

Control

A - Internal control

Report from the Chairman of the Board of Directors

1- The control environment

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

1.1 Corporate governance and the functioning of the Board of Directors

Information concerning the composition of the Board and the renewal of Directors' terms can be found in the "Corporate Governance" section (page 4).

1.1.1 The functioning of the Board of Directors

The Board of Directors of PSB Industries makes its opinion known on all decisions concerning the major strategic, economic, employee-related, financial and technological policies of the company and sees that these decisions are carried out by business unit management.

The execution of decisions made by the Board of Directors, and more broadly, the management of the Group, is the responsibility of the Chairman of the Board.

The directors met nine times in 2006. The directors' attendance rate in 2006 was 91%. Six of these Board meetings were specifically for approving the yearly and half-yearly financial statements or to analyze quarterly results. The other three were meetings at which Board members made decisions and

set strategy concerning capital expenditures equity divestments or investments, and analyzed various financial indicators.

In the course of these meetings, general management would report on significant events and operations within the Group.

The Directors receive monthly reports from general management, which present indicators and ratios for the various companies and business units, stock exchange activity on PSB Industries stock, and a press review concerning all Group entities.

No independent directors sit on the Board and there are no rules of procedure.

1.1.2 Any limitation on the powers of the Chairman of the Board

The Chairman of the Board is responsible for the general management of PSB Industries. The corporate bylaws do not provide for any limitation of his powers.

1.1.3 Special committees

A Strategy Committee consisting of all the directors was created in late 2006. It is to consider the direction and positioning of the various business units, particularly with respect to:

- capital expenditures and disposals,
- alliances and partnerships,
- development of new products or markets.

A Compensation Committee was created in late 2006. It consists of three directors and is chaired by Mr. Jean-Claude Cachat.

The members of this committee are to report to the Board at least once a year on their work and on proposals for determining all types of compensation and benefits for officers of the Company.

1.2 - Internal control environment and organization

1.2.1 Definitions and objectives of internal control

The objectives of PSB Industries concerning internal control are as follows:

- to see that the actions of its management, the conduct of its business and the behavior of its employees comply with the guidelines for the company's activities as defined by its governing bodies, by applicable laws and regulations as well as by the values, standards and rules of the company,
- to make sure that the accounting, financial and management information provided to the Company's governing bodies is a true and accurate reflection of the activity and situation of the Company,
- to foresee and manage risks resulting from the company's activities and the risks of error or fraud, especially in the areas of accounting and finance,
- to provide reasonable assurance that the objective of safeguarding assets is taken into account and achieved,
- to carry out and optimize the operations and overall performance of the Group.

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.

1.2.2 The general organization of the internal control process

PSB Industries is organised around three business units, each having its own autonomous general management responsible for carrying out the decisions made by Group corporate management.

The management of each business unit organizes and guides internal control in its

scope in order to have reasonable assurance that the performance objectives given to it are achieved. These control measures, carried out at each hierarchical, functional and operational level of the particular business unit, include the delegation of authority, the setting up of internal monitoring and control mechanisms, the evaluation of operating performance, the safeguard of assets and, where required, the separation of functions.

The key participants involved in verifying the application of the internal control system are:

- the Board of Directors
- general Management
- business unit management
- site managers
- the Risk Management Group in the head office and their liaisons in PSB Industries subsidiaries
- supervisory personnel on site

Because of the size and the organization of the Group, the formation of an audit committee has not been judged necessary.

Personnel are generally trained to apply the principles of precaution linked to risk management in the course of their daily activities.

Within this organizational structure, the Parent Company is responsible for:

- the management of staff services such as consolidation and establishing accounting rules and procedures,
- management of the accounting and financial data reporting and planning systems that allow for efficient business management at all organizational levels and the required responsiveness ensuring smooth operation of a decentralized organization,
- establishing an internal control system,
- decisions on and management of insurance matters.

1.2.3 Organization and relations between the Board of Directors and business unit General Management in the internal control process

All entities of PSB Industries are included in the Group's management and control cycle, which has three basic components:

- The budgeting process: In November each business unit presents its budget to the parent company for approval. Capital expenditures and financial investments are included in this process. Any commitment of funds outside the budget authorization must first be approved at the appropriate level. The budget is expressed in monthly figures so as to serve as the benchmark for Group reporting.

- Monthly reporting: This is the major component of the control and financial information system; it is the principal tool for the monitoring, control and management of the Group by general management.

Two days after the monthly close, all Group companies report their sales so that a preliminary level of business can be calculated. Five days after close, each company draws up a detailed P&L statement. These P&L figures are first analyzed by the management committees of the relevant business units and then sent to the parent company for further analysis. As each entity has its own accounting department, all the figures are checked and centralized by each business unit's Financial Controller.

- The monthly business review: This is one of the key items in the Group's management and control system. Its main objective is to ensure that actions undertaken are in line with the goals of the Group. The review meeting takes place every month between the general management of the Group and management of the subsidiaries. Major issues are discussed in the course of these meetings, including monthly performance, changes in working capital requirements, expenditures and updating of forecasts.

Administrative functions such as marketing, I.T., accounting, sales administration and human resource management are decentralized, and each business unit is autonomous in these matters.

II – Risk management

2.1 Risk identification

The orientation of this project has been on managing risks of several types: human, industrial, environmental, commercial, financial, legal and IT risks. To achieve this objective, PSB Industries has designated liaison staff in the subsidiaries, who form an internal risk management team within the Group.

The team has listed potential risks in each company, ranking them and mapping them for each business unit according to their likelihood and their impact. It then drew up action plans for the risks identified as most serious. Risk mapping and the follow-up on recommendations are updated by the risk management team in order to take into account regulatory, technological, business and environmental changes.

This analysis is then benchmarked with that of the Group's outside auditors.

Risks identified at the subsidiary level relate to competition, supply, customer insolvency, product quality, the environment, loss of key employees, fire and general safety of the production environment, I.T., interest rates and currency impact.

The risks judged to be most serious relate to competition, the environment, fire, interest rates and currency impact. These were selected based on both their likelihood and their impact.

2.2 Risk management

PSB Industries has taken a range of measures to deal with these risks and established or strengthened several strategies.

To deal with competition, PSB Industries' aim for several years has been to improve productivity, develop custom lines, and adhere to the principles of Total Quality Management (TQM), in order to offer its customers the best cost-effective service. This is supported by a dynamic, ongoing industrial research and innovation strategy.

As regards environmental risk, in 2004 PSB Industries commissioned two specialist firms to carry out an audit of all Group companies. Their findings about each company were written into a report. Corrective actions were implemented so that each Group site was brought into line with the latest environmental and monitoring regulations. These same specialized firms will conduct a new audit in the course of 2007.

In late December 2006, two sites (CGL Pack Annecy and CGL Pack Lorient) became ISO-14001 certified.

Although the chance of fire is fairly remote, its impact would obviously be great. To reduce its likelihood, PSB Industries trains its units to be aware of any situation which may lead to fire and to limit fire damage; fits its buildings with fire-fighting devices (sprinklers, fire doors, etc.) and tries to increase the versatility of its sites. The versatility solution has proved effective in the past.

Legal and financial risk management is the responsibility of the corporate officers in each company, under supervision of the parent company, which is alerted in case of litigation or dispute and makes any necessary response.

A no-asset cash-management partnership (French acronym: GIE) known as PSB Trésorerie and involving all PSB Industries subsidiaries sets out the options and directions for PSB Industries as regards financing and the hedging of interest rates and currency impact.

Fifty-six percent of the financial debt of PSB Industries' companies is at floating rates. To deal with interest rate risk, the GIE cash management partnership implements all hedging programs.

As at December 31, 2006, 44% of floating rate debt was hedged.

Regarding dollar risk, the most exposed company hedges its sales for at least one year either by using financial instruments or with purchases denominated in USD (mostly raw materials).

2.2.1 Raw materials price risk

The chief materials used by the Group are polypropylene, polystyrene, PVC and PET. The Group does not use hedging instruments for its raw materials; there are in fact no such instruments except for polypropylene and PET.

Our customers are quite aware of the proportion of materials in our selling price. This transparency enables us to negotiate when there are fluctuations in the polymers market.

2.2.2 Energy price risk

Subsidiaries which are large consumers of gas or electricity are able to obtain flat annual rates per kilowatt-hour in order to limit price fluctuations.

PSB Industries' risk-management objectives are to:

- Update risk mapping, identifying new or overlooked sources of risk
- Continue to take preventative and corrective actions
- Spread best practices to all Group companies
- Implement an "information technology charter" that lays out everyone's rights and obligations, in order to preserve the confidentiality and security of data and information systems.

III – Preparing and Processing Accounting and Financial Data

PSB Industries' internal control system for the preparation and processing of accounting and financial information aims to ensure:

- Adherence to current accounting standards and principles
- Monitoring of the creation of financial information
- Reliability of financial information reported by subsidiaries and its central processing at the Group level
- Advance planning for processing of complex accounting operations
- Fast and reliable accounts closing and financial reporting lead time.

The key players involved in the internal accounting and financial control system are general management and corporate and business unit finance departments.

Planning the coordination between the various PSB Industries business units and functions, improving the quality of forecasts and increasing control over financial processes, as well as planning for and speeding up the accounts closing process – these are all key aspects of the progress the Group has made in in terms of closing accounts.

Beside the monthly reports filed as part of internal control, PSB Industries prepares quarterly consolidated statements, with the same standards as the half-yearly and annual statements. By the 12th day after close, accountants at each company send the consolidation packages – produced by a shared consolidation tool which interfaces with each accounting department – to the corporate finance department. The consolidation team checks the packages, validates the consolidation processing and analyzes the consistency of the consolidated data with the monthly reporting data.

The corporate and business unit finance departments also rely on other procedures, some shared by all Group companies and some specific to each business unit. These involve among other things capital expenditures, purchasing, sales, inventories and signed authorizations.

To reinforce the internal monitoring carried out by PSB Industries and to check that prevailing accounting principles and standards are being correctly applied, Group companies' statements are checked at least twice a year by a firm of certified public accountants.

PSB Industries' outside auditing is handled by the firms of ERNST & YOUNG and MAZARS. During their assignment of certifying the financial statements, the statutory auditors 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 Industries Group companies are instructed to adopt these recommendations.

In line with its initial action plan, PSB Industries maintains its commitment to continually improving its internal control system, which will lead to clear benefits in the medium term.

IV – Further development of the internal control system

In 2007 PSB Industries will assess the Group's internal control system using the benchmarks and guidelines published by the AMF.

Auditors' opinion on the Chairman's report

Written pursuant to Article L.225-235 of the French Commercial Code and concerning the Report from the Chairman of the Board about the internal control procedures for preparing and processing financial and accounting information

(Period ending December 31, 2006)

To the shareholders,

In our capacity as Statutory Auditors for the corporation PSB Industries and as required by the provisions of Article L. 225-235 of the French Commercial Code, we hereby present our opinion on the report prepared by the Chairman of the Board of Directors of the Company pursuant to Article L. 225-37 of the French Commercial Code, with respect to the financial year ending December 31, 2006.

In his report, the Chairman of the Board of Directors is required to comment on the organization and procedures of the Board of Directors and of the internal control procedures in place within the Company.

It is our responsibility to report to shareholders our comments on the information contained in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our work in accordance with professional standards applicable in France. These require us to perform procedures to assess the genuineness of the information contained in the Chairman's report on the

internal control procedures relating to the preparation and processing of financial and accounting information. These procedures involve in particular:

– Examining the objectives and general organization of the Company's internal control system, as well as the internal control procedures covering the preparation and processing of financial and accounting information, as set out in the Chairman's report.

- Examining the work which underlies the information given in the report.

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

Neuilly sur Seine and Villeurbanne,
February 27, 2007

Statutory auditors
Ernst & Young et Autres Mazars
Nicolas Job Max Dumoulin