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:

<table>
<thead>
<tr>
<th>Information relating to corporate governance requested under Article L. 225-37 of the French Commercial code</th>
<th>Heading of the section of the Company’s Registration Document disclosing the information requested under Article L. 225-37 of the French Commercial code</th>
<th>References</th>
</tr>
</thead>
<tbody>
<tr>
<td>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</td>
<td>Section 7.1.1.1 “Composition of the Board of Directors” of the Company’s Registration Document</td>
<td>Pages 138 et seq. of the Company’s Registration Document</td>
</tr>
<tr>
<td></td>
<td>Section 7.1.3.1 “Composition of the Board of Directors’ specialized Committees” of the Company’s Registration Document</td>
<td>Pages 156 et seq. of the Company’s Registration Document</td>
</tr>
<tr>
<td>Preparation and organization of Board of Directors work</td>
<td>Section 7.1.1.2 “Functioning of the Board of Directors” of the Company’s Registration Document</td>
<td>Pages 148 et seq. of the Company’s Registration Document</td>
</tr>
<tr>
<td></td>
<td>Section 7.1.2.2 “Functioning of the Board of Directors’ specialized Committees” of the Company’s Registration Document</td>
<td>Pages 158 et seq. of the Company’s Registration Document</td>
</tr>
<tr>
<td></td>
<td>Section 7.1.1.3 “Work done by the Board of Directors in 2014” of the Company’s Registration Document</td>
<td>Pages 152 et seq. of the Company’s Registration Document</td>
</tr>
<tr>
<td></td>
<td>Section 7.1.2.3 “Work done by the Board of Directors’ specialized Committees in 2014” of the Company’s Registration Document</td>
<td>Pages 162 et seq. of the Company’s Registration Document</td>
</tr>
</tbody>
</table>
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:
Report by the chairman of the board of directors on corporate governance, risk management and internal controls

- 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.
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...
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 as far 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