

CHAPITRE 8 REPORT OF THE CHAIRMAN OF THE SUPERVISORY BOARD ON CORPORATE GOVERNANCE, INTERNAL CONTROL AND RISK MANAGEMENT

In accordance with article L 225-68 of the Commercial Code, the Chairman of the Supervisory Board of BioAlliance Pharma reports, at the end of the financial year ended 31 December 2009, on the corporate governance, internal control and risk management measures implemented by the Company in 2009.

This report, which has been prepared by the Company's Chief Financial Officer together with his staff and reviewed by the Management Board, was submitted to the Audit Committee, which then presented it for approval to the full Supervisory Board on 3 March 2010.

8.1. CORPORATE GOVERNANCE

BioAlliance Pharma is a French-law limited company (*société anonyme*), with a Management Board and a Supervisory Board. The Company declares that it complies with the national and European corporate governance rules currently in force. It refers in particular to the Middlednext corporate governance code for small and medium capitalisation companies.¹

The rules related to the role and functioning of the Supervisory Board are set by law, the articles of incorporation and the Board's internal regulations. These internal regulations, updated on 10 February 2009, define the relationship between the Management Board and the Supervisory Board, determine the boards' powers and those of the committees and describe the modes of operation of the boards as well as the rules of ethics that apply to its members. These regulations are available on the Company's website (www.bioalliancepharma.com).

8.1.1. Members of the Supervisory Board

Under the provisions of law and the articles of incorporation, the Supervisory Board is made up of at least three members and at most 18 members, appointed by the general meeting for a term of three years and eligible for re-election at the end of their terms of office.

The Supervisory Board undertakes that at least one-third of its members will be independent. To qualify the independence of members, which is characterised by the absence of any significant financial, contractual or family relationship likely to compromise independence of judgment, the Supervisory Board's internal regulations have used the following independence criteria:

- the member must not be an employee or member of the Company's Management Board and must not have held any such position during the five years before his appointment in the Company;
- he must not be a client, supplier, investment banker or corporate banker of the Company;
- he must not have any close family ties with any corporate officer;
- he must not have been the Company's auditor over the past five years;
- he must not have been a director or member of the Company's Supervisory Board for over 12 years; and
- he must not directly or indirectly hold more than 1% of the Company's share capital whether on a fully diluted basis or not.

In 2009 the composition of the Supervisory Board changed twice.

¹ Corporate governance code for small and medium capitalisation companies, published in December 2009, available at www.middlednext.com.

From 1 January to 29 April 2009, the Supervisory Board was made up of six members, all independent.

The general meeting of 29 April 2009 appointed to the Supervisory Board AGF Private Equity, which has a 5.8% shareholding in the Company, represented by Mr Thierry Laugel. Then, at its meeting on 21 October 2009, the Supervisory Board co-opted ING Belgium, represented by Mr Denis Biju-Duval, and Mr André Ulmann, replacing Messrs Hibon and Taranto. ING Belgium, BioAlliance Pharma's biggest shareholder (with 8.8%), thereby strengthens the representation of shareholders on the Supervisory Board, alongside AGF Private Equity represented by Mr Rémi Droller since September 2009.

At 31 December 2009, the Company's Supervisory Board was made up of seven members, five of whom were independent:

- Jean-Marie Zacharie, independent member and Chairman of the Supervisory Board;
- François Sarkozy, independent member and Vice-Chairman of the Supervisory Board;
- Michel Arié, independent member;
- Gilles Marrache, independent member;
- André Ulmann, independent member;
- ING Belgium, represented by Denis Biju-Duval;
- AGF Private Equity, represented by Rémi Droller.

Jean-Marie Zacharie, Chairman

Aged 68, President of the subsidiary MSD-Chibret France until 2006 and Vice-President Europe from 2001 to 2006, Jean-Marie Zacharie previously managed a number of Merck MSD² international subsidiaries in Spain and South America. He acquired his earlier experience in the Sandoz Group, where he was CEO of the Belgium subsidiary and Vice-President of the Middle East and Africa region. He started his career in marketing with Sandoz Japan.

Other duties: Jean-Marie Zacharie has also been President of ShigaMediX since October 2006 and a Board member of Lundbeck France* since March 2008.

François Sarkozy, Vice- Chairman

Aged 50, President of AEC Partners France, François Sarkozy previously served as Medical Director, France, at Aventis Pharma* and Medical & Pharmaceutical Director, France, at Hoechst Marion, having been International Development Director at Roussel-Uclaf. He started his career at AP-HP, where he completed his hospital training in paediatrics.

Other duties: François Sarkozy is also a member of the Supervisory Board of Progna AG (Germany) and managing director of FSNB Conseil (France).

Michel Arié, independent member

Aged 62, Chief Financial Officer, in charge of development, diversification, mergers and acquisitions at the CNIM Group* (Constructions Industrielles de la Méditerranée), Michel Arié has worked in industry in a series of positions including internal audit, business analysis and control, administrative and financial management, export financing management and project financing. He is an engineering graduate of Supelec, and a graduate of IAE Dauphine.

Other duties: Michel Arié is also a Board member of various subsidiaries in the CNIM Group.

Gilles Marrache, independent member

Aged 41, CEO of Amgen France and Vice-President of Amgen Inc* since January 2006 (incorporated in 1980, Amgen is a speciality pharmaceutical company and the global biotech industry leader), Gilles

² The companies followed by an asterisk are listed companies.

Marrache previously managed the Belgium and Luxembourg subsidiary, after heading up Amgen's oncology division in France. Previously, he held various posts with Novartis, in the oncology business unit where he helped launch Glivec and Zometa, and served as marketing manager. He began his career with the distributor CERP. Gilles Marrache is a doctor of pharmacy from Paris XI and holds an MBA from ISC Paris.

André Ulmann, independent member

Aged 61, Founder and Chairman of the Supervisory Board of Laboratoire HRA Pharma founded in 1996, a European pharmaceutical company that develops and markets drugs in reproductive care and endocrinology, André Ulmann began his career as a hospital doctor and joined the pharmaceutical industry where he served as international project manager, medical manager and research and development manager in endocrinology with Hoechst Roussel. André Ulmann is a doctor of medicine, doctor of sciences and specialist in nephrology and internal medicine.

Other duties: He has also been Chairman of the Management Board of Celogos since 1996.

Denis Biju-Duval, permanent representative of ING Belgium

Aged 53, Denis Biju-Duval has run the ING Belgium's private equity team since 2001. He began his career with Boston Consulting Group. He was then manager with the Institut de Développement Industriel, head of business development with Chargeurs, manager at Marceau Investments overseeing industrial activities, CEO of Investop SA and manager with ING Investment Management France. Denis Biju-Duval is a qualified engineer, with an MBA (HEC/ISA Paris).

ING Belgium, which acquired a holding in BioAlliance Pharma in 2003, is the biggest shareholder in BioAlliance Pharma and was a member of the Company's Supervisory Board from 2003 to 2008, represented by Denis Biju-Duval. He rejoined the Supervisory Board in October 2009.

Rémi Droller, permanent representative of AGF Private Equity

Aged 34, Rémi Droller rejoined AGF Private Equity in 2003 as partner in charge of healthcare investments. Previously, he spent three years with CDC Ixis Innovation (now CDC Entreprise Innovation), where he was in charge of analysing and monitoring healthcare investments. Rémi Droller has a postgraduate diploma in molecular biology and a master's degree in innovation management.

AGF Private Equity crossed the threshold of 5% of the Company's capital in 2008 and was appointed a member of BioAlliance Pharma's Supervisory Board in April 2009.

8.1.2. Role of the Supervisory Board

The Supervisory Board oversees the Company's management by the Management Board, and has powers to review the situation on a regular basis.

Its internal regulations specify that this supervisory role covers the following areas:

- review of the Company's financial position, cash situation, management projections and its commitments;
- review of the means employed by the Company, the statutory auditors and the internal audit team to ensure that the parent company and consolidated financial statements have been duly and properly prepared and give a true and fair view;
- review of information related to the financial statements disclosed to shareholders and the market.

Furthermore, certain decisions of the Management Board may not be adopted and certain deeds or undertakings may not be concluded by the Management Board or the Chairman of the Management Board unless they have been authorised in advance by the Supervisory Board. Besides the transactions

provided for by law, these mainly relate to decisions to acquire or dispose of assets for an amount greater than €200,000 per year other than those referred to in the Company's annual budget.

8.1.3. Conditions for preparation and organisation of the work of the Supervisory Board

In order to enable it to fully perform its supervisory role, the Supervisory Board has 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, its 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 Chairman of the Management Board. Outside the scope of any meetings, Supervisory Board members may obtain, at their request, any information that they consider appropriate from the same people. Furthermore, Supervisory Board members are kept regularly informed by the Management Board of the elements considered important and of the press releases issued by the Company.

Supervisory Board members are sent notices of meetings by email from the Chairman of the Supervisory Board, in accordance with a preset calendar. The agenda is prepared by the Management Board in consultation with the Chairman of the Supervisory Board and notified to members of the Supervisory Board at least one week before meetings. A file detailing the content of topics on the agenda, prepared by general management, is sent to each member attending meetings.

Minutes of each meeting are prepared, with a draft sent to members of the Supervisory Board for their observations. The definitive minutes are approved at the following meeting and signed by the President and one other member of the Supervisory Board who attended the meeting.

Management Board members are systematically present at each Supervisory Board meeting. Also present at meetings to approve the half-year and annual financial statements are the representatives of the Works Council and the Company's statutory auditors.

The Board of Directors is assisted by two standing committees whose duties and mode of operation are set out in the internal regulations: the Audit Committee and the Remuneration Committee. The internal regulations also provide for the possibility of setting up other specialist committees, which carry out their business under the responsibility of the Supervisory Board. In the second half of 2009, the Supervisory Board set out a Strategic Reflection Committee comprising André Ulmann and Rémi Droller (representative of AGF Private Equity), which met three times and regularly reported its work to the Supervisory Board.

The internal regulations also provide for the existence of a Scientific Committee made up of the Management Board and the Chief Scientific Officer of BioAlliance Pharma, as well as distinguished members affiliated with renowned French universities, hospitals, or scientific bodies or institutions. The Scientific Committee is consulted depending on the Company's strategic needs, and members are consulted during project meetings, separately for each business unit. It is tasked with guiding and evaluating the progress of certain projects as well as the scientific relevance of the Company's new projects.

The internal regulations set out the method of evaluation by the Supervisory Board of its own operations. The Supervisory Board devotes, once a year, an item on its agenda to a discussion on its operations, in particular at the time when the report on internal control is drawn up.

8.1.4. Report on the Supervisory Board's activities for 2009

During the past financial year, the Supervisory Board held seven meetings, including one held by telephone, in line with the provisions in the internal regulations that apply in such a case. The Chairman of the Supervisory Board chaired all the meetings and the attendance rate of all the members was 89%.

At each of the meetings, a detailed analysis was made of the significant events, and a review of the progress of research and development projects, a financial report and a detailed report on sales and marketing operations were presented to the Supervisory Board by the Management Board, the Chief Financial Officer and the Marketing and Sales Director. Matters were discussed concerning strategic orientation and the search for partnerships. The Supervisory Board was also regularly informed of the changes in the situation of the SpeBio joint venture.

At its meetings of 4 March and 26 August 2009, the Supervisory Board reviewed the parent company and consolidated financial statements for 2008 and the consolidated financial statements for the first half of 2009, in the presence of the statutory auditors. In February, April, July and October 2009, it also reviewed the consolidated quarterly net sales and the quarterly business report presented by the Management Board. It regularly noted the elements of financial disclosure on which it expressed an opinion.

At the beginning of 2010, the Supervisory Board reviewed the corporate governance code for small and medium capitalisation companies published in December 2009 by Middlednext and decided, at its meeting of 9 February 2010, to adopt this code as a benchmark for implementing its corporate governance, given its suitability for the Company's size and issues.

At this meeting, the Supervisory Board took note of the items presented under the code's 'special Vigilance notes' heading.

As regards recommendations, the Company applies almost all those related to the Supervisory Board and departs only regarding the provision that requires that the internal regulations be signed by the members of the Supervisory Board. Currently, acceptance of his duties by a member of the Supervisory Board entails full and entire adherence on his part to the internal regulations and charter that it contains. The Company will comply with this recommendation when it next updates its internal regulations.

8.1.5. Work of the Audit Committee

Chaired by Michel Arié, an independent member with financial and accounting expertise, the Audit Committee also comprised the Chairman of the Supervisory Board, Jean-Marie Zacharie, and Philippe Taranto, until the latter resigned in September 2009. Mr Taranto was not replaced in 2009.

The Supervisory Board has taken account in its internal regulations of the expansion of the Audit Committee's duties resulting from the provisions of the Order of 8 December 2008, transposing the 8th European Directive. Consequently, the Audit Committee carries out all the duties delegated to it by law. In addition, under the terms of the internal regulations, the Audit Committee may study any issue brought to its attention and has a right of direct, independent and confidential consultation with the Company's statutory auditors, officers and staff as well as of all the Company's management accounts, books and registers.

The Audit Committee met four times in 2009, at the Company's head office, with one meeting devoted specifically to its duty to monitor the internal control and risk management systems implemented by the Company. Its activity related in particular to inspecting the 2008 and interim 2009 financial statements and reviewing related accounting issues, the schedule of the statutory auditors' work, presentation of the new risk management process implemented by the Company and review of the draft Chairman's report on internal control.

In addition to the committee members, the statutory auditors, the Chief Financial Officer and a member of the Management Board attended every meeting. The committee was able to meet the statutory auditors without the presence of the Company's representatives.

The Chairman of the Audit Committee submitted to the Supervisory Board a report on the committee's work following each of its meetings.

8.1.6. Work of the Remuneration Committee

The Remuneration Committee is made up of two independent members of the Supervisory Board, the Chairman, Jean-Marie Zacharie, and the Vice-Chairman, François Sarkozy, as well as an expert member, Dominique Jolivet, who chairs the Committee.

The Remuneration Committee submits all recommendations to the Supervisory Board with regard to the initial level and any increase in the remuneration of members of the Management Board, the distribution of directors' fees to be allocated to members of the Supervisory Board and the level of any exceptional remuneration of members of the Supervisory Board. In accordance with the principle of comprehensiveness, it also gives an opinion on the planned award of stock options and free shares to officers and on the performance conditions attached to them.

This committee met once in 2009, at the Company's head office. In December 2008, it gave an opinion on the appraisal of attainment of their 2008 objectives by members of the Management Board and on the proposed distribution of 2009 directors' fees to members of the Supervisory Board. At the beginning of 2009, it reviewed the remuneration of members of the Management Board and set their 2009 objectives, which were appraised in February 2010.

All the recommendations made by the Remuneration Committee were approved by the Supervisory Board.

8.1.7. Principles and rules determining remuneration of the corporate officers

The Company applies all the recommendations of the Middlednext corporate governance code for small and medium capitalisation companies related to executive company officers.

The two members of the Management Board of BioAlliance Pharma, the Company's founders, combine their corporate office with a contract of employment. The facts that governed this decision stem from the decisive importance of their expertise and at the same time their technical management duties, level of remuneration that was for a long time well below the market and the high level of risk inherent in the biotechnology sector, which justifies maintaining the protections inherent in the contract of employment.

The members of the Management Board do not receive any remuneration in respect of their corporate offices. Their salary remuneration comprises a fixed part and a variable part, of which the Supervisory Board, at the proposal of the Remuneration Committee, has fixed the target at 40% of their gross annual salary, depending on attainment of their objectives. For 2009, these objectives broke down as follows: strategic objectives, objectives associated with regulatory procedures for access to the market of the Company's products, objectives associated with the research and development activity and objectives associated with restructuring the Company.

Exceptional remuneration of members of the Management Board corresponds, where applicable, to the reward made to employee inventors put in place in the Company in favour of the employees concerned. Their benefits in kind consist in insurance for loss of employment and, for 2009, use of a company car for two members of the Management Board.

The Company has not put in place any severance compensation or any supplementary pension plans.

As part of its policy of remunerating and motivating its officers and employees, BioAlliance Pharma put in place special founders' share purchase warrants (BSPCEs) from 2003 to 2005. This scheme was succeeded in 2006 by the award of stock options and in 2008 by the granting of free shares.

In each of these cases, the plans benefited the officers and all the employees of the Group. The vesting of free shares granted in 2008 is subject to the achievement of performance conditions validated by the Supervisory Board.

Furthermore, the Supervisory Board, in its decision of 30 January 2008, set at 50% the percentage of each award of securities giving access to the capital that the officers had to hold in registered form

until the end of their employment with the Company, this amount being capped at the equivalent of one year of total gross remuneration.

Independent members of the Supervisory Board receive directors' fees, allocated by the general meeting and distributed by the Supervisory Board, at the proposal of the Remuneration Committee, on the basis of an inclusive amount per actual attendance at meetings of the Supervisory Board and committees. The independent members of the Supervisory Board also benefited from successive plans awarding share purchase warrants (BSAs) from 2003 to 2008.

8.1.8. Other corporate governance issues

The provisions with regard to participation in general meetings are set out in articles 20 to 24 of the articles of incorporation, which are available on the Company's website.

The information referred to in article L 225-100-3 of the Commercial Code that could have an impact in the event of a public takeover bid is detailed in section 8 of the management report.

8.2. RISK MANAGEMENT AND INTERNAL CONTROL PROCEDURES IMPLEMENTED BY THE COMPANY

8.2.1. Definition of internal control

The BioAlliance Pharma Group adopts the definition of internal control proposed by the *Autorité des Marchés Financiers*,³ whereby internal control is a system implemented by the Company that aims to ensure:

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

contributes in general to control over its activities, the effectiveness of its operations and the efficient use of its resources.

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'.

8.2.2. Scope

The BioAlliance Pharma Group's risk management and internal control procedures apply to BioAlliance Pharma SA and its wholly owned subsidiaries, Laboratoires BioAlliance Pharma SAS and BioAlliance Pharma Switzerland SA.

8.2.3. Reference framework and standards

As a company admitted for trading on a regulated market, BioAlliance Pharma has adopted the reference framework of the *Autorité des Marchés Financiers*. In 2009 the Group made progress in its implementation of the reference framework suited to small and medium capitalisation companies, with regard both to accounting and financial information and to risk management.

Furthermore, the Group, which works in the pharmaceutical sector, is subject to very strict, specific regulations governing 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, and the

³ Guide to implementation of the reference framework on internal control suited to small and medium capitalisation companies published on 9 January 2008.

manufacture and marketing of drugs. The main regulatory provisions that apply to the activities of the two companies are as follows: Good Clinical Practices (GCP), Good Manufacturing Practices (GMP), Good Laboratory Practices (GLP), the French and European regulations that apply to the development, sale and marketing of drugs, the regulations regarding GMOs, the disposal of waste, the transportation of hazardous substances, the handling of micro-organisms, health and safety.

8.2.4. Organisation

All the Group's stakeholders, both governance bodies and employees, are involved in the internal control system. This system is organised as follows:

Risk management is overseen by the Risk Management Committee, which consists of the General Management, the Chief Financial Officer and the Quality Assurance Director, in coordination with the Audit Committee of the Supervisory Board. It is rolled out group-wide by the managers of the activities.

The Quality Assurance Department plays a key role through its close involvement in the Company's various activities, through the support that it provides in drafting procedures and in document management, and through the realisation and monitoring of external audits of the Company's service providers 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.

The Management Board defined the system and continues to steer it, in particular at the time of periodic management reviews. Each member of the Management Committee is responsible for overseeing his activity.

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

8.2.5. Risk management policy

The BioAlliance Pharma Group initiated the formalisation of its risk management process in 2008 and continued with this in 2009. This process aims to identify all risks and risk factors that might affect the Company's activities and procedures and to define the resources that make it possible to manage such risks, particularly by implementing preventive measures. This process aims to take account of all the types of risks and is to be applied to all the activities of the BioAlliance Pharma Group, subject to the specific provisions required in the regulatory field.

The Group has adopted a procedure intended to provide a framework for all the risk management tools and methods put in place, which specifies the terminology adopted within the Group (probability and severity criteria, risk typology, etc.).

The objectives of this risk management policy are essentially to preserve the Group's revenues and its image, keep its costs to a minimum and promote the achievement of its strategic objectives.

Identification and analysis of the main risks

The Risk Management Committee annually updates and validates a risk map. Based on an inventory of the Group's activities and key processes, it identifies all the risks that may affect the Group and classifies them in one of the following 12 categories: Research and Development, Regulatory Affairs, Pricing and Reimbursement, Production, Operation and Marketing/Sales, Human Resources, Agreements and Licences, Finance, Shareholder Strategy, Information Technology, Legal Affairs and Intellectual Property, General.

For each of the risks identified, the Risk Management Committee analyses the potential consequences in terms of financial impact, the number of days' work lost and the impact on the Company's activities and its image.

The committee then assigns a probability risk and a criticality indicator to each risk identified and thereby determines a coefficient combining the two criteria. The risks are then classified in decreasing order of importance making it possible to determine the main risk factors, according to a typology which breaks them down into three categories: major risk, high risk or acceptable risk.

The risk map is updated annually to take account of changes in the Company, its activities and its financial situations as well as changes in its environment.

The description of the risk factors set out in chapter 5 of BioAlliance Pharma's 2009 Reference Document is organised in a manner consistent with this risk map.

Management processes for major risks

All risks considered to be high or major give rise to a risk management plan specifying the responsibilities and the actions to be taken.

The Risk Management Committee validates the action plans with the managers of the various activities and carries out a monitoring process twice a year. If the actions are considered to be incomplete or the level of risk fails to decrease as anticipated, corrective actions are defined by the Risk Management Committee and put in place by the manager of the activity concerned.

Copies of all the risk monitoring sheets are stored and kept on file by the Risk Management Committee.

Risk oversight and risk management processes

Regular reporting on the internal control system to the Audit Committee of the Supervisory Board has already existed for several accounting periods. As a result of the formalisation of the risk management process, this reporting to the Audit Committee has been expanded to the monitoring of major risks, in accordance with the provisions of the Order of 8 December 2008.

8.2.6. Control activities

The Group has set up a quality assurance system. The processes for all the fields of activity are described in procedures (standard operating procedures, SOPs), operating methods, 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 a dedicated intranet, which optimises access to documents and allows 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 operational, management and support processes.

The quality assurance system covers the following areas:

- quality assurance, health and safety, risk management;
- the administrative, legal, employment and financial fields, including internal control, corporate communications and the rules related to the listing of the Company on Euronext;
- production and pharmaceutical operations;
- marketing and sales activity in France and internationally;
- regulatory activities and pharmacovigilance;

- research and development, including clinical research;
- services performed for third parties.

With regard to the very specific activity of animal testing, since June 2002, BioAlliance Pharma has had an animal testing ethics committee consisting of seven members, which has the objectives of approving all the test protocols, from the viewpoints of animal ethics and of monitoring compliance with regulations and training.

With respect to the information systems, procedures that are part of the quality system define the rules with regard to access, protection and storage of information. An IT Code of Conduct has also been implemented.

Monthly reviews

The Management Board has set up specific internal control procedures which consist in monthly reviews of the key information related to each activity. For each of the areas set out below, information considered to be significant for the corresponding activities has been identified and selected. This information must represent the actual situation in the activity and make it possible to retrace such activity both in terms of quantity and quality, also taking into account compliance with the standards governing the activity concerned. This key information must be verifiable and properly documented. It is to be updated each month by the people carrying out the activity concerned. This system covers the following areas:

- communication of accounting, financial, scientific and institutional information;
- monthly review of the accounts, financial reporting and capital transactions;
- human resources and payroll;
- the Company's legal aspects, regulatory aspects and intellectual property;
- sales and purchasing;
- quality and the information system;
- information with regard to research and development projects (progress made/budget);
- information related to equipment and installations and facilities.

At the time of the monthly reviews, the Management Committee members review the data with the employees who have prepared them, verify the supporting documentation and the procedures that have been used. They make themselves accountable by signing the documents and defining the improvements to be made and the actions to be taken. The purpose of these reviews is to ensure that the information related to each of the elements of the scope of application accurately reflects the Group's activities and its situation.

These monthly reviews, including all the elements documenting them, are then presented to the Management Board and a management review is carried out validating the actions to be taken, where applicable. They form the basis for the regular, formal system of internal control set up by the Group.

Procedures related 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 end, control and reporting procedures have been set up in order to guarantee control of the processes of information gathering, preparation and approval of the financial statements, in line with the criteria described in the AMF reference framework. These procedures, related to the general accounting of the Company's operations, also more specifically cover budgetary aspects and expense commitments and payments. Furthermore, with regard to the consolidation process for the Group's financial statements, the finance department controls the proper elimination of intercompany transactions and uniform restatements of the individual accounts according to international standards (IFRS).

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 fully comply with French and international (IFRS) standards and that the financial statements are consistently presented.

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 line managers, making it possible to validate the cost accounting entries in this respect and to review all expenses, and a financial report is prepared by the Chief Financial Officer for the attention of the Management Board and Supervisory Board members. This report is presented and discussed at Supervisory Board meetings.

The Group has also had in place for several years a process for the validation of its expenses and payments which enables it to control the risk of fraud. Moreover, all the invoicing operations and those related 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 regarding the IT aspects.

8.2.7. Limits on internal control and areas for improvement

In 2010 the Company will take steps to arrange for the risk management system to evolve in line with the Company's business activities and provide for a uniform document system underlying its internal control procedures with action plans resulting from its risk management system.

The Supervisory Board approves the terms of this report, which will be presented to the general meeting held on 22 April 2010.

The Chairman of the Supervisory Board