

4.2.2 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 organisation of the Board of Directors' work and (3) internal control and risk management procedures

This report, drafted in consultation with the Company's various departments, was submitted to the Audit Committee and approved by the Board of Directors on February 28, 2017.

4.2.2.1 Composition of the Board of Directors and application of the principle of gender equality

Composition and organisation

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

The Chairman of the Board of Directors is entrusted with the General Management (the decision to combine this position with that of Chief Executive Officer of the Company is described in section 4.2.2.2), and is assisted by a Deputy Chief Executive Officer who is also a director.

Jean-Luc Belingard has held the position of Chairman and Chief Executive Officer and Alexandre Mérieux the position of Deputy Chief Executive Officer since January 1, 2011. Their terms of office were renewed by the Annual General Meeting of May 28, 2014. They will remain in office until the expiration of their terms of office as directors, *i.e.*, until the Annual General Meeting to be held in 2018 to approve the financial statements for the year ending December 31, 2017.

In addition, the terms of office of Michele Palladino and Philippe Archinard were renewed by the Annual General Meeting of May 28, 2014 and will expire at the close of the Annual General Meeting to be held in 2018 to approve the financial statements for the year ending December 31, 2017. Agnès Lemarchand and Philippe Gillet were also appointed directors during this Meeting.

The terms of office of Marie-Hélène Habert and Harold Boël were renewed by the Annual General Meeting of May 26, 2016 and will expire at the close of the Annual General Meeting to be held in 2020 to approve the financial statements for the year ending December 31, 2019.

Since the Company's bylaws provide that the Board of Directors may be assisted by up to three non-voting members (*censeurs*), two non-voting members, Henri Thomasson and Michel Angé, were appointed by the Annual General Meeting of May 28, 2014 for a period of three years, expiring at the Annual General Meeting to be held in 2017 to approve the financial statements for the year ending December 31, 2016. In accordance with the Company's bylaws, they attend Board of Directors' meetings without being entitled to vote and may provide general advice to the directors, who are not required to follow their opinions or recommendations.

At December 31, 2016, the Board of Directors comprised nine directors, including five independent directors and two non-voting members.

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

The internal rules, adopted in 2004 by the Board of Directors and intended to define its operating procedures, in addition to legal, regulatory and statutory requirements, are regularly updated to reflect new legal provisions and the recommendations of the AFEP-MEDEF Corporate Governance Code. They were updated in August 2016 to reflect the reform of the audit. 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 stock exchange regulations before accepting their duties. They must familiarise 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 rules concerning the Board provided for in the AFEP-MEDEF Corporate Governance Code (particularly the rules of ethics for directors) as well as the Global Code of Conduct adopted by the Company.

The internal rules also 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 direct or indirect conflict of interest between the interests of the Company and their own interests or those of the shareholder or group of shareholders they represent, and must abstain from voting on the issues concerned;
- (iii) undertake to devote the necessary time and attention to their duties;
- (iv) undertake to remain independent in their analysis, judgement, decision-making and actions, and to resist all direct or indirect pressure that may be placed on them by directors, specific groups of shareholders, creditors, suppliers and other third parties. Similarly, if they believe that decisions taken by the Board are not in the interests of the Company, they undertake to clearly express their opposition and strive to convince the Board of the merits of their opinion;
- (v) must be diligent and participate in all meetings of the Board of Directors and, if applicable, of the committees on which they serve;
- (vi) 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;
- (vii) are bound by a duty of loyalty;
- (viii) must trade in the Company's shares only in compliance with the Global Code of Conduct adopted by the Company; and
- (ix) provide the Board with all relevant information concerning compensation and benefits-in-kind paid to them by the Company or a Group entity, and their directorships and positions held in all companies and other legal entities, including details on their attendance at all committees of French or foreign companies.

Independent directors and conflicts of interest

In accordance with the independence criteria, 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 judgement.

Based on this definition, at December 31, 2016, the Board of Directors comprised five independent directors out of nine members:

- Marie-Hélène Habert;
- Agnès Lemarchand;
- Michele Palladino;
- Harold Boël;
- Philippe Gillet.

The directors, during the Board of Directors meeting of February 28, 2017, were able to review and discuss the analysis of the Human Resources, Appointment and Compensation Committee on the independence of the directors. They confirmed the classification of independent for the directors listed above, particularly in the light of criteria defined by the AFEP-MEDEF Corporate Governance Code. In particular, the Board of Directors considered as independent (i) Michele Palladino, director for over 12 years, and (ii) Harold Boël, director of the Mérieux NutriSciences Corporation, an American company owned by Institut Mérieux (see section 4.1.1).

The Board of Directors therefore evaluated the potential conflicts of interest that could arise from Harold Boël's directorship at Mérieux NutriSciences Corporation, and has concluded that no conflicts of interest exist. The two companies are independent and each act in different areas. The existing business relations are not likely to call into question their independence.

Other than Harold Boël, since the five independent directors have no relationship of any kind with the Company, the Group or the Management, there is no conflict of interest which the Board of Directors could be required to discuss.

Application of the principle of gender equality in the board room

Agnès Lemarchand was appointed by the Annual General Meeting of May 28, 2014 for a term of four years.

Marie-Hélène Habert's term of office as director was renewed for a four-year term at the Annual General Meeting of May 26, 2016;

During 2017, the Company will comply with Article L 225-18-1 of the French Commercial Code.

4.2.2.2 Preparation and organisation of the Board of Directors' work

The Company complies with the AFEP-MEDEF Corporate Governance Code and deviates from certain provisions as described in section 4.1.

The Board of Directors' work

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 authorisation of all key transactions (acquisitions, exchanges, settlements, granting of security interests, all financing arrangements, etc.) exceeding €30 million and 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.

During fiscal year ended December 31, 2016, the Board of Directors of the Company met four times. All directors were present or represented at each meeting, apart from two absences by two directors at different meetings, as evidenced by the attendance register. Therefore, the Board of Directors:

- analysed 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, 2015 along with the related press release, and prepared the Annual General Meeting, namely by approving the various reports required by law and the description of the share buyback program; approved the interim financial statements and interim financial report, along with the related press release;
- discussed the 2017 budget;
- reviewed business development transactions and projects in progress, and approved the transactions and projects where appropriate;
- proposed the renewal of the terms of office of Marie-Hélène Habert and Harold Boël;
- assessed the way in which the Board of Directors operates and its composition; discussed and adopted the classification of the directors as independent;
- heard the minutes and recommendations, if any, of its Committees;
- studied the Company's sustainable development and CSR policies and met with the independent third party to discuss the CSR report;
- approved the Chairman and Chief Executive Officer's compensation for the previous year (recording the degree to which objectives were achieved) and set his compensation for the forthcoming year; approved the Deputy Chief Executive Officer's compensation for the previous year (i.e., whether objectives had been met) and set his compensation for the forthcoming year;

- discussed the Company's policy in terms of professional equality and equal pay in the workplace;
- approved the proposed merger by absorption by bioMérieux of CEERAM, and the necessary delegations and authorisations;
- studied the actions implemented within the Company by the Supply Chain Department, the Molecular Biology Department and the EMEA Region Department; studied the new European regulation on "Market Abuse"; studied the Company's priorities for 2017 and organisational changes;
- approved the renewal of the syndicated loan;
- granted powers concerning sureties, endorsements and guarantees to the Chairman and Chief Executive Officer for 2017;
- granted free shares to certain Group employees and corporate officers;
- implemented a new share buyback program;
- approved the Board's new internal rules;
- approved two related-party agreements and performed an annual review of any existing related-party agreements that remained in force during the year.

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

At its meeting of February 28, 2017, the Board of Directors carried out a self-assessment based on a questionnaire in which each director was able to state his or her 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. In-depth, regular analysis of the strategy should continue to be carried out.

- In an effort to better integrate new members, some directors suggested holding Board meetings on other industrial sites. The directors consider that their access to information concerning the Group and its environment is sufficient, and that such information is of a high quality and is sent to them in a timely manner.
- The majority of directors consider that the information they receive to discuss topics on the agenda is presented with sufficient internal or external analyses on which to base decisions.
- With respect to General Management, directors believe they are fully independent and able to speak freely and appreciate the efforts made by members of the Executive Committee to explain and share knowledge as well as regularly attend meetings. They wish a more systematic presence of the main executives on the Board of Directors. They consider that they have sufficient access to other information than that provided by the General Management, and particularly at the Audit Committee level.
- The directors do not believe that the independent directors need to meet outside the scope of the Board meetings in light of the transparency and openness of Board practices and the quality of its deliberations. They also consider that the independent directors are duly independent. (see above)

- The members of the Board committees believe that the committees on which they sit function effectively, and that the frequency with which the committees are held and duration of committee meetings are fully satisfactory and continually improving. The distribution of work between the Committees and the Board, as well as the high quality of the deliberations that take place during each committee meeting are particularly appreciated by their members along with the due and proper circulation of information.

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 effectively to the preparation of its decisions.

The committees are in charge of examining issues referred 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 an advisory 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.

Audit Committee

Composition of the Audit Committee

The Audit Committee has three members appointed by the Board of Directors from among its members who are not members of the Company's Management. It consists of a majority of independent directors.

At December 31, 2016, the Audit Committee, which was created in 2002, had three members: Agnès Lemarchand, Harold Boël and Philippe Archinard. Harold Boël and Agnès Lemarchand are independent directors within the meaning of the Board of Directors' internal rules. Two-thirds of the Committee are therefore independent members. The Audit Committee is chaired by Harold Boël.

All of the Committee's members have specialised financial or accounting expertise. Agnès Lemarchand, Harold Boël and Philippe Archinard each possess "financial or accounting expertise" as set out in article L.823-19 of the French Commercial Code (*Code de commerce*) and in the AMF's July 22, 2010 working group report on audit committees. They acquired this expertise through their general management experience in major industrial groups (in the case of Agnès Lemarchand and Harold Boël) and in pharmaceutical groups (in the case of Philippe Archinard).

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. Depending on the points on its agenda, the Audit Committee invites members of the Finance, Internal Audit, Risk and Compliance, and Investor Relations Departments, or the Statutory Auditors and exceptionally General Management, to its meetings. External experts may be called upon as required. In consultation with the Chairman of the Board of Directors, the Audit Committee is provided with all of the resources it considers necessary to properly perform its duties.

The Audit Committee's work

Pursuant to the Board of Directors' internal rules, as modified in 2016 to take into account the audit reform within the European Union applicable as of June 17, 2016, the Audit Committee's duties are to assist the Board of Directors. It is primarily responsible for (i) ensuring the monitoring of the preparation of financial information, (ii) ensuring the effectiveness of internal control and risk management systems as well as the internal audit, (iii) making a recommendation on the Statutory Auditors proposed for appointment by the Shareholders' Meeting, (iv) monitoring the Statutory Auditors' performance of their duties, (v) monitoring the independence of the Statutory Auditors, (vi) approving the provision of services other than the statutory audit and (vii) reviewing the draft financial press releases in particular relating to the interim financial statements and quarterly sales.

The Audit Committee meets between one and four days before the Board of Directors' meeting held to approve the annual and interim financial statements and prepares a report on its meeting. The Audit Committee met seven times with all members present in 2016, with the exception of two occasions when only two members were present.

The Committee reviewed the annual and interim financial statements, including the notes thereto and the year-end accounting options (including litigation), as presented by the Company's Chief Financial Officer, along with the related reports. It reviewed press releases relating to fourth-quarter 2015 sales, the annual financial statements for 2015, the 2016 interim financial statements and sales for the first, second and third quarters of 2016. The Committee also considered the Chairman's report on internal control procedures. It reviewed the Company's CSR report (Corporate Social Responsibility) and the work of the third-party body on CSR issues. It examined the results of internal audit assignments as well as the reports issued by the Internal Audit, Risk and Compliance Department. It also examined the action plan of the current year. It reviewed the updates to the risk map. It was informed of the 2016 action plan implemented by the Ethics and Compliance Department. More generally, it regularly reviewed the work carried out by the Internal Audit, Risk and Compliance Department.

The Audit Committee has delegated to the Finance Department the authority to negotiate and sign with the Statutory Auditors a list of missions other than the statutory audits.

The Statutory Auditors issued a detailed report on their audit engagement relating to the annual and interim financial statements and on auditor independence, and regularly informed the Audit Committee of changes in accounting rules and legal regulations. The Audit Committee has been informed of the content of the reform of the audit and its consequences for the Committee. As such, it considered the changes to the Board of Directors' internal rules.

The Statutory Auditors also held private discussions with the members of the Audit Committee.

Furthermore, the Audit Committee reviewed the Company's exchange rate policy, the analysis of the evolution of the Group's profitability over the period 2012-2016, the analysis of price trends and the contribution to the growth in sales, the risk map of the impairment of intangible assets and the Company's information security policy.

Finally, the Audit Committee met in special session to audition two Statutory Auditors pre-selected by the Finance Department following a call for tenders to which the Audit Committee was associated. The Audit Committee informed the Board of Directors on February 28, 2017 of its recommendations and the justification of its choice.

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.

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 in 2004 and changed the Committee's roles and responsibilities in 2010 by including Human Resources functions. As a result, it became the Human Resources, Appointment and Compensation Committee.

At December 31, 2016, the Human Resources, Appointment and Compensation Committee's members were Marie-Hélène Habert, Michele Palladino and Alain Mérieux. Marie-Hélène Habert and Michele Palladino are independent directors within the meaning of the Board of Directors' internal rules. Two-thirds of the Human Resources, Appointment and Compensation Committee are therefore independent members. Alain Mérieux chairs this committee. In addition, the Chairman and Chief Executive Officer is involved in the Committee's work on the selection and appointment of directors as well as on the compensation policy applicable to the main non-officer executives.

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 and evaluating possible candidates, and renewal or non-renewal of terms of office. In particular, the committee defines and implements the procedure for selecting future independent directors and reviews potential candidates before any action is taken in their regard.

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 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) where applicable, proposing to the Board of Directors 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 of the compensation policy applicable to the main non-officer executives.

With respect to stock options and free share grants, where appropriate, 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 Deputy Chief Executive 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.

The Human Resources, Appointment and Compensation Committee's work

The Human Resources, Appointment and Compensation Committee met twice in 2016, with all its members in attendance. The main subjects discussed during these meetings were pay negotiations, the Group's compensation policy, including the matrix of variable compensation applicable to employees, the payment of an additional incentive bonus in France and the renegotiations of the future profit-sharing plan, the implementation of a retention plan for US employees, the allocation of directors' fees, free share grants, the French employee share ownership plan (through the "OPUS" employee savings plan with matching contributions from the Company), the compensation due to the Chairman and Deputy Chief Executive Officer and Chief Operating Officer, and the Chairman and Chief Executive Officer's 2016 multi-year bonus, as well as the new appointments and reorganisations.

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.

Innovation and Technological Breakthroughs Committee

Composition of the Innovation and Technological Breakthroughs Committee

The Innovation and Technological Breakthroughs Committee was set up in 2015. Pursuant to the Board of Directors' internal rules, this Committee comprises at least three members appointed by the Board of Directors from among its members. A Chairman ensures that the Committee operates effectively and its administrative affairs are overseen by the Company's Chief Technology Officer.

At December 31, 2016, the members of this Committee were Philippe Archinard and Michele Palladino, with Philippe Gillet as its Chairman.

Role and operation of the Innovation and Technological Breakthroughs Committee

The Committee meets as often as it deems necessary and at least once a year, when convened by the Chairman. The committee may invite members of the Company's management and may also call upon external experts.

Role and operation of the Innovation and Technological Breakthroughs Committee

The role of the Innovation and Technological Breakthroughs Committee is to anticipate the emergence of revolutionary technologies and assess the associated risks and their impacts for the Company. This Committee also drives analyses of changes in the Company's technological, medical and market

environment and the measures that could be taken by bioMérieux to address such changes.

The Committee met twice in 2016 with all members present. Its work included examining the application of future technologies in the *in vitro* diagnostics field.

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

General Management

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 Chairman and Chief Executive Officer's powers are counterbalanced by the position of Deputy Chief Executive Officer. The Deputy Chief Executive Officer's powers are as extensive as those of the Chief Executive Officer. Furthermore, the Chairman and Chief Executive Officer does not take any major decisions without the collective approval of the Board of Directors, as indicated below.

The Board of Directors has not specifically limited the powers of the Chief Executive Officer, except as regards certain provisions set out in its internal rules.

Jean-Luc Belingard was appointed as Chairman and Chief Executive Officer in 2011. While continuing to combine the duties of Chairman and Chief Executive Officer, in 2014 the Company chose to entrust the management of the Executive Committee to Alexandre Mérieux, Deputy Chief Executive Officer.

The Company believes that this method of governance is best suited to its operations and to protecting its interests.

The Company ensures that the prerogatives of each corporate body (Shareholders' Meetings, the Board of Directors and General Management) are fully respected. In addition, a number of measures are taken to avoid the excessive centralisation of powers and promote compliance with rules for good corporate governance. These include the fair distribution of powers between the Chairman and Chief Executive Officer and the Chief Operating Officer, the review of all major matters relating to the Company by the Board of Directors, the presence of five independent directors out of nine members on the Board, and the management of the Executive Committee being entrusted to the Chief Operating Officer.

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

The Committees

Strategy Committee

This Committee currently has 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 geographic expansion and scientific and technological strategy.

Executive Committee

This Committee is chaired by Alexandre Mérieux, Deputy Chief Executive Officer. Its members are Michel Baguenault (Secretary General, head of Human Resources and Communication), Pierre Boulud (Corporate Vice-President, Asia-Pacific Region, Industrial Unit, Investments and Strategic Planning), Nicolas Cartier (Corporate Vice-President, Industrial Applications unit), Pierre Charbonnier (Corporate Vice-President, Manufacturing and Supply Chain), Claire Giraut (Corporate Vice-President and Chief Financial Officer), François Lacoste (Corporate Vice-President, Clinical unit), Mark Miller (Chief Medical Officer), Yasha Mitrotti (Corporate Vice-President, Europe, Middle East and Africa Region and Sales Performance), Alain Pluquet (Chief Data Officer), Randy Rasmussen (Corporate Vice-President, Molecular Biology), Kirk Ririe (Chief Innovation Officer), and Stefan Willemsen (Corporate Vice-President, Americas Region, Legal Affairs and Intellectual Property).

The Executive Committee is responsible for implementing decisions validated by the Board of Directors regarding the Company's general strategy. 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). It meets once every three months. At each meeting, the Committee reviews the Company's operations as well as its regulatory and quality management, financial situation, and sales and workforce, and monitors the Group's major projects. It also meets every month using telepresence technology.

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

Details of the compensation policy and the amount of compensation paid to directors, the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer are set out in section 4.3.

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 section 7.5.

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.

4.2.2.3 Internal control and risk management procedures

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: "Internal Control and Risk Management Systems";
- recommendations published by the AMF.

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

Persons and departments in charge of internal control

- General Management and the Board of Directors, through the Audit Committee, help monitor and oversee the internal control system. For this purpose, General Management relies on audits carried out by the Internal Audit, Risk and Compliance Department, under the responsibility of the Secretary General, as described below.
- Under the authority of the Corporate Vice-President and Chief Financial Officer, who is a member of the Executive Committee, the Finance Department oversees Group-level functions (management control, reporting and consolidation, cash management, finance and tax) and the administrative and financial functions of each Group entity.
- The Quality Management Department reports to General Management which gives it the resources it needs to carry out the following duties: (i) develop and implement an overall quality management strategy within the Group, (ii) provide the regions with the necessary support so that they have the resources and tools they require in relation to quality management, (iii) ensure that the processes used to design, manufacture, distribute, install and maintain bioMérieux products comply with customers' needs and regulatory requirements, (iv) analyse the appropriateness and effectiveness of the quality management system used by all bioMérieux Group entities, and (v) follow up customer complaints and put in place "Post Market Surveillance" monitoring systems (see section 1.5.2).

This department mobilises the resources required to apply or enforce the rules necessary to achieve quality objectives, or to ensure that all of the Company's personnel apply such rules.

- The HSE Department prepares, supports and monitors the application of the health, safety and environmental policy (see sections 3.3.2 and 3.4). This policy has been drawn up and 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 and carbon efficiency and protecting natural resources and the environment across the entire value chain in order to reduce the financial risk associated with these issues, and (iii) restricting access to various sites, as well as to sensitive premises and information. This policy has been approved and its introduction is monitored by the Group HSE Committee; its implementation is the responsibility of the management of each entity and function concerned, which, within its scope of responsibility, ensures the protection of persons and assets and minimises the impact of bioMérieux's activities on the environment.

The HSE Department also monitors all regulatory requirements in this area (at the international, national and local levels) and develops and implements processes and procedures to guarantee their compliance. In particular, it monitors and ensures compliance with specific regulations concerning hazardous substances (REACH, Biocides, GHS and CLP regulations).

The HSE Department also participates in risk management at the production and the supply chain level. The procedures and processes are devised and implemented in order to identify major production risks and to manage them through business continuity plans. Climate change leads to natural disaster risks. The Company accounts for these risks in its risk analysis and management system by integrating them into the business continuity plans for each of its sites.

Lastly, the HSE Department ensures that the Company is implementing environmental and safety standard management systems at its production facilities. For this, an ISO 14001 and OHSAS 18001 certification program is currently being deployed for these sites.

- The Information Systems Department is responsible for: (i) supporting bioMérieux's business strategy and processes by providing services that meet the needs of users, through innovative solutions while complying with applicable laws and regulations, (ii) harmonising IT tools to enable faster and more effective operating decisions, (iii) ensuring the availability, continuity and performance of the IT services provided, as well as reducing IT costs, (iv) providing technical and functional support to customers within the Group and optimising the potential of solutions and services provided, (v) implementing and monitoring the information security program based on a risk management approach to guarantee the verification and protection of information (confidentiality and integrity) in accordance with security levels, and (vi) conducting audits on internal processes and those of outside partners in order to ensure proper implementation of and compliance with procedures.

In order to achieve these objectives, the department operates out of various Group sites, particularly within three regions in France, the United States and China. It also relies on a network of external partners.

Organisation and governance procedures for information systems help define priorities, identify objectives and monitor the progress of projects and the operating performance of services through the use of indicators and satisfaction surveys conducted throughout the year.

- The Legal Affairs and Intellectual Property Department contributes to the effective management of corporate governance by overseeing bioMérieux's relations with third parties (suppliers, customers, partners, governments, etc.) while protecting the Company's interests as regards its operations and in accordance with relevant legislation. It also organises the protection and valuation of scientific and technical innovations created by bioMérieux, in liaison with the departments concerned. In order to achieve these objectives, the department is structured into two sub-departments: Intellectual Property and Legal Affairs, the latter of which includes lawyers working specifically in the three regions.
- The Ethics and Compliance Department is part of the Internal Audit, Risk and Compliance Department under the responsibility of the Secretary General. It is in charge of drawing up, promoting and monitoring implementation of all compliance and ethical standards in accordance with applicable laws and the Company's Global Code of Conduct (see section 3.1.3).

The work of the Ethics and Compliance Department is carried out through a central team and the Company's subsidiaries in each region. Each site or subsidiary has a dedicated "Local Compliance" team, which comprises at least the site director or the subsidiary manager, a training coordinator and a data privacy officer. This team acts as the central team's correspondent at the local level and is responsible for disseminating and applying the Ethics and Compliance program.

The Ethics and Compliance Committee, set up under the Global Compliance Officer, is tasked with assisting the Ethics and Compliance team in the definition of the program, its implementation and its relevance to the identified risks. General Management and the Executive Committee are kept up-to-date on the progress of the Ethics and Compliance program.

Internal control process

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

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.

The Risk Department (part of the Internal Audit, Risk and Compliance Department) is in charge of mapping the Company's risks and identifying, assessing and regularly monitoring those risks (see Chapter 2).

bioMérieux's internal control environment is based on the elements described below:

Ethics and Compliance program

The objective of the Ethics and Compliance program is to ensure that policies and practices convey, both internally and publicly, bioMérieux's commitment to an organisational culture grounded in ethics and integrity. It 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 Ethics and Compliance program adopts a risk-based approach focused on the following:

- bioMérieux core values supporting employees every day;
- The Global Code of Conduct, regularly updated, sets out the rules of conduct and integrity applicable to Group employees. Communicated to all employees, it helps raise awareness in particular about the respect of rules and regulations concerning quality control, health, safety and the environment, conflicts of interest, professional ethics and integrity, protection of personal data and patient data, protection and proper use of assets and social responsibilities. The code also encourages every employee to express his or her concerns regarding compliance issues. Online training has been given to a large number of employees throughout the world;
- The Corruption Prevention Program, which, in addition to the Group's Global Code of Conduct, informs employees about their responsibilities in this area. Training and communication programs are also provided to employees who work with government representatives, intermediaries and other players in the healthcare sector;
- A whistle-blowing line is available to employees. It has been gradually deployed in all countries where the Company operates, and now covers all Group subsidiaries. As a general rule, any employee who witnesses a breach of the Global Code of Conduct should first report the issue to his or her manager or supervisor. Employees may also contact the Human Resources Department, the Legal Department or the Ethics and Compliance Department;

- Rules of ethics applicable to the financial markets are reflected in the Stock Market Code of Conduct drafted by bioMérieux, which every employee likely to hold inside information has signed. The Global Code of Conduct also sets out these rules.

Internal control manual

The Finance Department has compiled an internal control manual which sets out the main rules and controls with which all Group companies must comply. Training sessions for the Group's local finance teams were organised to accompany the distribution of this manual.

This Manual includes information on the rules governing the separation of duties, rules relating to commercial management and the management of spending commitments, banking flows and payments, payroll verification arrangements, the principles governing internal control, financial reporting and the approval of the financial statements.

Internal control in the regions and subsidiaries

The Chief Executive Officers and Chief Financial Officers of each region and subsidiary are responsible for ensuring the effectiveness of internal control procedures within their organisation and undertake to implement a system that ensures operating efficiency, reliability of financial and accounting information and optimal use of resources, while safeguarding assets and combating fraud.

In order to combat the increase in attempted external fraud, bioMérieux has set up a process for centralising information about these attempts, and for managing corrective and preventive measures. In particular, the Company regularly informs employees about commonly used fraud techniques.

Introduction of shared service centres in Poland and Argentina

Shared service centres were set up in Poland and in Argentina in 2012. As at end-2016, these two centres help to manage the accounting and sales administration activities of 19 subsidiaries. They also help to harmonise internal processes and, through an improved separation of duties, to strengthen internal control in smaller Group companies.

Launch of an integrated management software application

The Company rolled out an integrated management software application in 33 of its subsidiaries. It aims to facilitate the definition of consistent procedures and the implementation of a more effective internal control system.

Introduction of a financial training unit

A department exists within the Finance Department tasked with:

- training all new finance managers or directors within the subsidiaries in procedures and tools; two sessions are held each year;
- teaching financial skills to certain Company employees who do not have a financial background.

Global Quality Management System Manual

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

In addition to this manual, each subsidiary, production site and R&D site has additional local documentation 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 Group products are designed, manufactured and delivered in accordance with applicable quality standards.

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

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

Audits of production facilities may be carried out by competent authorities (see section 2.1.12 of the Registration Document).

Implementation and monitoring of the internal control and risk management system

Supervision of internal control and risk management, under the responsibility of the General Management and the Board of Directors, is based on the audit work as described below.

Internal Audit and Risk Departments

The Internal Audit and Risk Departments (part of the Internal Audit, Risk and Compliance Department) have a central team which relies on internal business line staff (some 30 employees). These departments are in charge of both risk management and of conducting audits to ensure that the procedures defined by the Group are duly applied by the subsidiaries and corporate departments.

Accordingly, they contribute to the continuous improvement of operating processes through risk analyses, internal audits and advisory services.

The Internal Audit 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.

From the basis of a central risk analysis, the Internal Audit and Risk Departments establish an annual audit plan, updated regularly, as well as a summary of the work carried out, which are regularly presented to the Audit Committee and the Executive Committee.

Quality Management Department

In line with its Quality Management System, the Company performs internal quality audits on its sites. These audits are conducted by the Company's 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, Ernst & Young et Autres and PricewaterhouseCoopers and its network, 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 Statutory Auditors are summarised 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 evaluation work of the internal control within the Company are carried out in close consultation with the Statutory Auditors. They are informed of the results of the work carried out by the Internal Audit and Risk Department.

In accordance with the Grenelle II law, an independent body, in this case Ernst & Young et Autres, must audit the environmental, labour-related and social information published by the Company.

The regulatory authorities carry out audits and inspections at the Company's sites, as described in section 1.5.2.

The Company's pharmaceutical customers use bioMérieux products in their quality control processes. To comply with the regulations governing their activity, these customers are obliged to conduct a large number of audits on bioMérieux's quality assurance system. These audits enable them to verify the compliance of this system with the GMP (Good Manufacturing Practice) requirements which apply to the pharmaceutical industry.

Internal control process relating to the preparation and processing of financial and accounting information

Definition and objectives

Financial and accounting internal control is a key component of the internal control system. 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, oversight and control policies and procedures.

Financial and accounting internal controls are designed to ensure that accounting and financial reporting comply with applicable rules, the instructions and objectives issued by General Management are duly applied, assets are safeguarded, fraud or errors in financial and accounting information are prevented or detected as far as possible, information circulated and used internally for monitoring or control purposes is reliable, insofar as it contributes to the preparation of the published financial and accounting information, the published financial statements and other information provided to the market are reliable.

Organisation and parties involved

Accounting/Finance

bioMérieux has compiled a "Manual of accounting and consolidation principles" for use by the Group's entities. This manual lists the principal items in the consolidated financial statements and specifies their contents. It also defines the valuation methods to be used.

For bioMérieux SA and its main subsidiaries, the accounting procedures required by the application of these principles and local regulations when recognising ordinary and recurring transactions are incorporated in the accounting software, in order to ensure that data are processed securely and automatically.

Management control

The annual budget is prepared by the Executive Committee and validated by the Board of Directors. This budget enables the Group's resources to be allocated to its various projects and activities.

bioMérieux and its subsidiaries all have a management control unit, the duties of which include verifying compliance with the budget. In addition, each function and each region has a dedicated management control unit in charge of drawing up and monitoring the annual budget.

Consolidation

The consolidation process is centralised within the Group. The consolidation team 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 consolidates them in accordance with the Group's chart of accounts.

The consolidation process includes an in-depth analysis of the financial statements. A quarterly analysis report is prepared and provided to the Group's General Management.

Cash Management and Finance

In light of the large number of countries in which bioMérieux operates, this function also plays a key role in the accounting and financial internal control system. As such, it has notably set up a system of cash pooling, for which bioMérieux SA is the leader, and implements a prudent management of temporary cash surpluses, which are invested in compliance with an investment procedure validated by the Audit Committee.

bioMérieux SA is responsible for managing exchange rate risks in accordance with the Group's policy set out in section 2.4. This involves, in a context of the billing of sales in customers' local currency, the setting up of currency hedges on the Group's net exposure for currencies that allow such hedging at a reasonable cost, and a monthly adjustment in hedges depending on transactions. This exchange rate policy aims to protect the exchange rate levels used in the budget.

Control of subsidiaries

Operational control of subsidiaries is achieved through:

- regional Finance Departments which verify the pertinence of the human, financial and business resources available locally with the assistance of support functions;

- the presence of members of certain operational and/or finance functions on the boards or committees (Board of Directors or its equivalent) overseeing the activities of subsidiaries;
- a finance and administrative function in each subsidiary;
- a monthly review of their reporting. The subsidiaries' main performance indicators, pertaining primarily to sales, contributive operating income and financial structure, are compared to the same indicators of the previous year and to the budget.

Investor Relations Department

The Company's financial publications (annual and interim reports, press releases, etc.) are drafted on the basis of specific discussions and are submitted to the Group's General Management and Administrative and Finance Departments for review. Press releases relating to results and sales are reviewed by the Audit Committee.

The Chairman of the Board of Directors