

4.6 - REPORT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROLS

The Chairman's report relating to corporate governance, risk management and internal controls is drawn up pursuant to Article L. 225-37 of the French Commercial Code (*Code de commerce*), under the responsibility of the Chairman of the Board of Directors.

This report was prepared with support from the Group Finance Department, in particular the Internal Control and Finance Control Department and the Legal Department. It results from discussions with the main contributors involved in internal control and risk management within the Group, with the Company's Statutory Auditors and with members of the Audit Committee.

The report was drawn up bearing in mind applicable legislation, recommendations issued by the French Financial Markets Authority (AMF) on corporate governance, internal control and

audit committees, the reference framework published by the AMF on risk management and internal control, principles of corporate governance and recommendations made by AFEP and MEDEF, as well as market practice among listed companies.

The report was then subjected to examination by the Audit Committee on February 9, 2015 for its section on "Risk management and internal controls" before being reviewed by the Nominating and Compensation Committee chaired by the Lead Director for its section on "Corporate governance", on February 25, 2015.

The Chairman's report was approved by the Board of Directors on March 18, 2015.

4.6.1 - Corporate Governance

Under French law, certain aspects of corporate governance are to be reported in the Chairman's report on corporate governance, risk management and internal controls. Such aspects of corporate

governance are disclosed in several sections of the Company's Registration Document, as mentioned in the following chart, and are incorporated by reference into this Chairman's report:

Information relating to corporate governance requested under Article L. 225-37 of the French Commercial code	Heading of the section of the Company's Registration Document disclosing the information requested under Article L. 225-37 of the French Commercial code	References
Composition of the Board of Directors and application of the principle of gender equality with a view to guaranteeing balanced representation of men and women	Section 7.1.1.1 "Composition of the Board of Directors" of the Company's Registration Document	Pages 138 <i>et seq.</i> of the Company's Registration Document
	Section 7.1.3.1 "Composition of the Board of Directors' specialized Committees" of the Company's Registration Document	Pages 156 <i>et seq.</i> of the Company's Registration Document
Preparation and organization of Board of Directors work	Section 7.1.1.2 "Functioning of the Board of Directors" of the Company's Registration Document	Pages 148 <i>et seq.</i> of the Company's Registration Document
	Section 7.1.2.2 "Functioning of the Board of Directors' specialized Committees" of the Company's Registration Document	Pages 158 <i>et seq.</i> of the Company's Registration Document
	Section 7.1.1.3 "Work done by the Board of Directors in 2014" of the Company's Registration Document	Pages 152 <i>et seq.</i> of the Company's Registration Document
	Section 7.1.2.3 "Work done by the Board of Directors' specialized Committees in 2014" of the Company's Registration Document	Pages 162 <i>et seq.</i> of the Company's Registration Document

Information relating to corporate governance requested under Article L. 225-37 of the French Commercial code	Heading of the section of the Company's Registration Document disclosing the information requested under Article L. 225-37 of the French Commercial code	References
Potential limits on the powers of the Chief Executive Officer	Section 7.1.4 " General Management of the Company " of the Company's Registration Document	Pages 163 <i>et seq.</i> of the Company's Registration Document
Formal reference to a code of corporate governance	Section 7.1 " Administration and management of the Company " of the Company's Registration Document	Page 138 of the Company's Registration Document
Provisions of the code of corporate governance with which the Company is not in strict compliance and related explanations		Table summarizing recommendations with which the Company is not in strict compliance, page 138 of the Company's Registration Document
Indication as to where the code of corporate governance may be accessed		Page 138 of the Company's Registration Document
Formalities for shareholders' participation in General Meetings	Conditions for participation in the Company's General Meeting are outlined in Article 12 (" General Meetings ") of the Company's Articles of Association (available on the www.legrand.com website) and in section 10.3.5 " General Meetings " of the Company's Registration Document	Page 261 of the Company's Registration Document
Principles and rules set by the Board of Directors for determining the compensation and benefits of Executive Directors	Section 7.2.1 " Principles and rules for determining the compensation and benefits of Executive Directors " of the Company's Registration Document	Pages 166 <i>et seq.</i> of the Company's Registration Document
Factors likely to affect the outcome of a public offer	Readers are invited to refer to the management report, which contains factors likely to influence a public offering. This report can be found in Appendix 2 of the Company's Registration Document	Pages 290-291 of the Company's Registration Document

4.6.2 - Risk management and internal controls

4.6.2.1 FRAMEWORK, DEFINITIONS, PURPOSES AND ORGANISATION

Framework

The Legrand Group's risk management and internal control system falls within the legal framework applicable to companies listed on the Paris stock exchange and relies on the framework document on "Risk management and internal control systems" published by the AMF in 2010.

Scope of action

The Legrand Group's internal control system covers all controlled companies that fall within the Group's scope of consolidation. No entity is excluded from the scope. The Group ensures that internal control and risk management are performed effectively throughout its subsidiaries. Newly acquired companies are subjected to a first audit by the Group Internal Audit team within the first few months following acquisition, and included in the internal control system as part of their docking process.

The scope of application of internal control is regularly updated, to ensure a closer tie between the risk control system and the Company's strategy and objectives, and so as to get it incorporated into every component element of the Company.

Definition and purposes of risk management

A risk represents the possibility of an event occurring that might have adverse effects on people, resources, the environment, the Company's objectives or its reputation.

Risk management involves a dynamic system comprising a set of means, behaviours, procedures and actions suited to the Group's special features, to enable management to contain risk at a level considered acceptable by the Company.

Risk management is a duty of all parties involved within the Group. It seeks to be comprehensive, so as to cover all of the Company's activities, processes and assets.

Risk management is considered as a company management leverage tool, it aims to:

- ensure the safety of the Group's employees;
- preserve the Group's value, assets and reputation;
- make Group decision-making and processes secure, to contribute to the achievement of objectives and thereby to value creation for all stakeholders;
- ensure that initiatives undertaken are consistent with Group values; and
- rally Group employees around a shared vision where major risks are concerned, and raise awareness of the risks inherent to their activity and of newly emerging risks.

Definition and purposes of internal controls

The Legrand Group's internal control system consists of a set of means, behaviours, procedures and actions suited to the Group's special features and which:

- contribute to control of its business, the effectiveness of its operations and the efficient use of its resources; and
- enable it to take appropriate account of significant operational, financial and compliance risks.

The internal control system aims to:

- ensure compliance with applicable laws and regulations;
- ensure the enforcement of instructions and of targets set by the General Management;
- guarantee the proper functioning of the Company's internal processes, especially those that contribute to the protection and safeguarding of its assets;
- support both organic and external growth;
- contribute to the optimization of processes and operations;
- provide assurance of the reliability of financial and accounting information.

Resources allocated to internal controls

The Group's Internal Control Department coordinates and organises monitoring of the internal control and risk management system, using tools including risk mapping, the internal control framework, the self-assessment process, audits and action plan follow-up. The Internal Control Department is also a contributor to the Group's compliance programme.

Assigning these tasks to a single department ensures consistent methodology and constant adaptation of audit procedures to the internal control risk areas.

For a dozen Group entities including the largest ones (France, Italy, United States, Brazil, Russia, India, China, etc.), the Group's Internal Control Department relies on local internal controllers who steer the approach in their respective units. In smaller subsidiaries, internal control is the responsibility of each unit's Financial Manager.

In the Group as a whole, a total of around 20 staff members are fully dedicated to internal controls in 2014.

The manager in charge of this function has direct access to the Chairperson of the Audit Committee with whom he confers independently in the context of Audit Committee meeting preparations. The fact that he reports directly to the Chairman and Chief Executive Officer ensures he enjoys the required authority within the Company.

Other key contributors

Aside from the Internal Control Department, which is specifically assigned to this topic, other key contributors include:

- the General Management, involved in the overall design and steering of the Group's internal control system;
- the Group's governance bodies, especially the Audit Committee whose assignment includes monitoring the effectiveness of the system;
- the Finance Department in general, and especially Financial Managers appointed in the Group's various subsidiaries, who play an ongoing role in organizing the control environment and ensuring compliance with procedures;
- managers at all levels of the organisation who are responsible for steering the internal control system in their particular area.

Limitations

It should be noted that the internal control mechanism, however well designed and carried out it may be, cannot provide an absolute guarantee that the Group's targets will be met and that every risk, particularly of error or fraud, will be fully controlled or eliminated.

4.6.2.2 COMPONENTS OF THE INTERNAL CONTROL AND RISK MECHANISM

Risk management

Organizational framework

The Group's risk management policy defines the aims of the system, and the process for identifying, analyzing and dealing with risks.

The Internal Control Department ensures the policy is enforced and coordinates the process by:

- leading Risk Committee meetings and conducting risk mapping exercises;
- designing risk indicators together with risk owners (*i.e.* the Group's functional departments), and monitoring these indicators;

- monitoring action plans implemented under the responsibility of the risk owners;
- performing targeted audits to make sure the mechanisms designed to control identified risks operate effectively.

This general approach is overseen and monitored by a Risk Committee which is chaired by the Group's General Management and comprises representatives from the functional departments. The Risk Committee met twice in 2014, in application of its usual half-yearly rhythm.

The Audit Committee is also kept informed of all issues. In particular, the policy for assessing and dealing with risks is discussed every year at a meeting with the Audit Committee, during which major risk factors are reviewed and reevaluated as appropriate, in light of risk factors external to the Company and determined by its economic, geopolitical, social and technological environment. A presentation is subsequently made to the Board of Directors.

Risk management procedures

The Group's risk management procedure involves three stages:

- 1) risk identification: this takes place at all levels of the Group's value chain. A detailed risk framework has been drawn up, which is updated regularly, using data gathered from the Group's main senior executives ("Top-Down") or using contributions from Group subsidiaries or functional departments ("Bottom-Up") via the circulation of a questionnaire for self-assessment of risks, which was forwarded to the Group's main subsidiaries, covering 90% of overall sales. Its consolidated results were presented to the Risk Committee;
- 2) risk analysis and assessment: this is performed on the basis of indicators that are defined and validated by the Risk Committee (KRI – Key Risk Indicators). These indicators, produced using historic and prospective data, are tracked by the relevant functional departments and fed back to the Internal Control Department in charge of coordinating the process. Risks are then assessed and ranked according to the probability of their materialization and their potential impact, assessed on the basis of a homogeneous set of criteria. The assessment is made on a "gross" basis (prior to the risk control mechanism) and on a "net" basis (after the risk control mechanism). This risk map is presented to the Risk Committee for discussion and approval. Specific risk analyses may occasionally be requested from subsidiaries and functional departments, as was the case in 2014 in the context of deployment of the Group's compliance programme;
- 3) risk treatment: this can take the form of reduction, transfer, or acceptance of a risk. The measures are decided upon and shared between the Group's Risk Management and Internal Control Department and the risk owners identified among the functional departments. The Risk Committee validates the procedure for dealing with the main risks and monitors the progress of action plans.

Internal controls

Control environment and Group values

The Group's internal control environment is based on two fundamental pillars:

- an organizational and hierarchical structure enabling a clear definition of responsibilities;
- the Group's values, formally enshrined in charters which have been widely circulated among its teams and endorsed by all, especially the very first value, ethical behaviour. These values are conveyed by the Code of Ethics, the principles of which are detailed in the Group's Charter of Fundamental Principles and in its Application Guide, and disseminated throughout the Group by a network of Ethics representatives.

The risk management process continually feeds into the internal control scheme, which thereby adapts in response to developments in the Group's risk environment. The risk management process is fully outlined above.

Communication and information

The Group has adopted processes and procedures ensuring timely, reliable communication of relevant information to the parties concerned. The reporting structures which exist for all the Group's major business processes, enable the gathering and circulation of relevant information at the various levels of the company, and ensure that a shared language exists between the Group's different organizational levels (subsidiaries and functional departments). Examples are provided by the annual budget process, the monthly and quarterly country performance reviews, and the various reporting schemes (financial, human resources, Corporate Social Responsibility, etc.).

The internal control processes in place within the Group and their potential developments are presented annually to the Audit Committee.

The audit programme gives rise to reports concerning the areas subjected to audit. These reports are issued to the General Management, and a summary is presented to the Audit Committee on a quarterly basis.

In the event of fraud, it is mandatory that a detailed form specifying the circumstances and amounts at stake be forwarded to the Group's internal control management, for validation of the proposed action plans. If this occurs, the Audit Committee is informed.

There is also an ethics alert hotline enabling employees and third parties to inform the Group's ethics officers (the Group Executive VP Legal Affairs and Group Executive VP Human Resources) anonymously of any breach of the Group's rules of ethics.

Internal control activities

The Group's internal control and risk control operations (procedures and controls) are defined in an internal control framework that is updated regularly. There is online access to

this internal control framework on the Group's intranet, as well as to all of the legal, financial, management and accounting rules applied by the Group.

Internal control activities, particularly critical controls, are revised annually, using a self-assessment scheme which is mandatory for all entities and supported by a dedicated tool. According to entity size, the scheme combines the completion of a questionnaire and more detailed tests on controls for the larger entities.

The self-assessment scheme addresses questions concerning the internal control environment, critical controls focused on the main Group processes (e.g. Purchasing, Sales, Inventory management, Payroll, Fixed assets, etc.) and their potential implications in accounting and financial terms, as well as control of major risk factors in terms of compliance, business continuity plans, etc. Beyond the register of essential and mandatory critical controls, the scheme is adapted in line with developments in terms of risks and the Group's control environment. In 2014, for instance, the questionnaire was extended to include five questions designed to help ensure correct deployment of the Group's compliance programme throughout the entities concerned, in line with the objectives of the 2014-2018 CSR Roadmap.

Work took place in 2014 aimed at enhancing the relevance and effectiveness of the self-assessment scheme as applied to the largest entities. The resulting new scheme will be deployed in 2015.

The results of these questionnaires and tests are systematically reviewed, consolidated and analysed by the Internal Control Department.

The 2014 self-assessment campaign showed a satisfactory level of internal control, with Group entities presenting an overall conformity rate of 87% with the minimum requirements of the internal control scheme. The Group estimates 90% to represent a fully satisfying conformity rate.

The dedicated tool also includes a module for steering action plans identified by subsidiaries.

Steering and auditing

Regular audits by the Group's internal auditors and financial controllers ensure that Group procedures are properly implemented and enforced. The audit plan, which is reviewed annually, ensures a reasonable rotation of audits on key processes and critical controls in all of the Group's country entities and its functional departments. It also takes into account major and emerging risks. For example, the 2015 audit plan includes a cross-departmental audit on control mechanisms related to embargoes. The audit plan is presented annually to the Audit Committee.

The recommendations expressed directly address the risks underlying any internal control weaknesses identified, thereby strengthening the previously mentioned bottom-up approach.

Correct implementation of action plans is also monitored systematically by the Internal Control Department.

An information systems auditing team has also been set up, which performs audits jointly with the Group Internal Audit Department.

The tools, procedures and results of internal control reviews are available to the Group's Statutory Auditors, and there are regular consultations to optimize the internal control framework and coverage of risk areas, which reinforce the internal control scheme and risk control.

4.6.2.3 PROCEDURES FOR PREPARING AND PROCESSING ACCOUNTING AND FINANCIAL INFORMATION

Objectives

Internal controls applied to accounts and finance must meet the following objectives:

- guarantee that the accounting and financial information published complies with regulations;
- ensure that instructions issued by the Group's General Management are applied, where such information is concerned;
- preserve the Group's assets;
- detect and prevent fraud and accounting irregularities insofar as possible;
- guarantee the reliability of financial information and internal accounts, as well as the information disclosed to the markets.

Main contributors:

- General Management, by setting up and structuring the Group's internal control system, as well as preparing financial statements for approval and publication;
- the Board of Directors which approves the financial statements, based in particular on the work of the Audit Committee;
- the internal audit team, which, through its work, supplies various recommendations to General management and to the Audit Committee on areas for improving internal control applied to accounts and financial statements;
- external auditors who, through their work, express an independent opinion on published consolidated financial statements.

Control mechanism for accounting and financial information

This mechanism is based on the definition and implementation of processes to prepare and review financial and accounting data so that it can be used internally for steering purposes and disclosed externally for publication on the markets. The mechanism is deployed through concerted action involving contributions from the following staff within the Finance Department:

Financial managers in subsidiaries

The subsidiary Financial managers, who are appointed by, and functionally attached to, the Group Finance Department, are entrusted specifically with responsibility for internal controls and with the role of Compliance Officer in their respective subsidiaries. Nominees for these positions are reviewed systematically by the Group's Finance Department, to ensure consistently outstanding levels of expertise.

Group finance control

The Group Finance Control Department, which reports to the Group Finance Department, plays an important role in the monitoring and control of subsidiary performance. It coordinates the preparation of annual budgets and regularly performs in-depth review of achievements and estimates. This work relies on reporting and budget rules, which can be found in the internal control procedures manual.

All subsidiaries issue a detailed consolidation report every month, which includes a balance sheet and its analytical review, an income statement and analysis, to enable detailed monitoring of their performance.

Corporate financial analysis

The Corporate Financial Analysis unit, which reports to the Group Finance Department, prepares and analyzes the Group's consolidated financial statements. It prepares and circulates, on a monthly basis, a progress sheet showing the Group's consolidated performance and the difference between actual performance and budget targets. This data is formally reviewed each month by the Group's Finance Management and General Management.

Accounting data are consolidated by a dedicated team using the consolidation reports available through a software application deployed in all Group subsidiaries. Consolidated financial

statements are prepared on a monthly basis, except at the end of July, according to a schedule circulated to all subsidiaries. This allows them to plan accordingly and provide the financial information in a timely manner.

Almost all consolidated entities have their annual and/or consolidation reports reviewed by the local affiliated offices of the Group's Statutory Auditors or by independent auditors.

Cash flow management

The Treasury Department reports to the Group Finance Department.

Cash flow is monitored through specific Group procedures. Investment, borrowing and hedging transactions are centralized and controlled by the Group's Finance Department. All bank accounts are managed in accordance with the Group's Treasury Department, ensuring a degree of overall consistency in relationships with banks.

Information systems

The Information Systems Department reports to the Group Finance Department.

In order to decrease risks relating to reliability of accounting and financial data processing, Legrand has implemented a full set of IT procedures to mitigate security risks and data back-up plans.

In addition, the deployment of internal control helps strengthen and harmonize processes related to the implementation and operation of information systems, as well as protections and access to system and network conditions.

The very nature of the activity of information processing in a changing environment in terms of scope of Group activity as well as information systems used makes IT risk management a process of continuous improvement.

4.6.3 - Company financial ratings

At December 31, 2014, Legrand was rated as stable outlook A- by financial rating agency Standard & Poor's.

This information is disclosed in accordance with the Afep-Medef Code of Corporate Governance recommendations.

4.7 - STATUTORY AUDITOR'S REPORT PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE

Statutory Auditors' report prepared in accordance with Article L.225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors of Legrand

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Year ended December 31, 2014

Legrand

Société Anonyme
128, avenue du Maréchal de Lattre de Tassigny
87000 Limoges

To the Shareholders,

In our capacity as Statutory Auditors of Legrand (the "Company"), and in accordance with Article L.225-235 of the French Commercial Code (Code de Commerce), we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L.225-37 of the French Commercial Code for the year ended December 31, 2014.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the Company and providing the other information required by Article L.225-37 of the French Commercial Code, in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and
- to attest that the report sets out the other information required by Article L.225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

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

Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based and the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with Article L.225-37 of the French Commercial Code.

Other information

We attest that the Chairman's report sets out the other information required by article L.225-37 of the French Commercial Code.

Neuilly-sur-Seine, March 18, 2015
The Statutory Auditors

PricewaterhouseCoopers Audit
Edouard Sattler

Deloitte & Associés
Jean-Marc Lumet