

**bioMérieux**

**French joint stock company (*société anonyme*) with share capital of €12,029,370  
Registered office: Chemin de l'Orme - 69280 Marcy l'Étoile, France  
Registered in Lyon, France under number 673 620 399**

**REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS ON  
(1) THE COMPOSITION OF THE BOARD OF DIRECTORS  
(2) THE CONDITIONS GOVERNING THE PREPARATION AND  
ORGANIZATION OF THE BOARD OF DIRECTORS' WORK AND  
(3) INTERNAL CONTROL AND  
RISK MANAGEMENT PROCEDURES**

This report was submitted to the Audit Committee and approved by the Board of Directors on March 12, 2013.

**1. COMPOSITION OF THE BOARD OF DIRECTORS AND APPLICATION OF THE PRINCIPLE OF GENDER EQUALITY**

**1.1 - Composition and organization**

The Company is incorporated as a French joint stock company (*société anonyme*) with a Board of Directors.

The Board of Directors has chosen to entrust the General Management to the Chairman of the Board of Directors who also holds the position of Chief Executive Officer of the Company and to appoint a Chief Operating Officer who is also a director.

Jean-Luc Belingard has held the position of Chairman and Chief Executive Officer since January 1, 2011. Alexandre Mérieux holds the position of Chief Operating Officer. They will remain in office until the expiration of their terms of office as directors, i.e., at the close of the Annual General Meeting to be held in 2014 to approve the financial statements for the year ending December 31, 2013.

During the year, the terms of office of Groupe Industriel Marcel Dassault and Christian Bréchet expired and two new directors were appointed by the Annual General Meeting of May 30, 2012: Marie-Hélène Habert and Harold Boël, whose terms of office expire in 2016.

At December 31, 2012, the Board of Directors comprised nine directors, including four independent directors. Seven terms of office expire in 2014. A breakdown of each directorship is provided in Chapter 7 of the Company's management report included in the 2012 Annual Financial Report.

The Company's bylaws provide that the Board of Directors may be assisted by up to three non-voting members (*censeurs*). Harold Boël was a non-voting member until he was appointed as a director at the 2012 Annual General Meeting. The Board of Directors is therefore no longer assisted by any non-voting members.

Four representatives of the Works Council may attend Board of Directors' meetings.

On March 15, 2004, the Company's Board of Directors adopted internal rules defining its operating procedures, in addition to legal and regulatory requirements and the provisions of the Company's bylaws. These internal rules were updated in 2007, 2009 and 2010 to reflect new legal provisions and the recommendations of the AFEP-MEDEF Corporate Governance Code. All Board members have agreed to comply with the internal rules.

The internal rules provide that directors must first ensure that they are fully informed of the general and specific obligations attached to their duties and are familiar with securities regulations pertaining to breaches of exchange regulations before accepting their duties. They must familiarize themselves and comply with the laws and regulations, the bylaws, the Board of Directors' internal rules and any additional information that the Board of Directors may provide to them.

The internal rules provide that directors:

- (i) represent all the shareholders, even though they are shareholders themselves holding at least ten shares, and must act in the Company's interests in all circumstances;
- (ii) must inform the Board of any actual or potential conflict of interest and abstain from voting on the issues concerned;
- (iii) undertake to devote the necessary time and attention to their duties;
- (iv) must be diligent and participate in all meetings of the Board of Directors and, if applicable, of the committees on which they serve;
- (v) are bound by a strict duty of confidentiality beyond the exercise of discretion required by law with respect to non-public information acquired in connection with their role as directors;
- (vi) are bound by a duty of loyalty; and
- (vii) must trade in the Company's shares only in compliance with the Code of Conduct adopted by the Company.

## **1.2 - Independent directors**

The Board of Directors' internal rules provide that directors are deemed to be independent when they have no direct or indirect relationship of any kind with the Company, the Group or the Management, which could impair their freedom of judgment.

In light of this definition, at December 31, 2012, the Board of Directors comprised four independent directors out of nine members:

- Marie-Hélène Habert;
- Michele Palladino;
- Michel Angé;
- Harold Boël.

## **1.3 - Application of the principle of gender equality in the board room**

Marie-Hélène Habert was appointed as a director for a four-year term at the Annual General Meeting of May 30, 2012. The Board of Directors will continue to progressively propose the appointment of women directors at the next Shareholders' Meetings.

## **2. PREPARATION AND ORGANIZATION OF THE BOARD OF DIRECTORS' WORK**

### **2.1 - Legal framework of corporate governance**

The Company complies with applicable corporate governance requirements. It refers to the AFEP-MEDEF Corporate Governance Code which summarizes current corporate governance principles. This code may be viewed online on the MEDEF website (<http://www.medef.com>). The provisions of the code that have not been applied and the reasons for such non-compliance are described below.

#### Directors' terms of office

The majority of the directors' terms of office expire at the same time. In light of the renewal in 2010 of seven of the current nine directors, the staggering of directors' terms of office is difficult to apply.

## Board of Directors' assessment of General Management

The Board of Directors assesses the performance of General Management independently and collectively.

Given that (i) the general management is exercised by the Chairman, in his capacity as Chief Executive Officer, who is present at Board of Directors' meetings, and (ii) Alexandre Mérieux in his capacity as director and Chief Operating Officer is also present at Board meetings, the performance of General Management is assessed by the Board of Directors in the presence of General Management.

### **2.2 - The Board of Directors' work**

The Board of Directors is responsible for defining and implementing the Company's strategies. It has powers to act on all questions concerning the smooth running of the Company and settles all matters affecting the Company by its deliberations, within the limits of the corporate purpose and subject to the powers expressly granted to Shareholders' Meetings. The Board of Directors carries out all controls and procedures that it deems appropriate.

The Board of Directors' internal rules provide that the Board of Directors must decide on (i) the approval of the strategic plans of the Company and its subsidiaries, (ii) the approval of the annual budget and, on a quarterly basis, its implementation, and (iii) the authorization of all key transactions (acquisitions, exchanges, transactions, granting of security interests, financing by any means, etc.) of more than €30 million not provided for in the strategic plan or the budget.

The internal rules also provide that the Board of Directors must be notified of any significant event affecting the operation of the Company and more specifically its financial and cash position and commitments.

In 2012, the Board of Directors of the Company met six times. All directors were present or represented at each meeting, apart from two absences, as evidenced by the attendance register. In 2012, the Board of Directors:

- analyzed the quarterly reviews of the Company's operations and affairs and major projects;
- approved the parent company financial statements and the consolidated financial statements for the year ended December 31, 2011, prepared the Annual General Meeting, approved the various reports required by law and the description of the share buyback program;
- recommended that the Annual General Meeting appoint two new directors: Marie-Hélène Habert and Harold Boël;
- approved the interim financial statements and the related report;
- approved the proposed budget for 2013;
- reclassified certain related-party agreements as ordinary agreements;
- assessed the way in which the Board of Directors operates and its composition;
- approved the Chairman and Chief Executive Officer's compensation for the previous year (achievement of objectives) and set compensation objectives for the coming year;
- discussed the Company's policy in terms of compensation and equality in the workplace;
- submitted to the shareholders for approval the appointment of a new Statutory Auditor (Ernst & Young et Autres) and deputy Statutory Auditor (Auditex);
- granted powers concerning sureties, endorsements and guarantees to the Chairman and Chief Executive Officer for 2013;
- authorized acquisitions of interest and cooperation agreements (e.g., RAS, Quanterix);
- decided on the merger of certain Group entities including Argene and the AES group's holdings;
- granted free shares to Group employees;
- examined and authorized the renewal of the syndicated line of credit;
- changed the composition of the Audit Committee;
- implemented a new share buyback program.

As stipulated in the internal rules, the Board of Directors devotes an agenda item, each year, to the Board's operations in order to (i) evaluate the quality and effectiveness of the Board's discussions, (ii) assess the Board of Directors' actual roles and duties, (iii) analyze the reasons for any shortcomings as perceived by the Chairman, directors or shareholders, and (iv) analyze the independence criteria applicable to directors.

At its meeting of March 12, 2013, the Board of Directors carried out a self-assessment using a questionnaire in which each director was able to state his opinion. The analysis of the responses received, which were discussed by the Board of Directors, showed that a large majority of directors believe that the Board's responsibilities and duties were fulfilled and that the quality, frequency and effectiveness of its meetings were adequate. The directors consider that their access to information concerning the Group and its environment is sufficient. The information that they receive to discuss topics is deemed to have been presented with sufficient internal or external analyses on which to base decisions. Some directors consider that they could be better informed by receiving fuller written information at an earlier stage before the meeting. Directors believe they are fully independent vis-a-vis General Management and able to speak freely.

### **2.3 - Special committees of the Board of Directors**

The Board of Directors' internal rules provide that the Board of Directors may set up one or more permanent or temporary committees to help it accomplish its work and contribute to the preparation of its decisions.

The committees are in charge of examining issues assigned to them by the Board of Directors or the Chairman of the Board, preparing the Board of Directors' work on these issues, and reporting their findings to the Board of Directors in the form of reports, proposals, communications or recommendations.

The committees act in a consultative capacity. The Board of Directors determines at its own discretion how to follow up on the findings reported by the committees. The directors remain free to vote as they choose and are not bound by the committees' studies, investigations or reports, nor by any recommendations they may issue.

#### **2.3.1 - Audit Committee**

##### *Composition of the Audit Committee*

The Audit Committee was set up on December 20, 2002. It comprises three members appointed by the Board of Directors from among its members who are not members of the Company's Management. It comprises a majority of independent directors and at least one member with expertise in finance and accounting.

At December 31, 2012, the Audit Committee comprised the following three members: Michel Angé, Harold Boël and Georges Hibon. Michel Angé and Harold Boël are independent directors within the meaning of the Board of Directors' internal rules. The Audit Committee is chaired by Michel Angé and two-thirds of its members are independent.

In light of his training and professional experience in banking, Michel Angé qualifies as the member of the Audit Committee "with financial or accounting expertise" as set out in article L.823-19 of the French Commercial Code (*Code de Commerce*) and in the AMF working group report on audit committees (July 22, 2010). On account of their professional experience in the general management of major pharmaceutical groups and industrial groups, respectively, Georges Hibon and Harold Boël also possess the required expertise.

##### *Role and operation of the Audit Committee*

The committee meets (including by conference calls) as often as it deems necessary and at least twice a year, before the review by the Board of Directors of the annual and interim financial statements. The Audit Committee appoints a chairman from among its members, who may hold a directorship but no management or other position as corporate officer within the Company or the Group. The Audit Committee invites members of the Finance Department, General Management, Internal Audit, Investor Relations or the Statutory Auditors depending on agenda items to be considered. External experts may be called upon as required. In consultation with the Chairman of the Board of Directors, the Audit Committee is provided with the resources it considers necessary to properly perform its duties.

### *The Audit Committee's work*

Pursuant to the Board of Directors' internal rules, the Audit Committee's duties are to assist the Board of Directors. It is primarily responsible for monitoring (i) the preparation of financial information, (ii) the effectiveness of internal control and risk management systems, (iii) the audit of the parent company financial statements and consolidated financial statements by the Statutory Auditors, (iv) the independence of the Statutory Auditors, and (v) the review of draft financial press releases in particular relating to the interim financial statements and quarterly sales.

The Audit Committee meets around four days before the Board of Directors' meeting on the approval of the annual and interim financial statements and prepares a report on its meeting. The committee met six times in 2012, with all members present at each meeting. As of May 30, 2012, Harold Boël replaced Benoît Habert whose term as director (representing Groupe Industriel Marcel Dassault) had expired.

It reviewed press releases relating to fourth-quarter 2011 sales, the annual financial statements for 2011, the 2012 interim financial statements and first-, second- and third-quarter 2012 sales. It reviewed the interim and annual financial statements and related reports. The committee also reviewed the Chairman's report on internal control procedures and the main disputes, risks and off-balance sheet commitments. It provided its observations on the negotiation and conclusion of the syndicated line of credit. It oversaw the selection process for the new Statutory Auditors and deputy Statutory Auditors. Finally, it conducted a summary review of internal control and risk management procedures, primarily through discussions with the heads of internal audit on engagements carried out during the year and on the schedule for the following year. The Chief Financial Officer presented the annual and interim financial statements including the notes to the financial statements and off-balance sheet commitments. The Statutory Auditors issued a detailed report on their audit engagement relating to these financial statements.

In accordance with its operating rules, the Audit Committee reported to the Board of Directors on the performance of its duties and presented the observations that it deemed appropriate.

### 2.3.2 - Human Resources, Appointment and Compensation Committee

#### *Composition of the Human Resources, Appointment and Compensation Committee*

Pursuant to the Board of Directors' internal rules, the Human Resources, Appointment and Compensation Committee comprises three members appointed by the Board of Directors from among its members. It consists of a majority of independent directors.

The Board of Directors set up the Compensation Committee on March 15, 2004 and changed the committee's roles and responsibilities on September 3, 2010 by including human resources functions. It became the Human Resources, Appointment and Compensation Committee.

At December 31, 2012, the Human Resources, Appointment and Compensation Committee members were Michel Angé, Michele Palladino and Alain Mérieux. Michele Palladino and Michel Angé are independent directors within the meaning of the Board of Directors' internal rules. Two-thirds of the Human Resources, Appointment and Compensation Committee are independent members. Alain Mérieux chairs this committee.

#### *Role and operation of the Human Resources, Appointment and Compensation Committee*

The Human Resources, Appointment and Compensation Committee meets at least once a year. Meetings are called by the Chairman of the Board of Directors.

With respect to appointments, the committee is responsible for making recommendations on the composition of the Board after considering all relevant information before making a decision, i.e., balanced Board membership to reflect the Company's shareholding structure, identifying possible candidates, renewal or non-renewal of terms of office. The committee must establish procedures for the selection of independent directors and review potential candidates before making any decisions.

The committee must establish a succession plan for executive corporate officers to fill any unforeseen vacancy.

With respect to the compensation of the Company's corporate officers, the committee is primarily responsible for: (i) making recommendations to the Board of Directors concerning the fixed and variable compensation,

supplementary and specific pension and personal protection plans, benefits-in-kind and other financial benefits to which the Chairman and Chief Executive Officer and, where applicable, the Chief Operating Officer, may be entitled, (ii) recommending to the Board an overall amount of directors' fees, as well as rules governing the distribution of such fees and the individual amounts payable to each director based on their attendance record at Board meetings and committee meetings, and (iii) proposing to the Board of Directors, where applicable, the rules governing the variable portion of corporate officers' compensation and ensuring that these rules are applied. The Human Resources, Appointment and Compensation Committee is also informed on the compensation policy applicable to the main non-officer executives.

With respect to stock options and free share grants, the committee submits to the Board of Directors its observations regarding the Company's stock option and free share plans proposed by the Chairman and Chief Executive Officer and, where applicable, the Chief Operating Officer, and makes recommendations on the different categories of beneficiaries. The options granted to corporate officers are examined on a case-by-case basis by the committee.

In 2012, the Human Resources, Appointment and Compensation Committee met twice, with all its members attending. The main topics discussed at these meetings were the compensation policy, the selection of new directors, free share grants, the Chairman and Chief Executive Officer's compensation and the rules governing the distribution of directors' fees.

In accordance with its operating rules, the committee reported to the Board of Directors on the performance of its duties and provided the Board with all useful information.

## **2.4 - General Management**

### **2.4.1 - Role of General Management**

The Chairman and Chief Executive Officer has the broadest powers to act in all circumstances in the name of the Company. He exercises his powers within the limits of the corporate purpose and subject to the powers expressly granted by law to Shareholders' Meetings and to Board of Directors' meetings. He represents the Company in its dealings with third parties.

The Board of Directors has not imposed any specific limits on the powers of the Chief Executive Officer, with the exception of certain provisions of its internal rules that require the Chief Executive Officer to refer the following matters to the Board: (i) the approval of the strategic plans of the Company and its subsidiaries, (ii) the approval of the annual budget and, on a quarterly basis, its implementation, and (iii) the authorization of all key transactions (acquisitions, exchanges, compromises, granting of security interests, financing by any means, etc.) of more than €30 million not provided for in the strategic plan or the budget.

Three committees assist bioMérieux's General Management in the performance of its duties.

### **2.4.2 - General Management committees**

#### ***Strategy Committee***

This committee currently comprises three members (Alain Mérieux, Alexandre Mérieux and Jean-Luc Belingard). It proposes medium- and long-term strategic objectives for the Group, focusing in particular on (i) business development objectives, (ii) scientific and technological options, (iii) geographical expansion policies, (iv) strategic alliances and partnerships, and (v) communication and management policies relating to the Group's image.

#### ***Management Committee***

This committee, chaired by Jean-Luc Belingard (Chairman and Chief Executive Officer), is comprised of Alexandre Mérieux (Corporate Vice-President, Microbiology Unit), Michel Bagueault (Corporate Vice President, Human Resources), Thierry Bernard (Corporate Vice President, Global Commercial Operations), Jean-Marc Durano (Corporate Vice President, Industrial Microbiology Unit), Steve Harbin (Corporate Vice President, Manufacturing and Supply Operations, Quality Management, Regulatory Affairs and Information Systems), François Lacoste (Corporate Vice President, Immunoassay Unit), Marc Mackowiak (Chief Executive Officer, bioMérieux, Inc.), Mark Miller (Chief Medical Officer), Alain Pluquet (Corporate Vice

President, Innovation and Systems Unit), Henri Thomasson (Chief Financial Officer), and Stefan Willemsen (Corporate Vice-President, Business Development, Legal Affairs and Industrial Property).

The committee is responsible for implementing decisions made by the Board of Directors regarding the Company's general strategy. It meets once every three months. At each meeting, the committee reviews the Company's operations, financial position, sales, human resources issues, strategy implementation and research and development portfolio management. The committee is responsible for overseeing strategic projects, deciding on priorities and implementing the necessary resources within the Company's various departments, such as deciding on significant capital expenditure (property, plant and equipment or intangible assets).

In parallel, a select committee meets once a month on matters requiring more urgent decision-making.

The Management Committee is kept up-to-date by the Global Compliance Officer on the progress of the Ethics and Compliance Program (see section 3.3.1).

The Management Committee is assisted by the Research and Development Committee for R&D matters.

### ***R&D Committee***

The Research & Development Committee, which was set up in 2011 under the chairmanship of Jean-Luc Belingard, is responsible for:

- identifying, assessing and coordinating innovative scientific strategies to put forward to the Management Committee;
- optimizing operational tools, methods and exchanges to enable the research and development network to best meet the needs of the Units.

It chooses new projects, selects project teams and allocates resources. It oversees the progress of the projects up to the marketing of the relevant product.

## **2.5 - Compensation and information governed by article L.225-100-3 of the French Commercial Code**

Details of the compensation policy and the amounts of compensation paid to directors, the Chairman and Chief Executive Officer and the Chief Operating Officer are set out in the management report published in the 2012 Annual Financial Report.

Information provided for under article L.225-100-3 of the French Commercial Code (information on factors likely to have an impact in the event of a public offer) is set out in the management report published in the 2012 Annual Financial Report.

## **2.6 - Shareholder participation in Shareholders' Meetings**

The procedure for calling and participating in Shareholders' Meetings is set out in articles 19 and 20 of the bylaws.

## **3. INTERNAL CONTROL AND RISK MANAGEMENT PROCEDURES**

### **3.1 - General organization of internal control procedures**

*Objectives, scope and reference framework*

Internal control is a process implemented by the Board of Directors, senior management and employees designed to provide reasonable assurance that the following objectives are achieved:

- consistency of operations with General Management's directives;
- reliability of financial information;

- compliance with applicable laws and regulations;
- management and control of operational and financial risks.

However, internal control does not provide absolute assurance that these objectives will be achieved.

The Group's internal control system is based on:

- the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO);
- the AMF's Reference Framework on internal control and risk management systems;
- recommendations published by the AMF.

The internal control system applies to all the companies included in the Group's scope of consolidation.

### **3.2 - Persons and departments in charge of internal control**

#### *General Management*

General Management and the Board of Directors, through the Audit Committee, oversee and supervise the internal control system. For this purpose, General Management relies on audits as described below (see section 3.4 – Implementation and monitoring of the internal control system).

#### *Finance Department*

Under the authority of the Chief Financial Officer, who is a member of the Management Committee, the Finance Department directly oversees Group-level functions (management control, reporting and consolidation, cash management, finance and tax) and indirectly oversees the administrative and financial functions of each Group entity.

#### *Quality Management System Department*

The Quality Management System Department (Global QMS), which reports to the Global Operations Department, is responsible for ensuring that:

- the processes used to design, produce, distribute, install and maintain bioMérieux products comply with customers' needs and regulatory requirements;
- the quality management system used by all bioMérieux Group entities is effective;
- customer complaints are followed up and monitoring systems are put in place.

This department implements steps and measures required to apply the rules necessary to achieve quality objectives, or to ensure that all of the Company's personnel apply such rules. It also authorizes the marketing of products, decides on information to be released to customers and, if necessary, initiates corrective actions to be taken, including product recalls.

A post market surveillance procedure is also implemented to assess product compliance, performance and suitability. This assessment, which is widely documented, is discussed with and validated by several operational departments (Marketing, R&D, Manufacturing, Customer Service).

#### *Health, Safety and Environment (HSE) Department*

The HSE Department prepares, supports and monitors the application of the health, safety and environmental policy.

A health, safety and environmental policy has been drawn up as part of bioMérieux's quality strategy. It provides for several measures relating in particular to (i) the prevention of occupational accidents and illnesses which are monitored through specific indicators, (ii) improving energy efficiency and the preservation of natural resources and the environment, (iii) restricting access to various sites, as well as sensitive premises and information. This policy is implemented by the management of each entity which, within its

scope of responsibility, ensures the protection of persons and assets and minimizes the impact of bioMérieux's activities on the environment.

#### *Information Systems Department*

The Information Systems Department is responsible for:

- supporting bioMérieux's business strategy and systems by providing services and products that meet the needs of users of information systems in compliance with applicable laws and regulations;
- ensuring the availability, continuity and quality of the applications provided;
- managing and protecting information in terms of confidentiality and integrity, in accordance with security levels; and
- providing technical and functional support to customers within the Group.

In order to achieve these objectives, the department operates out of two facilities in France and the United States and relies on a network of IT correspondents in certain Group subsidiaries and an external service provider for service desk user support (a call center for computer incidents).

The Company has devised a security policy which protects it against major IT risks.

An IT governance procedure is used to define the responsibilities in the day-to-day use and IT management of existing applications. The main systems are reviewed by the Management Committee.

#### *Legal Affairs and Industrial Property Department*

The Legal Affairs and Industrial Property Department oversees bioMérieux's relations with external third parties (suppliers, customers, partners, governments, etc.) and the management of corporate governance, while ensuring compliance with applicable rules and regulations and the protection of the Company's interests. It organizes the protection and valuation of scientific innovations created by bioMérieux, in liaison with the departments concerned. In order to achieve these objectives, the department operates from two main centers in France and the United States and relies on a network of consultants in other parts of the world. It is organized by business function and by geographic area.

#### *Global Compliance Officer*

The Global Compliance Officer reports to the Chairman and Chief Executive Officer, and is responsible for establishing, promoting and monitoring the implementation of all compliance and ethical standards in accordance with applicable laws and the Company's Code of Conduct (see section 3.3.1).

The Global Compliance Officer also leads the Ethics and Compliance Program (see section 3.3.1).

### **3.3 - Internal control process**

#### **3.3.1 - Internal control environment**

bioMérieux's internal control environment is based on the following:

#### **Ethics and Compliance Program**

The objective of this program is to ensure that policies and practices clearly convey, both internally and publicly, bioMérieux's commitment to an organizational culture of ethics and integrity. The program strives to promote ethical conduct in all business dealings; provide training for employees on ethical standards and the laws that apply to them; and, provide an opportunity for employees to voice their concerns and ask questions.

The Global Compliance Officer (GCO), leads the Ethics and Compliance Program, supported by the Ethics and Compliance Committee made up of representatives from several functions across the organization including: Global Operations, Commercial Operations, Finance, HR, Regulatory and Legal Affairs, R&D, IS, Communications and Audit.

The GCO and the Ethics and Compliance Committee report on the Company's compliance with and implementation of the program to the Management Committee.

The Ethics and Compliance Program is based on:

- *bioMérieux's values*

The Group's values take the form of convictions and rules of conduct aimed at guiding employees on a daily basis.

- *Code of Conduct*

The Group's Code of Conduct sets out the rules of conduct and integrity applicable to all of its employees. All employees have received a copy of the code which focuses on the following issues:

- compliance with the law;
- health, safety and the environment;
- conflicts of interest;
- professional ethics and integrity;
- safeguarding and appropriate use of assets; and
- social responsibility.

- *Rules of ethics applicable to the financial markets*

Employees likely to hold inside information have signed the Company's rules regarding securities transactions and have agreed to comply with French regulations on insider trading and failure to meet insider trading obligations.

The Code of Conduct also sets out these rules. Online training has also been given to a large number of employees throughout the world.

### **Internal control of subsidiaries**

The Chief Executive Officers and Chief Financial Officers of each entity are responsible for internal control within their organization and undertake to implement an effective system in order to ensure operating efficiency, reliability of financial and accounting information, optimal use of resources, while safeguarding assets and combating fraud.

In early July 2012, it came to light that certain checks, issued to pay the State value added tax (ICMS) due by bioMérieux Brazil and deposited with the bank responsible for transferring them to the tax authorities, had been misappropriated. The company had to repay this amount and is continuing its investigations. The company has stepped up the use of payments by bank transfer and has appointed a Chief Financial Officer responsible for Brazil, Russia, India and China.

### **Integrated management software application**

The Company has begun to rollout an Integrated Management Software application (formerly ERP) across all Group entities. The ensuing standardized procedures facilitate the implementation of a more effective internal control system.

### **Quality Manual**

The Quality Manual describes the global corporate quality management system. This system applies to all the Company's activities, from the design of products to their delivery and installation, including after-sales service.

In addition to this corporate Quality Manual, each subsidiary, production site and R&D site has a local Quality Manual describing provisions that are specific to its activities.

These manuals are used as permanent reference documents for the implementation, management and improvement of the Quality Management System, as well as for relations between bioMérieux and its customers.

## **Regulatory standards**

All bioMérieux products are designed, manufactured and delivered in accordance with applicable quality standards.

The quality management system for the design, manufacture and delivery of products is designed in conformity with ISO 9001 certification, and ISO 13485 certification for *in vitro* diagnostics, implemented voluntarily or as required by regulations.

All products for clinical applications are designed and manufactured on ISO 13485 certified sites.

The US Food and Drug Administration (FDA) could perform audits on sites manufacturing products for the North American market. Following an inspection in the first quarter of 2012 at the Durham site (North Carolina, USA), the FDA issued the Company a warning letter dated August 23, 2012. The letter notified seven points related to the quality system, which the Company is committed to resolving quickly.

### **3.3.2 - Risk management and monitoring**

The main risks to which the Group is exposed, including the different types of risk, their impact and how they are monitored, are described in the management report on the parent company financial statements.

The Group has set up a Risk Forum under the authority of the Manufacturing and Supply Operations, Quality Management, Regulatory Affairs & Information Systems Department. This Risk Forum meets on a quarterly basis for the purposes of:

- validating the Group's risk mapping process;
- implementing overall risk management and risk assessment procedures;
- monitoring these risks and the corresponding action plans;
- defining a crisis management process;
- informing the Management Committee of any significant risk for the Company.

### **3.3.3 - Control activities**

Control activities are put in place by the corporate and operational departments based on Group procedures.

The persons and departments in charge of internal control (see section 3.2 – Persons and departments in charge of internal control) play a decisive role in control activities.

### **3.3.4 - Information and communication**

The Group has various written procedures (project management, investment management, processing of financial information, etc.), in French and in English which are accessible via its intranet and/or specific servers.

## **3.4 - Implementation and monitoring of the internal control system**

General Management and the Board of Directors, through the Audit Committee, manage and monitor the internal control system (their roles and operations are detailed in the first part of this report).

For this purpose, they rely on audits as described below.

### ***Internal Audit Department***

The Internal Audit Department is made up of a core team of three individuals who rely on internal resources (about thirty employees). The Internal Audit Department conducts audits to ensure that the procedures defined by the Group are properly applied by the subsidiaries and Group-level departments, thereby contributing to continuously improve operating processes through risk analyses, internal audits and advisory services.

This department is governed by an Internal Audit Charter that sets out its role and duties, the scope of its authority and powers and the methodology used. The methodology complies with professional standards.

The Internal Audit Department draws up an annual audit plan, which is updated each quarter, based on a risk map.

The Internal Audit Department prepares a summary of the audits conducted, which is then presented to the Audit Committee every year and to the Management Committee on a regular basis.

#### *Quality Management System (QMS) Department*

The quality assurance departments, which are integrated into functions and business lines, conduct periodic audits to assess the implementation of good practices and ensure compliance with procedures and regulations in their field of expertise.

These audits are conducted at the Company's sites or at its subsidiaries' premises by internal quality auditors, based on a program drawn up each year.

#### *External audits*

The Company is subject to various types of external audits as described below.

The Statutory Auditors, i.e., Ernst & Young et Autres and its network and Diagnostic Révision Conseil (DRC), audit the consolidated financial statements and the parent company financial statements as well as the individual financial statements of the vast majority of Group companies. For the other subsidiaries, the Statutory Auditors rely on the work carried out by these companies' external auditors.

In addition to the reports required by law, the audits by the independent auditors are summarized in a report that covers material audit findings and the manner in which they have been resolved, as well as recommendations regarding the Group's internal control procedures. These recommendations are reviewed with the management of the subsidiaries concerned and their implementation is monitored.

The analysis and assessment of the Company's internal control systems are carried out in consultation with the Statutory Auditors, who are informed of the results of the work carried out by the internal audit team.

The regulatory authorities carry out audits and inspections at the Company's sites, as described in section 6.3.5 of the 2012 Registration Document.

The Company's pharmaceutical customers also conduct a large number of quality audits to verify the compliance of bioMérieux's quality assurance system with BPF and GMP requirements which are imposed on manufacturers of drugs that use bioMérieux products for their quality control processes.

### **3.5 - Internal control process relating to the preparation and processing of financial and accounting information**

#### **3.5.1 - Definition and objectives**

Financial and accounting internal control is a key component of the internal control process. It applies to all Group processes relating to the preparation and reporting of financial and accounting information and ensures that such information is reliable and complies with statutory and regulatory requirements.

Like internal control in general, it relies on a global system which includes the design and implementation of the Group's information system as well as monitoring and control policies and procedures.

Financial and accounting internal controls are designed to ensure:

- the compliance of accounting and financial reporting with applicable rules;
- the application of the instructions and objectives issued by General Management;
- the safeguarding of assets;

- the prevention and detection, insofar as possible, of fraud or errors in financial and accounting information;
- the reliability of information circulated and used internally for monitoring or control purposes, insofar as it contributes to the preparation of the published financial and accounting information; and
- the reliability of the published financial statements and of other information provided to the market.

### 3.5.2 - Organization and parties involved

#### *Finance Department*

#### Accounting/Finance

bioMérieux has issued a "Manual of accounting and consolidation principles" for use by the Group's entities. It lists the principal items in the consolidated financial statements and specifies their contents, as well as the valuation methods to be used.

For bioMérieux SA and its principal subsidiaries, the accounting procedures required by the application of those principles and local regulations when recognizing ordinary and recurring transactions are incorporated in the accounting software, in order to render data processing secure and automatic. A limited number of manual entries are made at those entities.

The Administrative and Finance Department of each entity performs credit management functions. The administrative and financial departments are responsible for defining and periodically reviewing the amount of credit allowed for customers, and anticipating risks of insolvency, by using the services of credit-rating companies.

#### Management control

Each year, the annual budget is prepared on the basis of the five-year corporate strategic plan and is validated by the Board of Directors. The budget serves as a basis to track the performance of each process and Group entity.

bioMérieux and its subsidiaries all have management controllers whose duties include verifying compliance with the budget. In addition, each function has a dedicated management control unit in charge of drawing up its annual budget and liaising with the legal entities of the Group.

#### Consolidation

The consolidation process is centralized within the bioMérieux Group. The consolidation unit checks that the financial statements of the subsidiaries are prepared in accordance with the Group's accounting principles, as set forth in procedure manuals provided to all Group entities. It has a consolidation software package which includes all the financial statements of the subsidiaries and processes them in accordance with the Group's chart of accounts.

The consolidation process includes an in-depth analysis of the financial statements, e.g., net cash position is reconciled with the statements prepared by Cash Management. A quarterly analysis report is prepared and provided to the Group's General Management.

#### Cash Management

In light of the large number of countries in which bioMérieux operates, Cash Management also plays a key role in the accounting and financial internal control system. It is mainly responsible for:

- maintaining a balance between the finances of Group entities, by way of:
  - annual cash forecasts revised monthly on the basis of schedules included in reporting guidelines,
  - a cash pooling arrangement with bioMérieux as pool leader. Most of the subsidiaries are involved in this arrangement which enables optimal use of the Group's cash resources,
  - careful and prudent investment practices for temporary cash surpluses, which are invested exclusively in money-market instruments;

- managing exchange rate risks so as to minimize the impact of fluctuations on budgeted profit, through:
  - a policy of billing export sales to third parties exclusively in strong currencies,
  - hedging, whenever possible, a large portion of net cash flows,
  - monthly adjustments to hedges depending on actual transactions.

Nevertheless, residual risk exposures exist, due in part to the volume of business and debt in emerging countries.

In addition to having an impact on the Company's profit, exchange-rate fluctuations can affect its equity. The Company does not hedge the risks to which its assets are exposed in this respect.

#### *Control of subsidiaries*

Operational control of subsidiaries is achieved through:

- regional management departments (in Europe, North America, Latin America and Asia) which, with the assistance of support functions, verify the relevance of the appropriate human, financial and business resources available locally;
- the presence of members of certain operational and/or financial functions on the boards or committees (board of directors or its equivalent) overseeing the activities of subsidiaries;
- a financial and administrative function in each subsidiary;
- a monthly review of the subsidiaries' main performance indicators, pertaining primarily to their sales and financial structure, are compared to the same indicators of the previous year and the budget's indicators.

#### *Investor Relations Department*

The Company's publications (annual and interim reports, press releases, etc.) are drafted on the basis of specific discussions. They are submitted to a working group, which includes the Global Sales Department and the Chief Financial Officer. Press releases relating to results and sales are reviewed by the Audit Committee.

The Chairman of the Board of Directors  
Jean-Luc Belingard