

THE CHAIRMAN'S REPORT

“I - The Internal Control Environment”

1 - Governance of the Company and the functioning of the Board of Directors

Organization and preparation of the Board's work

Information concerning the composition of the Board and the renewal of Directors' terms can be found on page 5 of the 'Corporate Governance' document

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 ensures that these decisions are carried out by business unit management.

The execution of decisions made by the Board of Directors and the general management of the Group are the responsibility of the Chairman of the Board.

The Board meets 10 times a year.

The attendance rate of Directors in 2005 was 90%.

Four of these Board meetings set forth the yearly and half-yearly financial statements or analyze quarterly results.

The other six are meetings at which Board members make decisions or set strategy concerning capital expenditures, equity divestments or investments and analyze various financial indicators.

In the course of these meetings, general management reports on significant events and operations that concern the Group.

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

At present, the Board of Directors does not include any independent directors in the strict sense of the term. However, most of the directors are individuals and shareholders with no operational role in the management of the Company. There are no Company rules of procedure

1.2 Possible limitation on the prerogatives 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.

In the absence of a strategy committee, any important plans for strategic direction or external growth are given prior financial study in consultation with the heads of the businesses. If the project is accepted, it is presented to the Board of Directors of PSB Industries for study and approval.

However, the present general policy of the Group excludes any extension into new businesses.

1.3 Specialized committees

PSB Industries has no specialized committees

2 - Internal control environment and organization

2.1 Definitions and objectives of internal control

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

- Ensure that the management's actions, the conduct of business and the behavior of individuals are in line with the defined policies set for the Company's businesses by the corporate bodies and by applicable laws and regulations as well as by the values, standards and internal rules of the Company,
- Verify that the accounting, financial and management data communicated to the corporate bodies truly reflect the operations and condition of the Company.
- Foresee and control risks resulting from the Company's business activities and the risks of errors or frauds, particularly in the accounting and financial fields,
- Provide reasonable assurance that the objective of safeguarding assets is taken into account and achieved,
- Implement and optimize operations and the 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.

2.2 The general organization of the Group in the process of internal control

PSB Industries is organized around three business units, each having at its head an autonomous general management team responsible for implementing decisions taken by the Group's corporate management. The management of each business unit organizes and manages internal control in its allotted area in order to have reasonable assurance that the performance objectives given to it are achieved. These control activities are carried out at each hierarchical, functional and operational level of the particular business unit, and

include the delegation of authority, the setting up of internal monitoring and control measures, the evaluation of operating performance, the safeguard of assets and the separation of functions, where this is required.

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

- The Board of Directors
- General Management
- Operational Management
- On-site Management
- The Risk Management Group in the head office and in the subsidiaries of PSB Industries through contact personnel
- Supervisory personnel on site

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

Staff are generally trained to apply the principles of precaution and of 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 reporting and planning systems for the transmission of accounting and financial data that allow for efficient business management at all organizational levels and the required responsiveness ensuring smooth operation of a decentralized organization,
- Establishing internal controls,
- Policy and management of insurance matters.

2.3 Organization and relations between the Board of Directors and General Management of the various business units as concerns the internal control process

All Group units are included in the Group's management cycle, which is made up of three fundamental components :

- **Budgeting** : each business units presents its budget to the parent company in November for approval. Capital expenditures and financial investments are included

in this process. Any commitment of funds not included in the budget authorization must be the subject of prior agreement 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 the level of business activity can be calculated rapidly. Five days after close, each company draws up a detailed income statement. These figures are first analyzed by the management committees of the corresponding business unit and then sent to the parent company for further analysis. As each unit has its own accounting department, all the reported figures are checked and centralized by the finance manager of the corresponding unit.

- **The monthly business review** : This is one of the key items in the Group's control and management system. Its principal objective is to ensure that actions undertaken are in line with the ambitions 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: monthly performance, changes in working capital requirements, capital expenditures and updating of forecasts.

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

“II - Risk Management”

1 - Identifying risks

The principal objective of this project has been risk management – human, industrial, environmental, commercial, financial, legal and IT risk. To achieve this objective, PSB Industries has recruited intermediary staff from the subsidiaries, who form an internal risk management team within the Group.

The team has listed potential risks in each company, ranking and mapping for each business unit according to their likelihood and their impact. It then set about drawing 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 bankruptcy, product quality, the environment, loss of key employees, fire and more generally the safety of the production environment, IT, and interest and exchange rates.

The risks judged to be most serious are competition, the environment, fire, and interest and exchange rates. They are judged according to both their likelihood and their impact.

2 - Risk management

PSB Industries has set in motion a range of actions to deal with these risks and established or strengthened several strategies.

- As far as competition is concerned, PSB Industries' aim for several years has been to improve productivity, develop tailored offerings, and adhere to the principles of Total Quality Management (TQM), in order to offer its customers the best possible price/quality service. This is supported by a dynamic ongoing industrial research and innovation strategy.
- As regards environmental risk, in 2004 PSB Industries hired two specialist firms to carry out an audit of all Group companies. Specific conclusions were drawn up and corrective actions were implemented so that each Group facility was brought into line with the latest environmental and monitoring regulations. In late December 2005, one facility (CGL Pack Lorient) obtained ISO14001 certification.
- Although the risk of fire is fairly low, its impact is obviously great. To reduce its likelihood, PSB Industries trains its units to be aware of any situation which may encourage fires and to limit fire damage, fits its buildings with fire-fighting devices (sprinklers, fire doors, etc.) and tries to increase the versatility of its facilities. 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 a dispute or litigation and undertakes the necessary steps as applicable.

An uncapitalized partnership (GIE) called PSB Trésorerie drawn from all PSB Industries subsidiaries sets out the options and directions for PSB Industries as regards financing and hedging of interest and exchange rates :

- Fifty-eight percent of the financial debts of PSB Industries' companies are at a variable rate. The treasury GIE partnership arranges all hedges against interest rate

risk. On 12/31/2005, 76% of variable 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).

Raw material price risk

The chief materials used by the Group are polypropylene, polystyrene, PVC and PET. The Group does not use hedging contracts for these raw materials; actually hedging instruments do not exist except for polypropylene and PET.

Our customers are perfectly aware of the share of materials in the sale price. This transparency enables us to negotiate when there are fluctuations in the polymers market.

Energy price risk

Subsidiaries which are large consumers of gas or electricity can fix the kilowatt-hour price annually in order to limit fluctuations.

PSB Industries' risk-management objectives are to :

- Update the risk maps, identifying new or overlooked sources of risk,
- Continue to take preventative and corrective actions,
- Spread best practice to all Group companies,
- Create an IT charter setting out everyone's rights and obligations to preserve confidentiality and security of data and information systems.

“III - Creating and Processing Accounting and Financial Data”

PSB Industries' internal control system for the creation 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 reporting by subsidiaries and its central handling by the Group,
- The handling of complex accounting operations is planned in advance,
- Accounts closing and accounting reporting is fast and effective.

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 terms of closing accounts.

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

In 2005, all the PSB Industries Group financial and accounting teams worked very hard to make the shift to IFRS.

This work was useful, firstly in updating the consolidation manual and the cost accounting chart of accounts and secondly for establishing a common reference system for all Group companies. Beginning December 31, 2005, the annual consolidated financial statements have been produced straight into IFRS.

The corporate and business unit finance departments also rely on other procedures, either shared by all Group companies or specific to each business unit. These involve among other things capital expenditures, purchasing, sales, inventories and power of signature.

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' financial statements are verified at least twice a year by a firm of certified public accountants.

The firms of ERNST & YOUNG and MAZARS are PSB Industries' statutory auditors. As part of their task of account certification, they look at the accounting and internal control systems in order to evaluate the audit risk. At this time they make recommendations on the internal control procedures and systems which could have an impact on the quality of accounting and financial data.

The PSB Industries Group companies are instructed to take these recommendations

into account in an ongoing effort to improve process reliability.

PSB Industries continues to follow its initial action plan in making continual internal monitoring improvements, which will lead to clear benefits in the medium term

“IV - Development of the internal control system”

PSB Industries' 2006 objectives for monitoring the creation and processing of accounting and financial data are as follows :

- Internal control of foreign companies
- Increasing the level of computerized internal control in 2006 by means of a new consolidation tool used in the monthly reporting and budgeting stages. This move will also enable better lead times and provide a single database for the Group's information system.

STATUTORY AUDITORS' OPINION ON THE REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Drawn up in application of article
L.225-235 of the French Commercial Code

To the Shareholders ,

In our capacity as Statutory Auditors of PSB Industries and as required by the provisions of article L. 225-235 of the French Commercial Code, we hereby present our report on the report prepared by the Chairman of the Board of Directors of the Company, in accordance with article L. 225-37 of the French Commercial Code, for the year ended December 31, 2005.

In his report, the Chairman of the Board of Directors is required to comment on the conditions applicable for the preparation and organization of the work carried out by the Board of Directors and the internal control procedures implemented within the Company.

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

We have carried out our work in accordance with the professional guidelines applicable in France. Those guidelines require that we take measures to evaluate the genuineness of information presented in the Chairman's report, concerning the internal control procedures related to the preparation and processing of accounting and financial information.

These measures involve in particular:

- examining the general organization and objectives of the Company's internal control system and the internal control procedures covering the preparation and processing of accounting and financial information, as described in the Chairman's report; and
- 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 concerning the Company's internal control procedures covering the preparation and processing of accounting and financial information, as contained in the report of the Chairman of the Board of Directors, prepared in accordance with the final paragraph of article L. 225-37 of the French Commercial Code.

Villeurbanne and Neuilly sur Seine, February 27, 2006

MAZARS

Jean-François Metz Max Dumoulin

BARBIER FRINAULT & AUTRES

Ernst & Young
Nicolas Job