

the chairman's report

In compliance with Article L.225-37 of the French Commercial Code, this report from the Chairman of the Board of Directors explains the preparation and organization of the Board's work and the internal control systems that are in place at the Company.

A - how the work of the Board is prepared and organized

Information concerning the make-up of the Board and the renewal of Directors' terms can be found in the «Corporate Governance» section (page 8).

The members of the Board of Directors meet on a schedule set at the start of the financial period, which can be altered as the need arises or upon the request of Directors. The Board is convened by a letter sent 15 days prior to the meeting. After each meeting, minutes are drawn up and a draft of them is sent to each member; the minutes are adopted at the beginning of the next meeting.

In 2007, the Board met six times, with an attendance rate of 93%, to approve the yearly and half-yearly financial statements and to review the quarterly financial statements. Six other Directors' meetings were held to take up the following subjects: budget planning, wages, asset disposals, strategic decisions, technological developments and more. In the course of such meetings, the Group's senior managers explain the operations carried on in the three business units, accompanied if need be by top management from the various business units. The PSB Board of Directors makes its opinion known on all decisions concerning the major strategic, business, employee-related, financial and technological policies of the company and ensures that these decisions are carried out by business unit management.

The Board is assisted in its work by a strategy committee and a compensation committee. The strategy committee includes all the Directors and is specifically charged with debating the direction and positioning of the various business units in terms of investments and disinvestments, alliances and partnerships, and new product and business development. The compensation committee is made up of three Directors. It deals with the compensation and benefits of all kinds that are paid to officers of the company.

Additionally, once a month the Directors receive reports on the activities of the various business units and related companies and on our stock market activity, as well as media clippings about all Group companies.

The Board is not governed by an internal policy statement and includes no independent non-executive Directors. The Chairman of the Board is responsible for the general management of PSB Industries, with no specific limitation of powers.

B - internal controls

Following the recommendations of France's stock exchange authority, AMF, this report was written by applying the simplified guidelines for creating a reference document on internal controls.

PSB Industries' control system is meant to ensure that:

- All actions by management, all operations and all conduct comply with the law and

regulations and with our corporate values, standards and policies;

- The instructions and strategic direction determined by senior management and the Board of Directors are carried out;
- The company's internal processes run smoothly, especially those safeguarding the company's assets;
- Financial data are reliable;
- Risks arising from the Group's business operations are prevented or contained;
- Its operations are effective and its resources used efficiently.

However, like any control system, this one cannot provide an absolute guarantee that risks will be totally eliminated and only provides reasonable assurance as to the achievement of its objectives.

1. THE CORPORATE INTERNAL CONTROL SYSTEM

This report covers all Group companies except the Japanese equity-method subsidiary.

1.1 Organization and persons involved

PSB Industries is made up of three business units covering three distinct lines of business. Each business unit groups together 3 to 10 small or medium-size companies of from 20 to 250 people each. Heading up each business unit is an autonomous management team responsible for implementing the decisions made by Group senior management. The top management of each line of business organizes and supervises the control system within its delegated scope, in cooperation with PSB Industries' finance department. The senior managers of the business lines rely on the senior managers of the companies under them, as well as on the quality directors and the managerial staff.

This organization makes use of tools, practices and systems such as ISO reference documents, the budgeting process, management reporting systems, risk management groups, various procedures and specific management information systems.

Given the size and the organization of the Group, it has not been thought necessary to form an audit committee.

1.2 Survey and analysis of risk, leading to the dissemination of relevant, reliable information

The size of our companies enables information to circulate rapidly, people to be responsive and the key individuals in the Group to be clearly identified. Thus within each business unit, committees of decision-makers hold weekly, bi-weekly or monthly meetings. These committees guide their business unit, always careful to identify, prevent and manage all the risks that may arise in the course of their business.

This analysis of operations is supplemented by further processes involving the senior management of the Group, including our budgeting process, reporting process and monthly business reviews.

The budgeting process brings together Group senior management with business unit senior management in November. During these meetings, the business units present their budgets and plans for approval by the parent company. What comes out of this are the capital expenditures, financial investments and strategic and business objectives that are to be implemented. Any commitment of funds deviating from the budget authorization must first receive approval at the appropriate level. The budget is broken down by month,

so it can serve as a benchmark for the Group's monthly reporting system.

The monthly reporting system has two phases. The first is a reporting, two days after closing, of sales for each company. Then, five days after close, each company draws up a detailed income statement. These income statements are first analyzed by the top management of each business unit, then sent to the parent company of the Group for a second analysis.

Both budgeting and reporting processes include several levels of control, since they are set up by decentralized companies and then centralized by the business unit and Group finance departments.

The third type of oversight provided by senior management over the subsidiaries consists of the monthly performance reviews. These bring together the Chief Executive of the Group and the General Managers of each business unit. Their purpose is to analyze monthly performance, working capital requirements, capital expenditures and the updated forecasts.

In addition, the risk management group, in cooperation with Group companies, updates a risk map for PSB Industries.

These processes, related to the specific organization of PSB Industries, allow an ongoing analysis of the risks of each business unit and the rapid dissemination of reliable information throughout the Group.

1.3 Controls performed

Controls are performed throughout the organization in the form of manual, computerized and managerial controls. First of all, in terms of staff personnel, every company in a business unit has a quality director who arranges internal audits with respect to ISO standards and the commitments made to customers. Then, in terms of line personnel, employees are trained to apply the principles of prudence and risk management in their day-to-day activities. Additionally, the supervision provided by upper management as described above adds to the control of operations.

1.4 Oversight of the internal control system

Oversight of the internal control system falls primarily on the Group's statutory auditors, on certified public accountants at the company level and on the regulatory bodies with jurisdiction over the Group and its companies.

Furthermore, since 2007 the Group's finance department has belonged to a taskforce of mid-cap public companies which was organized to identify the best practices in the area of internal controls

2. PROCESSES FOR ACCOUNTING AND FINANCIAL INFORMATION

The internal control system with regard to accounting and financial information is meant to ensure:

- Adherence to current accounting standards and principles
- Monitoring of the creation of financial information
- Reliability of the financial information prepared and reported by subsidiaries and its centralized processing at the Group level
- Advance planning for the processing of complex accounting operations
- Rapid and reliable accounting data reports

2.1 The accounting and financial organization

The key participants in the internal financial and accounting control system are Group general management and Group and business unit financial management. Each company's accounting is done at that level by one or two full-time accountants. Each business unit includes one accounting director who oversees the accounting done within their scope.

This organization makes use of tools, practices and systems such as the Group's accounting policies handbook, the budgeting process, the reporting process, certain procedures and specific management information systems.

2.2 Identification and analysis of risks impacting the accounting and financial data

Accounting and financial staff identify risks by category of operations. Organized measures are in place to prevent and limit risks at the operating level, and these are supplemented by an analysis of the monthly income statements as mentioned above.

The monthly analyses, moreover, are fine-tuned with more detailed quarterly analyses once the accounts have been consolidated. All data reported up the chain are prepared according to the same accounting standards, as set out in the Group accounting policies handbook. The quarterly consolidations are prepared as follows: 12 days after close the accountants from each company send to the Group finance department a set of restated accounting packages created by the consolidation software that interfaces with the accounting programs. The consolidation team checks the packages, validates the consolidation processing and analyzes the consolidated data for consistency with the monthly reporting data.

Moreover, in order to avoid the risks of new and complex accounting procedures at closing, the finance department has put measures in place to identify and analyze such risks, involving the two statutory auditors and the Group and business unit finance departments. At these meetings the accounting items that might have an impact on the financial statements are set forth and examined, and the participants approve the most appropriate way to account for them.

2.3 The accounting and financial information system

At PSB Industries our IT staff is decentralized to the business unit level. Thus the information systems used in the different business units are separate. The software programs used are interfaced with the software for production management, asset management, payroll and consolidation, in order to limit the work that must be done manually. The controls built into these systems are kept activated, so that errors will be limited.

The data are saved according to clearly established backup procedures.

The software is updated regularly to comply with regulations and to change in keeping with the needs of the companies.

2.4 Controls performed

The existing control system depends on computerized and managerial controls, and also, given the way accounting is organized in the Group, certain self-controls.

Furthermore, to back up the internal control system and to check that prevailing accounting principles and standards are being correctly applied, the Group companies' statements are checked at least twice a year by a firm of certified public accountants. PSB Industries' external auditing is handled by the firms of Mazars and Ernst and Young. As part of their assignment of certifying the financial statements, they look at the accounting

and internal control systems in order to evaluate the audit risk. At that time they make recommendations on the internal control procedures and systems which could impact the quality of accounting and financial data. In our constant effort to improve the reliability of our procedures, PSB companies are instructed to adopt these recommendations.

2.5 Financial and accounting communications

The Group finance department distributes a schedule to all subsidiaries for gathering the financial information necessary to meet the requirements of public disclosure and of our various internal reports. Data to be publicly disclosed are checked and analyzed by the Group finance department and reconciled with the information collected in the periodic reports. Any discrepancies found are explained. Senior management is kept informed of this work and analyzes all the public data. The public data, with commentary, are sent to the Board of Directors before being published.

3. RISK ANALYSIS AND MANAGEMENT

3.1 General principles of risk management

In its various businesses PSB Industries applies a risk management policy based primarily on personal safety, environmental protection, customer satisfaction and asset protection.

The Group finance department, in cooperation with business unit management, surveys and ranks risks according to their likelihood of occurrence and their impact, in order to construct a risk map by business unit. Action plans to limit these risks are then created and updated to factor in regulatory, technological and economic changes. The risk map is also compared to the risk map made by the Group's outside statutory auditors.

3.2 Identification and analysis of the major risks

Risks identified at the subsidiary level relate to competition, supply, product quality, the environment, key person loss, fire, and more generally to foreign exchange and interest rate and to security of manufacturing and IT operations.

The risks deemed to be major risks are competition, fire, changes in raw materials prices, forex and interest rates.

The markets where PSB Industries sells are for the most part highly competitive. Now that some of our customers have moved their production to Eastern Europe and Asia, one of the risks we have identified is finding ourselves in competition with manufacturers in these low-cost countries.

Although the likelihood of fire is fairly low, its impact would obviously be great, entailing the destruction of a Group company's assets. In the past, PSB Industries has experienced this type of accident and so remains very sensitive to it.

The raw materials used by the Group are chiefly ones whose price is geared to the price of hydrocarbons. The risk is that a surge in raw materials cost may impact our companies' margins.

The "rate" risk run by PSB Industries stems from the Group's financing activities and the foreign exchange risk from our use of different currencies. PSB Industries not only pays close attention to the rate at which it borrows but also attempts to hedge the variable-rate portion of its debt. With respect to foreign exchange rates, PSB Industries' exposure derives from the Specialty Chemicals Business unit, which does some of its business in US dollars and, to a lesser extent, in yen.

3.3 Procedures for managing the major risks

To deal with these risks, PSB Industries has set up specific procedures and adopted several strategies.

With regard to differentiating ourselves from the competition, PSB Industries makes continuing improvements in productivity, develops custom-made products and takes a Total-Quality Management approach, in order to give our customers the best service they can find. Simultaneously, PSB Industries is constantly involved in research and industrial innovation, alongside environmental protection efforts, such as eco-design. Moreover, even though the environmental risk was not identified as a major one for PSB Industries, the Group has commissioned a special audit of all its subsidiaries so that we can get into compliance when necessary and has adopted a code of corporate citizenship.

In terms of fire, PSB Industries runs awareness programs for its employees about situations where fires can start and equips its facilities with fire-fighting devices such as sprinklers and fire-proof doors. We also try to keep our plants as versatile as possible, as this has proved an effective solution in the past.

PSB Industries cannot escape the fluctuations in the price of its raw materials—polystyrene, polyvinyl chloride, polypropylene and PET. To limit the negative effect of price increases, PSB Industries has signed fixed-price contracts with its suppliers and price-indexed contracts with its principal customers. No hedging, however, has been adopted.

Lastly, to limit interest rate and exchange rate risk, PSB Industries employs what is known in France as a GIE (an economic interest group), a partnership that includes all the Group's subsidiaries but none of their assets.

The GIE defines our alternatives and our policies with respect to financing and forex and interest rate hedging. In this way, of the 60% of debt which is variable-rate, 57% is hedged, which brings the variable-rate portion down to 26% of total debt. Regarding foreign currency, our most exposed company hedges its sales a year ahead, either by using financial instruments or by making purchases denominated in the same currency.

3.4 Monitoring risks and risk management procedures

To round out its policy of risk prevention, PSB Industries has chosen to take out a general insurance policy for the Group covering property damage, personal injury, business losses and third-party liability.

4. PLANNED CHANGES

Considering its structure and its size, PSB Industries remains a responsive group where who is in charge of what is clearly laid out and where the employees are made aware of risk and use caution in their day-to-day work. Nevertheless, these points in our favor can also restrict the internal control system. Given the way the accounting staff is organized, for instance, it is not always easy to observe a strict separation of responsibilities.

More generally, and due to the work done in 2007, it turns out that PSB Industries needs to consolidate the various control aspects of its internal control system. To accomplish this, a person will be added to the Group finance department starting in May 2008. His or her assignment will be to audit and to add to the existing internal control system, to update procedures and risk maps, and to conduct training sessions in risk management.

auditor's opinion on the chairman's report

(Period ending December 31, 2007)

To the shareholders,

In our capacity as statutory auditors for PSB Industries and pursuant to article L. 225-235 of the French Commercial Code, we submit to you our opinion on your company Chairman's report, made in accordance with article L. 225-37 of the French Commercial Code, with respect to the financial year ending December 31, 2007.

It is the Chairman of the Board's particular responsibility to explain in his report how the work of the Board is prepared and organized and the internal control procedures in place within the company.

It is our responsibility to convey to you our own observations on the information given in the Chairman's report concerning those internal control procedures relative to the preparation and processing of accounting and financial information.

We conducted our work in accordance with the professional standards applied in France. These require us to perform procedures to assess the accuracy of the information contained in the Chairman's report concerning the internal control procedures relative to the preparation and processing of financial and accounting data. These procedures specifically consist of:

- familiarizing ourselves with the internal control procedures relative to the preparation and processing of accounting and financial information and that underlie the information presented in the Chairman's report, as well as with the existing documentation;
- familiarizing ourselves with the work that enabled this information to be prepared and with the existing documentation;
- determining whether any major deficiencies in the internal controls relative to the preparation and processing of accounting and financial information that we might find in the course of our work are appropriately covered in the Chairman's report.

On the basis of these examinations, we have no comment to make on the information concerning the company's internal control procedures relative to the preparation and processing of accounting and financial information that was presented in the report of the Chairman of the Board of Directors made pursuant to article L. 225-37 of the French Commercial Code.

Neuilly-sur-Seine and Villeurbanne, February 29, 2008

Statutory Auditors

ERNST & YOUNG ET AUTRES

Nicolas JOB

MAZARS

Max DUMOULIN