

Health and safety committee

The health and safety committee consists of the head of health and safety, the chief executive officer and chief operating officer, the quality assurance director and a labour doctor (external). This committee validates the professional risk evaluation document, monitors regulations, prepares the necessary recommendations and corresponding procedures, performs audits, and undertakes site visits

16.4. Internal audit

Pursuant to Article L. 225-68 paragraph 7 of the French Commercial Code, at the close of the financial year ending 31 December 2005, the Chairman of the BioAlliance Pharma Supervisory Board prepared a report on the conditions for preparing and organising the work of the Supervisory Board and the internal audit procedures put in place by the Company, including the following items.

16.4.1. Report by the Chairman of the Supervisory Board on the conditions for preparation and organisation of the work of the Board and internal control procedures implemented by the Company

To the Shareholders,

In my capacity as Chairman of the Supervisory Board, I am going to describe to you the Quality Assurance and Internal Control system, after reporting to you on the work by the Supervisory Board and the Company's organisation:

I. Conditions for preparing and organising the work of the Supervisory Board

During the financial year from 1 January to 31 December 2006, the following were members of the Supervisory Board:

- Mr. Jean Claude Deschamps, an independent member, who was moreover the Chairman of the Supervisory Board throughout the period;
- Mr. François Sarkozy, Vice-Chairman, independent member;
- Mr. Denis Biju Duval, permanent representative of ING;
- Mr. Bernard Daugeras, permanent representative of Auriga Partners;
- Ms. Marie-Laure Garrigues, permanent representative of Sigefi Ventures gestion (Siparex group), who tendered Sigefi's resignation to the Supervisory Board at its meeting on 3 February 2006;
- Mr. Claude Stoufs, permanent representative of Capricorn Venture Partners, who tendered Capricorn's resignation to the Supervisory Board at its meeting on 25 October 2006;
- Mr. Georges Hibon, an independent member chosen for his experience and his competencies in the pharmaceutical industry, who was co-opted to replace Mr. Claude Stoufs at the Supervisory Board meeting of 25 October 2006. Mr. Georges Hibon was invited to Supervisory Board meetings as a special non-voting member since July 2006.

I.1. Conditions for preparation and organisation of the work of the Supervisory Board

The rules relating to the functioning of the Supervisory Board are set by law, the internal regulations adopted on 21 October 2005 included in the Supervisory Board's Internal Control Procedure on 22 December 2005 and the bylaws that were adopted on 7 November 2005 by the extraordinary shareholders' meeting and updated on 2 January 2007. The internal regulations apply the recommendations issued in the report published in 2003 by the AFEP (the French association of private companies) and the MEDEF (French employers' federation) entitled "corporate governance in listed companies".

These regulations provide for the relations between the Management Board and the Supervisory Board, the method of functioning and the powers of the Supervisory Board, and sets, in particular, the conditions in which the members of the Supervisory Board may attend board meetings by videoconference (to date, the members of the Supervisory Board have never made use of this possibility), the powers of the committees and the rules of ethics that apply to Supervisory Board members. These regulations are available on the Company's website (www.bioalliancepharma.com).

During the financial year, the Supervisory Board met ten times. At these various meetings, the attendance rate of its members was 96% (2 absences of one director for all meetings. Two proxies for their representation were given by members of the Supervisory Board to other Supervisory Board members during the past financial year.

Members of the Supervisory Board were invited to attend meetings, in accordance with a pre-established time schedule, by the Chairman of the board, by means of an e-mail sent at least three days prior to the date of the meeting.

Before holding board meetings, members of the Supervisory Board are issued with any documents that may be useful for their information. This information is the responsibility of the Chairman of the Supervisory Board and the Chairman of the Management Board. Outside the scope of any meetings, the members of the Supervisory Board can, at their request, obtain any information that they consider appropriate from the same people. This information is provided to them as soon as practicable.

The statutory auditors (Thierry Dartus, Grant Thornton and Franck Sebag, Ernst & Young) were invited to meetings of the Supervisory Board during which the annual and interim financial statements were reviewed or closed. They attended all of these meetings. The statutory auditors were convened by registered letters with acknowledgement of receipt requested, that were sent to them at the same time as the convening notices sent to board members.

During the financial year ended, the Chairman of the Supervisory Board chaired all meetings of the Supervisory Board.

The attendance register was signed, for each meeting, by all board members present. The minutes of each meeting were prepared by the secretary and signed by the Chairman and another board member participating in the meeting. The Management Board systematically attended all Supervisory Board.

I.2. Committees set up by the Supervisory Board

The Supervisory Board has set up two permanent and independent board committees: the compensation committee and the audit committee.

The compensation committee consists of two independent members of the Supervisory Board, the Chairman, Jean Claude Deschamps, and the Vice-Chairman, François Sarkozy, and a third expert member, Dominique Jolivet, who chairs the committee. It held four formal meetings at the Company's registered office in 2006⁽¹⁹⁾.

This committee gave recommendations to the Supervisory Board on the remuneration of the independent members of the Supervisory Board and the members of the Management Board on 9 June, 25 October and 13 December. These recommendations were approved.

Furthermore, in June, the compensation committee reviewed the general salary policy and salary increases for the period from 1 July 2006 to 30 June 2007 and reviewed in October the terms and conditions and time schedule for the allocation of stock options for 2006 and 2007. This information was presented to the Supervisory Board for their information.

The audit committee consists of three members of the Supervisory Board, the Chairman, Jean Claude Deschamps, the Vice-Chairman, François Sarkozy and the representative of Capricorn Ventures Partner, Claude Stoufs, until it resigned from the Supervisory Board. He was replaced by the representative on the Supervisory Board of ING, Denis Biju Duval, who was appointed as Chairman of the committee by the Supervisory Board, on 13 December 2006.

This committee held five formal meetings at the Company's registered office in 2006⁽²⁰⁾; each meeting was attended by all the committee members and also the statutory auditors, the Chief Financial Officer and a member of the Management Board. The committee systematically reported on its findings to the Board and had the opportunity to meet with the statutory auditors outside the presence of the Company's representatives.

(19) On 16 March, 5 April, 2 June & 11 October.

(20) On 25 January, 16 March, 5 & 6 September, 13 December.

I.3. Functioning of the Management Board and limitation on its powers imposed by the Supervisory Board

Over the past financial year, the following were members of the Management Board:

- Ms. Dominique Costantini, President;
- Mr. Gilles Avenard, Chief Operating Officer;
- Mr. Richard Keatinge, Chief Executive Officer until he resigned on 16 May 2006 from his office as a member of the Management Board and his employment contract.

The Management Board met fourteen times at the Company's registered office over the past financial year. The President of the Management Board chaired all the meetings.

The minutes of each meeting were prepared by the Board's secretary in France and signed by the President and another member of the Management Board who attended the meeting. Minutes are provided to the Supervisory Board for information purposes.

The President and the Chief Operating Office each have the broadest powers to act in all circumstances in the name of the Company. They exercise these powers within the limit of the corporate purpose, the bylaws and the internal regulations, and subject to those powers expressly granted by law to shareholders' meetings and the Supervisory Board.

Limitations decided by the Supervisory Board

The internal regulations of the Supervisory Board govern, in particular, the relations between the members of the Supervisory Board and the members of the Management Board. It imposed limitations on the powers of the Management Board, requiring the Management Board to request the prior authorisation of the Supervisory Board for the following decisions:

- decision to acquire or dispose of assets or an investment in a company, by any means whatsoever, or any investment, for an amount of over 200,000 euros per year, other than those included in the Company's annual budget;
- decision to dispose of or grant a licence with regard to a significant intellectual or industrial property right belonging to the Company which is liable to be used by a product being developed.

I.4. Committees set up by the Management Board

I.4.1. Management Committee

In addition to meetings of the Supervisory Board and the Management Board, the company is organised with a Management Committee which meets every week in order to examine the progress of its projects, budgetary issues and employee issues at both companies. This committee was enlarged following the internal reorganisation which followed the IPO and the changes in the Company, in particular the creation of Laboratoires BioAlliance Pharma S.A.S. The following attend these meetings in addition to the members of the Management Board:

- The Chief Financial Officer;
- The General Counsel in charge of the legal and human relations aspects and the legal assistant who acts as the Committee's secretary;
- The Vice President, Sales & Marketing, who is also the Chief Executive Officer of Laboratoires BioAlliance Pharma;
- The chief research officers in the fields of pharmacology-toxicology and chemistry-pharmacy;
- The chief pharmacist of Laboratoires BioAlliance Pharma and the operating directors for Lauriad® and Transdrug®;
- The Director of Regulatory Affairs;
- The Quality Director.

These meetings represent the Company's operational management body.

I.4.2. Scientific Advisory Board

The Scientific Advisory Board of BioAlliance Pharma consists of four members from reputed universities and public institutions. It meets depending on the Company's strategic requirements and the members are consulted separately, depending on requirements, at project meetings:

- Professor Christian Auclair - Ecole Normale Supérieure (Cachan);
- Professor François Clavel - INSERM - Bichat (Paris);
- Professor Patrick Couvreur - CNRS - Faculty of Pharmacy (Châtenay-Malabry);
- Professor Jean-Marc Aiäche - (Clermont-Ferrand).

II. Quality Assurance and Internal Control system set up by the Company

II.1. General overview of procedures

BioAlliance Pharma has a single quality assurance system for both Companies, BioAlliance Pharma S.A. and its subsidiary, Laboratoires BioAlliance Pharma S.A.S., based on a system of standard operating procedures (SOPs) covering all the group's areas of activity. These procedures are laid down in written documents which describe the conduct of its activities and define the resources and responsibilities of those involved.

This organisation consists of:

1. procedures relating to organisational and planning aspects that are specific to the Company. They describe the conduct of its activities and define the resources and responsibilities of those involved;
2. operating methods, consisting of texts which describe the Company's know-how and give precise instructions to carry out a given transaction;
3. leaflets which describe instructions, are drafted directly by users and are provided to the Quality Assurance department; and
4. forms that have to be completed such as, for example, result reporting sheets, applications or requests or standard-form documents. The forms constitute recorded data.

All the documents with regard to the quality system is recorded on the IT server located at the Company's registered office.

The quality assurance system, set up in 1999 and then revised between 2000 and 2001, was being revised at the end of 2006 and will be the subject of a project in 2007, aimed at integrating the pharmaceutical obligations of the subsidiary, Laboratoires BioAlliance Pharma S.A.S. and the internationalisation of the clinical trials and the future operations.

The Company's quality assurance department keeps two up-to-date lists:

1. a list relating to historical document management mentioning all the documents with regard to quality, the various versions of the document, and where applicable, the deletion of the document, and
2. a list of the documents in force which contains all usable documents, with the current version. This table is accessible to all the personnel.

Through this monitoring procedure, the quality assurance department is able to guarantee the numbering and homogeneity of all the quality documents.

All the quality assurance documents represented over 150 procedures and operating methods. The documents are available to all the staff. The objective pursued is a continued improvement of quality, of the Company's functioning processes, whether these involve operating processes, management processes or support processes.

II.2. Implementation of the procedures

II.2.1. Areas concerned

The areas concerned are as follows:

- production;
- research and development, including clinical research;
- quality assurance, pharmacovigilance, health and safety, risk management and internal control;
- subcontracting activities, in particular for Eurofins-VIRalliance;
- pharmaceutical operations and marketing and sales activity in France and on an international basis;
- the administrative, legal, employment and financial fields, including corporate communications and the rules relating to the listing of the Company on Euronext.

BioAlliance Pharma has also adopted an IT charter which adds to the internal regulations provided for by the French Employment Code.

Furthermore, since June 2002, BioAlliance Pharma has an ethics committee with regard to experiments on animals consisting of seven members, whose objectives are to validate all the experiment protocols, from the point of view of animal ethics and the monitoring of compliance with regulations and training.

The regulatory watch is carried out jointly by the Quality Assurance department and the Regulatory Affairs department, including the Chief Pharmacist of Laboratoires BioAlliance Pharma S.A.S.

II.2.2. Identification of the various corporate governance bodies

Those involved are the following: the Supervisory Board, the Management Board, the Scientific Advisory Board of BioAlliance Pharma, the Management Committee and the Quality Director.

The Supervisory Board approves the Company's strategy and meets between six and ten times a year.

In order to run the Company, BioAlliance Pharma has set up committees with missions that extend to include its subsidiary, Laboratoires BioAlliance Pharma: a Management Committee and a Scientific Advisory Board, which reflects on the Company's strategy.

The composition of these committees and their missions are described in point I.4. of this report.

II.2.3. Use of manuals, standards and reference documents

Within the scope of its operations and internal control, the Company applies reference manuals within the scope of its operations:

Internal manuals and standards: procedures manual, internal regulations, IT charter.

External reference sources: the provisions of the regulations applying to the activities of the two Companies. Best Clinical Practices (BCP), Good Manufacturing Practices (GMP), Good Laboratory Practices (GLP), French and European regulations applying to the development and the exploitation of drugs, regulations with regard to GMO, the elimination of waste, the transportation of hazardous products, the manipulation of micro-organisms, health and safety, and the regulations of the French Financial Markets Authority (the AMF).

II.2.4. Conducting and monitoring of control assignments

A planning schedule for internal and external operational audits is prepared by the Quality Assurance manager, in relation with the Company's management and the auditors. This planning schedule may be revised over the year depending on the progress made.

Upon completion of the audit, the audit manager drafts a report which is sent to the auditee and the Quality Assurance manager.

The variances noted at the time of the internal audits are taken into consideration by the person concerned who is responsible for taking the corresponding action. In order to monitor the opportunities for improvement, the person responsible for the audited process completes a plan for improvement.

II.3. Specific internal control procedures

To supplement the system described for operations, the Management Board has implemented specific internal control procedures which describe various direct control process with regard to operations and the Company's legal and financial aspects.

The scope of application of these specific internal control procedures covers the following:

1. Communication of accounting, financial, scientific and institutional information;
2. The monthly accounting reporting, financial reporting and capital transactions;
3. Human resources and payroll;
4. The Company's legal aspects, the regulatory aspects and intellectual property;
5. Sales and purchasing;
6. Quality and information system;
7. Information with regard to projects, their progress and budgetary issues;
8. Information relating to equipment and installations and facilities.

These procedures are applied directly by the Management Board, or on its delegation, and are implemented on a monthly basis. The purpose of these procedures is to ensure that the information relating to each of the areas of the scope of application accurately reflect the Company's business activities and its situation.

II.4. Specific presentation on accounting and financial information

From an accounting and financial standpoint, the Company has put in place the following organisation:

- Budget preparation and approval for the following financial year, providing for a formal framework by presenting it to the Supervisory Board before the end of the current financial year and inclusion in financial reporting. A sliding financing plan covering five-years is attached to this budget;
- Monthly budget monitoring, formalisation (regular activity report with analysis of variances) in a financial reporting document (income statement, balance sheet, monitoring statement by activity and by project) and concerning employment-related matters sent by the Management Board to all investors and members of the Supervisory Board;
- Monitoring of off-balance-sheet commitments;
- Annual assignment by the firm of KPMG as certified accountant to review all accounts and ledgers, prepare working papers for the statutory auditors;
- Certification of the parent company financial statements and the consolidated financial statements based on IFRS by Ernst & Young Audit and Grant Thornton as the Company's joint statutory auditors.

Following this report, I have no comments to make on the way in which the Company, its Supervisory Board and the Management Board have implemented their organisation in order to respond to the requirements of transparency, corporate governance and internal control.

The Chairman of the Supervisory Board

16.4.2. ~~Statutory auditors' report on internal control procedures related to accounting and financial information for the financial year ended 31 December 2006~~

~~The statutory auditors' report on the report by the Chairman of the Supervisory Board to the annual shareholders' meeting with regard to internal control procedures related to accounting and financial information, does not make any specific observations. A copy of this report is set out below:~~

~~To the shareholders of BioAlliance Pharma,~~

~~In our capacity as statutory auditors of BioAlliance Pharma and in accordance with Article L. 225-235 of the French Commercial Code, we hereby present you with our report on the report prepared by the Chairman of the Supervisory Board in accordance with Article L. 225-68 of the French Commercial Code for the year ended 31 December 2006.~~