

5.4 INTERNAL CONTROL: REPORT BY THE CHAIRMAN OF THE SUPERVISORY BOARD ON THE CONDITIONS FOR PREPARATION AND ORGANISATION OF THE WORK OF THE SUPERVISORY BOARD AND ON THE INTERNAL CONTROL PROCEDURES IMPLEMENTED BY THE COMPANY

In accordance with Article L. 225-68 paragraph 7 of the French Commercial Code, the Chairman of the Supervisory Board of BioAlliance Pharma prepared, at the end of the financial year ended 31 December 2007, a report on the conditions for preparation and organisation of the work of the Supervisory Board and on the internal control procedures implemented by the Company, highlighting the following.

5.4.1 CONDITIONS FOR PREPARATION AND ORGANISATION OF THE WORK OF THE SUPERVISORY BOARD

The rules relating to the role and functioning of the Supervisory Board are set by law, the bylaws and the

Board's internal regulations. These internal regulations⁽¹⁾ provide for the relationship between the Management Board and the Supervisory Board, fix the Board's powers and those of the Committees and describe the methods of functioning of the Board as well as the rules of ethics that apply to its members. These regulations are available on the Company's website (www.bioalliancepharma.com).

5.4.1.1 COMPOSITION OF THE SUPERVISORY BOARD

Pursuant to the provisions of law and the bylaws, the Supervisory Board is composed of at least three members and at most eighteen members, appointed by the Shareholders' Meeting for a term of three years.

During the 2007 financial year, the Supervisory Board consisted of five members, three of whom are considered as independent in light of the criteria set by the Board's internal regulations. These independence criteria are inspired by the definition given in the reports on corporate governance by the relevant local authorities and organisations and based on the principle that a member of the Supervisory Board is independent where he has no relationship with the Company or its management that is likely to affect his freedom of judgment.

- Jean Claude Deschamps, Independent member and Chairman of the Supervisory Board;
- François Sarkozy, Vice-Chairman of the Supervisory Board and Independent member;
- Georges Hibon, Independent member;
- Denis Biju-Duval, permanent representative of ING;
- Bernard Daugeras, permanent representative of Auriga Partners.

5.4.1.2 ROLE OF THE SUPERVISORY BOARD

The Supervisory Board performs an ongoing assignment of supervising the Company's management by the Management Board, and has powers to verify the situation on a regular basis.

The Board's internal regulations specify that this supervisory role covers the following areas:

- review of the financial position, the cash situation, the projected management accounts and the Company's commitments;
- assessment of the means put in place by the Company, the Statutory Auditors and the internal audit team to make sure that the parent company accounts and the consolidated financial statements have been duly and properly prepared and give a true and fair view;
- review of the information provided to shareholders and to the market;
- the prior authorisation of certain decisions made by the Management Board.

5.4.1.3 FUNCTIONING OF THE SUPERVISORY BOARD

In order to enable it to fully perform its supervisory role, the Supervisory Board specified in its internal regulations that it may carry out the verifications and controls that it considers appropriate and may ask to be provided with the documents that it considers useful for the performance of its functions.

In practice, before Supervisory Board meetings are held, Board members are provided with all the appropriate documents to provide them with information. The provision of this information is the responsibility of the Chairman of the Supervisory Board and the President of the Management Board. Outside the scope of any meetings, Supervisory Board members may obtain, at their request, any information which they consider appropriate from the same people. Furthermore, the Supervisory Board members are kept regularly informed by the Management Board of the elements considered as important as well as of the press releases published by the Company.

Supervisory Board members are sent notices of meetings by email by the Chairman of the Supervisory Board, in accordance with a pre-defined calendar. Minutes are prepared in French by the Secretary in respect of each meeting and are signed by the Chairman and another member of the Supervisory Board who attended the meeting.

Management Board members are systematically present at each Supervisory Board meeting.

5.4.1.4 REPORT ON THE SUPERVISORY BOARD'S ACTIVITIES FOR 2007

During the past financial year, the Supervisory Board held seven meetings, including one held by telephone, in line with the provisions provided for in the international regulations that apply to such a case. The Chairman of the Supervisory Board chaired all the meetings and the attendance rate was 97%.

At each of the meetings, a detailed analysis was made of the significant events and a financial report was presented to the Supervisory Board by the Management Board and the Chief Financial Officer. The Supervisory Board was required to make a decision on the major transactions carried out by the Company during the past financial year, and in particular the partnership agreements in Europe and the United-States and the fund raising carried out in July 2007.

At its meetings on 28 February and 4 September 2007, the Supervisory Board reviewed the consolidated financial statements and parent company accounts for the 2006 financial year and first half 2007 respectively, in the presence of the Company's statutory auditors. It also reviewed the elements of the financial communication on which it expressed its opinion.

5.4.1.5 WORK OF THE AUDIT COMMITTEE

The audit committee is composed of three members of the Supervisory Board, two of whom are independent members.

(1) These refer to the recommendations on corporate governance of listed companies in the AFEP/MEDEF report published in October 2003

It is chaired by ING's representative on the Supervisory Board, Denis Biju Duval and also comprises the Chairman of the Supervisory Board, Jean Claude Deschamps, as well as the Vice-Chairman, François Sarkozy.

This Committee held two formal meetings at the Company's registered office in 2007⁽¹⁾. Its activities concerned the following points in particular:

- › a review of the consolidated financial statements and accounts for 2006 and the interim consolidated financial statements and accounts for 2007;
- › relations with subsidiaries;
- › the AMF reference framework with regard to internal control.

All the members were present at each meeting, together with the Statutory Auditors, the Chief Financial Officer and a member of the Management Board. The Committee had the opportunity to meet with the Statutory Auditors without the presence of the Company's representatives.

The Chairman of the Audit Committee presented a report on the Committee's work at the Supervisory Board meetings on 28 February and 4 September 2007.

5.4.1.6 WORK OF THE COMPENSATION COMMITTEE

The Compensation Committee consists of two independent members of the Supervisory Board, the Chairman, Jean Claude Deschamps and the Vice Chairman, François Sarkozy, as well as an expert member, Dominique Jolivet, who chairs the Committee.

This Committee held two formal meetings at the Company's registered office in 2007⁽²⁾. Its activities concerned the following points in particular:

- › assessment of the Company's employment-related situation;
- › proposal to change Collective Bargaining Agreements;
- › allocation of directors' fees among the independent members of the Supervisory Board;
- › general pay policy and salary increases;
- › terms and conditions and time scale for the allocation of stock options and share purchase warrants (BSA);
- › compensation of the Management Board members;
- › organisation and organisational chart of the Company in light of the objectives for 2008-2012.

The Chairman of the Compensation Committee presented the Committee's recommendations at the Supervisory Board meetings on 19 July and 26 October 2007. These recommendations were all approved by the Supervisory Board.

(1) On 28 February and 31 August.

(2) On 13 June and 17 October.

(3) Guide to implementation of the reference framework on internal control adapted to small and mid-caps published on 9 January 2008

The principles and rules established by the Supervisory Board to determine the compensation and any benefits in kind granted to the Management Board and Supervisory Board members are set out in point 3.1.9 of the management report. €108,000 of directors' fees were distributed for 2007, out of the total of €140,000 decided on by the Shareholders' Meeting in 2006.

5.4.1.7 PROSPECTS

At the end of the 2007 financial year, the Supervisory Board analysed the consequences that will follow the departure from the Supervisory Board of the institutional investors representing the venture capital funds who joined the Board in 2003 and 2004. Logically and naturally, as the terms of office of the representatives of the funds expire, as do those of the independent Supervisory Board members, the Board's composition will change. In parallel, the Company is entering a second phase in its growth, which will require access to new skills.

The Supervisory Board and the two members of the Management Board have together reviewed various changes that could be made to strengthen the Company's good corporate governance practices to accompany it during this new phase in its growth. The Board has expressed various opinions and made various recommendations in this regard, leading it to propose a Supervisory Board with seven independent members consisting of personalities from industry and the world of finance.

5.4.2 INTERNAL CONTROL PROCEDURES IMPLEMENTED BY THE COMPANY

5.4.2.1 DEFINITION

The BioAlliance Pharma group adopts the definition of internal control proposed by the AMF⁽³⁾, whereby internal control is a system implemented by the Company which aims to ensure:

- › compliance with laws and regulations;
- › the application of the instructions and strategies laid down by general management;
- › the due and proper functioning of the Company's internal processes;
- › the reliability of financial information.

Over the year, the Group continued to implement an internal control process intended to "guarantee internally the relevance and reliability of the information used and circulated in the Group's activities".

5.4.2.2 SCOPE OF INTERNAL CONTROL AND REFERENCE FRAMEWORK

The BioAlliance Pharma group's internal control procedures apply to BioAlliance Pharma SA and its wholly-owned subsidiary, Laboratoires BioAlliance Pharma SAS. The

50%-owned subsidiary, SpeBio, which will be in charge of marketing Loramyc® in Europe and is currently in process of starting up its activities, will be gradually included in this scope.

Without yet being able to adopt the AMF's reference framework *stricto sensu*, the Group has decided to follow it as closely as possible.

Furthermore, the Group, which works in the pharmaceutical sector, is subject to very strict, specific regulations which govern its activities and internal control procedures are also applied to ensure compliance with such regulations. Legislative and regulatory provisions defined by the AFSSAPS, the European Commission, the EMEA, the FDA, and equivalent regulatory authorities in other countries govern research and development, preclinical and clinical studies, regulation of laboratories, as well as the manufacture and marketing of drugs.

This means that the Group has two kinds of references for its activities:

Internal references: all the Quality procedures, the Company's internal regulations, the internal regulations of the Supervisory Board and the IT charter.

External references: the regulatory provisions that apply to the activities of the two companies: Good Clinical Practices (GCP), Good Manufacturing Practices (GMP), Good Laboratory Practices (GLP), the French and European regulations that apply to the development and sale and marketing of drugs, the regulations regarding GMOs, the elimination of waste, the transportation of hazardous substances, the handling of micro-organisms, health and safety and the regulatory provisions laid down by the AMF.

5.4.2.3 COMPONENTS OF THE INTERNAL CONTROL SYSTEM

Organisation

The BioAlliance Pharma group is organised on the basis of a dual logic of business line and geographic location, which enables clear identification of roles and responsibilities.

BioAlliance Pharma SA is responsible for research, pre-clinical and clinical development, compliance with the regulatory procedures for obtaining marketing authorisations for the drugs, the manufacture of such drugs and the agreements and licences with regard to the products developed by the Company and with regard to projects or products that come from outside the Group. The subsidiary, Laboratoires BioAlliance Pharma SAS, which has the status of a pharmaceutical laboratory, is responsible for the sale and marketing of drugs on French territory.

The Finance and Marketing and Sales departments and the support functions (Intellectual Property, Information Technology, Quality Assurance,...) are all within the parent company. In order to manage the Group, the Group has set up committees whose responsibilities extend to the subsidiary

Laboratoires BioAlliance Pharma: a management committee and a scientific committee, which reflects on strategy.

Standard Operating Procedures (SOPs)

The Group has set up a single quality assurance system for both companies, BioAlliance Pharma SA and its subsidiary, Laboratoires BioAlliance Pharma SAS. The processes for all the fields of activity are described in procedures, operating procedures, information notices and forms. These written documents describe the conduct of activities, define the means and responsibilities of those involved, specify the know-how held by the Company and give precise instructions in order to carry out a given operation.

All the documentation with regard to the quality system is saved on an intranet, which enables access to be optimised to documents and permits them to be adapted on an ongoing basis to any changes in activities (management of the life cycle of the documents). The objective pursued is to continuously improve the quality and the processes for the Company's functioning, including the operational processes, the management processes or the support processes.

The quality assurance system, set up in 1999 and then revised between 2000 and 2001, was the subject of a project in 2007, aimed at integrating the pharmaceutical obligations of the subsidiary, Laboratoires BioAlliance Pharma SAS and the international spread of the clinical trials and the future operations.

Areas concerned

The areas concerned are:

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

Stakeholders

All the Group's stakeholders, both governance bodies and employees, are involved in the internal control system: the Audit Committee conducts a reflection process jointly with the Management Board and reports on it to the Supervisory Board; the Management Board has defined the system and continues to drive it, at the time of regular management reviews and by providing its support to the Quality

Assurance department; each member of the Management Committee is responsible for managing activities within his/her scope of responsibility.

The Quality Assurance Department plays a key role through its close involvement in the Company's activities, through the support that it provides in the drafting of procedures and in document management, and through the performance and follow-up on audits and the implementation of actions to make improvements. It is also responsible for monitoring regulations, together with the Regulatory Affairs Department, which includes the Chief Pharmacist of Laboratoires BioAlliance Pharma SAS.

Finally, the employees are responsible on a day-to-day basis for compliance with standards and orientations in their field and also for the reliability and relevance of the information they generate or pass on. For this purpose, they are able to use the resources of the document system validated by the Quality Assurance Department (consisting of over 200 procedures and operating procedures) – a system which they are invited to update and improve on an ongoing basis, and their activities are regulated by a system of monthly internal control reviews.

Information systems

The information that comes from the various fields of activity is reported to the managers concerned who analyse it and submit it for an analysis and decision by the Management Committee.

An Information Systems Department was created at the end of 2007 to manage all the Group's information flows as well as IT resources. Procedures, incorporated into the quality system, define the rules with regard to access, protection and storage of information.

5.4.2.4 TAKING ACCOUNT OF RISKS AND RISK MANAGEMENT SYSTEM

The Company has identified three types of major risks: risks relating to the Company's business activities, financial risks and legal risks.

Among the risks related to the Company's business activities, some of them are specific: dependence on the most advanced product (Loramyc®), the stage of development of the other products and the risks related to the company's strategy, while others are more general and relate to its field of business: risks related to research and development, risks related to the pricing and reimbursement policies for drugs and the general risk of adverse effects in respect of drugs.

With regard to specific risks, the BioAlliance group has a well-balanced portfolio of projects, which are all at different development stages. Three groups of products are being developed: two groups are being developed using formulation technologies which are independent of one another and which could be pursued, were one of the projects to fail, without it being necessary to stop all the projects. Moreover, in each technology, progress is made successively on the various projects and they are not all

advanced at the same time, which makes it possible to invest only once initial proof of efficacy has been provided. This strategy of maintaining a well-balanced portfolio of projects makes it possible to ensure a certain degree of stability in the event that one of the projects has to be halted.

Among these specific risks, the financial dependence on the success of Loramyc® and the state of advancement of the other projects lead to uncertainty with regard to the Company's revenues over the short and medium-term. Thus, when the funds were raised in August 2007, the Group clearly announced its intention to acquire projects at an advanced stage that were near to market in order to have a diversified portfolio of products on the market over the medium term.

The agreement signed with SpePharm in 2007 is also aimed at diminishing the share of the risk borne with regard to a European launch, at a time when the Company needs to establish its revenue base in France and pursue its developments and its policy of looking for partners on other continents and with regard to other projects.

With regard to the Company's structure and its strategy, the Group is aware that it is now embarking on a second phase which will be a period during which the Company will need to become more structured and its activities will become international; at this stage, the Company is reinforcing all its structures, including the fields of quality assurance, audit and risk management, and is undertaking a policy of consolidation and diversification of its subcontractors in order to guarantee the quality of its developments, its production and its agreement.

As far as financial risks are concerned, the increase in the share capital carried out in August 2007 in the form of a private placement and the two agreements signed during the financial year enable the Group to have sufficient cash available to cover its short-term financing needs.

With respect to legal risks, the Company is pursuing its active policy of protection of its industrial property rights and has also strengthened its legal resources in order to meet the requirements of an increasing number of contracts being entered into, many of which are international.

Finally, in 2008, the Group is planning to put in place a risk management plan with regard to its main development projects and its key business activities.

5.4.2.5 IMPLEMENTATION OF THE INTERNAL CONTROL SYSTEM

The Group's Management Board and managers basically have two mechanisms at their disposal: firstly, on a regular basis, monthly internal control reviews and secondly, on an *ad hoc* basis, internal audits.

The Management Board has set up specific internal control procedures which consist in monthly reviews of the key information relating to each business activity. The managers review the data with the employees who have prepared

them and verify the supporting evidence that documents them, and also the procedures that have been used. They incur liability through their signature of documents and also report on the improvements to be made and the actions to be undertaken. The purpose of these reviews is to ensure that the information relating to each of the elements of the scope of application accurately reflects the Group's business activities and its situation:

1. Communication of accounting, financial, scientific and institutional information;
2. The monthly review of the accounts, 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 the information system;
7. Information with regard to projects, their progress and budgetary issues;
8. Information relating to equipment and installations and facilities.

These monthly reviews, including all the elements that document them, are then systematically provided to the Management Board and reviewed by management, which approves any action that may need to be taken. They are the basis for the regular, formal internal control system set up by the Group.

Internal audits are carried out by auditors who have been trained for this purpose to verify compliance with the Group's quality standards. A planning schedule of the operational audits is prepared by the Quality Assurance Department, in agreement with Management. After each audit, the Quality Assurance Department drafts a report, which is sent to the auditee and to Management. Any problems observed are taken into consideration by the person concerned who is responsible for taking the corresponding actions. In order to follow up on opportunities for improvement, the manager of the audited process also completes a plan for improvements.

With regard to the extremely specific activity of experiments on animals, since June 2002, BioAlliance Pharma has had an animal experimentation ethics committee consisting of seven members, which has the objectives of approving all the experiment protocols, from the point of view of animal ethics and of monitoring compliance with regulations and training.

5.4.2.6 DESCRIPTION OF THE INTERNAL CONTROL PROCEDURES RELATING TO THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION

As stated above, the reliability of financial information is one of the main objectives of the internal control system put in place by the Company. To this effect, control and reporting procedures have been set up, relating both to budgetary aspects, expenses and payments, and the recording of the Company's operations in the accounts in general.

At the end of each year, a detailed budget is prepared by the Chief Financial Officer for the following financial year and is validated with the Management Board. This budget is presented to the Supervisory Board. At the end of each month, the accounting teams carry out a full closing of the individual accounts of the Group companies. Budgetary reviews are organised with all the operational managers, making it possible to validate the cost accounting entries in this respect and to review all expenses, and financial reporting is prepared by the Chief Financial Officer for the attention of the Management Board and Supervisory Board members. This reporting is presented and discussed at Supervisory Board meetings.

The Group has moreover had in place for several years a process for the validation of its expenses and payments, described in procedures, which enables it to guarantee the absence of fraud. Moreover, all the invoicing operations and those relating to the collection of receivables concerning sales of Loramyc® in France are entrusted to Depolabo which applies control procedures with regard to the transactions, particularly with regard to the IT aspects.

In general, all the company's accounting options are defined by the Chief Financial Officer, discussed with the Management Board and the Statutory Auditors and then presented to the Audit Committee and discussed with this Committee. This makes it possible to ensure that the Company's practices are completely in compliance with French and international (IFRS) standards and that the financial statements are consistently presented.

5.4.2.7 LIMITS ON INTERNAL CONTROL AND AREAS FOR IMPROVEMENT

2008 is not only going to witness the first significant revenues from the sale of Loramyc® in France but will also see the first contributions by SpeBio at European level. These changes will lead to the implementation of new internal control procedures relating to operations in subsidiaries, inventories and management processes.

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

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