

## 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. It should be remembered that since September 1, 2009, the Board of Directors has fulfilled the duties of the audit committee (i.e.; exercising the duties defined by article L.823-19 of the French Commercial Code). 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 2009, the Board met six times, with an attendance rate of 74%, to approve the yearly and half-yearly financial statements and to review the quarterly financial statements. Seven 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 CONTROL

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 Group's auditors examined the Japanese subsidiary's financial statements during 2009 as part of implementing an annual audit beginning with FY2010. 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 9 to 217 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 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.

Moreover, in order to improve the control of Group activities, this system was rounded out in 2009 with the implementation of self-assessment controls, supervised by the Group's Finance Department. Using the internal control system as one of the means of managing risks, PSB Industries' objective has been to develop its own core internal controls and to implement internal control documentation throughout the Group. This core includes a limited set of required target controls that take the form of "best practice" on essential internal control processes and on the Group's own stakes. Group senior management can use this system to anticipate risks, secure processes and optimize performance by sharing best management practice. 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, about the chairman's report**

**Period ending December 31, 2009**

Dear shareholders:

In our capacity as statutory auditors of PSB Industries and pursuant to article L. 225-235 of the French Commercial Code, we hereby submit to you our opinion on the report prepared by your company Chairman in accordance with article L. 225-37 of the French Commercial Code for the fiscal year ended December 31, 2009.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the Company's internal control and risk management procedures, along with the other disclosures required by Article L. 225-37 of the French Commercial Code, especially with regard to corporate governance.

It is our responsibility:

- to report to you our observations on the information contained in the Chairman's report concerning those internal control and risk management procedures related to the preparation and processing of accounting and financial information, and
- to certify that this report contains the other disclosures required by Article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to verify the truth and fairness of these disclosures.

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

### **Information regarding internal control and risk management procedures related to the preparation and processing of accounting and financial information**

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report regarding the internal control and risk management procedures related to the preparation and processing of the accounting and financial information. Those procedures consisted primarily in:

- obtaining an understanding of the internal control and risk management procedures related to the preparation and processing of accounting and financial information underlying the information presented in the Chairman's report, as well as the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining whether any material weaknesses in the internal controls related to the preparation and processing of the accounting and financial information that we might have found in the course of our work are properly disclosed 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 and risk management procedures related to the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with article L. 225-37 of the French Commercial Code.

### **Other disclosures**

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

Neuilly-sur-Seine and Villeurbanne, March 24, 2010

Statutory auditors

Ernst & Young et Autres  
Henri-Pierre Navas

Mazars  
Max Dumoulin