Series is not a Business Day, then dividends shall be payable on the first Business Day following such Normal Dividend Payment Date.

(iv) In the case of dividends payable on the shares of a Series with a Long Dividend Period, if:

(A) (I) The Securities Depository shall continue to make available to its members and participants the amounts due as dividends on the shares of such Series in next-day funds on the dates on which such dividends are payable and (II) a Normal Dividend Payment Date for such Series is not a Business Day, or the day next succeeding such Normal Dividend Payment Date is not a Business Day, then dividends shall be payable on the first Business Day following such Normal Dividend Payment Date that is next succeeded by a Business Day; or

(B) (I) The Securities Depository shall make available to its members and participants the amounts due as dividends on the shares of such Series in immediately available funds on the dates on which such dividends are payable (and the Securities Depository shall have so advised the Auction Agent) and (II) a Normal Dividend Payment Date for such Series is not a Business Day, then dividends shall be payable on the first Business Day following such Normal Dividend Payment Date.

(v) Notwithstanding the foregoing, if the date on which dividends on the shares of any Series would be payable as determined as set forth in clause (ii), (iii) or (iv) above is a day that would result in the number of days between successive Auction Dates for such Series (determined by excluding the first Auction Date and including the second Auction Date) not being at least equal to the then-current minimum holding period (currently set forth in Section 246(c) of the Code) (the "Minimum Holding Period") required for

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corporate taxpayers generally to be entitled to the dividends-received deduction for corporate income tax purposes in respect of dividends (other than extraordinary dividends) paid on preferred stock held by nonaffiliated corporations (currently set forth in Section 243(a) of the Code) (the "Dividends-Received Deduction" or "DRD"), then dividends on such shares shall be payable, if either clause (iii)(A) or (iv)(A) above would be applicable to such Series, on the first Business Day following such date on which dividends would be so payable that is next succeeded by a Business Day that results in the number of days between such successive Auction Dates for such Series (determined as set forth above) being at least equal to the then-current Minimum Holding Period. In addition, notwithstanding the foregoing, in the event of a change in law altering the Minimum Holding Period, the period of time between Dividend Payment Dates for each Series shall automatically be adjusted so that there shall be a uniform number of days (such number of days without giving effect to the provisions in Sections 3(b)(iii) and (iv) being hereinafter referred to as "Dividend Period Days") in Dividend Periods for each Series commencing after the date of such change in law equal to or, to the extent necessary, in excess of the then-current Minimum Holding Period, provided that the number of Dividend

Period Days shall not exceed by more than nine days the length of such then-current Minimum Holding Period and shall be evenly divisible by seven, and the maximum number of Dividend Period Days in no event shall exceed 119 days. Upon any such change in the number of Dividend Period Days as a result of a change in law, the Corporation shall mail notice of such change by first-class mail, postage prepaid, to the Auction Agent and the Paying Agent.

(vi) Each date on which dividends on the shares of a Series shall be payable as determined as set forth above is referred to herein as a "Dividend Payment Date" for such Series. If applicable, the period from the preceding Dividend Payment Date to the next Dividend Payment Date for any Series with a Long Dividend Period is herein referred to as a "Dividend Quarter." Although any particular Dividend Payment Date for a Series may not occur on the originally scheduled Normal Dividend Payment Date for such Series because of the foregoing provisions, each succeeding Dividend Payment Date for such Series shall be, subject to such provisions, the date determined as set forth in clause (ii) above as if each preceding Dividend Payment Date had occurred on the respective originally scheduled Normal Dividend Payment Date.

(vii) The Initial Dividend Payment Dates for the Initial Dividend Periods for Series A Auction Preferred shall be February 11, 1992, for Series B Auction Preferred shall be February 18, 1992, for Series C Auction Preferred shall be February 25, 1992 and for Series D Auction Preferred shall be

March 3, 1992. The initial Dividend Periods for Series A Auction Preferred, Series B Auction Preferred, Series C Auction Preferred and Series D Auction Preferred shall be 54 days, 61 days, 68 days, and 75 days (subject to adjustment as provided above), respectively. After the Initial Dividend Period for each Series, each subsequent Dividend Period for such Series (except for the adjustments for non-Business Days provided in clauses (iii) and (iv) above) shall be 49 days (each such 49-day period, subject to any adjustment as a result of a change in law lengthening the Minimum Holding Period as provided in clause (v) above, being referred to herein as a "Standard Dividend Period"), unless as provided in clause (viii) below, the Corporation specifies that any such subsequent Dividend Period for a particular Series shall be a Dividend Period of (A) 50 to 364 days and consisting of a whole number of weeks (a "Short Dividend Period") or (B) any period with a maturity, if any, equal to or in excess of one year (a "Long Dividend Period") (each such Standard Dividend Period, Short Dividend Period and Long Dividend Period (together with the periods commencing on the Date of Original Issue and ending on the respective Initial Dividend Payment Dates for each Series) being referred to herein as a "Dividend Period"). After the Initial Dividend Period for a Series, each successive Dividend Period for such series shall commence on the Dividend Payment Date for the preceding Dividend Period for such Series and shall end (A) in the case of any Series with a Standard Dividend Period, on the day next preceding the next Dividend Payment Date for such Series and (B) in the case of any Series with a Short Dividend Period or a Long Dividend Period, on the last day of the Short Dividend Period or Long Dividend Period, as the case may be, specified by the Corporation in the related notice of Short Dividend Period or Long Dividend Period, as the case may

be.

(viii) After the termination of the Support Agreement in accordance with its terms, the Corporation may give telephonic and written notice, not less than 10 and not more than 30 days prior to an Auction Date for any Series and based on the criteria set forth below, to the Auction Agent, the Paying Agent and the Securities Depository that the next succeeding Dividend Period for such Series will be a Short Dividend Period (a "Notice of Short Dividend Period") or a Long Dividend Period (a "Notice of Long Dividend Period") (a Notice of Short Dividend Period and a Notice of Long Dividend Period are herein collectively referred to as a "Notice"). Each such Notice shall be in substantially the form of Exhibit D to the Auction Agreement and shall specify the following terms, which shall be established by the Board of Directors, (A) the next succeeding Dividend Period for such Series as a Short Dividend Period or a Long Dividend Period, as the case may be, (B) the term thereof, (C) in the case of any Long Dividend Period, the number of shares of such Series which will constitute a Unit (if less

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than 100) and any additional redemption provisions or restrictions on redemption, if any, and (D) the Dividend Payment Dates; provided that for any

Auction occurring after the initial Auction, the Corporation may not give a Notice for any Series (and any such Notice shall be null and void) unless Sufficient Clearing Bids were made in the last occurring Auction for any Series and full cumulative dividends for all Series payable prior to such date have been paid in full. The Corporation may establish a Short Dividend Period or a Long Dividend Period, as the case may be, for the shares of a Series of Auction Preferred, if the Board of Directors determines that such Dividend Period and, in the case of a Long Dividend Period, such additional redemption provisions as it may establish pursuant to Section 6(a), provide the Corporation with the most favorable financing alternative based upon the following: (A) short-term and long-term market rates and indices of such short-term and long-term rates, (B) the amounts, maturities, redemption terms and interest or dividend rates on the then-outstanding securities of the Corporation or its subsidiaries, (C) market supply and demand for short-term and long-term securities, (D) yield curves for short-term and long-term securities comparable to such Series of Auction Preferred, (E) industry and financial conditions which may affect such Series of Auction Preferred including the Corporation's expectations with respect thereto, (F) then-current tax laws and administrative interpretations with respect thereto, (G) the number of Units of such Series of Auction Preferred Outstanding on the next Auction Date, (H) the number of potential purchasers and (I) the Corporation's current and projected funding requirements based on its asset and liability position, tax position and current financing objectives. Any Notice may be revoked by the Corporation on or prior to 10:00 a.m. on the day of the related Auction and shall be revoked by telephonic and written notice (a "Notice of Revocation") of such revocation, in substantially the form of Exhibit E to the Auction Agreement, to the Auction Agent, the Paying Agent and the Securities Depository, specifying that the Board of Directors has determined that because of subsequent changes in any of the foregoing factors, such Short Dividend Period or Long Dividend Period would not result in the most favorable financing alternative for the Corporation. Except with respect to a Notice that is

revoked, any Short Dividend Period or Long Dividend Period, as the case may be, specified by the Board of Directors for each Series of Auction Preferred and any revocation thereof shall be conclusive and binding on the Corporation and the Holders.

If the Corporation does not give a Notice with respect to the next succeeding Dividend Period for any Series of Auction Preferred or has given a Notice but has also delivered a Notice of Revocation with respect thereto, such next succeeding Dividend Period shall be a Standard Dividend Period.

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In addition, in the event the Corporation has given a Notice with respect to the next succeeding Dividend Period for any Series of Auction Preferred and has not given a Notice of Revocation with respect thereto, but Sufficient Clearing Bids are not made in the related Auction for such Series or such Auction is not held for any reason, such next succeeding Dividend Period shall, notwithstanding such Notice, be a Standard Dividend Period and the Corporation may not again give a Notice (and any such Notice shall be null and void) for any Series until Sufficient Clearing Bids have been made in an Auction with respect to a Standard Dividend Period for any Series.

(ix) Not later than noon on the Business Day immediately preceding each Dividend Payment Date with respect to which dividends on any shares of Auction Preferred have been declared, the Corporation shall irrevocably deposit with the Paying Agent sufficient next-day funds for the payment of such dividends and shall give the Paying Agent irrevocable instructions to apply such funds and, if applicable, the income and proceeds therefrom, to the payment of such dividends.

(x) Each dividend on the shares of any Series declared by the Board of Directors shall be paid to Holders of such shares as such Holders' names appear on the Stock Books on the related record date, which shall be the opening of business on the Business Day immediately preceding the Dividend Payment Date for such dividend. Subject to Section 3(d)(i) below, dividends on the shares of any Series of Auction Preferred in arrears for any past Dividend Period (and for any past Dividend Quarter during a Long Dividend Period) may be declared by the Board of Directors and paid on any date fixed by the Board of Directors, on a regular Dividend Payment Date or otherwise, to Holders of such shares as such Holders' names appear on the Stock Books on the related record date fixed by the Board of Directors, which shall be not more than 15 (fifteen) days before the date fixed for the payment of such dividends.

(c) (i) (A) The dividend rate for the Initial Dividend Period for Series A Auction Preferred shall be 4.30% per annum, for Series B Auction Preferred shall be 4.30% per annum, for Series C Auction Preferred shall be 4.30% per annum and for Series D Auction Preferred shall be 4.30% per annum, and the dividend rate on the shares of each Series for each subsequent Dividend Period shall be the rate per annum determined for such Series pursuant to the Auction Procedures; provided, however, that in the event that an Auction for any

Dividend Period for any Series is not held for any reason (other than as a

result of the existence of a Failure to Deposit on the Auction Date for such Dividend Period), the dividend rate on the shares of such Series for such Dividend

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Period shall be the Non-Auction Rate on the Auction Date with respect to such Dividend Period. The "Non-Auction Rate" for any Series on an Auction Date for such Series shall be the Maximum Applicable Rate for a Standard Dividend Period in effect on such Auction Date. The dividend rate on the shares of any Series for any Dividend Period or part thereof determined as set forth in this Section 3(c) is referred to herein as the "Applicable Rate" for such Series for such Dividend Period or part thereof.

(B) In the event a Failure to Deposit occurs prior to the beginning of a Dividend Period and is not cured in accordance with the next succeeding sentence within three Business Days after the occurrence of such Failure to Deposit, Auctions for such Series will be suspended, until such time as set forth below, and the Applicable Rate for shares of such Series for each Dividend Period (until Auctions are resumed) commencing after such Failure to Deposit shall be equal to the Default Rate of such Dividend Period and each such Dividend Period shall be a Standard Dividend Period. Any such Failure to Deposit with respect to the shares of any Series shall be deemed to be cured if, with respect to a Failure to Deposit relating to the (I) payment of dividends on such Series, the Corporation deposits with the Auction Agent by 12:00 noon, New York City time, all accumulated and unpaid dividends on such Series, including the full amount of any dividends to be paid with respect to the Dividend Period with respect to which the Failure to Deposit occurred, plus an amount computed by multiplying the Default Rate by a fraction, the numerator of which shall be the number of days for which such Failure to Deposit is not cured in accordance with this subsection (B) (including the day such Failure to Deposit occurs and excluding the day such Failure to Deposit is cured) and the denominator of which shall be 360, and applying the rate obtained against the aggregate liquidation preference of the shares then Outstanding in such Series and (II) the redemption of shares of any Series, the deposit by the Corporation with the Auction Agent of funds sufficient to pay the redemption price (including accumulated and unpaid dividends) of such shares plus an amount computed by multiplying the Default Rate, by a fraction, the numerator of which shall be the number of days for which such Failure to Deposit is not cured in accordance with this subsection (B) (including the day such Failure to Deposit occurs and excluding the day such Failure to Deposit is cured) and the denominator of which shall be 360, and applying the rate obtained against the aggregate liquidation preference of the shares in such Series to be redeemed, and the giving of irrevocable instructions by the Corporation to apply such funds and, if applicable, the income and proceeds therefrom, to the payment of the redemption price (including accumulated and unpaid dividends) for such shares.

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(C) If prior to an Auction Date for shares of such Series, full and cumulative dividends and the full amount of any redemption price (including

accumulated and unpaid dividends) and dividends accrued at the Default Rate as provided in subsection 3(c)(i)(B) above shall have been paid in full or funds sufficient for the payment thereof shall have been irrevocably deposited with the Paying Agent, Auctions for such Series will resume.

(ii) The amount of dividends per share of any Series of the Auction Preferred payable for each Dividend Period (or for each Dividend Quarter during any Long-Term Dividend Period) for any such Series shall be computed by multiplying the Applicable Rate for each Dividend Period (or Dividend Quarter) by a fraction the numerator of which shall be the number of days in the Dividend Period (or Dividend Quarter) (calculated by counting both the last day and first day thereof) such share was Outstanding and the denominator of which shall be 360 and multiplying the amount so obtained by \$1,000.

(iii) The Corporation may from time to time give telephonic and written notice, not later than 10:00 a.m. on the related Auction Date and based on the criteria set forth below, to the Auction Agent and the Securities Depository of an increase in the percentage used to calculate the Maximum Applicable Rate for any Series of Auction Preferred (a "Notice of Percentage Increase"). Such Notice of Percentage Increase shall specify the new percentages to be used to calculate the Maximum Applicable Rate and shall be in substantially the form of Exhibit G to the Auction Agreement. The Corporation may establish an increase in such percentages if the Board of Directors determines that such increase is necessary based upon the following: (A) short-term and long-term market rates and indices of short-term and long-term rates, (B) the amounts, maturities, redemption terms and interest or dividend rates on the then-outstanding securities of the Corporation or its subsidiaries, (C) market supply and demand for short-term and long-term securities and market conditions generally, (D) yield curves for short-term and long-term securities comparable to such Series of Auction Preferred, (E) industry and financial conditions which may affect such Series of Auction Preferred including the Corporation's expectations with respect thereto, (F) the number of Units of such Series of Auction Preferred Outstanding on the next Auction Date, (G) the number of potential purchasers and (H) the Corporation's current and projected funding requirements based on its asset and liability position, tax position and current financing objectives and the current financial condition of the Corporation. The Corporation may not revoke a Notice of Percentage Increase and the percentages specified therein will be the applicable percentages for the determination of the Maximum Applicable Rate with respect to such Series for subsequent Dividend

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Periods until a new Notice of Percentage Increase shall be delivered in accordance with the terms hereof.

Except as described below, the Corporation may not increase the percentage used to calculate the Maximum Applicable Rate to above the percentages set forth in the third column of the table below corresponding to the applicable credit ratings set forth in the first two columns of the table below.

<TABLE>

<CAPTION>

| Credit Rating | Standard & Poor's | Maximum Percentage Permitted to be Used to Calculate Maximum Applicable Rate |
|------------------|-------------------|--|
| <S> | <C> | <C> |
| "aa3" or Above | AA- or Above | 175% |
| "a3" to "a1" | A- to A+ | 200% |
| "baa3" to "baa1" | BBB- to BBB+ | 225% |
| Below "baa3" | Below BBB- | 275% |

The maximum percentages set forth in the third column of the above table may be increased by the Corporation upon receipt of an opinion of counsel to the Corporation that the use of such higher percentages to calculate the Maximum Applicable Rate will not adversely affect the tax treatment of the Auction Preferred.

(d) (i) Except as hereinafter provided, no dividends shall be declared or paid or set apart for payment on the shares of any Series for any period unless full cumulative dividends have been or contemporaneously are declared and paid on each of the other Series through the most recent applicable Dividend Payment Date for such other Series. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the shares of Auction Preferred which may be in arrears.

(ii) So long as any shares of Auction Preferred are outstanding, the Corporation shall not declare, pay or set aside for payment any dividend or other distribution in respect of its Junior Capital Stock, or call for redemption, redeem, purchase or otherwise acquire for consideration any shares of its Junior Capital Stock unless (A) full cumulative dividends on all shares of the Auction Preferred for all past Dividend Periods and all Dividend Payment Dates occurring on or prior to the date of the transaction (and for all past Dividend Quarters) for each Series shall have been declared and paid (or declared and a sum sufficient for the payment of the dividends set apart for payment) and (B) the Corporation has redeemed the full number of Shares required to be redeemed as a result of

any Mandatory Redemption or after giving any notice of an Optional Redemption.

(iii) Any dividend payment made on any Series of Auction Preferred shall first be credited against the dividends accumulated with respect to the earliest Dividend Period (or, if applicable, the earliest Dividend Quarter) for which dividends have not been paid with respect to such Series.

(iv) The Corporation may not purchase or otherwise acquire any shares of Auction Preferred during any period when dividend payments on the shares of

any Series are in arrears.

4. Liquidation Rights. (a) Upon the liquidation, dissolution or

winding up of the affairs of the Corporation, whether voluntary or involuntary, Holders shall be entitled to receive, out of assets of the Corporation available for distribution to shareholders after satisfying claims of creditors but before any payment or distribution on the Common Stock or on any other class of stock ranking junior to the shares of Auction Preferred upon liquidation, a liquidation distribution in the amount of \$1,000 per share plus an amount equal to accumulated and unpaid dividends on each such share (whether or not declared) to and including the date of final distribution. Unless and until payment in full has been made to Holders of the liquidation distributions to which they are entitled as provided in this Section 4, no dividends or distributions shall be made to holders of the Common Stock or any other stock ranking junior to the shares of Auction Preferred on liquidation, no payment or delivery or commitment to make payment or delivery of any money or assets to any Affiliate shall be made and no purchase, redemption or other acquisition for any consideration by the Corporation shall be made in respect of the Common Stock or any other stock ranking junior to the shares of Auction Preferred upon liquidation. After the payment to Holders of the full amount of the liquidation distributions to which they are entitled pursuant to the preceding sentence, Holders (in their capacity as such Holders) shall have no right or claim to any of the remaining assets of the Corporation.

(b) Neither the sale, lease or exchange (for cash, stock, securities or other consideration) of all or substantially all of the property and assets of the Corporation, nor the merger or consolidation of the Corporation with or into any other corporation, nor the merger or consolidation of any other corporation with or into the Corporation, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 4.

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(c) If the assets of the Corporation available for distribution to the Holders upon the dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, shall be insufficient to pay the full amount of the liquidation distributions to which the Holders are entitled pursuant to Section 4(a) above, then such assets shall be distributed among the Holders ratably in proportion to the full amount of distributions to which each Holder would have been entitled under such Section 4(a).

5. Voting Rights. (a) General. Holders of the Auction Preferred will

have no voting rights except as hereinafter described.

(b) Right to Elect two Additional Members of the Board of Directors.

(i) During any period when dividends on the Shares of Auction Preferred or any other Parity Capital Stock of the Corporation which have voting rights comparable to the Auction Preferred which are then exercisable (the Auction Preferred and all such other shares being referred to as the "Parity

Securities") shall be in arrears for at least 180 consecutive days and shall not have been paid in full (a "Default Period") the authorized number of members of the Board of Directors shall automatically be increased by two and the holders of record of the Parity Securities voting as described below will be entitled to fill the vacancies so created by electing two additional directors of the Company. The directors so elected (the "Additional Directors") will have only the normal powers of members of the Board of Directors except that the Additional Directors will comprise the majority of the members of a special committee of the Board of Directors consisting of three directors that shall be empowered during any Default Period, except as provided below, to declare and cause to be paid, out of funds available therefor (determined in accordance with the provisions of Section 3(a)), accumulated and unpaid dividends on the Parity Securities.

(ii) As soon as practicable after the beginning of a Default Period, the Board of Directors will call or cause to be called a special meeting of the holders of Parity Securities by mailing or causing to be mailed to such holders a notice of such special meeting to be held not less than 10 and not more than 45 days after the date such notice is given. If the Board of Directors does not call or cause to be called such a special meeting, it may be called by any of such holders on like notice. The record date for determining holders of the Parity Securities entitled to notice of and to vote at such special meeting will be the close of business on the Business Day preceding the day on which such notice is mailed. At any such special meeting, such holders, by plurality vote, voting together as a single class without regard to series (to the exclusion of the holders of Junior Capital Stock) will be

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entitled to elect two directors on the basis of one vote per \$1,000 liquidation preference (excluding amounts in respect of accumulated and unpaid dividends) and not cumulatively. The holder or holders of one-third of the Parity Securities then outstanding present in person or by proxy, will constitute a quorum for the election of the Additional Directors except as otherwise provided by law. Notice of all meetings at which Holders of the Shares of Auction Preferred shall be entitled to vote will be given to such Holders at their addresses as they appear in the Stock Books. At any such meeting or adjournment thereof in the absence of a quorum, subject to the provisions of any applicable law, a majority of the holders of the Parity Securities present in person or by proxy shall have the power to adjourn the meeting for the election of the two directors, without notice, other than an announcement at the meeting, until a quorum is present. If a Default Period shall terminate after the notice of a special meeting has been given but before such special meeting has been held, the Corporation shall, as soon as practicable after such termination, mail or cause to be mailed notice of such termination to Holders of the Parity Securities that would have been entitled to vote at such special meeting.

(iii) The term of office of all persons who are directors of the Corporation at the time of a special meeting of holders of Parity Securities to elect directors shall continue, notwithstanding the election of the Additional Directors at such meeting by such holders. The Additional Directors, together with the incumbent directors elected by holders of the Corporation's Common

Stock or other shares of the Corporation that are entitled to vote generally for the election of directors shall constitute the duly elected directors of the Corporation.

(iv) So long as a Default Period continues, (A) any vacancy in the office of an Additional Director may be filled (except as provided in the following clause (B)) by the person appointed in an instrument in writing signed by the remaining Additional Director and filed with the secretary of the Corporation or, in the event there is no remaining Additional Director, by the vote of the holders of the outstanding Parity Securities, voting together as a single class without regard to series, in a meeting of shareholders or at a meeting of holders of Parity Securities called for such purpose, and (B) in the case of the removal of any Additional Director, the vacancy may be filled by the person elected by the vote of the holders of the outstanding Parity Securities, voting together as a single class without regard to series, at the same meeting at which such removal shall be voted upon or any subsequent meeting. Each director who shall be elected or appointed by the remaining Additional Director as aforesaid shall be an Additional Director.

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(v) At such time as a Default Period shall terminate, (A) the term of office of the Additional Directors shall terminate, (B) the voting rights of the holders of the Parity Securities to elect directors shall cease (subject to the recurrence of a subsequent Default Period) and (C) the number of members of the Board of Directors shall be such as may be provided for by or pursuant to the Corporation's Bylaws irrespective of any increase made as provided herein.

(c) Right to Vote in Certain Events. (i) So long as any shares of

Auction Preferred remain Outstanding, the Corporation shall not, without the consent of the holders of at least two-thirds of the then-Outstanding shares of Auction Preferred, given in person or by proxy, either in writing or at a meeting (voting separately as a single class), (A) authorize, create or issue, or increase the authorized amount of, any shares of the Corporation of any class ranking, as to dividends or upon the liquidation, dissolution or winding up of the Corporation, prior to shares of Auction Preferred, or reclassify any authorized shares of the Corporation into any such shares, or authorize, create or issue any obligation or security convertible into or evidencing the right to purchase any such shares, or (B) amend, alter or repeal the provisions of the Articles of Incorporation of the Corporation including this Part B, whether by merger, consolidation, share exchange, division or otherwise, so as to adversely affect any preference, limitation or special right of the Auction Preferred; provided, however, that the authorization, creation, issuance or increase in the

authorized amount of the Common Stock, Auction Preferred of additional series or any shares of the Corporation of any class ranking, as to dividends and upon the liquidation, dissolution or winding up of the Corporation, on a parity with or junior to the Auction Preferred shall not be deemed to adversely affect such preferences, limitations or special rights; and provided further that upon any

merger, consolidation, share exchange or division of the Corporation (or any

successor corporation) with or into another corporation, the Auction Preferred that may be outstanding from time to time may be junior to any preferred shares of such other corporation as to dividends and upon the liquidation, dissolution or winding up of the surviving corporation, provided that on or prior to the

date of effectiveness of such merger or consolidation, the Corporation shall have given Moody's and S&P written notice of such merger or consolidation and Moody's and S&P shall have confirmed in writing that the transaction will not adversely affect the then-existing rating for the Auction Preferred.

(ii) If either Moody's or S&P shall change its rating categories for preferred stock, then the determination of whether the requirements of the final proviso in the preceding paragraph have been satisfied shall be made based upon the

substantially equivalent new rating categories for preferred stock of such rating agency. If either Moody's or S&P, or both, shall not make a rating available for the shares of Auction Preferred necessary to make such a determination or neither Moody's nor S&P shall make such a rating available, such determination will be made based upon the substantial equivalent of either or both of such ratings by a Substitute Rating Agency or two Substitute Rating Agencies or, in the event that only one such rating shall be available, based upon such available rating. If an alternative nationally recognized securities rating agency or agencies is not available, then for the purposes of such determination, the rating for the shares of Auction Preferred shall be deemed to be the highest relevant rating last published by Moody's, S&P or any such Substitute Rating Agency.

6. Redemption of the Auction Preferred. (a) Optional Redemption. At

the option of the Corporation, the Units of each Series of Auction Preferred may be redeemed (an "Optional Redemption"), as a whole or from time to time in part, out of funds legally available therefor under 15 Pa.C.S. (S) 1551 or any corresponding superseding provision of law, on the Business Day immediately preceding any Dividend Payment Date for the shares of such Series of Auction Preferred, upon at least 10 but not more than 45 days' notice pursuant to a Notice of Redemption, at a redemption price per share equal to the sum of \$1,000 plus an amount equal to accumulated and unpaid dividends thereon (whether or not earned or declared) to the date that the Corporation pays the full amount payable upon redemption of such Units; provided that such Redemption Date shall be the Dividend Payment Date for such Units if the payment on the Business Day immediately preceding such date would reduce the holding period for such Units since the Auction Date preceding such payment below the Minimum Holding Period. In connection with the establishment of a Long Dividend Period, the Corporation may establish, in accordance with Section 3(b)(viii), a redemption price per share of the Series subject to such Long Dividend Period in excess of the price per share referred to in the preceding sentence and may fix a period of time during which the shares of such Series may not be redeemed at the option of the Corporation. Pursuant to such right of Optional Redemption, the Corporation may elect to redeem some or all of the Units of any Series of Auction Preferred

without redeeming Units of any other Series.

(b) Mandatory Redemption. The Corporation shall redeem (a "Mandatory

Redemption") all Outstanding Auction Preferred, to the extent of funds legally available therefor under 15 Pa.C.S. (S) 1551 or any corresponding superseding provision of law, if (i) the Articles of Incorporation shall not have been amended to permit the rate and other terms of dividends on the Auction Preferred to be determined in the

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manner provided in this Part B on or prior to February 3, 1992 (the "Charter Default"); or (ii) RP shall at any time fail to comply with the terms of, or fulfill its obligations under, paragraph 1 or paragraph 2(c) of the Support Agreement (a "Major Support Agreement Default"); or (iii) (A) RP shall at any time fail to comply with the terms of, or fulfill its obligations under, the Support Agreement (except for paragraph 1 or 2(c) thereof) or the Company shall at any time fail to comply with the terms of, or fulfill its obligations under, paragraph 2(d) of the Support Agreement (a "Support Agreement Default"), and (B) (I) either Moody's or S&P shall have lowered its credit rating then assigned to the shares of Auction Preferred of any Series (and shall not have subsequently increased such rating to such previously assigned rating or higher) and Moody's or S&P, as the case may be, shall have issued a written statement stating that it lowered such rating as a result, in whole or in part, of such Support Agreement Default and (II) such rating shall have been lowered and such statement shall have been issued within 60 calendar days of Moody's and S&P receiving notice of the occurrence of such Support Agreement Default ((I) and (II) together shall be referred to herein as a "Downgrade"). Any such Mandatory Redemption shall be made (x) in the case of a Charter Default, with respect to each Series of Auction Preferred, on the Business Day immediately prior to the initial Dividend Payment Date of such Series, and (y) in the case of a Major Support Agreement Default or Downgrade, within 30 days of such Major Support Agreement Default or Downgrade, as the case may be, and (z) in any case, upon at least 10 days' (except, in the case of a Mandatory Redemption required because of a Charter Default, upon at least 5 days') but not more than 20 days' notice pursuant to a Notice of Redemption, at a redemption price per share equal to the sum of \$1,000 and an amount equal to accumulated and unpaid dividends thereon (whether or not earned or declared) to the date that the Corporation pays the full amount payable upon redemption of such Units.

(c) Notwithstanding the foregoing Section 6(a) and 6(b), if any dividends on shares of any Series of Auction Preferred are in arrears, no Units of such Series of Auction Preferred nor any other Series of Auction Preferred shall be redeemed unless all outstanding Units of each Series of Auction Preferred are simultaneously redeemed and the Corporation shall not purchase or otherwise acquire any shares of Auction Preferred; provided, however, that the

foregoing shall not prevent the purchase or acquisition of shares of each Series of Auction Preferred pursuant to an otherwise lawful purchase or exchange offer made on the same terms to holders of outstanding shares of each Series of Auction Preferred.

(d) Redemption Procedures. (i) If any Units of Auction Preferred are

to be redeemed, the Auction Agent will,

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at the direction of the Corporation, cause to be sent, by first-class or air mail, postage prepaid, telex or facsimile, a notice (the "Notice of Redemption") to each Holder and Existing Holder of Auction Preferred to be redeemed. Such Notice of Redemption shall be sent not fewer than 10 (or 5 in the case of a Mandatory Redemption required because of the occurrence of a Charter Default) nor more than 45 days (or 20 days in the case of a Mandatory Redemption) prior to the Redemption Date. Each Notice of Redemption will state (A) the Redemption Date, (B) the redemption price for each Unit of each Series and (C) the number of Units of Auction Preferred and the Series thereof to be redeemed. Each Notice of Redemption shall also be published, concurrently with the delivery thereof, in The Wall Street Journal.

(ii) No defect in the Notice of Redemption or in the mailing thereof will affect the validity of the redemption proceedings, except as required by applicable law. A Notice of Redemption will be deemed given on the day that it is mailed in accordance with the foregoing description.

(iii) In the case of an Optional Redemption, the Corporation may elect to redeem some or all of the Units of each Series of Auction Preferred. So long as the Securities Depository's nominee is the Holder of Auction Preferred, the Auction Agent will give notice to the Securities Depository, and the Securities Depository will determine the number of Units of each such Series to be redeemed from the account of the Agent Member of each Existing Holder. An Agent Member may determine to redeem Units from some Existing Holders (which may include an Agent Member holding Units for its own account) without redeeming Units from the accounts of other Existing Holders. Any such redemption will be made in accordance with applicable securities laws and rules. If the Securities Depository's nominee is not the holder of all the Auction Preferred of the Series to be redeemed, the particular Units of the Series of Auction Preferred to be redeemed shall be selected by the Corporation or the Auction Agent, as the case may be, by lot or by such other method as such Person shall deem fair and equitable.

(iv) Upon any Redemption Date (unless the Corporation fails to pay amounts payable on such Redemption Date), all rights of the Holders of Auction Preferred of the Series called for redemption will cease and terminate, except the right of such Holders to receive the amounts payable in respect of such redemption therefor, but without interest, and such Auction Preferred will be deemed no longer outstanding.

7. Auction Agent. The Corporation shall use its best efforts to

maintain, pursuant to a written agreement (the "Auction Agreement"), an Auction Agent with respect to the

Series A Auction Preferred, Series B Auction Preferred, Series C Auction Preferred and Series D Auction Preferred to act in accordance with the provisions set forth in this Part B with respect to each such Series.

8. Exclusive Remedy. In the event that dividends are not timely

declared on the shares of Auction Preferred, the exclusive remedy of Holders against the Corporation shall be as set forth in this Part B and in no event shall Holders of such shares have a specifically enforceable right to the declaration of dividends.

9. Auction Procedures. (a) Certain Definitions. Capitalized terms

not defined in this Section 9 shall have the respective meanings specified in Sections 1 through 8 above of this Part B. As used in this Section 9, the following terms shall have the following meanings, unless the context otherwise requires:

(i) "Agent Member" means the member of the Securities Depository that

will act on behalf of an Existing Holder or a Potential Holder and that is identified as such in such Existing Holder's or Potential Holder's Purchaser's Letter.

(ii) "Auction Preferred" means the Auction Preferred being auctioned

pursuant to these Auction Procedures.

(iii) "Available Units of Auction Preferred" has the meaning set forth

in subsection (d) (i) below.

(iv) "Bid" has the meaning set forth in subsection (b) (i) below.

(v) "Bidder" has the meaning set forth in subsection (b) (i) below.

(vi) "Broker-Dealer" means any broker-dealer, or other entity permitted

by law to perform the functions required of a Broker-Dealer in these Auction Procedures, that has been selected by the Corporation and has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective.

(vii) "Broker-Dealer Agreement" means an agreement between the Auction

Agent and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures specified in these Auction Procedures.

(viii) "Hold Order" has the meaning set forth in subsection (b)(i) below.

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(ix) "Order" has the meaning set forth in subsection (b)(i) below.

(x) "Potential Holder" means any Person, including any Existing

Holder, (A) who shall have executed a Purchaser's Letter and (B) who may be interested in acquiring Units of Auction Preferred (or, in the case of an Existing Holder, additional Units of Auction Preferred).

(xi) "Sell Order" has the meaning set forth in subsection (b)(i) below.

(xii) "Submission Deadline" means 1:00 p.m., New York City time, on any

Auction Date or such other time on any Auction Date as may be specified from time to time by the Auction Agent as the time prior to which each Broker-Dealer must submit to the Auction Agent in writing all orders obtained by it for the Auction to be conducted on such Auction Date.

(xiii) "Submitted Bid" has the meaning set forth in subsection (c)(i)

below.

(xiv) "Submitted Hold Order" has the meaning set forth in subsection

(c)(i) below.

(xv) "Submitted Order" has the meaning set forth in subsection (c)(i)

below.

(xvi) "Submitted Sell Order" has the meaning set forth in subsection

(c)(i) below.

(xvii) "Sufficient Clearing Bids" has the meaning set forth in subsection

(d)(i) below.

(xviii) "Winning Bid Rate" has the meaning set forth in subsection (d)(i)

below.

(b) Orders by Existing Holders and Potential Holders.

(i) Prior to the Submission Deadline on each Auction Date for any

Series of Auction Preferred:

(A) each Existing Holder may submit to a Broker-Dealer information as to:

(1) the number of Outstanding Units of Auction Preferred, if any, held by such Existing Holder that such Existing Holder desires to continue to hold without regard to the Applicable Rate for the next succeeding Dividend Period;

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(2) the number of Outstanding Units of Auction Preferred, if any, held by such Existing Holder that such Existing Holder desires to sell, provided that the Applicable Rate for the next succeeding Dividend Period is less than the rate per annum specified by such Existing Holder; and/or

(3) the number of Outstanding Units of Auction Preferred, if any, held by such Existing Holder that such Existing Holder desires to sell without regard to the Applicable Rate for the next succeeding Dividend Period; and

(B) each Broker-Dealer, using a list of Potential Holders that shall be maintained in accordance with the provisions set forth in the Broker-Dealer Agreement for the purpose of conducting a competitive Auction, shall contact both Existing Holders and Potential Holders, including Existing Holders with respect to an offer by any such Existing Holder to purchase additional Units of Auction Preferred, on such list to notify such Existing Holders and Potential Holders as to the length of the next Dividend Period and (1) with respect to any Short Dividend Period or Long Dividend Period, the Dividend Payment Date(s) and (2) with respect to any Long Dividend Period, any dates before which Units of Auction Preferred may not be redeemed and any redemption premium applicable in an Optional Redemption and the number of Auction Preferred of such Series comprising a Unit (if less than 100) and to determine the number of Outstanding Units of Auction Preferred, if any, with respect to which each such Existing Holder and each such Potential Holder desires to submit offers to purchase, provided that the Applicable Rate for the next succeeding Dividend Period shall not be less than the rate per annum specified by such Potential Holder.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (A) or (B) of this subsection (b) (i) is hereinafter referred to as an "Order" and each Existing Holder and each Potential Holder placing an Order is hereinafter referred to as a "Bidder"; an Order containing the information referred to in clause (A) (1) of this subsection (b) (i) is hereinafter referred to as a "Hold Order"; an Order containing the information referred to in clause (A) (2) or (B) of this subsection (b) (i) is hereinafter referred to as a "Bid"; and an Order containing the information

referred to in clause (A) (3) of this subsection (b) (i) is hereinafter referred to as a "Sell Order."

(ii) (A) A Bid by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the number of Outstanding Units of Auction Preferred specified in such Bid if the Applicable Rate determined on such Auction Date shall be less than the rate per annum specified in such Bid; or

(2) such number or a lesser number of Outstanding Units of Auction Preferred to be determined as set forth in subsections (e) (i) (D) and (e) (iii) if the Applicable Rate determined on such Auction Date shall be equal to the rate per annum specified therein; or

(3) a lesser number of Outstanding Units of Auction Preferred to be determined as set forth in subsections (e) (ii) (C) and (e) (iii) if such specified rate per annum shall be higher than the Maximum Applicable Rate and Sufficient Clearing Bids do not exist.

(B) A Sell Order by an Existing Holder shall constitute an irrevocable offer to sell:

(1) the number of Outstanding Units of Auction Preferred specified in such Sell Order; or

(2) such number or a lesser number of Outstanding Units of Auction Preferred to be determined as set forth in subsections (e) (i) (C) and (e) (iii) if Sufficient Clearing Bids do not exist.

(C) A Bid by a Potential Holder shall constitute an irrevocable offer to purchase:

(1) the number of Outstanding Units of Auction Preferred specified in such Bid if the Applicable Rate determined on such Auction Date shall be higher than the rate per annum specified in such Bid; or

(2) such number or a lesser number of Outstanding Units of Auction Preferred to be determined as set forth in subsections (e) (i) (E) and (e) (iv) if the Applicable Rate determined on such Auction Date shall be equal to the rate per annum specified therein.

(c) Submission of Orders by Broker-Dealers to Auction Agent.

(i) Each Broker-Dealer shall submit in writing to the Auction Agent

prior to the Submission Deadline on each Auction Date for any Series of Auction Preferred all Orders obtained by such Broker-Dealer, specifying with respect to each Order:

- (A) the name of the Bidder placing such Order;
- (B) the aggregate number of Outstanding Units of Auction Preferred that are the subject of such order;
- (C) to the extent that such Bidder is an Existing Holder:
 - (1) the number of Outstanding Units of Auction Preferred, if any, subject to any Hold Order placed by such Existing Holder;
 - (2) the number of Outstanding Units of Auction Preferred, if any, subject to any Bid placed by such Existing Holder and the rate per annum specified in such Bid; and
 - (3) the number of Outstanding Units of Auction Preferred, if any, subject to any Sell Order placed by such Existing Holder; and
- (D) to the extent such Bidder is a Potential Holder, the rate per annum specified in such Potential Holder's Bid.

(Each "Hold Order," "Bid" or "Sell Order" as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order.")

(ii) If any rate per annum specified in any Submitted Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.

(iii) If one or more Orders covering in the aggregate all of the Outstanding Units of Auction Preferred held by an Existing Holder are not submitted to the Auction Agent prior to the Submission Deadline for any reason (including the failure of a Broker-Dealer to contact such Existing

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Holder or to submit such Existing Holder's Order or Orders), such Existing Holder shall be deemed to have submitted a Hold Order covering the number of Outstanding Units of Auction Preferred held by such Existing Holder that are not subject to Orders submitted to the Auction Agent.

(iv) A Submitted Order or Submitted Orders of an Existing Holder that cover in the aggregate more than the number of Outstanding Units of Auction Preferred held by such Existing Holder will be considered valid in the following order of priority:

- (A) any Submitted Hold Order of such Existing Holder will be

considered valid up to and including the number of Outstanding Units of Auction Preferred held by such Existing Holder, provided that, if there is more than one such Submitted Hold Order and the aggregate number of Auction Preferred subject to such Submitted Hold Orders exceeds the number of Outstanding Units of Auction Preferred held by such Existing Holder, the number of Units of Auction Preferred subject to each of such Submitted Hold Orders will be reduced pro rata so that such Submitted Hold Orders in the aggregate will cover exactly the number of Outstanding Units of Auction Preferred held by such Existing Holder;

- (B) any Submitted Bids of such Existing Holder will be considered valid (in the ascending order of their respective rates per annum if there is more than one Submitted Bid of such Existing Holder) for the number of Outstanding Units of Auction Preferred held by such Existing Holder equal to the difference between (i) the number of Outstanding Units of Auction Preferred held by such Existing Holder and (ii) the number of Outstanding Units of Auction Preferred subject to any Submitted Hold Order of such Existing Holder referred to in clause (iv) (A) above (and, if more than one Submitted Bid of such Existing Holder specifies the same rate per annum and together they cover more than the remaining number of Units of Auction Preferred that can be the subject of valid Submitted Bids of such Existing Holder after application of clause (iv) (A) above and of the foregoing portion of this clause (iv) (B) to any Submitted Bid or Submitted Bids of such Existing Holder specifying a lower rate or rates per annum, the number of Units of Auction Preferred subject to each of such Submitted Bids

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specifying the same rate per annum will be reduced pro rata so that such Submitted Bids, in the aggregate, cover exactly such remaining number of Outstanding Units of Auction Preferred of such Existing Holder); and

- (C) any Submitted Sell Order of an Existing Holder will be considered valid up to and including the excess of the number of Outstanding Units of Auction Preferred held by such Existing Holder over the sum of (a) the number of Units of Auction Preferred subject to Submitted Hold Orders by such Existing Holder referred to in clause (iv) (A) above and (b) the number of Units of Auction Preferred subject to valid Submitted Bids by such Existing Holder referred to in clause (iv) (B) above; provided that, if there is

more than one Submitted Sell Order of such Existing Holder and the number of Units of Auction Preferred subject to such Submitted Sell orders is greater than such excess, the number of Units of Auction Preferred subject to each of such Submitted Sell Orders will be reduced pro rata so that such Submitted Sell Orders, in the aggregate, will cover exactly the number of Units of Auction Preferred equal to such excess.

The number of Outstanding Units of Auction Preferred, if any, subject to Submitted Bids of such Existing Holder not valid under clause (iv) (B) above shall be treated as the subject of a Submitted Bid by a Potential Holder at the rate per annum specified in such Submitted Bids.

(v) If there is more than one Submitted Bid by any Potential Holder in any Auction, each such Submitted Bid shall be considered a separate Submitted Bid with respect to the rate per annum and number of Units of Auction Preferred specified therein.

(d) Determination of Sufficient Clearing Bids, Winning Bid Rate and

Applicable Rate.

(i) Not earlier than the Submission Deadline on each Auction Date for any Series of Auction Preferred, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers and shall determine:

(A) the excess of the total number of Outstanding Units of Auction Preferred over the number of Units of Auction Preferred that are the subject of Submitted Hold Orders (such excess being

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hereinafter referred to as the "Available Units of Auction Preferred");

(B) from the Submitted Orders, whether the number of Outstanding Units of Auction Preferred that are the subject of Submitted Bids by Potential Holders specifying one or more rates per annum equal to or lower than the Maximum Applicable Rate exceeds or is equal to the sum of:

(1) the number of Outstanding Units of Auction Preferred that are the subject of Submitted Bids by Existing Holders specifying one or more rates per annum higher than the Maximum Applicable Rate, and

(2) the number of Outstanding Units of Auction Preferred that are subject to Submitted Sell Orders.

(if such excess or such equality exists (other than because the number of Outstanding Units of Auction Preferred in clauses (1) and (2) above are each zero because all of the Outstanding Units of Auction Preferred are the subject of Submitted Hold Orders), there shall exist "Sufficient Clearing Bids" and such Submitted Bids by Potential Holders shall be hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the winning bid rate (the "Winning Bid Rate"), which shall be the lowest rate per annum specified in the Submitted Bids that if:

(1) each Submitted Bid from Existing Holders specifying the Winning Bid Rate and all other Submitted Bids from Existing Holders specifying lower rates per annum were accepted, thus entitling such Existing Holders to continue to hold the Units of Auction Preferred that are the subject of such Submitted Bids, and

(2) each Submitted Bid from Potential Holders specifying the Winning Bid Rate and all other Submitted Bids from Potential Holders specifying lower rates per annum were accepted, thus entitling such Potential Holders to purchase the Units of Auction Preferred that are the subject of such Submitted Bids,

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would result in such Existing Holders described in subclause (C) (1) continuing to hold an aggregate number of Outstanding Units of Auction Preferred that, when added to the number of Outstanding Units of Auction Preferred to be purchased by such Potential Holders described in subclause (C) (2), would equal or exceed the number of Available Units of Auction Preferred.

(ii) In connection with any Auction and promptly after the Auction Agent has made the determinations pursuant to subsection (d) (i), the Auction Agent shall advise the Corporation of the Maximum Applicable Rate and, based on such determinations, the Applicable Rate for the next succeeding Dividend Period as follows:

- (A) if Sufficient Clearing Bids exist, that the Applicable Rate for the next succeeding Dividend Period shall be equal to the Winning Bid Rate;
- (B) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding Units of Auction Preferred are the subject of Submitted Hold Orders), that the next succeeding Dividend Period will be a Standard Dividend Period and the Applicable Rate for the next succeeding Dividend Period shall be equal to the Maximum Applicable Rate for a Standard Dividend Period determined on the Business Day immediately preceding such Auction; or
- (C) if all of the Outstanding Units of Auction Preferred are the subject of Submitted Hold Orders, that the Applicable Rate for the next succeeding Dividend Period shall be equal to 59% of the Applicable "AA" Composite Commercial Paper Rate, in the case of Auction Preferred with a Standard Dividend Period or a Short Dividend Period of 183 days or less, 59% of the Applicable Treasury Bill Rate in the case of Auction Preferred with a Short Dividend Period of 184 to 364 days, or 59% of the Applicable Treasury Note Rate, in the case of Auction Preferred with a Long Dividend Period, in effect on the Auction Date.

(e) Acceptance and Rejection of Submitted Bids and Submitted Sell

Orders and Allocation of Auction Preferred. Based on the determinations made

pursuant to subsection (d)(i), the Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

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(i) If Sufficient Clearing Bids have been made, subject to the provisions of subsections (e)(iii) and (e)(iv), Submitted Bids and Submitted Sell Orders shall be accepted or rejected in the following order of priority and all other Submitted Bids shall be rejected:

- (A) the Submitted Sell Orders of Existing Holders shall be accepted and the Submitted Bid of each of the Existing Holders specifying any rate per annum that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Holder to sell the Outstanding Units of Auction Preferred that are the subject of such Submitted Sell order or Submitted Bid;
- (B) the Submitted Bid of each of the Existing Holders specifying any rate per annum that is lower than the Winning Bid Rate shall be accepted, thus entitling each such Existing Holder to continue to hold the Outstanding Units of Auction Preferred that are the subject of such Submitted Bid;
- (C) the Submitted Bid of each of the Potential Holders specifying any rate per annum that is lower than the Winning Bid Rate shall be accepted;
- (D) the Submitted Bid of each of the Existing Holders specifying a rate per annum that is equal to the Winning Bid Rate shall be accepted, thus entitling each such Existing Holder to continue to hold the Outstanding Units of Auction Preferred that are the subject of such Submitted Bid, unless the number of Outstanding Units of Auction Preferred subject to all such Submitted Bids shall be greater than the number of Outstanding Units of Auction Preferred ("Remaining Units of Auction Preferred") equal to the excess of the Available Units of Auction Preferred over the number of Outstanding Units of Auction Preferred subject to Submitted Bids described in subsections (e)(i)(B) and (e)(i)(C), in which event the Submitted Bids of each such Existing Holder shall be rejected, and each such Existing Holder shall be required to sell Outstanding Units of Auction Preferred, but only in an amount equal to the difference between (1) the number of Outstanding Units of Auction Preferred then held by such Existing Holder subject to such Submitted Bid and (2) the number of Units of Auction Preferred obtained

by multiplying (x) the number of Remaining Units of Auction Preferred by (y) a fraction, the numerator of which shall be the number of Outstanding Units of Auction Preferred held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the aggregate number of Outstanding Units of Auction Preferred subject to such Submitted Bids made by all such Existing Holders that specified a rate per annum equal to the Winning Bid Rate; and

- (E) the Submitted Bid of each of the Potential Holders specifying a rate per annum that is equal to the Winning Bid Rate shall be accepted, but only in an amount equal to the number of Outstanding Units of Auction Preferred obtained by multiplying (x) the difference between the Available Units of Auction Preferred and the number of Outstanding Units of Auction Preferred subject to Submitted Bids described in subsections (e) (i) (B), (e) (i) (C) and (e) (i) (D) by (y) a fraction, the numerator of which shall be the number of Outstanding Units of Auction Preferred subject to such Submitted Bid and the denominator of which shall be the aggregate number of Outstanding Units of Auction Preferred subject to such Submitted Bids made by all such Potential Holders that specified rates per annum equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding Units of Auction Preferred are subject to Submitted Hold Orders), subject to the provisions of subsection (e) (iii), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids of Potential Holders shall be rejected:

- (A) the Submitted Bid of each Existing Holder specifying any rate per annum that is equal to or lower than the Maximum Applicable Rate shall be accepted, thus entitling such Existing Holder to continue to hold the Outstanding Units of Auction Preferred that are the subject of such Submitted Bid;
- (B) the Submitted Bid of each Potential Holder specifying any rate per annum that is equal to or lower than the Maximum Applicable Rate shall be accepted, thus requiring such Potential Holder to purchase the Outstanding Units of Auction

Preferred that are the subject of such Submitted Bid; and

- (C) the Submitted Bids of each Existing Holder specifying any rate per annum that is higher than the Maximum Applicable Rate shall be rejected, thus requiring each such Existing Holder to sell the

Outstanding Units of Auction Preferred that are the subject of such Submitted Bid, and the Submitted Sell Orders of each Existing Holder shall be accepted, in both cases only in an amount equal to the difference between (1) the number of Outstanding Units of Auction Preferred then held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and (2) the number of Units of Auction Preferred obtained by multiplying (x) the difference between the Available Units of Auction Preferred and the aggregate number of Outstanding Units of Auction Preferred subject to Submitted Bids described in subsections (e)(ii)(A) and (e)(ii)(B) by (y) a fraction, the numerator of which shall be the number of Outstanding Units of Auction Preferred held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate number of Outstanding Units of Auction Preferred subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If, as a result of the procedures described in subsection (e)(i) or (e)(ii), any Existing Holder would be entitled or required to sell or any Potential Holder would be entitled or required to purchase, a fraction of a Unit of Auction Preferred on any Auction Date, the Auction Agent shall, in such manner as in its sole discretion it shall determine, round up or down the number of Units of Auction Preferred to be purchased or sold by any Existing Holder or Potential Holder on such Auction Date so that only whole Units of Auction Preferred will be entitled or required to be sold or purchased.

(iv) If, as a result of the procedures described in subsection (e)(i), any Potential Holder would be entitled or required to purchase less than a whole Unit of Auction Preferred on any Auction Date, the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate Units of Auction Preferred for purchase among Potential Holders so that only whole Units of Auction Preferred are purchased on such Auction Date by any Potential Holder, even if such allocation results in one or

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more of such Potential Holders not purchasing any Units of Auction Preferred on such Auction Date.

(v) Based on the results of each Auction, the Auction Agent shall determine, with respect to each Broker-Dealer that submitted Bids or Sell Orders on behalf of Existing Holders or Potential Holders, the aggregate number of Outstanding Units of Auction Preferred to be purchased and the aggregate number of Outstanding Units of Auction Preferred to be sold by such Potential Holders and Existing Holders and, to the extent that such aggregate number of Outstanding Units of Auction Preferred to be purchased and such aggregate number of Outstanding Units of Auction Preferred to be sold differ, the Auction Agent shall determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one

or more sellers such Broker-Dealer shall receive, as the case may be, Outstanding Units of Auction Preferred.

(f) Miscellaneous. The Board of Directors may designate, in

accordance with the terms of Section 3(b)(viii), that the Auction Preferred may be sold in Units of less than 100 shares. An Existing Holder (A) may sell, transfer or otherwise dispose of Units of Auction Preferred only pursuant to a Bid or Sell Order in accordance with the procedures described in this Section 9 or to or through a Broker-Dealer or to a Person that has delivered a signed copy of a Purchaser's Letter to a Broker-Dealer, provided that in the case of all

transfers other than pursuant to Auctions such Existing Holder, its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (B) unless otherwise required by law, shall have the beneficial ownership of the Units of Auction Preferred held by it maintained in book-entry form by the Securities Depository in the account of its Agent Member, which in turn shall maintain records of such Existing Holder's beneficial ownership. The Corporation and its Affiliates shall not submit any Order in any Auction except as set forth in the next sentence. Any Broker-Dealer that is an affiliate of the Corporation may submit Orders in Auctions but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds Units of Auction Preferred for its own account, it must submit a Sell Order in the next Auction with respect to such Units of Auction Preferred. All of the Outstanding Units of Auction Preferred of each Series shall be represented by a single certificate for each Series registered in the name of the nominee of the Securities Depository unless otherwise required by law or unless there is no Securities Depository. If there is no Securities Depository, Units of Auction Preferred shall be registered in the Stock Books in the name of the Existing Holder thereof and

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such Existing Holder thereupon will be entitled to receive a certificate therefor and be required to deliver a certificate therefor upon transfer or exchange thereof.

10. Additional Terms. (a) The amendment of the Articles of

Incorporation to permit the rate and other terms of dividends on the Auction Preferred to be determined in the manner provided in this Part B shall not be deemed to be an adverse change in the preferences, limitations or special rights of the Auction Preferred or any Series thereof within the meaning of any provision of law.

(b) The Board of Directors may interpret the provisions of this Part B to resolve any inconsistency or ambiguity, remedy any formal defect or make any other change or modification which does not adversely affect the rights of Existing Holders of Auction Preferred.

(c) The headings of the various subdivisions of this Part B are for convenience of reference only and shall not affect the interpretation of any of

the provisions hereof.

DIVISION TWO -- COMMON SHARES

1. Dividends. The holders of Common Shares shall be entitled to

receive such dividends as may be declared by the Board of Directors.

2. Liquidation of the Corporation. In the event of voluntary or

involuntary liquidation of the Corporation, the holders of Common Shares shall be entitled to receive pro rata all of the remaining assets of the Corporation available for distribution to its shareholders after all amounts to which the holders of Preferred Shares are entitled have been paid or set aside in cash for payment.

3. Voting Rights. Each holder of record of Common Shares shall have

the right to one vote for each Common Share standing in his name on the books of the Corporation. No holder of Common Shares shall have cumulative voting rights.

SIXTH: Section 1. Personal Liability of Directors. A director of the

Corporation shall not be personally liable as such for monetary damages (including, without limitation, any judgment, amount paid in settlement, penalty, punitive damages or expense of any nature (including, without limitation, attorneys' fees and disbursements)) for any action taken, or any failure to take any action, unless the director has breached or failed to perform the duties of his or her office under these Articles, the Bylaws of the Corporation or applicable provisions of law and the breach or failure to

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perform constitutes self-dealing, willful misconduct or recklessness.

Section 2. Personal Liability of Officers. An officer of the

Corporation shall not be personally liable as such to the Corporation or its shareholders for monetary damages (including, without limitation, any judgment, amount paid in settlement, penalty, punitive damages or expense of any nature (including, without limitation, attorneys' fees and disbursements)) for any action, or any failure to take any action, unless the officer has breached or failed to perform the duties of his or her office under these Articles, the Bylaws of the Corporation or applicable provisions of law and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

Section 3. Interpretation of Article. The provisions of Sections 1 and

2 of this Article Sixth shall not apply to the responsibility or liability of a director or officer, as such, pursuant to any criminal statute or for the

payment of taxes pursuant to local, state or Federal law. The provisions of this Article Sixth shall be deemed to be a contract with each director or officer of the Corporation who serves as such at any time while this article is in effect, and such provisions are cumulative of and shall be in addition to and independent of any and all other limitations on the liabilities of directors or officers of the Corporation, as such, or rights of indemnification by the Corporation to which a director or officer of the Corporation may be entitled, whether such limitations or rights arise under or are created by any statute, rule of law, By-law, agreement, vote of shareholders or disinterested directors or otherwise. Each person who serves as a director or officer of the Corporation while this Article Sixth is in effect shall be deemed to be doing so in reliance on the provisions of this Article. No amendment to or repeal of this Article Sixth, nor the adoption of any provision of these Articles inconsistent with this Article Sixth, shall apply to or have any effect on the liability or alleged liability of any director or officer of the Corporation for or with respect to any acts or omissions of such director or officer occurring prior to such amendment, repeal or adoption of an inconsistent provision. In any action, suit or proceeding involving the application of the provisions of this Article Sixth, the party or parties challenging the right of a director or officer to the benefits of this Article Sixth shall have the burden of proof.

SEVENTH: Subchapter 25E (relating to control transactions) of the Pennsylvania Business Corporation Law of 1988, or any corresponding provisions of succeeding law, shall not be applicable to the Corporation.

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EIGHTH: If and to the extent provided by the express terms of any series of the Preferred Shares, the Board of Directors may, without the consent of the holders of the outstanding shares of such series or of the holders of any other shares of the Corporation (unless otherwise provided in the express terms of any such other shares), interpret the provisions of such series to resolve any inconsistency or ambiguity, remedy any formal defect or make any other change or modification that does not adversely affect the rights of the existing holders of such series.

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Microfilm Number _____ Filed with the Department of State on _____

Entity Number _____

Secretary of the Commonwealth

ARTICLES OF AMENDMENT-DOMESTIC BUSINESS CORPORATION
DSCB:15-1915 (Rev 91)

In compliance with the requirements of 15 Pa.C.S. Section 1915 (relating to articles of amendment), the undersigned business corporation, desiring to amend its Articles, hereby states that:

1. The NAME of the corporation is: Rhone-Poulenc Rorer Inc.

2. The (a) ADDRESS of this corporation's current registered office in this Commonwealth or (b) NAME of its commercial registered office provider and the county of venue is (the Department is hereby authorized to correct the following information to conform to the records of the Department):

(a) 500 Virginia Drive Fort Washington PA 19034 Montgomery

Number and Street City State Zip County

(b) c/o: _____
Name of Commercial Registered Office Provider County

For a corporation represented by a commercial registered office provider, the county in (b) shall be deemed the county in which the corporation is located for venue and official publication purposes.

3. The STATUTE by or under which it was incorporated is: Act of May 5, 1933,

P.L. 364, as amended

4. The DATE of its incorporation is: July 1, 1968

5. (CHECK, and if appropriate complete, one of the following):

[X] The amendment shall be effective upon filing these Articles of Amendment in the Department of State.

[] The amendment shall be effective on: _____

at _____
Hour

6. (CHECK one of the following):

[] The amendment was adopted by the shareholders (or members) pursuant to 15 Pa.C.S. Section 1914(a) and (b).

[X] The amendment was adopted by the board of directors pursuant to 15 Pa.C.S. Section 1914(c).

7. (CHECK, and if appropriate complete, one of the following):

[X] The amendment adopted by the corporation, set forth in full, is as follows: RESOLVED, that the Articles of Incorporation of the Company be and they are hereby amended by adding to Article FIFTH, DIVISION ONE a new Part C to read in full as set forth in Exhibit A attached hereto and made a part hereof.

[] The amendment adopted by the corporation is set forth in full in Exhibit A and attached hereto and made a part hereof.

DSCB:15-1915 (Rev 91)-2

8. (CHECK if the amendment restates the Articles):

[] The restated Articles of Incorporation supercede the original Articles and all amendments thereto.

IN TESTIMONY WHEREOF, the undersigned corporation has caused these Articles of Amendment to be signed by a duly authorized officer thereof this 16th day of July, 1993.

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RHONE-POULENC RORER INC.

(Name of Corporation)_____

BY: /s/ John B. Bartlett

John B. Bartlett

TITLE: Senior Vice President

General Counsel and Secretary

Exhibit A

Part C - Designation and Statement of the Voting Rights, Preferences, Limitations and Special Rights of the Flexible Money Market Preferred Stock, Series 1 through 3.

1. Designation; Amount and Series. The three Series of Preferred

Shares authorized in this Part C are 1,750 shares designated as "Flexible Money Market Preferred Stock" (referred to as the "Flex MMP") issuable in the

following Series: 750 shares designated "Flexible Money Market Preferred Stock, Series 1" (the "Series 1 Flex MMP"), 500 shares designated "Flexible Money

Market Preferred Stock, Series 2" (the "Series 2 Flex MMP") and 500 shares

designated "Flexible Money Market Preferred Stock, Series 3" (the "Series 3 Flex

MMP"). Each share of each separate Series of Flex MMP shall be identical and

equal in all respects to every other share of such Series, and the shares of all of the Series shall, except as expressly provided in this Part C be identical and equal in all respects. The shares of Flex MMP shall be represented by Depositary Shares (as defined below), each such Depositary Share representing one-one thousandth (1/1000) of a share of Flex MMP.

2. Definitions. Any references to Sections or subsections that are

made in this Part C shall be to Sections or subsections contained in this Part C. Unless the context or use indicates another or different meaning or intent, the following terms shall have the following meanings when used in this Part C, whether used in the singular or plural:

"Act" means the Securities Act of 1933, as amended.

"Additional Directors" has the meaning specified in Section 5(b) below.

"Affiliate" means any Person controlled by, in control of, or under common control with, the Corporation.

"Agent Member" has the meaning set forth in Section 9(a)(i) below.

"Applicable 'AA' Composite Commercial Paper Rate" means, on any date, in the case of any Standard Dividend Period or Short Dividend Period of (1) 49 days

or more but less than 70 days, the interest equivalent of the 60-day rate, (2) 70 days or more but less than 85 days, the arithmetic average of the interest equivalent of the 60-day and 90-day rates, (3) 85 days or more but less than 120 days, the interest equivalent of the 90-day rate, (4) 120 days or more but less than 148 days, the arithmetic average of the interest equivalent of the 90-day and 180-day rates, (5) 148

days or more but less than 184 days, the interest equivalent of the 180-day rate, in each case, on commercial paper placed on behalf of issuers whose corporate bonds are rated "Aa" by Moody's or "AA" by Standard & Poor's, or the equivalent of such rating by another rating agency, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date. In the event that the Federal Reserve Bank of New York does not make available any of the foregoing rates, then such rates shall be the 60-day rate or the arithmetic average of such rates, as the case may be, as quoted on a discount basis or otherwise, by the Commercial Paper Dealers to the Auction Agent as of the close of business on the Business Day immediately preceding such date. If any Commercial Paper Dealer does not quote a rate required to determine the Applicable "AA" Composite Commercial Paper Rate, the Applicable "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers (if any) and any Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers selected by the Corporation to provide such rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or, if the Corporation does not select any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers. For purposes of this definition, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security.

"Applicable Determining Rate" means (i) with respect to Flex MMP with a

Standard Dividend Period or Short Dividend Period of 183 days or less, the Applicable "AA" Composite Commercial Paper Rate, and (ii) with respect to Flex MMP with a Short Dividend Period of 184 to 364 days, a Long Dividend Period or a Mandatory Redemption Period, the Applicable Treasury Index Rate.

"Applicable Rate" means the rate per annum at which dividends are

payable on a Series for any for such Series established pursuant to Section 3(c) below.

"Applicable Treasury Index Rate" for any Short Dividend Period in excess

of 183 days, any Long Dividend Period or any Mandatory Redemption Period, on any date, with respect to any Series of Flex MMP, means the interest equivalent of

the rate for direct obligations of the United States Treasury having an original maturity which is equal to, or next lower than, the length of such Short Dividend

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Period, Long Dividend Period or Mandatory Redemption Period, as the case may be, as published weekly by the Federal Reserve Board in "Federal Reserve Statistical Release H.15 (519)--Selected Interest Rates," or any successor publication by the Federal Reserve Board, within five Business Days preceding such date. In the event that the Federal Reserve Board does not publish such rate, or if such release is not available, the Applicable Treasury Index Rate shall be the arithmetic mean of the secondary market bid rates as of approximately 3:30 p.m., New York City time, on the Business Day next preceding such date of the U.S. Government Securities Dealers furnished to the Auction Agent for the issue of direct obligations of the United States Treasury, in an aggregate principal amount of at least \$1,000,000, with a remaining maturity equal to, or next lower than, the length of such Short Dividend Period, Long Dividend Period or Mandatory Redemption Period, as the case may be. If any U.S. Government Securities Dealer does not quote a rate required to determine the Applicable Treasury Index Rate, such rate shall be determined on the basis of the quotation or quotations furnished by the remaining U.S. Government Securities Dealer or Dealers (if any) or any Substitute U.S. Government Securities Dealer or Dealers selected by the Corporation to provide such rate or rates not being supplied by any U.S. Government Securities Dealer or Dealers, as the case may be, or, if the Corporation does not select any such Substitute U.S. Government Securities Dealer or Dealers, by the remaining U.S. Government Securities Dealer or Dealers (if any); provided that, if the Corporation is unable to cause such quotations

to be furnished to the Auction Agent by such sources, the Corporation may cause such rates to be furnished to the Auction Agent by such alternative source or sources as the Corporation in good faith deems to be reliable. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis shall be equal to the quotient of (A) the discount rate divided by (B) the difference between 1.00 and the discount rate.

"Auction" means each periodic operation of the Auction Procedures.

"Auction Agent" means Bankers Trust Company, unless or until another

bank or trust company has been appointed as such by a resolution of the Board of Directors.

"Auction Agreement" has the meaning set forth in Section 7 below.

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"Auction Date" means the first Business Day preceding the first day of a

Subsequent Rate Period or Mandatory Redemption Period.

"Auction Procedures" means the procedures for conducting Auctions set

forth in Section 9 below.

"Board of Directors" means the Board of Directors of the Corporation or

any duly authorized committee of the Board of Directors acting on behalf
thereof.

"Business Day" means a day on which the New York Stock Exchange is open

for trading and which is not a day on which banks in The City of New York are
authorized or obliged by law to close.

"Calendar Period", with respect to any date, means a period of fourteen

consecutive days commencing ten calendar days prior to such date.

"Capital Stock" means, with respect to any Person, any and all shares,

interests, participations or other equivalents (however designated) of such
Person's capital stock, whether outstanding on the Date of Original Issue or
thereafter.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commercial Paper Dealers" means Lehman Brothers, First Boston and

Morgan Stanley or, in lieu of any thereof, their respective affiliates or
successors.

"Common Stock" means all shares now or hereafter issued of the class of

common stock of the Corporation presently authorized and any other shares of
stock into which such stock may hereinafter be changed from time to time.

"Corporation" means Rhone-Poulenc Rorer Inc., a Pennsylvania

corporation, or its successor.

"Date of Original Issue", with respect to any share of Flex MMP, means

the date on which the Corporation originally issued such share of Flex MMP.

"Default Period" has the meaning set forth in Section 5(b) below.

"Default Rate" has the meaning set forth in Section 3(c)(i)(B) below.

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"Deposit Agreement" means the Deposit Agreement dated as of July 19,

1993, among the Corporation, the Depositary and the holders from time to time of
the Depositary Receipts, as amended or supplemented from time to time.

"Depositary" means Bankers Trust Company, and any successor as

depository under the Deposit Agreement.

"Depositary Receipts" shall mean one of the receipts issued under the

Deposit Agreement, whether in definitive or temporary form and evidencing the
number of Depositary Shares specified therein.

"Depositary Shares" means depository shares issued under the Deposit

Agreement. Each Depositary Share shall, as provided in the Deposit Agreement,
represent 1/1000 of a share of the related Series of Flex MMP and shall be
evidenced by a Depositary Receipt.

"Dividend Payment Date" has the meaning set forth in Section 3(b)(v)

below.

"Dividend Payment Period" shall mean, for any Series, the periods

commencing on the Date of Original Issue to but excluding the Initial Dividend
Payment Date for such Series and any period thereafter from and including one
Dividend Payment Date for such Series to but excluding the next succeeding
Dividend Payment for such Series.

"Dividend Period" has the meaning set forth in Section 3(b)(vi) below.

"Dividends - Received Deduction" or "DRD" has the meaning set forth

in Section 3(b)(iv) below.

"Failure to Deposit" means, with respect to any Series of Flex MMP, the

failure by the Corporation to irrevocably deposit with the Auction Agent by
12:00 noon, New York City time (i) on the Business Day immediately preceding a

Dividend Payment Date sufficient next-day funds for the payment of the full amount of any dividend (whether or not earned or declared) to be paid on such Dividend Payment Date on any Series of Flex MMP or (ii) on the Business Day immediately preceding any Redemption Date sufficient next-day funds for the payment of the full redemption price (including accumulated and unpaid dividends, whether or not earned or declared) to be paid on such Redemption Date on any Series of Flex MMP.

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"Federal Reserve Board" means the Board of Governors of the Federal

Reserve System.

"First Boston" means The First Boston Corporation.

"Flex MMP" means all of the Series.

"Holder" means the holder of shares of the Flex MMP as the same

appears on the Stock Books.

"Initial Dividend Payment Date" has the meaning set forth in Section

3(b) (vi) below.

"Initial Dividend Rate" has the meaning set forth in Section 3(c) (i) (A)

below.

"Initial Rate Period" means the period from and including the Date of

Original Issue of each Series of Flex MMP to but excluding August 1, 1995 in the case of the Series 1 Flex MMP, to but excluding August 1, 1996 in the case of Series 2 Flex MMP and to but excluding August 1, 1998 in the case of Series 3 Flex MMP.

"Junior Capital Stock" means, with respect to the Corporation, any and

all Capital Stock of the Corporation, ranking junior to the Flex MMP with respect to the payment of dividends and the distribution of assets upon liquidation.

"Lehman Brothers" means Lehman Brothers, a division of Shearson Lehman

Brothers Inc.

"Long Dividend Period" has the meaning set forth in Section 3(b) (vi)

below.

"Mandatory Redemption Period" has the meaning set forth in Section 6(b)

below.

"MAPS" means the Market Auction Preferred Shares, Series A, Series B,

Series C and Series D, without par value, liquidation preference \$1,000 per share, previously issued by the Corporation pursuant to Part B of these Amended and Restated Articles of Incorporation.

"Maximum Applicable Rate", on any Auction Date, shall mean the rate

obtained by multiplying the Applicable Determining Rate on such Auction Date by a percentage (as it may be adjusted from time to time by the Corporation in accordance with the provisions hereof) determined as set

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forth below based on the lower of the credit rating or ratings assigned to the Flex MMP by Moody's and Standard & Poor's (or if Moody's or Standard & Poor's or both shall not make such rating available, the equivalent of either or both of such ratings by a Substitute Rating Agency or two Substitute Rating Agencies, as the case may be, or, in the event that only one such rating shall be available, the percentage shall be based on such rating) (such percentage being the "Applicable Percentage").

<TABLE>
<CAPTION>

| Credit Rating | | Applicable Percentage of Applicable Determining Rate |
|------------------|----------------------|--|
| Moody's | Standard & Poor's | |
| <S> | <C> | <C> |
| "aa3" or Above | AA- or Above | 150% |
| "a3" to "a1" | A- to A+ | 200% |
| "baa3" to "baa1" | BBB- to BBB+ | 225% |
| Below "baa3" | Below BBB- | 275% |

</TABLE>

However, if (x) Sufficient Clearing Bids have not been made in an Auction (other than because all of the Outstanding Depository Shares were the subject of Submitted Hold Orders) or if an Auction has not been held on a scheduled Auction Date for any reason or (y) the Corporation has selected a Mandatory Redemption Period, the Maximum Applicable Rate with respect to the next succeeding Auction in the case of clause (x) or the Auction relating to such Mandatory Redemption Period in the case of clause (y) will be the higher of (i) the Applicable Percentage of the Applicable "AA" Composite Commercial Paper Rate for a Standard Dividend Period and (ii) 150% of the highest of (a) the Treasury Bill Rate, (b) the Ten Year Constant Maturity Rate and (c) the Thirty Year Constant Maturity Rate on the related Auction Date. In the event that the Corporation determines in good faith that for any reason:

(i) any one of the Treasury Index Rate, the Ten Year Constant Maturity Rate or the Thirty Year Constant Maturity Rate cannot be determined with respect to any date, then the Maximum Applicable Rate with respect to such date shall be determined on the basis of the higher of whichever two of such rates can be so determined;

(ii) only one of the Treasury Index Rate, the Ten Year Constant Maturity Rate or the Thirty Year Constant Maturity Rate can be determined with respect to any date, then the Maximum Applicable Rate with respect to such date shall be determined on the basis of whichever one of such rates can be so determined; or

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(iii) none of the Treasury Index Rate, the Ten Year Constant Maturity Rate or the Thirty Year Constant Maturity Rate can be determined with respect to any date, then the Maximum Applicable Rate shall be the rate otherwise determined under the terms of the Flex MMP.

"Minimum Holding Period" has the meaning set forth in Section 3(b)(iv)

below.

"Moody's" means Moody's Investors Service, Inc., or its successor, so

long as such agency (or successor) is in the business of rating securities of the type of the Flex MMP and, if such agency is not in such business, then a Substitute Rating Agency.

"Morgan Stanley" means Morgan Stanley & Co. Incorporated.

"Normal Dividend Payment Date" has the meaning set forth in Section

3(b)(ii) below.

"Notice" has the meaning set forth in Section 3(b) (vii) below.

"Notice of Long Dividend Period" has the meaning set forth in Section

3(b) (vii) below.

"Notice of Mandatory Redemption Period" has the meaning set forth in

Section 3(b) (vii) below.

"Notice of Percentage Increase" has the meaning set forth in Section

3(c) (iii) below.

"Notice of Redemption" has the meaning set forth in Section 6(d) (i)

below.

"Notice of Revocation" has the meaning set forth in Section 3(b) (vii)

below.

"Notice of Short Dividend Period" has the meaning set forth in Section

3(b) (vii) below.

"Optional Redemption" has the meaning set forth in Section 6(a) below.

"Outstanding" means, as of any date, Depository Shares or shares of Flex

MMP, as the case may be, theretofore issued except, without duplication, (i) any
Depository Shares or shares of Flex MMP theretofore cancelled, delivered to the

Corporation for cancellation or redeemed and (ii) as of any Auction Date, any
Depository Shares or shares of Flex MMP subject to redemption on the next
following Business Day.

"Parity Preferred" means any and all shares of Capital Stock ranking on

a parity with or equal to the Flex MMP as to the payment of dividends and the
distribution of assets upon liquidation.

"Parity Securities" has the meaning set forth in Section 5(b) below.

"Paying Agent" means the Auction Agent unless another bank or trust

company has been appointed for such purpose by resolution of the Board of Directors.

"Person" means and includes an individual, a partnership, a corporation,

a trust, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof.

"Rating Agencies" means Moody's and Standard & Poor's.

"Redemption Date" means any date upon which a redemption of shares of

Flex MMP is scheduled to occur in accordance with the terms hereof and specified in the related Notice of Redemption.

"Securities Depository" means The Depository Trust Company or any other

securities depository selected by the Corporation that agrees to follow the procedures required to be followed by such securities depository in connection with the Depository Shares.

"Series" means any of the Series 1-3 of the Flex MMP authorized by

this Part C.

"Short Dividend Period" has the meaning set forth in Section 3(b)(vi)

below.

"Special Securities" means securities which can, at the option of the

holder, be surrendered at face value in payment of any federal estate tax or which provide tax benefits to the holder and are priced to reflect such tax benefits or which were originally issued at deep or substantial discount.

"Standard Dividend Period" has the meaning set forth in Section

3(b)(vi) below.

"Standard & Poor's" or "S&P" means Standard & Poor's Corporation, or its

successor, so long as such agency (or successor) is in the business of rating securities of the type of the Flex MMP and, if such agency is not in such

business, then a Substitute Rating Agency.

"Stock Books" means the stock transfer books of the Corporation

maintained by the Depositary.

"Subsequent Rate Period" has the meaning set forth in Section 3(b)(vi)

below.

"Subsequent Rate Period Days" has the meaning set forth in Section

3(b)(iv) below.

"Substitute Commercial Paper Dealer" means Goldman, Sachs & Co. or

Merrill Lynch, Pierce, Fenner & Smith Incorporated, or, in lieu of each thereof,
their respective affiliates or successors or, if neither furnishes commercial
paper quotations, a leading dealer in the commercial paper market selected by
the Corporation in good faith.

"Substitute Rating Agency" means a nationally recognized statistical

rating organization (as that term is used in the rules and regulations of the
Securities Exchange Act of 1934) selected by the Corporation, subject to
approval by Lehman Brothers, First Boston and Morgan Stanley, such approval not
to be unreasonably withheld.

"Substitute U.S. Government Securities Dealer" means Goldman, Sachs &

Co. or Merrill Lynch, Pierce, Fenner & Smith Incorporated, or, in lieu of each
thereof, their respective affiliates or successors or, if neither provides
quotes in U.S. government securities, a leading dealer in the government
securities market selected by the Corporation in good faith.

"Ten Year Constant Maturity Rate", on any date, means the arithmetic

average of the two most recent weekly per annum Ten Year Average Yields (or one
weekly per annum average yield to maturity for actively traded marketable U.S.
Treasury fixed interest rate securities (adjusted to constant maturities of ten
years) (the "Ten Year Average Yield"), if only one such Yield shall be published

during the Calendar Period with respect to such date), as published weekly by
the

Federal Reserve Board during the Calendar Period with respect to such date.
In the event that the Federal Reserve Board does not publish such a weekly per

annum Ten Year Average Yield during such Calendar Period, then the Ten Year Constant Maturity Rate with respect to such date shall be the arithmetic average of the two most recent weekly per annum Ten Year Average Yields (or the one weekly per annum Ten Year Average Yield, if only one such Yield shall be published during such Calendar Period), as published weekly during such Calendar Period by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Corporation. In the event that a per annum Ten Year Average Yield shall not be published by the Federal Reserve Board or by any Federal Reserve Bank or by any U.S. Government department or agency during such Calendar Period, then the Ten Year Constant Maturity Rate with respect to such date will be the arithmetic average of the two most recent weekly per annum average yields to maturity (or the one weekly per annum average yield to maturity, if only one such yield shall be published during such Calendar Period) for all of the actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities) then having maturities of not less than eight nor more than 12 years, as published during such Calendar Period by the Federal Reserve Board or, if the Federal Reserve Board shall not publish such yields, by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Corporation. In the event that the Corporation determines in good faith that for any reason the Corporation cannot determine the Ten Year Constant Maturity Rate with respect to such date as provided above in this paragraph, then the Ten Year Constant Maturity Rate with respect to such date will be the arithmetic average of the per annum average yields to maturity based upon the closing bids during such Calendar Period for each of the issues of actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities) with a final maturity date not less than eight nor more than 12 years from the date of each such quotation, as quoted daily for each business day in New York City (or less frequently if daily quotations shall not be generally available) to the Corporation by U.S. Government Securities Dealers.

"Thirty Year Constant Maturity Rate", on any date, means the arithmetic

average of the two most recent weekly per annum average yields to maturity for actively traded marketable U.S. Treasury fixed interest rate securities (adjusted to constant maturities of 30 years) ("Thirty Year Average Yields") (or

the one weekly per annum Thirty Year

Average Yield, if only one such Yield shall be published during the relevant Calendar Period), as published weekly by the Federal Reserve Board during the Calendar Period with respect to such date. In the event that the Federal Reserve Board does not publish such a weekly per annum Thirty Year Average Yield during such Calendar Period, then the Thirty Year Constant Maturity Rate with respect to such date shall be the arithmetic average of the two most recent weekly per annum Thirty Year Average Yields (or the one weekly per annum Thirty Year Average Yield, if only one such Yield shall be published weekly during such

Calendar Period), as published weekly during such Calendar Period by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Corporation. In the event that a per annum Thirty Year Average Yield shall not be published by the Federal Reserve Board or by any Federal Reserve Bank or by any U.S. Government department or agency during such Calendar Period, then the Thirty Year Constant Maturity Rate with respect to such date will be the arithmetic average of the two most recent weekly per annum average yields to maturity (or the one weekly per annum average yield to maturity, if only one such yield shall be published during such Calendar Period) for all of the actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities) then having maturities of not less than 28 nor more than 30 years, as published during such Calendar Period by the Federal Reserve Board or, if the Federal Reserve Board shall not publish such yields, by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Corporation. In the event that the Corporation determines in good faith that for any reason the Corporation cannot determine the Thirty Year Constant Maturity Rate with respect to such date as provided above in this paragraph, then the Thirty Year Constant Maturity Rate with respect to such date will be the arithmetic average of the per annum average yields to maturity based upon the closing bids during such Calendar Period for each of the issues of actively traded marketable U.S. Treasury fixed interest rate securities (other than Special Securities) with a final maturity date not less than 28 nor more than 30 years from the date of each such quotation, as quoted daily for each business day in New York City (or less frequently if daily quotations shall not be generally available) to the Corporation by U.S. Government Securities Dealers.

"Treasury Bill Rate", on any date, means the interest equivalent of the

arithmetic average of the two most recent weekly per annum market discount rates (or the one

weekly per annum market discount rate, if only one such rate shall be published during the Calendar Period with respect to such date) for three-month U.S. Treasury bills, as published weekly by the Federal Reserve Board during the Calendar Period with respect to such date. In the event that the Federal Reserve Board does not publish such weekly per annum market discount rate during such Calendar Period, then the Treasury Bill Rate for such date will be the arithmetic average of the two most recent weekly per annum market discount rates (or the one weekly per annum market discount rate, if only one such rate shall be published during such Calendar Period) for three-month U.S. Treasury bills, as published weekly during such Calendar Period by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Corporation. In the event that a per annum market discount rate for three-month U.S. Treasury bills shall not be published by the Federal Reserve Board or by any Federal Reserve Bank or by any U.S. Government department or agency during such Calendar Period, then the Treasury Bill Rate with respect to such date shall be the arithmetic average of the two most recent weekly per annum market discount rates (or the

one weekly per annum market discount rate, if only one such rate shall be published during such Calendar Period) for all the U.S. Treasury bills then having maturities of not less than 80 nor more than 100 days, as published during such Calendar Period by the Federal Reserve Board or, if the Federal Reserve Board shall not publish such rates, by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Corporation. In the event that the Corporation determines in good faith that for any reason no such U.S. Treasury bill rates are published as provided above during such Calendar Period, then the Treasury Bill Rate for such date will be the arithmetic average of the per annum market discount rates based upon the closing bids during such Calendar Period for each of the issues of marketable non-interest bearing U.S. Treasury securities with a maturity of not less than 80 nor more than 100 days from the date of each such quotation, as quoted daily for each business day in New York City (or less frequently if daily quotations shall not be generally available) to the Corporation by U.S. Government Securities Dealers. In the event that the Corporation determines in good faith that for any reason the Corporation cannot determine the Treasury Bill Rate for any Dividend Period as provided above in this paragraph, the Treasury Bill Rate for such Dividend Period will be the arithmetic average of the per annum market discount rates based upon the closing bids during such Calendar Period for each of the issues of marketable

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interest-bearing U.S. Treasury securities with a maturity of not less than 80 nor more than 100 days from the date of such quotation, as quoted daily for each business day in New York City (or less frequently if daily quotations shall not be generally available) to the Corporation by U.S. Government Securities Dealers. For purposes of this definition, "interest equivalent" means the equivalent yield on a 360-day basis of a discount basis security to an interest bearing security.

"Unit" means a unit of 1,000 Depositary Shares.

"U.S. Government Securities Dealers" means Lehman Brothers, First Boston

and Morgan Stanley or, in lieu of any thereof, their respective affiliates or successors.

"Voting Preferred" has the meaning set forth in Section 5(c)(i) below.

3. Dividends. (a) Holders of shares of Flex MMP shall be entitled to

receive, when, as and if declared by the Board of Directors, out of funds legally available for the purpose under 15 Pa. C.S. Section 1551 (relating to distributions to shareholders) or any superceding provision of law, cumulative cash dividends at the Applicable Rate per annum determined as set forth in

Section 3(c)(i) below, and no more, payable on the respective dates set forth below.

(b) (i) Dividends on the shares of each Series shall accumulate at the respective Applicable Rates for such Series (whether or not earned or declared) from the Date of Original Issue.

(ii) Dividends on the shares of each Series shall be payable commencing on the Initial Dividend Payment Date for such Series and thereafter on February 1, May 1, August 1 and November 1 of each year during the Initial Rate Period for such Series, and thereafter, except as provided below in this Section 3(b), on each seventh Tuesday following the preceding Dividend Payment Date for such Series. Dividends on the shares of any Series with a Short Dividend Period shall be payable, except as provided below in this Section 3(b), on the day following the last day of such Short Dividend Period and shall also be payable on such other Dividend Payment Dates as may be established by the Board of Directors at the time such Short Dividend Period is determined. Dividends on

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the shares of any Series with a Long Dividend Period shall be payable, except as provided below in this Section 3(b), on the day following the last day of such Long Dividend Period, and, if occurring prior to the last day of such Long Dividend Period, on each February 1, May 1, August 1 and November 1, commencing on the first of such dates occurring after the commencement of such Long Dividend Period, unless otherwise specified by the Corporation in the related Notice. Dividends on the shares of each Series with a Mandatory Redemption Period shall be payable, except as provided below in this Section 3(b), on each February 1, May 1, August 1, and November 1, commencing on the first of such dates occurring after the commencement of such Mandatory Redemption Period, unless otherwise specified by the Corporation in the related Notice. Each day on which dividends on shares of a Series would be payable as determined as set forth in this clause (ii) but for the provisions set forth below in this Section 3(b) is referred to herein as a "Normal Dividend Payment Date."

(iii) In the case of dividends payable on the shares of a Series, if:

(A) (I) The Securities Depository shall continue to make available to Agent Members the amounts due as dividends on the Depository Shares representing Flex MMP of such Series in next-day funds on the dates on which such dividends are payable and (II) a Normal Dividend Payment Date for such Series is not a Business Day, or the day next succeeding such Normal Dividend Payment Date is not a Business Day, then dividends shall be payable on the first Business Day preceding such Normal Dividend Payment Date that is next succeeded by a Business Day; or

(B) (I) The Securities Depository shall make available to Agent Members the amounts due as dividends on the Depository Shares representing

Flex MMP of such Series in immediately available funds on the dates on which such dividends are payable (and the Securities Depository shall have so advised the Auction Agent) and (II) a Normal Dividend Payment Date for such Series is not a Business Day, then dividends shall be payable on the first Business Day following such Normal Dividend Payment Date.

(iv) Notwithstanding the foregoing, in case of payment in next-day funds, if the date on which dividends on the shares of any Series of Flex MMP would be payable as

determined as set forth in clause (ii) or (iii) above is a day that would result in the number of days between successive Auction Dates for such Series (determined by excluding the first Auction Date and including the second Auction Date) not being at least equal to the then-current minimum holding period (currently set forth in Section 246(c) of the Code) (the "Minimum Holding

Period") required for corporate taxpayers to be entitled to the

dividends-received deduction for corporate income tax purposes in respect of dividends (other than extraordinary dividends) paid on preferred stock held by nonaffiliated corporations (currently set forth in Section 243(a) of the Code) (the "Dividends-Received Deduction" or "DRD"), then dividends on such shares

shall be payable on the first Business Day following such date on which dividends would be so payable that is next succeeded by a Business Day that results in the number of days between such successive Auction Dates for such Series (determined as set forth above) being at least equal to the then-current Minimum Holding Period.

In addition, notwithstanding the foregoing, in the event of a change in law altering the Minimum Holding Period, the period of time between Dividend Payment Dates for each Series shall automatically be adjusted so that there shall be a uniform number of days in Subsequent Rate Periods (such number of days without giving effect to the provisions in Section 3(b)(iii) being hereinafter referred to as "Subsequent Rate Period Days") for each Series

commencing after the date of such change in law equal to or, to the extent necessary, in excess of the then-current Minimum Holding Period, provided that

the number of Subsequent Rate Period Days shall not exceed by more than nine days the length of such then-current Minimum Holding Period and shall be evenly divisible by seven, and the maximum number of Subsequent Rate Period Days, as adjusted pursuant to this Section 3(b)(iv), in no event shall exceed 119 days. Upon any such change in the number of Subsequent Rate Period Days as a result of a change in law, the Corporation shall mail notice of such change by first-class mail, postage prepaid, to the Auction Agent and the Paying Agent.

(v) Each date on which dividends on the shares of a Series shall be payable as determined as set forth above is referred to herein as a "Dividend Payment Date" for such Series. Although any particular Dividend Payment Date

for a Series may not occur on the originally scheduled Normal Dividend Payment Date for such Series because of the foregoing provisions, each succeeding Dividend Payment Date for such Series shall be, subject to such provisions, the

date determined as set forth in clause (ii) above as if each preceding Dividend Payment Date had occurred on the respective originally scheduled Normal Dividend Payment Date.

(vi) The initial Dividend Payment Date (the "Initial Dividend Payment Date") for Series 1 Flex MMP, Series 2 Flex MMP and Series 3 Flex MMP shall be

August 1, 1993. After the Initial Rate Period for each Series, each Subsequent Rate Period for such Series shall (except for the adjustments for non-Business Days provided in clause (iii) above) be 49 days (each such 49-day period, subject to any adjustment as a result of a change in law lengthening the Minimum Holding Period as provided in clause (iv) above, being referred to herein as a "Standard Dividend Period"), unless as provided in clause (vii) below, (A) the

Corporation specifies that any such Subsequent Rate Period for a particular Series shall be a Dividend Period of (x) 50 to 364 days and consisting of a whole number of weeks (a "Short Dividend Period") or (y) any period with a

maturity, if any, equal to or in excess of one year (a "Long Dividend Period"),

or (B) the Corporation at its option selects a Mandatory Redemption Period (each such Initial Rate Period, Standard Dividend Period, Short Dividend Period, Long Dividend Period and Mandatory Redemption Period being referred to herein as a "Dividend Period"). After the Initial Rate Period for a Series, each successive

Dividend Period (excluding a Mandatory Redemption Period) (each, a "Subsequent Rate Period") for such series shall commence on the final Dividend Payment Date

for the preceding Dividend Period for such Series and shall end (A) in the case of any Series with a Standard Dividend Period, on the day preceding the next Dividend Payment Date for such Series and (B) in the case of any Series with a Short Dividend Period or a Long Dividend Period, on the last day of the Short Dividend Period or the Long Dividend Period, as the case may be, specified by the Corporation in the related notice of Short Dividend Period or Long Dividend

Period, as the case may be. A Mandatory Redemption Period with respect to a Series of Flex MMP will commence on the final Dividend Payment Date for the preceding Dividend Period for such Series and will end on the last day of the Mandatory Redemption Period specified by the Corporation in the related Notice.

(vii) The Corporation may give telephonic and written notice, not less than 10 and not more than 30 days prior to an Auction Date for any Series and based on the criteria set forth below, to the Auction Agent and the Securities Depository that the next succeeding Dividend Period for such Series will be a Short Dividend Period (a "Notice of Short Dividend Period"), a Long Dividend

Period (a "Notice of Long Dividend Period") or a Mandatory Redemption Period (a

"Notice

of Mandatory Redemption Period") (a Notice of Short Dividend Period, a

Notice of Long Dividend Period and a Notice of Mandatory Redemption Period are herein collectively referred to as a "Notice"). Each such Notice shall be in

substantially the form of Exhibit D or Exhibit F to the Auction Agreement and shall specify the following terms, which shall be established by the Board of Directors, (A) the next succeeding Dividend Period for such Series as a Short Dividend Period, a Long Dividend Period or a Mandatory Redemption Period, as the case may be, (B) the term thereof, (C) any additional redemption provisions or restrictions on redemption, if any, provided, that any mandatory redemption

provisions must be in conformity with the limitations on mandatory redemption for a Mandatory Redemption Period set forth in subsection 6(b)(iv), and (D) the Dividend Payment Dates; provided that for any Auction occurring after the

initial Auction, the Corporation may not give a Notice of a Short Dividend Period or a Long Dividend Period for any Series (and any such notice shall be null and void) unless Sufficient Clearing Bids were made in the last occurring Auction for any Series and full cumulative dividends for all Series payable prior to such date have been paid in full.

The Board of Directors of the Corporation may establish a Short Dividend Period, a Long Dividend Period or a Mandatory Redemption Period, as the case may be, for the shares of a Series of Flex MMP, if it determines that such Dividend Period and, in the case of a Long Dividend Period or a Mandatory Redemption Period, such additional redemption provisions as it may establish pursuant to Section 6(a), provide the Corporation with the most favorable financing alternative based upon the following: (A) short-term and long-term market rates and indices of such short-term and long-term rates, (B) the amounts, maturities, redemption terms and interest or dividend rates on the then-outstanding

securities of the Corporation or its subsidiaries, (C) market supply and demand for short-term and long-term securities, (D) yield curves for short-term and long-term securities comparable to such Series of Flex MMP, (E) industry and financial conditions which may affect such Series of Flex MMP including the Corporation's expectations with respect thereto, (F) then-current tax laws and administrative interpretations with respect thereto, (G) the number of shares of Flex MMP of such Series Outstanding on the next Auction Date, (H) the number of potential purchasers and (I) the Corporation's current and projected funding requirements based on its asset and liability position, tax position and current financing objectives. Any Notice may be revoked by the Corporation on or prior to 10:00 a.m., New York City time, on the day of the related Auction by

telephonic and written notice (a "Notice of Revocation"), in substantially the

form of Exhibit E to the Auction Agreement, to the Auction Agent and the Securities Depository, specifying that the Corporation has determined that because of subsequent changes in any of the foregoing factors, such Short Dividend Period, Long Dividend Period or Mandatory Redemption Period would not result in the most favorable financing alternative for the Corporation. Except with respect to a Notice that is revoked, any Short Dividend Period, Long Dividend Period or Mandatory Redemption Period, as the case may be, specified by the Board of Directors for each Series of Flex MMP and any revocation thereof shall be conclusive and binding on the Corporation and the Holders.

If the Corporation does not give a Notice with respect to the next succeeding Dividend Period for any Series of Flex MMP or has given a Notice but has also delivered a Notice of Revocation with respect thereto, such next succeeding Dividend Period for such Series shall be a Standard Dividend Period. In addition, in the event the Corporation has given a Notice with respect to the next succeeding Dividend Period for any Series of Flex MMP and has not given a Notice of Revocation with respect thereto, but Sufficient Clearing Bids are not made in the related Auction for such Series or such Auction is not held for any reason, such next succeeding Dividend Period for such Series shall, notwithstanding such Notice, be a Standard Dividend Period or Mandatory Redemption Period and the Corporation may not again give a Notice (and any such Notice shall be null and void), other than a Notice of Mandatory Redemption Period, for any Series until Sufficient Clearing Bids have been made in an Auction.

(viii) Not later than 12:00 noon, New York City time on the Business Day immediately preceding each Dividend Payment Date with respect to which dividends on any shares of Flex MMP have been declared, the Corporation shall irrevocably deposit with the Auction Agent sufficient next-day funds for the payment of such dividends.

(ix) Each dividend on the shares of any Series declared by the Board of

Directors shall be paid to Holders of such shares as such Holders' names appear on the Stock Books on the related record date, which shall be the opening of business on the Business Day immediately preceding the Dividend Payment Date for such dividend. Subject to Section

3(d) (i) below, dividends on the shares of any Series of Flex MMP in arrears for any past Dividend Payment Period may be declared by the Board of Directors and paid on any date fixed by the Board of Directors, on a regular Dividend Payment Date or otherwise, to Holders of such shares as such Holders' names appear on the Stock Books on the related record date fixed by the Board of Directors, which shall be not more than 15 (fifteen) days before the date fixed for the payment of such dividends.

(c) (i) (A) The dividend rate during the Initial Rate Period (the "Initial Dividend Rate") for Series 1 Flex MMP shall be 4.700% per annum, for

Series 2 Flex MMP shall be 5.125% per annum and for Series 3 Flex MMP shall be 5.840% per annum, and the dividend rate on the shares of each Series for each Subsequent Rate Period or Mandatory Redemption Period shall be the rate per annum determined for such Series pursuant to the Auction Procedures; provided,

however, that subject to subsection (c) (i) (B), the dividend rate on each Series

of Flex MMP shall not exceed the Maximum Applicable Rate per annum for any Subsequent Rate Period or Mandatory Redemption Period. The dividend rate on the shares of any Series for any Subsequent Rate Period or Mandatory Redemption Period or part thereof determined as set forth in this Section 3(c) is referred to herein as the "Applicable Rate" for such Series for such Subsequent Rate

Period or Mandatory Redemption Period or part thereof.

(B) Notwithstanding subsection (c) (i) (A), in the event a Failure to Deposit occurs and is not cured in accordance with the next succeeding sentence within three Business Days after the occurrence of such Failure to Deposit, then the next succeeding Auction for such Series and all Auctions thereafter for such Series shall be suspended, until such time as set forth below. Regardless of any Notice by the Corporation to the contrary, except for a Notice of Mandatory Redemption Period, each subsequent Dividend Period, including the Dividend Period commencing on the date of the Failure to Deposit (until Auctions are resumed or the commencement of a Mandatory Redemption Period) commencing after such Failure to Deposit shall be a Standard Dividend Period. The Applicable Rate for shares of such Series for each Dividend Payment Period in respect of which such Failure to Deposit occurs (except during a Mandatory Redemption Period) or commencing on or after any such Dividend Payment Date and remains not cured within three Business Days

thereafter (or redemption date, as the case may be) in respect of such Failure to Deposit shall be equal to the Default Rate for such Dividend Period. The foregoing shall continue in effect until the first to occur of (i) a Dividend Payment Date at least one Business Day prior to which the full amount of any dividends (whether or not earned or declared) payable on each Dividend Payment Date prior to and including such Dividend Payment Date, and the full amount of any redemption price (including accumulated and unpaid dividends, whether or not earned or declared) then due shall have been paid to the Auction Agent, and thereupon Auctions shall resume on the terms stated herein for Subsequent Rate Periods commencing with such Dividend Payment Date, or (ii) the commencement of a Mandatory Redemption Period. With respect to any such Failure to Deposit, the "Default Rate" will be the higher of the Maximum Applicable Rate obtained by

multiplying the Applicable Determining Rate, determined as of the Business Day next preceding the date of such Failure to Deposit, by the percentage (as it may be adjusted from time to time) for the credit rating category of below baa3/BBB-, and (i) if the Corporation has failed timely to pay dividends, the dividend rate in effect for the Subsequent Rate Period in respect of which such Failure to Deposit occurred, or (ii) if the Corporation has failed timely to pay the redemption price (including accumulated and unpaid dividends, whether or not earned or declared) of shares of any Series of Flex MMP called for redemption, the dividend rate in effect on the applicable redemption date. If an Auction is not held on an Auction Date for any reason (other than because of the suspension of Auctions due to a Failure to Deposit as described above), the dividend rate therefor shall be the Maximum Applicable Rate determined as of such Auction Date. If a Failure to Deposit occurs during the Mandatory Redemption Period, the dividend rate with respect to the Mandatory Redemption Period will not change, and dividends will continue to accrue at the then current rate.

Any such Failure to Deposit with respect to the shares of any Series shall be deemed to be cured if, prior to the commencement of a Mandatory Redemption Period with respect to a Failure to Deposit relating to the (I) payment of dividends on such Series, the Corporation deposits with the Auction Agent by 12:00 noon, New York City time, all accumulated and unpaid dividends on such Series, including the full amount of any dividends to be paid with respect to the Dividend Period with respect to which the Failure to Deposit occurred, plus an amount computed by multiplying the Default Rate by a fraction, the numerator of which shall

be the number of days for which such Failure to Deposit is not cured in accordance with this paragraph (including the day such Failure to Deposit occurs and excluding the day such Failure to Deposit is cured) and the denominator of which shall be 360, and applying the rate obtained against the aggregate

liquidation preference of the shares then Outstanding in such Series and (II) the redemption of shares of any Series, the deposit by the Corporation with the Auction Agent of funds sufficient to pay the redemption price (including accumulated and unpaid dividends, whether or not earned or declared) of such shares plus an amount computed by multiplying the Default Rate, by a fraction, the numerator of which shall be the number of days for which such Failure to Deposit is not cured in accordance with this paragraph (including the day such Failure to Deposit occurs and excluding the day such Failure to Deposit is cured) and the denominator of which shall be 360, and applying the rate obtained against the aggregate liquidation preference of the shares in such Series to be redeemed, and the giving of irrevocable instructions by the Corporation to apply such funds and, if applicable, the income and proceeds therefrom, to the payment of the redemption price (including accumulated and unpaid dividends, whether or not earned or declared) for such shares.

(C) If prior to an Auction Date for shares of such Series, full and cumulative dividends and the full amount of any redemption price (including accumulated and unpaid dividends, whether or not earned or declared) and dividends accrued at the Default Rate as provided in subsection 3(c)(i)(B) above shall have been paid in full or funds sufficient for the payment thereof shall have been irrevocably deposited with the Paying Agent, Auctions for such Series will resume.

(ii) The amount of dividends per share of any Series of Flex MMP payable on each Dividend Payment Date in respect of a Dividend Payment Period shall be computed by multiplying the Applicable Rate for such Dividend Payment Period by a fraction the numerator of which shall be the number of days in the Dividend Payment Period (calculated by counting both the last day and first day thereof) such share was Outstanding and the denominator of which shall be 360 and multiplying the amount so obtained by \$100,000.

(iii) The Corporation may from time to time give telephonic and written notice, not later than 10:00 a.m., New York City time, on the related Auction Date and based on the criteria set forth below, to the Auction Agent and the

Securities Depository of an increase in the percentage used to calculate the Maximum Applicable Rate for any Series of Flex MMP (a "Notice of Percentage

Increase"). Such Notice of Percentage Increase shall specify the new

percentages to be used to calculate the Maximum Applicable Rate and shall be in substantially the form of Exhibit G to the Auction Agreement. The Board of Directors may establish an increase in such percentages if it determines that such increase is necessary based upon the following: (A) short-term and long-term market rates and indices of short-term and long-term rates, (B) the amounts, maturities, redemption terms and interest or dividend rates on the then-outstanding securities of the Corporation or its subsidiaries, (C) market

supply and demand for short-term and long-term securities and market conditions generally, (D) yield curves for short-term and long-term securities comparable to such Series of Flex MMP, (E) industry and financial conditions which may affect such Series of Flex MMP including the Corporation's expectations with respect thereto, (F) the number of shares of such Series of Flex MMP Outstanding on the next Auction Date, (G) the number of potential purchasers and (H) the Corporation's current and projected funding requirements based on its asset and liability position, tax position and current financing objectives and the current financial condition of the Corporation. The Corporation may not revoke a Notice of Percentage Increase and the percentages specified therein will be the applicable percentages for the determination of the Maximum Applicable Rate with respect to such Series for subsequent Dividend Periods until a new Notice of Percentage Increase shall be delivered in accordance with the terms hereof.

Except as described below, the Corporation may not increase the percentage used to calculate the Maximum Applicable Rate to above the percentages set forth in the third column of the table below corresponding to the applicable credit ratings set forth in the first two columns of the table below.

<TABLE>

<CAPTION>

| Credit Rating | | Maximum Percentage Permitted to be Used to Calculate Maximum Applicable Rate |
|-----------------|----------------------|--|
| Moody's | Standard & Poor's | |
| "aa3" or Above | AA- or Above | 175% |
| "a3" to "a1" | A- to A+ | 225% |
| "baa3" to baa1" | BBB- to BBB+ | 250% |
| Below "baa3" | Below BBB- | 275% |

</TABLE>

The maximum percentages set forth in the third column of the above table may be increased by the Corporation upon receipt of an opinion of counsel to the Corporation that the use of such higher percentages to calculate the Maximum Applicable Rate will not adversely affect the tax treatment of the Flex MMP.

(d) (i) Except as hereinafter provided, no dividends shall be declared or paid or set apart for payment on the shares of any Series of Flex MMP or Parity Preferred for any period if dividends on any shares of Flex MMP or Parity Preferred are accumulated and unpaid for any prior Dividend Payment Period unless full cumulative dividends have been or contemporaneously are

declared and paid on each series of Flex MMP and Parity Preferred through the most recent applicable Dividend Payment Date for such shares. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the shares of Flex MMP which may be in arrears. For purposes hereof, dividend accumulations and arrearages do not include any dividends which have not yet become payable or dividends for any Dividend Payment Date that has not occurred.

(ii) So long as any shares of Flex MMP are outstanding, the Corporation shall not declare, pay or set aside for payment any dividend or other distribution in respect of its Junior Capital Stock (other than dividends in Junior Capital Stock), or call for redemption, redeem, purchase or otherwise acquire for consideration any shares of its Junior Capital Stock (or any moneys be paid to or made available for a sinking fund for the redemption of any shares of any such Junior Capital Stock) unless (A) full cumulative dividends on all shares of the Flex MMP for all past Dividend Payment Periods and all Dividend Payment Dates occurring on or prior to the date of the transaction for each Series shall have been declared and paid (or declared and a sum sufficient for the payment of the dividends set apart for payment) and (B) the Corporation has redeemed the full number of Shares required to be redeemed after giving any notice of an Optional Redemption; provided that the Corporation may at any time redeem, purchase or otherwise
- - - - -
acquire shares of Junior Capital Stock with shares of Junior Capital Stock.

(iii) Any dividend payment made on any Series of Flex MMP shall first be credited against the dividends accumulated with respect to the earliest Dividend Payment Period for which dividends have not been paid with respect to such Series.

4. Liquidation Rights. (a) Upon the liquidation, dissolution or
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winding up of the affairs of the Corporation, whether voluntary or involuntary, Holders shall be entitled to receive, out of assets of the Corporation available for distribution to shareholders after satisfying claims of creditors but before any payment or distribution is made to holders of Junior Capital Stock, a preferential liquidation distribution in the amount of \$100,000 per share of Flex MMP plus an amount equal to accumulated and unpaid dividends on each such share (whether or not earned or declared) for the then-current Dividend Payment Period and for all Dividend Payment Periods prior thereto. Unless and until payment in full of the preferential liquidation distributions to which they are entitled as provided in this Section 4 has been made to Holders, and to holders of any shares of Parity Preferred, no dividends or distributions shall be made to holders of Junior Capital Stock, no payment or delivery or commitment to make payment or delivery of any money or assets to any Affiliate shall be made and no purchase, redemption or other acquisition for any consideration by the

Corporation shall be made in respect of Junior Capital Stock. After the payment to Holders of the full amount of the preferential liquidation distributions to which they are entitled as provided in this Section 4, Holders (in their capacity as such Holders) shall have no right or claim to any of the remaining assets of the Corporation.

(b) Neither the sale, lease or exchange (for cash, stock, securities or other consideration) of all or substantially all of the property and assets of the Corporation, nor the merger or consolidation of the Corporation with or into any other corporation, nor the merger or consolidation of any other corporation with or into the Corporation, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 4.

(c) If the assets of the Corporation available for distribution to the Holders upon the dissolution, liquidation or winding up of the Corporation, whether voluntary or involuntary, shall be insufficient to pay the Holders and the holders of any other class of Parity Preferred the full amount of the preferential liquidation distributions to which they are entitled pursuant to Section 4(a) above in the case of the Holders or otherwise in the case of holders of Capital Stock ranking, upon liquidation, on a parity with Flex MMP, then such assets shall be distributed among them Holders

ratably in proportion to the full amount of preferential liquidation distributions to which each Holder would have been entitled under such Section 4(a) in the case of the Holders or otherwise in the case of holders of Capital Stock ranking, upon liquidation, on a parity with the Flex MMP.

5. Voting Rights. (a) General. Holders of the Flex MMP will have no

voting rights except as hereinafter described. In determining whether holders of the required amount of any Series of Flex MMP or Parity Preferred, including Voting Preferred, have taken any action, Flex MMP and other Parity Preferred owned by the Corporation or any corporation or other entity directly or indirectly controlling the Corporation or controlled by or under common control with the Corporation will be disregarded.

(b) Right to Elect two Additional Members of the Board of Directors.

(i) During any period when dividends on the Shares of Flex MMP or any other shares of Parity Preferred of the Corporation which have voting rights comparable to the Flex MMP which are then exercisable (the Flex MMP and all such other shares of Parity Preferred (including the MAPS) being referred to as "Parity Securities") shall be in arrears for at least 180 consecutive days and

shall not have been paid in full (a "Default Period") the authorized number of

members of the Board of Directors shall automatically be increased by two and

the holders of record of the Parity Securities voting as described below will be entitled to fill the vacancies so created by electing two additional directors of the Corporation. The directors so elected (the "Additional Directors") will

have only the normal powers of members of the Board of Directors except that the Additional Directors will comprise the majority of the members of a special committee of the Board of Directors consisting of three directors that shall be empowered during any Default Period, except as provided below, to declare and cause to be paid, out of funds available therefor (determined in accordance with the provisions of Section 3(a)), accumulated and unpaid dividends on the Parity Securities.

(ii) As soon as practicable after the beginning of a Default Period, the Board of Directors will call or cause to be called a special meeting of the holders of Parity Securities by mailing or causing to be mailed to such holders a notice of such special meeting to be held not less than 10 and not more than 45 days after the date such notice is given. If the Board of Directors does not call or cause to be called such a special meeting, it may be called by any of such holders on like

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notice. The record date for determining holders of the Parity Securities entitled to notice of and to vote at such special meeting will be the close of business on the Business Day preceding the day on which such notice is mailed. At any such special meeting, such holders, by plurality vote, voting together as a single class without regard to series (to the exclusion of the holders of Junior Capital Stock) will be entitled to elect two directors on the basis of one vote per \$1,000 liquidation preference (excluding amounts in respect of accumulated and unpaid dividends) and not cumulatively. The holder or holders of one-third of the Parity Securities then outstanding present in person or by proxy, will constitute a quorum for the election of the Additional Directors except as otherwise provided by law. Notice of all meetings at which Holders of the Shares of Flex MMP shall be entitled to vote will be given to such Holders at their addresses as they appear in the Stock Books. At any such meeting or adjournment thereof in the absence of a quorum, subject to the provisions of any applicable law, a majority of the holders of the Parity Securities present in person or by proxy shall have the power to adjourn the meeting for the election of the two directors, without notice, other than an announcement at the meeting, until a quorum is present. If a Default Period shall terminate after the notice of a special meeting has been given but before such special meeting has been held, the Corporation shall, as soon as practicable after such termination, mail or cause to be mailed notice of such termination to Holders of the Parity Securities that would have been entitled to vote at such special meeting.

(iii) The term of office of all persons who are directors of the Corporation at the time of a special meeting of holders of Parity Securities to elect directors shall continue, notwithstanding the election of the Additional Directors at such meeting by such holders. The Additional Directors, together

with the incumbent directors elected by holders of the Corporation's Common Stock or other shares of the Corporation that are entitled to vote generally for the election of directors shall constitute the duly elected directors of the Corporation.

(iv) So long as a Default Period continues, (A) any vacancy in the office of an Additional Director may be filled (except as provided in the following clause (B)) by the person appointed in an instrument in writing signed by the remaining Additional Director and filed with the secretary of the Corporation or, in the event there is no remaining Additional Director, by the vote of the holders of the outstanding Parity Securities, voting together as a single

class without regard to series, in a meeting of shareholders or at a meeting of holders of Parity Securities called for such purpose, and (B) in the case of the removal of any Additional Director, the vacancy may be filled by the person elected by the vote of the holders of the outstanding Parity Securities, voting together as a single class without regard to series, at the same meeting at which such removal shall be voted upon or any subsequent meeting. Each director who shall be elected or appointed by the remaining Additional Director as aforesaid shall be an Additional Director.

(v) At such time as a Default Period shall terminate, (A) the term of office of the Additional Directors shall terminate, (B) the voting rights of the holders of the Parity Securities to elect directors shall cease (subject to the recurrence of a subsequent Default Period) and (C) the number of members of the Board of Directors shall be such as may be provided for by or pursuant to the Corporation's Bylaws irrespective of any increase made as provided herein.

(c) Right to Vote in Certain Events. (i) So long as any shares of Flex

MMP remain Outstanding, the Corporation shall not, without the consent of the holders of at least two-thirds of the then-Outstanding shares of Flex MMP and Parity Preferred excluding the MAPS (the "Voting Preferred"), given in person or

by proxy, either in writing or at a meeting (voting together as a single class), (A) authorize, create or issue, or increase the authorized amount of, any shares of the Corporation of any class ranking, as to dividends or upon the liquidation, dissolution or winding up of the Corporation, prior to shares of Flex MMP and Voting Preferred, or reclassify any authorized shares of the Corporation into any such shares, or authorize, create or issue any obligation or security convertible into or evidencing the right to purchase any such shares, or (B) amend, alter or repeal the provisions of the Articles of Incorporation of the Corporation including this Part C, whether by merger, consolidation, share exchange, division or otherwise, so as to adversely affect any preference, limitation or special right of the Flex MMP and Voting Preferred; provided, however, that the authorization, creation, issuance or

increase in the authorized amount of the Common Stock, Flex MMP or Voting Preferred or any other Capital Stock of the Corporation of any class ranking, as to dividends and upon the liquidation, dissolution or winding up of the Corporation, on a parity with or junior to the Flex MMP or Voting Preferred, shall not be deemed to adversely affect such preferences, limitations or special rights; and provided further that upon any merger, consolidation, share exchange

or division of the Corporation (or any successor

corporation) with or into another corporation, the Flex MMP and Voting Preferred that may be outstanding from time to time may be junior to any preferred shares of such other corporation as to dividends and upon the liquidation, dissolution or winding up of the surviving corporation, provided that on or prior to the

date of effectiveness of such merger or consolidation, the Corporation shall have given Moody's and S&P written notice of such merger or consolidation and Moody's and S&P shall have confirmed in writing that the transaction will not adversely affect the then-existing rating for the Flex MMP and Voting Preferred.

(ii) If either Moody's or S&P shall change its rating categories for preferred stock, then the determination of whether the requirements of the final proviso in the preceding paragraph have been satisfied shall be made based upon the substantially equivalent new rating categories for preferred stock of such rating agency. If either Moody's or S&P, or both, shall not make a rating available for the shares of Flex MMP and Voting Preferred necessary to make such a determination or neither Moody's nor S&P shall make such a rating available, such determination will be made based upon the substantial equivalent of either or both of such ratings by a Substitute Rating Agency or two Substitute Rating Agencies or, in the event that only one such rating shall be available, based upon such available rating. If an alternative nationally recognized securities rating agency or agencies is not available, then for the purposes of such determination, the rating for the shares of Flex MMP and Voting Preferred shall be deemed to be the highest relevant rating last published by Moody's, S&P or any such Substitute Rating Agency.

6. Redemption of the Flex MMP. (a) Optional Redemption. During the

Initial Rate Period, no Series of Flex MMP may be redeemed as a whole or in part. During any Subsequent Rate Period or Mandatory Redemption Period, except as otherwise specified in the related Notice, at the option of the Corporation, the shares of each Series of Flex MMP may be redeemed (an "Optional

Redemption"), as a whole or from time to time in part, out of funds legally

available therefor under 15 Pa.C.S. Section 1551 or any corresponding superseding provision of law, on the Business Day immediately preceding any

Dividend Payment Date in respect of a Subsequent Rate Period or a Mandatory Redemption Period, as the case may be, for the shares of such Series of Flex MMP, upon at least 10 but not more than 45 days' notice pursuant to a Notice of Redemption, at a redemption price per share equal to the sum of \$100,000 plus an amount equal to accumulated and unpaid

dividends thereon (whether or not earned or declared) to the date that the Corporation pays the full amount payable upon redemption of such shares; provided that such Redemption Date shall be the Dividend Payment Date for such
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Series if the payment on the Business Day immediately preceding such date would reduce the holding period for such Series since the Auction Date preceding such payment below the Minimum Holding Period. Pursuant to such right of Optional Redemption, the Corporation may elect to redeem some or all of the shares of any Series of Flex MMP without redeeming shares of any other Series. In connection with the selection of a Short Dividend Period, a Long Dividend Period or a Mandatory Redemption Period for any Series of Flex MMP, the Corporation may establish, in accordance with Section 3(b)(vii), a redemption price per share of the Series subject to such Short Dividend Period, Long Dividend Period or Mandatory Redemption Period, as the case may be, in excess of the price per share referred to in the preceding sentence and may fix a period of time during which the shares of such Series may not be redeemed at the option of the Corporation.

(b) Mandatory Redemption Period. (i) The Corporation may at its

option select a Mandatory Redemption Period with respect to a particular Series of Flex MMP not less than ten days and not more than 30 days prior to an Auction Date, in accordance with Section 3(b)(vii). The redemption provisions for any Mandatory Redemption Period that the Corporation selects for any Series of Flex MMP in accordance with Section 3(b)(vii) must provide that such Series will be fully redeemed not later than the tenth anniversary of the commencement of the Mandatory Redemption Period.

(ii) If the Corporation selects a Mandatory Redemption Period (a "Mandatory Redemption Period") for any Series of Flex MMP: (A) mandatory

redemption or sinking fund requirements with respect to such Series of Flex MMP shall be provided by the Corporation; (B) the Auction relating thereto will be the final Auction with respect to such Series of Flex MMP; (C) the services of the Auction Agent (except in its capacities as paying agent, registrar and transfer agent) and of the Broker-Dealers with respect to such Series of Flex MMP will end; (D) there will be no requirement that Depositary Shares representing such Series of Flex MMP be redeemed or transferred only in Units; (E) there will be no adjustment to the dividend rate following the commencement of such Mandatory Redemption Period, whether upon a Failure to Deposit or

otherwise; and (F) the Corporation must make available upon request Depositary Receipts representing the Depositary Shares.

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(iii) In its Notice of Mandatory Redemption Period, the Corporation will specify (A) that Depositary Receipts representing Depositary Shares will be made available upon request, (B) that the Depositary Shares will not be required to be held or transferred in Units, (C) the optional redemption and sinking fund provisions relating to the Mandatory Redemption Period and (D) the length of the Mandatory Redemption Period, which may not exceed ten years. The Corporation may change the optional redemption and sinking fund provisions and the length of such Mandatory Redemption Period upon prior written notice to the Auction Agent and the Securities Depository not later than 10:00 a.m., New York City time, on the related Auction Date. If the Corporation fails to provide notice of optional redemption and sinking fund provisions and length of the Mandatory Redemption Period, as described in clauses (C) and (D) of the second preceding sentence, the length of such Mandatory Redemption Period will be six years, the Series of Flex MMP will be redeemable in whole or in part at the option of the Corporation on any date during the Mandatory Redemption Period and the Corporation will be required to redeem the Series of Flex MMP in equal installments on the fourth, fifth and sixth anniversaries of the commencement of such Mandatory Redemption Period.

(iv) In connection with the selection of a Mandatory Redemption Period, the Corporation may also specify any additional terms upon, and additional times at which, the shares of Flex MMP will be subject to mandatory redemption or sinking fund requirements; provided, however, that the redemption price will not -----

be less than \$100,000 per share of Flex MMP, plus the amount of any dividends accumulated and unpaid thereon to the date of redemption (whether or not earned or declared). Such mandatory redemption or sinking fund requirements will become effective in the same manner as the optional redemption provisions described in Section 6(a) above. During any Mandatory Redemption Period, the Corporation will not be permitted to commence mandatory redemption of shares of Flex MMP prior to the third anniversary of the commencement of such Mandatory Redemption Period, any such mandatory redemptions may not cause the Mandatory Redemption Period to have a weighted average life of less than five years and the Flex MMP may be fully redeemed pursuant to such mandatory redemption requirements not earlier than the fifth anniversary of the commencement of the Mandatory Redemption Period, unless, in each case, the Corporation obtains an opinion of counsel to the effect that mandatory redemption having such terms will not adversely affect the tax treatment of the Flex MMP.

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(v) If the Corporation specifies such mandatory redemption or sinking fund requirements, then the Corporation will redeem, out of funds legally

available therefor under 15 Pa.C.S. Section 1551 or any corresponding or superseding provision of law, the number of shares so specified, on the dates and at the prices so specified. If the required number of shares is not redeemed on any date on which such a redemption is required, the unsatisfied mandatory redemption or sinking fund requirement will be cumulative until discharged. In addition, if so provided in the Notice of Mandatory Redemption Period, the Corporation will have the right (which will be noncumulative unless otherwise specified in such notice) to redeem through the mandatory redemption or sinking fund requirement such additional number or percentage of shares as may be specified in such notice on the same terms and dates applicable to the mandatory redemption or sinking fund requirement. The Corporation may apply as credit against the number of shares of Flex MMP required to be redeemed pursuant to the mandatory redemption or sinking fund requirements shares of Flex MMP that have been purchased, redeemed (other than pursuant to the operation of the mandatory redemption or sinking fund requirements) or otherwise acquired for value by the Corporation and that have not previously been used for any such credit. Unless the Corporation has satisfied its mandatory redemption or sinking fund requirements with respect to a Series of Flex MMP in connection with its selection of a Mandatory Redemption Period, (i) no dividends may be declared or paid on any Common Shares or any other Junior Capital Stock and (ii) no shares of any other Parity Preferred may be redeemed, purchased or otherwise acquired for value, nor may monies be paid or set aside for a sinking fund for the redemption, purchase or other acquisition thereof, except as otherwise provided in Section 6(c) below.

(c) Notwithstanding the foregoing Section 6(a) and 6(b), if any dividends, including accumulations in the case of shares of any Series of Flex MMP or any Series of cumulative Parity Preferred, on shares of any Series of Flex MMP or Parity Preferred are in arrears, or if the Corporation has not satisfied its mandatory redemption or sinking fund requirements with respect to a Series of Flex MMP with a Mandatory Redemption Period, no shares of such Series of Flex MMP, any other Series of Flex MMP or any Series of Parity Preferred shall be redeemed as a whole or in part unless all outstanding shares of each Series of Flex MMP and all shares of Parity Preferred are simultaneously redeemed and the Corporation shall not purchase or otherwise acquire any shares of Flex MMP or any shares of Parity Preferred otherwise than pursuant to an exchange offer made on the same terms to all holders of a Series of Flex MMP or Parity Preferred, provided, however, that the Corporation may (i) redeem shares

of MAPS in whole

or in part if such redemption is required pursuant to Section 6(b) of Part B, (ii) redeem shares of Flex MMP as required during a Mandatory Redemption Period, or (iii) redeem any other shares of Parity Preferred as required by any similar provisions.

(d) Redemption Procedures. (i) If any shares of Flex MMP are to be

redeemed, the Auction Agent will, at the direction of the Corporation, cause to be sent, by first-class or air mail, postage prepaid, telex or facsimile, a notice (the "Notice of Redemption") to each holder of record of Depository

Shares representing the Flex MMP to be redeemed. Such Notice of Redemption shall be sent not fewer than ten nor more than 45 days prior to the Redemption Date. Each Notice of Redemption will state (A) the Redemption Date, (B) the redemption price for each share of each Series and (C) the number of Depository Shares representing the shares of Flex MMP and the Series thereof to be redeemed. Each Notice of Redemption shall also be published, concurrently with the delivery thereof, in The Wall Street Journal.

(ii) No defect in the Notice of Redemption or in the mailing thereof will affect the validity of the redemption proceedings, except as required by applicable law. A Notice of Redemption will be deemed given on the day that it is mailed in accordance with the foregoing description.

(iii) So long as the Securities Depository's nominee is the record holder of Depository Shares, the Auction Agent will give notice to the Depository and the Securities Depository, and the Securities Depository will determine the number of Depository Shares representing shares of each such Series to be redeemed from the account of the Agent Members of each Beneficial Holder. Agent Members in turn may determine to redeem Depository Shares from some Persons listed on their records as Beneficial Owners (which may include an Agent Member holding shares for its own account) without redeeming shares from the accounts of other Persons listed on their records as Beneficial Owners. Any such redemption will be made in accordance with applicable securities laws and rules. If the Securities Depository's nominee is not the holder of all the Depository Shares representing shares of Flex MMP of the Series to be redeemed, the particular Depository Shares of the Series of Flex MMP to be redeemed shall be selected by the Corporation or the Auction Agent, as the case may be, by lot or by such other method as such Person shall deem fair and equitable.

(iv) Upon any Redemption Date (unless a failure to Deposit occurs), all rights of the Holders of Flex MMP of the Series called for redemption will cease and terminate, except the right of such Holders to receive the amounts payable in respect of such redemption therefor, but without interest, and such shares of Flex MMP will be deemed no longer outstanding.

7. Auction Agent. The Corporation shall use its best efforts to

maintain, pursuant to a written agreement (the "Auction Agreement"), an Auction Agent with respect to the Series 1 Flex MMP, Series 2 Flex MMP, and Series 3 Flex MMP to act in accordance with the provisions set forth in this Part C with

respect to each such Series.

8. Exclusive Remedy. In the event that dividends are not timely

declared on the shares of Flex MMP, the exclusive remedy of Holders against the Corporation shall be as set forth in this Part C and in no event shall Holders of such shares have any right to maintain a suit or proceeding against the Corporation in respect of such dividends or damages for the failure to receive the same or resulting from such noncompliance.

9. Auction Procedures. (a) Certain Definitions. Capitalized terms

not defined in this Section 9 shall have the respective meanings specified in Sections 1 through 8 above of this Part C. As used in this Section 9, the following terms shall have the following meanings, unless the context otherwise requires:

(i) "Agent Member" means the member of the Securities

Depository that will act on behalf of an Existing Holder, a Beneficial Owner, a Potential Holder or a Potential Beneficial Owner.

(ii) "Available Depository Shares" has the meaning set

forth in subsection (d) (i) below.

(iii) "Beneficial Owner" means a customer of a

Broker-Dealer who is listed on the records of such Broker-Dealer (or, if applicable, the Auction Agent) as a holder of Depository Shares.

(iv) "Bid" has the meaning set forth in subsection

(b) (i) below.

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(v) "Bidder" has the meaning set forth in subsection

(b) (i) below.

(vi) "Broker-Dealer" means any broker-dealer, or other

entity permitted by law to perform the functions required of a Broker-Dealer in these Auction Procedures, that has been selected by the Corporation and has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective.

(vii) "Broker-Dealer Agreement" means an agreement

between the Auction Agent and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures specified in these Auction Procedures.

(viii) "Existing Holder" means a Broker-Dealer (or any

other person as may be permitted by the Corporation with the consent of the Broker-Dealers and subject to execution by such person of a purchaser's letter satisfactory in form and substance to the Corporation and the Broker-Dealers) that is listed on the records of the Auction Agent as a holder of Depositary Shares.

(ix) "Hold Order" has the meaning set forth in

subsection (b) (i) below.

(x) "Order" has the meaning set forth in subsection

(b) (i) below.

(xi) "Potential Beneficial Owner" means a customer of a

Broker-Dealer that is not a Beneficial Owner of Depositary Shares but wishes to purchase Depositary Shares or that is a Beneficial Owner of Depositary Shares that wishes to purchase additional Depositary Shares.

(xii) "Potential Holder" means a Broker-Dealer (or any

such other person as may be permitted by the Corporation with the consent of the Broker-Dealers and subject to execution by such person of a purchaser's letter satisfactory in form and substance to the Corporation and the Broker-Dealers) that is not an Existing Holder of Depositary Shares or that is an Existing Holder of Depositary Shares that wishes to become an Existing Holder of additional Depositary Shares.

(xiii) "Sell Order" has the meaning set forth in

subsection (b) (i) below.

(xiv) "Submission Deadline" means 1:00 p.m., New York

City time, on any Auction Date or such other time on any Auction Date as may be specified from time to time by the

Auction Agent as the time prior to which each Broker-Dealer must submit to the Auction Agent in writing all orders obtained by it for the Auction to be conducted on such Auction Date.

(xv) "Submitted Bid" has the meaning set forth in

subsection (c) (i) below.

(xvi) "Submitted Hold Order" has the meaning set forth

in subsection (c) (i) below.

(xvii) "Submitted Order" has the meaning set forth in

subsection (c) (i) below.

(xviii) "Submitted Sell Order" has the meaning set forth

in subsection (c) (i) below.

(xix) "Sufficient Clearing Bids" has the meaning set

forth in subsection (d) (i) below.

(xx) "Winning Bid Rate" has the meaning set forth in

subsection (d) (i) below.

(b) Orders by Beneficial Owners and Potential Beneficial

Owners.

(i) Prior to the Submission Deadline on each Auction Date for any Series of Depositary Shares representing a particular Series of Flex MMP:

(A) each Beneficial Owner may submit to a Broker-Dealer information as to:

(1) the number of Outstanding Depositary Shares, if any, held by such Beneficial Owner that such Beneficial Owner desires to continue to hold without regard to the Applicable Rate for the next succeeding Dividend Period;

(2) the number of Outstanding Depositary Shares, if any, held by such Beneficial Owner that such Beneficial Owner

desires to sell, provided that the

Applicable Rate for the next succeeding Dividend Period is less than the rate per annum specified by such Beneficial Owner; and/or

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(3) the number of Outstanding Depository Shares, if any, held by such Beneficial Owner that such Beneficial Owner desires to sell without regard to the Applicable Rate for the next succeeding Dividend Period; and

(B) each Broker-Dealer, using a list of Potential Beneficial Owners that shall be maintained in accordance with the provisions set forth in the Broker-Dealer Agreement for the purpose of conducting a competitive Auction, shall contact both Beneficial Owners and Potential Beneficial Owners, including Beneficial Owners with respect to an offer by any such Beneficial Owner to purchase additional Depository Shares representing a particular Series of Flex MMP, on such list to notify such Beneficial Owners and Potential Beneficial Owners as to the length of the next Dividend Period and with respect to any Short Dividend Period, Long Dividend Period or Mandatory Redemption Period, the Dividend Payment Date(s) and any dates before which shares of Flex MMP may not be redeemed and any redemption premium applicable in an Optional Redemption, and to determine the number of Outstanding Depository Shares, if any, with respect to which each such Beneficial Owner and each such Potential Beneficial Owner desires to submit offers to purchase, provided that the Applicable Rate for the

next succeeding Dividend Period shall not be less than the rate per annum specified by such Potential Beneficial Owner.

For the purposes hereof, the communication to a Broker-Dealer of information referred to in clause (A) or (B) of this subsection (b) (i) is hereinafter referred to as an "Order" and each Beneficial Owner and each Potential

Beneficial Owner placing an Order with a Broker-Dealer is hereinafter referred to as a "Bidder"; the submission by a

Broker-Dealer of an Order to the Auction Agent shall likewise be referred to herein as an "Order", and an Existing Holder or Potential Holder who places an Order with the Auction Agent or on whose behalf an Order is placed with the Auction Agent shall likewise be referred to herein as a "Bidder"; an Order containing the information referred to in

clause (A) (1) of this subsection (b) (i) is hereinafter referred to as a "Hold Order"; an Order containing the

information referred to in clause (A) (2) or (B) of this subsection (b) (i) is hereinafter referred to as a "Bid"; and

an Order

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containing the information referred to in clause (A) (3) of this subsection (b) (i) is hereinafter referred to as a "Sell Order."

(ii) (A) A Bid by a Beneficial Owner or an Existing Holder shall constitute an irrevocable offer to sell:

(1) the number of Outstanding Depositary Shares specified in such Bid if the Applicable Rate determined on such Auction Date shall be less than the rate per annum specified in such Bid; or

(2) such number or a lesser number of Outstanding Depositary Shares to be determined as set forth in subsections (e) (i) (D) and (e) (iii) if the Applicable Rate determined on such Auction Date shall be equal to the rate per annum specified therein; or

(3) the number of Outstanding Depositary Shares specified in such Bid if the rate specified therein shall be higher than the Maximum Applicable Rate for Depositary Shares or such number or a lesser number of Outstanding Depositary Shares to be determined as set forth in subsections (e) (ii) (C) and (e) (iii) if such specified rate per annum shall be higher than the Maximum Applicable Rate and Sufficient Clearing Bids do not exist.

(B) A Sell Order by a Beneficial Owner or an Existing Holder shall constitute an irrevocable offer to sell:

(1) the number of Outstanding Depositary Shares specified in such Sell Order; or

(2) such number or a lesser number of Outstanding Depositary Shares to be determined as set forth in subsections (e) (i) (C) and (e) (iii) if Sufficient Clearing Bids do not exist.

(C) A Bid by a Potential Beneficial Owner or a Potential Holder shall constitute an irrevocable offer to purchase:

(1) the number of Outstanding Depositary Shares specified in such Bid if the Applicable Rate determined on such Auction Date shall be higher than the rate per annum specified in such Bid; or

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(2) such number or a lesser number of Outstanding Depositary Shares to be determined as set forth in subsections (e) (i) (E) and (e) (iv) if the Applicable Rate determined on such Auction Date shall be equal to the rate per annum specified therein.

(c) Submission of Orders by Broker-Dealers to Auction

Agent.

(i) Each Broker-Dealer shall submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date for any Series of Depositary Shares representing a particular Series of Flex MMP all Orders obtained by such Broker-Dealer, designating itself as the Existing Holder in respect of Depositary Shares subject to Orders submitted or deemed submitted to it by Beneficial Owners and as a Potential Holder in respect of Depositary Shares subject to Orders submitted to it by Potential Beneficial Owners, and specifying with respect to each Order:

(A) the name of the Bidder placing such Order (which shall be the Broker-Dealer unless otherwise permitted by the Corporation);

(B) the aggregate number of Outstanding Depositary Shares that are the subject of such Order;

(C) to the extent that such Bidder is an Existing Holder:

(1) the number of Outstanding Depositary Shares, if any, subject to any Hold Order placed by such Existing Holder;

(2) the number of Outstanding Depositary Shares, if any, subject to any Bid placed by such Existing Holder and the rate per annum specified in such Bid; and

(3) the number of Outstanding Depositary Shares, if any, subject to any Sell Order placed by such Existing Holder; and

(D) to the extent such Bidder is a Potential Holder, the rate per annum and the number of Depositary Shares specified in such Potential Holder's Bid.

(Each "Hold Order," "Bid" or "Sell Order" as submitted or deemed submitted by a Broker-Dealer is hereinafter referred to individually as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order.")

(ii) If any rate per annum specified in any Submitted Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one-thousandth (.001) of 1%.

(iii) If one or more Orders covering in the aggregate all of the Outstanding Depositary Shares held by an Existing Holder are not submitted to the Auction Agent prior to the Submission Deadline for any reason (including the failure of a Broker-Dealer to contact such Existing Holder or to submit such Existing Holder's Order or Orders), such Existing Holder shall be deemed to have submitted a Hold Order covering the number of Outstanding Depositary Shares held by such Existing Holder that are not subject to Orders submitted to the Auction Agent, except as provided in the next succeeding paragraph.

(iv) A Submitted Order or Submitted Orders of an Existing Holder that cover in the aggregate more than the number of Outstanding Depositary Shares held by such Existing Holder will be considered valid in the following order of priority:

(A) any Submitted Hold Order of such Existing Holder will be considered valid up to and including the number of Outstanding Depositary Shares held by such Existing Holder, provided that, if there is more than one such Submitted Hold

Order and the aggregate number of Depositary Shares subject to such Submitted Hold Orders exceeds the number of Outstanding Depositary Shares held by such Existing Holder, the number of Depositary Shares subject to each of such Submitted Hold Orders will be reduced pro rata so that such Submitted Hold Orders in the aggregate will cover exactly the number of Outstanding Depositary Shares held by such Existing Holder;

(B) any Submitted Bids of such Existing Holder will be considered valid (in the ascending order of their respective rates per annum if there is more

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than one Submitted Bid of such Existing Holder) for the number of Outstanding Depositary Shares held by such Existing Holder equal to the difference between (i) the number of Outstanding Depositary Shares held by such Existing Holder and (ii) the number of Outstanding Depositary Shares subject to any Submitted Hold Order of such Existing Holder referred to in clause (iv) (A) above (and, if more than one Submitted Bid of such Existing Holder specifies the same rate per annum and together they cover more than the remaining number of Depositary Shares that can be the subject of valid Submitted Bids of such Existing Holder after application of clause (iv) (A) above and of the foregoing portion of this clause (iv) (B) to any Submitted Bid or Submitted Bids of such Existing Holder specifying a lower rate or rates per annum, the number of Depositary Shares subject to each of such Submitted Bids specifying the same rate per annum will be reduced pro rata so that such Submitted Bids, in the aggregate, cover exactly such remaining number of Outstanding Depositary Shares of such Existing Holder); and

(C) any Submitted Sell Order of an Existing Holder will be considered valid up to and including the excess of the number of Outstanding Depositary Shares held by such Existing Holder over the sum of (a) the number of Depositary Shares subject to Submitted Hold Orders by such Existing Holder referred to in clause (iv) (A) above and (b) the number of Depositary Shares subject to valid Submitted Bids by such Existing Holder referred to in clause (iv) (B) above; provided that, if there is more than

one Submitted Sell Order of such Existing Holder and the number of Depositary Shares subject to such Submitted Sell orders is greater than such excess, the number of Depositary Shares subject to each of such Submitted Sell Orders will be reduced pro rata so that such Submitted Sell Orders, in the aggregate, will cover exactly the number of Depositary Shares equal to such excess.

The number of Outstanding Depositary Shares, if any, subject to Submitted Bids of such Existing Holder not valid under clause (iv) (B) above shall be treated as the subject of a Submitted Bid by a Potential Holder at the rate per annum specified in such Submitted Bids.

(v) If there is more than one Submitted Bid by any Potential Holder in any Auction, each such Submitted Bid shall be considered a separate Submitted Bid with respect to the rate per annum and number of Depositary Shares specified therein.

(vi) Any Order submitted by a Beneficial Owner or a Potential Beneficial Owner to its Broker-Dealer, or by a Broker-Dealer to the Auction Agent, prior to the Submission Deadline on any Auction Date, shall be irrevocable.

(d) Determination of Sufficient Clearing Bids, Winning Bid

Rate and Applicable Rate.

(i) Not earlier than the Submission Deadline on each Auction Date for any Series of Depositary Shares representing a particular Series of Flex MMP, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers and shall determine:

(A) the excess of the total number of Outstanding Depositary Shares over the number of Depositary Shares that are the subject of Submitted Hold Orders (such excess being hereinafter referred to as the "Available Depositary Shares");

(B) from the Submitted Orders, whether the number of Outstanding Depositary Shares that are the subject of Submitted Bids by Potential Holders specifying one or more rates per annum not higher than the Maximum Applicable Rate exceeds or is equal to the sum of:

(1) the number of Outstanding Depositary Shares that are the subject of Submitted Bids by Existing Holders specifying one or more rates per annum higher than the Maximum Applicable Rate, and

(2) the number of Outstanding Depositary Shares that are subject to Submitted Sell Orders

(if such excess or such equality exists (other than because the number of Outstanding Depositary Shares in clauses (1) and (2) above are each zero because all of the Outstanding Depositary Shares are the subject of Submitted Hold Orders), there shall exist

"Sufficient Clearing Bids" and such Submitted Bids by Potential Holders shall be hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(C) if Sufficient Clearing Bids exist, the winning bid rate (the "Winning Bid Rate"), which shall be the lowest rate per annum

specified in the Submitted Bids that if:

(1) each Submitted Bid from Existing Holders specifying the Winning Bid Rate and all other Submitted Bids from Existing Holders specifying lower rates per annum were accepted, thus entitling such Existing Holders to continue to hold the Depositary Shares that are the subject of such Submitted Bids, and

(2) each Submitted Bid from Potential Holders specifying the Winning Bid Rate and all other Submitted Bids from Potential Holders specifying lower rates per annum were accepted, thus entitling such Potential Holders to purchase the Depositary Shares that are the subject of such Submitted Bids, would result in such Existing Holders described in subclause (C) (1) continuing to hold an aggregate number of Outstanding Depositary Shares which, when added to the number of Outstanding Depositary Shares to be purchased by such Potential Holders described in subclause (C) (2), would equal or exceed the number of Available Depositary Shares.

(ii) In connection with any Auction and promptly after the Auction Agent has made the determinations pursuant to subsection (d) (i), the Auction Agent shall advise the Corporation of the Maximum Applicable Rate and, based on such determinations, the Applicable Rate for the next succeeding Dividend Period as follows:

(A) if Sufficient Clearing Bids exist, that the Applicable Rate for the next succeeding Subsequent Rate Period for all Depositary Shares of such Series shall be equal to the Winning Bid Rate;

(B) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding Depositary Shares are the subject of

Submitted Hold Orders), then the Maximum Applicable Rate shall apply with respect to the next succeeding Auction; or

(C) if all of the Outstanding Depositary Shares are the subject of Submitted Hold Orders, that the Applicable Rate for the next succeeding Subsequent Rate Period shall be equal to 59% of the Applicable "AA" Composite Commercial Paper Rate, in the case of Flex MMP with a Standard Dividend Period or a Short Dividend Period of 183 days or less, 59% of the Applicable Treasury Index Rate in the case of Flex MMP with a Short Dividend Period of 184 to 364 days, a Long Dividend Period or a Mandatory Redemption Period, in each case in effect on the Auction Date.

(e) Acceptance and Rejection of Submitted Bids and Submitted Sell

Orders and Allocation of Depositary Shares. Based on the determinations made

pursuant to subsection (d)(i), the Submitted Bids and Submitted Sell Orders shall be accepted or rejected and the Auction Agent shall take such other action as set forth below:

(i) If Sufficient Clearing Bids have been made, subject to the provisions of subsections (e)(iii) and (e)(iv), Submitted Bids and Submitted Sell Orders shall be accepted or rejected in the following order of priority and all other Submitted Bids shall be rejected:

(A) the Submitted Sell Orders of Existing Holders shall be accepted and the Submitted Bid of each of the Existing Holders specifying any rate per annum that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Holder to sell the Outstanding Depositary Shares that are the subject of such Submitted Sell Order or Submitted Bid;

(B) the Submitted Bid of each of the Existing Holders specifying any rate per annum that is lower than the Winning Bid Rate shall be accepted, thus entitling each such Existing Holder to continue to hold the Outstanding Depositary Shares that are the subject of such Submitted Bid;

(C) the Submitted Bid of each of the Potential Holders specifying any rate per annum that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Holder to purchase the Outstanding Depositary Shares that are the subject of such Submitted Bid;

(D) the Submitted Bid of each of the Existing Holders specifying a rate per annum that is equal to the Winning Bid Rate shall be accepted, thus entitling each such Existing Holder to continue to hold the Outstanding Depositary Shares that are the subject of such Submitted Bid, unless the number of Outstanding Depositary Shares subject to all such Submitted Bids shall be greater than the number of Outstanding Depositary Shares ("Remaining

Depositary Shares") equal to the excess of the Available Depositary

Shares over the number of Outstanding Depositary Shares subject to Submitted Bids described in subsections (e)(i)(B) and (e)(i)(C), in which event the Submitted Bids of each such Existing Holder shall be rejected in part, and each such Existing Holder shall be required to sell Outstanding Depositary Shares, but only in an amount equal to the difference between (1) the number of Outstanding Depositary Shares then held by such Existing Holder subject to such Submitted Bid and (2) the number of Depositary Shares obtained by multiplying (x) the number of Remaining Depositary Shares by (y) a fraction, the numerator of which shall be the number of Outstanding Depositary Shares held by such Existing Holder subject to such Submitted Bid and the denominator of which shall be the aggregate number of Outstanding Depositary Shares subject to such Submitted Bids made by all such Existing Holders that specified a rate per annum equal to the Winning Bid Rate; and

(E) the Submitted Bid of each of the Potential Holders specifying a rate per annum that is equal to the Winning Bid Rate shall be accepted, but only in an amount equal to the number of Outstanding Depositary Shares obtained by multiplying (x) the difference between the Available Depositary Shares and the number of Outstanding Depositary Shares subject to Submitted Bids described in subsections (e)(i)(B), (e)(i)(C) and (e)(i)(D) by (y) a fraction, the numerator of which shall be the number of Outstanding Depositary Shares subject to such Submitted Bid and the denominator of which shall be the aggregate number of Outstanding Depositary Shares subject to such Submitted Bids made by all such Potential Holders that specified rates per annum equal to the Winning Bid Rate.

(ii) If Sufficient Clearing Bids have not been made (other than because all of the Outstanding Depositary

Shares are subject to Submitted Hold Orders), subject to the provisions of subsection (e)(iii), Submitted Orders shall be accepted or rejected as follows in the following order of priority and all other Submitted Bids of Potential Holders shall be rejected:

(A) the Submitted Bid of each Existing Holder specifying any rate per annum that is equal to or lower than the Maximum Applicable Rate shall be accepted, thus entitling such Existing Holder to continue to hold the Outstanding Depositary Shares that are the subject of such Submitted Bid;

(B) the Submitted Bid of each Potential Holder specifying any rate per annum that is equal to or lower than the Maximum Applicable Rate shall be accepted, thus requiring such Potential Holder to purchase the Outstanding Depositary Shares that are the subject of such Submitted Bid; and

(C) the Submitted Bids of each Existing Holder specifying any rate per annum that is higher than the Maximum Applicable Rate shall be rejected, thus requiring each such Existing Holder to sell the Outstanding Depositary Shares that are the subject of such Submitted Bid, and the Submitted Sell Orders of each Existing Holder shall be accepted, in both cases only in an amount equal to the difference between (1) the number of Outstanding Depositary Shares then held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and (2) the number of Depositary Shares obtained by multiplying (x) the difference between the Available Depositary Shares and the aggregate number of Outstanding Depositary Shares subject to Submitted Bids described in subsections (e)(ii)(A) and (e)(ii)(B) by (y) a fraction, the numerator of which shall be the number of Outstanding Depositary Shares held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which shall be the aggregate number of Outstanding Depositary Shares subject to all such Submitted Bids and Submitted Sell Orders.

(iii) If, as a result of the procedures described in subsection (e)(i) or (e)(ii), any Existing Holder would be entitled or required to sell or any Potential Holder would be entitled or required to purchase, a fraction of a Depositary Share on any Auction Date, or any Existing Holder or Potential Holder would own a fraction of a Unit

(except with respect to an Auction relating to a Mandatory Redemption Period), the Auction Agent shall, in such manner as in its sole discretion it shall determine, round up or down the number of Depositary Shares to be purchased or sold by any Existing Holder or Potential Holder on such Auction Date so that only whole Depositary Shares will be entitled or required to be sold or purchased and, other than with respect to an Auction relating to a Mandatory Redemption Period, so as to result in each Existing Holder or Potential Holder owning whole Units.

(iv) If, as a result of the procedures described in subsection (e) (i), any Potential Holder would be entitled or required to purchase less than a whole Depositary Share on any Auction Date, or any Potential Holder would own a fraction of a Unit (except with respect to an Auction relating to a Mandatory Redemption Period), the Auction Agent shall, in such manner as in its sole discretion it shall determine, allocate Depositary Shares for purchase among Potential Holders so that only whole Depositary Shares and, other than with respect to an Auction relating to a Mandatory Redemption Period, whole Units, are purchased on such Auction Date by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any Depositary Shares on such Auction Date.

(v) Based on the results of each Auction, the Auction Agent shall determine, with respect to each Broker-Dealer that submitted Bids or Sell Orders on behalf of Existing Holders or Potential Holders, the aggregate number of Outstanding Depositary Shares to be purchased and the aggregate number of Outstanding Depositary Shares to be sold by such Potential Holders and Existing Holders and, to the extent that such aggregate number of Outstanding Depositary Shares to be purchased and such aggregate number of Outstanding Depositary Shares to be sold differ, the Auction Agent shall determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer shall deliver, or from which other Broker-Dealer or Broker-Dealers acting for one or more sellers such Broker-Dealer shall receive, as the case may be, Outstanding Depositary Shares.

(f) Miscellaneous. Except during a Mandatory Redemption Period, an

Existing Holder or Beneficial Owner (A) may sell, transfer or otherwise dispose of Depositary Shares only pursuant to a Bid or Sell Order in accordance with the

procedures described in this Section 9 or to or through a Broker-Dealer, provided that in the case of all transfers other than pursuant to Auctions such

- -----

Existing Holder, its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (B) unless otherwise required by law, shall have the beneficial ownership of the Depositary Shares held by it maintained in book-entry form by the Securities Depository in the account of its Agent Member, which in turn shall maintain records of such Existing Holder's beneficial ownership. The Corporation and its Affiliates shall not submit any Order in any Auction except as set forth in the next sentence. Any Broker-Dealer that is an affiliate of the Corporation may submit Orders in Auctions but only if such Orders are not for its own account, except that if such affiliated Broker-Dealer holds Depositary Shares for its own account, it must submit a Sell Order in the next Auction with respect to such Depositary Shares. All of the Outstanding

Depository Shares of each Series shall be represented by a single certificate for each Series registered in the name of the nominee of the Securities Depository unless otherwise required by law or unless there is no Securities Depository. If there is no Securities Depository, Depository Shares shall be registered in the register of the Corporation in the name of the Existing Holder thereof and such Existing Holder thereupon will be entitled to receive a certificate therefor and be required to deliver a certificate therefor upon transfer or exchange thereof.

Except as provided in the next sentence, Depository Shares must be held or transferred, and all Bid, Sell or Hold Orders in an Auction must be placed, only in whole Units (consisting of 1,000 Depository Shares). During a Mandatory Redemption Period, Depository Shares will not be required to be held or transferred in Units and in an Auction relating to a Mandatory Redemption Period, Bid, Sell or Hold Orders will not be required to be placed in Units.

10. Additional Terms. (a) The Board of Directors may interpret the

provisions of this Part C to resolve any inconsistency or ambiguity, remedy any formal defect or make any other change or modification which does not adversely affect the rights of Holders of Flex MMP or Existing Holders of Depository Shares.

(b) The headings of the various subdivisions of this Part C are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

AMENDMENT 1993-1 TO THE
RHONE-POULENC RORER EMPLOYEE SAVINGS PLAN

1. Section 5.1 of the Plan is amended to read, in its entirety, as follows:

"5.1 Matching Contributions. Subject to the limitations set forth in Article VI, each Participant's Basic Contributions shall be matched on an annual basis by an Employer Contribution up to a maximum Employer Contribution of \$3,000 for a Participant in a Plan Year. The Basic Contributions shall be matched by Employer Contributions in accordance with the following schedule:

<TABLE>

<CAPTION>

| BASIC CONTRIBUTION (AS A % OF COMPENSATION) | EMPLOYER CONTRIBUTION (AS A % OF BASIC CONTRIBUTION) |
|--|---|
| <S> | <C> |
| 1st 1% | 100% |
| 2nd 1% | 90% |
| 3rd 1% | 80% |
| 4th-6th 1% | 50% |

</TABLE>

The Company shall, with respect to the first Plan Year in which an Employee elects to become a Participant pursuant to Article III hereof, make an additional Employer Contribution of \$100 on behalf of the Participant. The Company may, in its sole discretion, elect to make an Employer Contribution that is in excess of the amount required to be contributed by the Company; provided, however, that in no event shall the total Employer Contributions for any Participant for any Plan Year exceed the \$3,000 limitation referenced above."

2. This Amendment 1993-1 shall be effective as of September 1, 1993.

RHONE-POULENC RORER INC.

COMPUTATION OF EARNINGS PER COMMON SHARE
(DOLLARS AND SHARES IN MILLIONS EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

| | YEARS ENDED DECEMBER 31, | | | | | |
|---|--------------------------|-----------|----------|-----------|----------|-----------|
| | 1993 | | 1992 | | 1991 | |
| | DOLLARS | PER SHARE | DOLLARS | PER SHARE | DOLLARS | PER SHARE |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | <C> | <C> | <C> | <C> | <C> | <C> |
| NET INCOME PER COMMON SHARE, PRIMARY: | | | | | | |
| Net income before preferred dividend and cumulative effect of accounting change..... | \$ 421.1 | | \$ 423.3 | | \$ 326.5 | |
| Less: Preferred dividend. | 12.4 | | 10.1 | | .4 | |
| | ----- | | ----- | | ----- | |
| Net income before cumulative effect of accounting change..... | 408.7 | \$ 2.96 | 413.2 | \$ 2.99 | 326.1 | \$ 2.37 |
| Cumulative effect of ac- counting change..... | -- | -- | 15.0 | .11 | -- | -- |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Net income..... | \$ 408.7 | \$ 2.96 | \$ 428.2 | \$ 3.10 | \$ 326.1 | \$ 2.37 |
| | ===== | ===== | ===== | ===== | ===== | ===== |
| Average shares outstand- ing..... | 138.2 | | 138.1 | | 137.7 | |
| | ===== | | ===== | | ===== | |
| NET INCOME PER COMMON SHARE, FULLY DILUTED: | | | | | | |
| Net income before preferred dividend and cumulative effect of accounting change..... | \$ 421.1 | | \$ 423.3 | | \$ 326.5 | |
| Less: Preferred dividend. | 12.4 | | 10.1 | | .4 | |
| | ----- | | ----- | | ----- | |
| Net income before cumulative effect of accounting change..... | 408.7 | \$ 2.94 | 413.2 | \$ 2.96 | 326.1 | \$ 2.33 |
| Cumulative effect of ac- counting change..... | -- | -- | 15.0 | .11 | -- | -- |

| | | | | | | |
|---|----------------------------|---------------------------|----------------------------|---------------------------|----------------------------|---------------------------|
| Net income..... | ----- \$ 408.7 ===== | ----- \$ 2.94 ===== | ----- \$ 428.2 ===== | ----- \$ 3.07 ===== | ----- \$ 326.1 ===== | ----- \$ 2.33 ===== |
| Average shares outstand- ing..... | 138.2 | | 138.1 | | 137.7 | |
| Shares contingently issu- able for stock plan..... | .7 | | 1.4 | | 2.2 | |
| Average shares outstanding, assuming full dilution..... | ----- 138.9 ===== | | ----- 139.5 ===== | | ----- 139.9 ===== | |

</TABLE>

This calculation is submitted in accordance with the regulations of the Securities and Exchange Commission although not required by APB Opinion No. 15 because it results in dilution of less than 3 percent in all years presented.

RHONE-POULENC RORER INC.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND
 RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS
 (UNAUDITED)

<TABLE>
 <CAPTION>

| | YEAR ENDED DECEMBER 31, | | | | | |
|---|-----------------------------|-------|-------|-------|-------|-------|
| | ----- | | | ----- | | |
| | 1993 | 1992 | 1991 | 1990 | 1990 | 1989 |
| | (IN MILLIONS EXCEPT RATIOS) | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Income before income taxes and minority interest..... | \$594 | \$584 | \$486 | \$ 17 | \$232 | \$125 |
| Add: | | | | | | |
| Portion of rents representative of the interest factor..... | 16 | 9 | 9 | 7 | 8 | 5 |
| Interest on indebtedness..... | 71 | 125 | 165 | 183 | 247 | 58 |
| Amortization of capitalized interest... | 6 | 3 | 2 | 2 | 2 | 2 |
| | ---- | ---- | ---- | ---- | ---- | ---- |
| Income as adjusted..... | \$687 | \$721 | \$662 | \$209 | \$489 | \$190 |
| | ==== | ==== | ==== | ==== | ==== | ==== |
| Interest on indebtedness..... | \$ 71 | \$125 | \$165 | \$183 | \$247 | \$ 58 |
| Capitalized interest..... | 4 | 15 | 21 | 8 | 9 | 4 |
| Portion of rents representative of the interest factor..... | 16 | 9 | 9 | 7 | 8 | 5 |
| | ---- | ---- | ---- | ---- | ---- | ---- |
| Fixed charges..... | \$ 91 | \$149 | \$195 | \$198 | \$264 | \$ 67 |
| Preferred dividends..... | 16 | 14 | -- | -- | -- | 2 |
| | ---- | ---- | ---- | ---- | ---- | ---- |
| Fixed charges and preferred dividends.. | \$107 | \$163 | \$195 | \$198 | \$264 | \$ 69 |
| | ==== | ==== | ==== | ==== | ==== | ==== |
| Ratio of earnings to fixed charges..... | 7.5 | 4.8 | 3.4 | 1.1 | 1.9 | 2.8 |
| | ==== | ==== | ==== | ==== | ==== | ==== |
| Ratio of earnings to fixed charges and preferred dividends..... | 6.4 | 4.4 | 3.4 | 1.1 | 1.9 | 2.8 |
| | ==== | ==== | ==== | ==== | ==== | ==== |

</TABLE>

RHONE-POULENC RORER INC.

SUBSIDIARIES

Agrico Limited (U.K.)
Approved Prescription Services Limited (U.K.)
APS Health Ltd. (U.K.)
Armour Pharmaceutical Holdings Limited (U.K.)
Armour Pharmaceutical Company Ltd. (U.K.)
Armour Pharmaceutical Co. (De)
Armour Pharmaceutica LTDA (Brazil)
Armour Pharma GmbH (Germany)
Armour Pharmaceutical Products Inc. (De)
Barcroft Company (De)
Bellon (France)
Berk Pharmaceuticals Limited (U.K.)
Berk Pharma A/S (Denmark)
Biovital Laboratoires (France)
Bottu (France)
BRG Partnership (De)
Co-Frusamil Limited (U.K.)
Dermik Labs, Inc. (De)
Dermik II (De)
DeRoc Partnership (De)
Dicoss A.G. (Switzerland)
Dipharm A.G. (Switzerland)
Dr. Schieffer Arznei GmbH (Germany)
Dr. Schieffer Arzneimittel A.G. (Switzerland)
Dr. Schieffer International Arzneimittel GmbH (Germany)
Inmobiliaria RPR, S.A. de C.V. (Mexico)
May & Baker Pharma Inc. (Canada)
May & Baker Pharmaceuticals Limited (U.K.)
May & Baker Limited (U.K.)
May & Baker Limited U.K. (U.K.)
Natrpharm (Ireland) LTD
Nattermann de Mexico (Mexico)
Nattermann Espana S.A. (Spain)
Nattermann & CIE GmbH (Germany)
Nattermann International GmbH (Germany)
Performances Chimiques (France)
Pharmatec Limited (U.K.)
Pharminindustrie S.A. (France)
Piraud A.G. (Switzerland)
Plasma Alliance Inc. (De)
R-PR IPL Group Inc. (De)
R-PR BRG Group Inc. (De)

Rhodiapharm Inc. (Canada)
Rhone-Poulenc Rorer Pharmaceuticals Inc. (De)
Rhone-Poulenc Rorer Pharm Products (De)
Rhone-Poulenc Rorer Pharmaceutical Limited (Ireland)

EXHIBIT 21

RHONE-POULENC RORER INC.

SUBSIDIARIES

Rhone-Poulenc Rorer Philippines Inc. (Philippines)
Rhone-Poulenc Rorer Pharmaservices (France)
Rhone-Poulenc Rorer Pakistan (PVT) Ltd. (Pakistan)
Rhone-Poulenc Rorer New Zealand Ltd. (New Zealand)
Rhone-Poulenc Rorer Panama S.A. (Panama)
Rhone-Poulenc Rorer Participations (France)
Rhone-Poulenc Rorer Pharma Specialties (France)
Rhone-Poulenc Rorer (Morocco)
Rhone-Poulenc Rorer S.A. (Spain)
Rhone-Poulenc Rorer S.A. De C.V. (Mexico)
Rhone-Poulenc Rorer S.p.A. (Italy)
Rhone-Poulenc Rorer Thailand
Rhone-Poulenc Rorer S.A. (Pty.) Ltd. (South Africa)
Rhone-Poulenc Rorer S.A. (France)
Rhone-Poulenc Rorer Propharm (France)
Rhone-Poulenc Rorer R&D (France)
Rhone-Poulenc Rorer S.A. (Argentina)
Rhone-Poulenc Rorer S.A. (Chile)
Rhone-Poulenc Rorer Principes Actifs (France)
Rhone-Poulenc Rorer Doma (France)
Rhone-Poulenc Rorer Aebe (Greece)
Rhone-Poulenc Rorer S.A. (Uruguay)
Rhone-Poulenc Rorer A.G. (Switzerland)
Rhone-Poulenc Rorer AS (Denmark)
Rhone-Poulenc Rorer Belgium (Belgium)
Rhone-Poulenc Rorer Australia Pty. Ltd. (Australia)
Rhone-Poulenc Pharma AB (Sweden)
Rhone-Poulenc Pharma GmbH (Germany)
Rhone-Poulenc Rorer Limited (U.K.)
Rhone-Poulenc Indonesia Pharma (Indonesia)
Rhone-Poulenc Bangladesh Ltd. (Bangladesh)
Rhone-Poulenc Pharma (Cameroon)
Rhone-Poulenc Pharma AG (Switzerland)
Rhone-Poulenc Labo (France)
Rhone-Poulenc Rorer B.V. (Netherlands)
Rhone-Poulenc Rorer Inc. (Pa)
Rhone-Poulenc Rorer Holdings LTD (U.K.)
Rhone-Poulenc Rorer International Holdings Inc. (De)
Rhone-Poulenc Rorer Ireland Ltd. (Ireland)

Rhone-Poulenc Rorer Korea (Korea)
Rhone-Poulenc Rorer Japan, Inc. (Japan)
Rhone-Poulenc Rorer Canada Inc. (Canada)
Rhone-Poulenc Rorer GmbH (Germany)
Rhone-Poulenc Rorer de Venezuela, S.A.
Rhone-Poulenc Rorer Caribbean Inc. (Puerto Rico)
Rhone-Poulenc Rorer (El Salvador) S.A. DE C.V. (El Salvador)
Rhone-Poulenc Rorer Export LTD (UK)

EXHIBIT 21

RHONE-POULENC RORER INC.

SUBSIDIARIES

Rhone-Poulenc Rorer De Centro America (Guatemala) S.A. (Guatemala)
Rorer International Ltd. (Hong Kong)
Rorer International Corporation (Pa)
Rorer S.A. Zug (Switzerland)
Rorer S.A. (Colombia)
Rorer Pharmaceuticals Limited (U.K.)
Rorer Pharmaceutical Pte. Ltd. (Singapore)
Rorer Ges.m.b.h. (Austria)
Rorer De Equador S.A. (Equador)
Rorer Biofarma S.A (Portugal)
Rorer A.G. (Switzerland)
Rorer Holdings B.V. (Netherlands)
Rorer Finanziaria S.p.A. (Italy)
Rorer (U.K.) Limited
Rorer Health Care Limited (U.K.)
Rorer Health Care Staff Pension Trustee Co. Limited (U.K.)
Rorer Health Care Staff Pensions Limited (U.K.)
Rorer GmbH (Germany)
Rorer Health Care Holdings Limited (U.K.)
RPC Inc. (De)
S.I.P.O.A. (Senegal)
Sedapharm (France)
Sopar Pharma (Belgium)
SPCA--Barcroft E.U.R.L. (France)
Specia (France)
Theraplix (France)
U.S. Ethicals Inc. (N.Y.)
Wampole Inc. (Canada)
Whitney Bay Insurance LTD. (Bermuda)

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Rhone-Poulenc Rorer Inc. (formerly Rorer Group Inc.) on Form S-3 (Registration No. 33-62052, Registration No. 33-36558, Registration No. 33-30795, Registration No. 33-23754, Registration No. 33-4876, Registration No. 33-19936, Registration No. 22-18034, Registration No. 33-43941, Registration No. 33-53378 and Registration No. 33-55694) and on Form S-8 (Registration No. 33-58998, Registration No. 33-24537, Registration No. 2-61635, Registration No. 2-78374 and Registration No. 33-2403) of our report, which includes an explanatory paragraph on the Company's change in its method of accounting for income taxes in 1992, dated January 26, 1994 on our audits of the consolidated financial statements and financial statement schedules of Rhone-Poulenc Rorer Inc. and subsidiaries as of December 31, 1993 and 1992, and for the years ended December 31, 1993, 1992 and 1991, which report is included in this Annual Report on Form 10-K.

/s/ Coopers & Lybrand

Coopers & Lybrand

Philadelphia, Pennsylvania
March 16, 1994

POWERS OF ATTORNEY

EXHIBIT 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned, a Director of Rhone-Poulenc Rorer Inc. (the "Company"), hereby appoints John B. Bartlett, Patrick Langlois and Richard B. Young, and each of them severally, his true and lawful attorney-in-fact and agent, with full power of substitution, acting in the name and on behalf of the undersigned, to execute and to file with the Securities and Exchange Commission the Company's Annual Report on Form 10-K for the year ended December 31, 1993 under the Securities Exchange Act of 1934, as amended (the " '34 Act"), and to do all such other acts in compliance with the '34 Act and the rules, regulations and requirements of the Securities Exchange Commission, which said attorneys and agents, and each of them, may deem necessary or desirable in connection therewith.

/s/ Jean-Jacques Bertrand

 Jean-Jacques Bertrand

Dated: March 8, 1994

/s/ Richard B. Young

WITNESS: _____

EXHIBIT 24

POWER OF ATTORNEY

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necessary or desirable in connection therewith.

/s/ Jean-Marc Bruel

Jean-Marc Bruel

Dated: March 8, 1994

/s/ Richard B. Young

WITNESS: _____

EXHIBIT 24

POWER OF ATTORNEY

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/s/ Michel de Rosen

Michel de Rosen

Dated: March 8, 1994

/s/ Richard B. Young

WITNESS: _____

EXHIBIT 24

POWER OF ATTORNEY

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necessary or desirable in connection therewith.

/s/ Charles-Henri Filippi

Charles-Henri Filippi

Dated: March 8, 1994

/s/ Richard B. Young

WITNESS: _____

EXHIBIT 24

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/s/ Claude Helene

Claude Helene

Dated: March 8, 1994

/s/ Richard B. Young

WITNESS: _____

EXHIBIT 24

POWER OF ATTORNEY

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necessary or desirable in connection therewith.

/s/ Michael H. Jordan

Michael H. Jordan

Dated: March 8, 1994

/s/ Richard B. Young

WITNESS: _____

EXHIBIT 24

POWER OF ATTORNEY

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/s/ Manfred E. Karobath, MD

Manfred E. Karobath, MD

Dated: March 8, 1994

/s/ Richard B. Young

WITNESS: _____

EXHIBIT 24

POWER OF ATTORNEY

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necessary or desirable in connection therewith.

/s/ Igor Landau

Igor Landau

Dated: March 8, 1994

/s/ Richard B. Young

WITNESS: _____

EXHIBIT 24

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/s/ Peter J. Neff

Peter J. Neff

Dated: March 8, 1994

/s/ Richard B. Young

WITNESS: _____

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necessary or desirable in connection therewith.

/s/ James S. Riepe

James S. Riepe

Dated: March 8, 1994

/s/ Richard B. Young

WITNESS: _____

EXHIBIT 24

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/s/ Edward J. Stemmler, MD

Edward J. Stemmler, MD

Dated: March 8, 1994

/s/ Richard B. Young

WITNESS: _____

EXHIBIT 24

POWER OF ATTORNEY

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necessary or desirable in connection therewith .

/s/ Jean-Pierre Tirouflet

Jean-Pierre Tirouflet

Dated: March 8, 1994

/s/ Richard B. Young

WITNESS: _____