

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.

1. 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 2008, 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.

2. 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.

2.1 the corporate internal control system

This report covers all Group companies. Our Japanese subsidiary consolidated by the equity method has its own reporting system, appropriate to its decentralized structure. The Group is nonetheless able to oversee this subsidiary through monthly sales reports and complete quarterly financial reports, together with periodic marketing and strategy meetings.

The summary information presented in this report regarding our internal control system focuses on those material elements which are liable to have an impact on the financial and accounting information published by the Group.

2.1.1 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.

2.1.2 Diffusion 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 bu-

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 on-going analysis of the risks of each business unit and the rapid dissemination of reliable information throughout the Group.

2.1.3

Establishment of a risk management system

The risk management unit was enlarged this year. It is tasked with updating PSB Industries' risk map.

This process is related to the specific organization of PSB Industries. It allows an on-going analysis of the risks of each line of business and the rapid dissemination of reliable information in the Group.

• The premises of our risk management

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

The Group's Finance Department, working with the senior management of each Business Unit, surveys and ranks the risks of any type which might keep the Group from attaining our objectives or affect our

assets. The ranking weighs probability of occurrence, impact (both financial and non-financial) and manageability, resulting in a risk map by line of business. Action plans to limit these risks are then created and updated to factor in regulatory, technological and business changes.

• The risk-mapping process: identification and analysis

This year the Group gave our risk map a thorough updating, with input from top management and key executives from each of the three business units.

The process made use of a formal methodology that provided a shared vocabulary and uniform assessment criteria across the business units.

Group senior management reviewed the portfolio of assessed risks, drew from it areas for improvement and put employees to work on a number of action plans.

Risks identified at the subsidiary level relate to competition, market trends, procurement, quality, the environment, key person loss, fire, information technology, interest rates, foreign exchange and, more broadly, providing security for manufacturing operations.

• Steps taken to manage the chief risks

To contend with these risks PSB Industries has implemented a management system combining an insurance policy covering casualty and property damage, business interruption and civil liability with control processes and procedures to limit their potential impact. Certain action plans were initiated to provide stronger coverage against these risks. This risk management system is regularly monitored by management committees at the subsidiary level and by Group top management.

• Monitoring of risks and risk management procedures :

The mission of the risk management unit also includes leading the risk management process within the Group and assessing how well the risk management controls are being implemented by those responsible.

The Board of Directors is kept informed on a regular basis as to the leading risks identified and the broad outline of the risk management system.

2.1.4 Controls performed

In connection with their strategic objectives and their risk assessment, the Business Units have created a number of procedures and best practices intended to meet quality assurance and market requirements.

Controls are performed throughout the organization in the form of manual, computerized and managerial controls. At the operating level, personnel are trained to apply the precautionary principles of risk management in the course of their daily activities.

2.1.5 Oversight of the internal control system

Oversight of our management control system is provided through monthly operating reviews involving the general management of each business line and the Group finance department. Starting in 2009 the management control system will be rounded out by self-assessment controls derived from the risk map.

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

2.2 Processus 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.

2.2.1 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.

2.2.2 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. In addition, since the last quarter of 2008, PSB Industries has aligned our internal reports with the consolidation system in order to centralize the data in one common, efficient consolidation software package.

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.

2.2.3

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.

2.2.4

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.

2.2.5

Financial and accounting communications

PSB Industries applies the regulations and recommendations of the AMF (the French stock exchange authority) and enjoys an excellent relationship with that body.

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.

auditor's opinion in application to article L. 225-235 of the French Commercial Code

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, 2008.

It is the duty of the Chairman to write and submit for the Board's approval a report on the Company's internal control and risk management procedures, along with the further information required by Article L. 225-37, particularly with regard to corporate governance.

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., et
- to certify that this report contains the further information required by Article L. 225-37 of the French Commercial Code, with the understanding that we are not expected to verify the accuracy of such further information.

We conducted our work in accordance with the professional standards applied in France.

INFORMATION REGARDING INTERNAL CONTROL PROCEDURES FOR THE PREPARATION AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION

French generally accepted auditing standards 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 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.

OTHER INFORMATIONS

We hereby certify that the Chairman's report includes the further information required by article L. 225-37 of the French Commercial Code..

Neuilly-sur-Seine and Villeurbanne, March 2, 2009

Statutory auditors
Ernst & Young et Autres
Nicolas Job

Mazars
Max Dumoulin