

## 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 and after discussion with the Audit Committee, the Company's Statutory

Auditors, and the Group's Audit and Internal Control Department. The Chairman's report was approved by the Board of Directors on March 5, 2014.

### 4.6.1 - Corporate Governance

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Under French law, certain aspects of corporate governance shall be reported in the Chairman's report relating to 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 in this report of the Chairman:

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 equality between men and women with a view to guaranteeing balanced representation of the two sexes	Section 7.1.1.1 " <b>Composition of the Board of Directors</b> " of the Company's Registration Document	Pages 140 <i>et seq.</i> of the Company's Registration Document
	Section 7.1.2.1 " <b>Composition of the Board of Directors' specialized Committees</b> " of the Company's Registration Document	Pages 157 <i>et seq.</i> of the Company's Registration Document
Preparation and organization of Board of Directors work	Section 7.1.1.2 " <b>Functioning of the Board of Directors</b> " of the Company's Registration Document	Pages 150 <i>et seq.</i> ; pages 154 <i>et seq.</i> ; pages 157 <i>et seq.</i> ; pages 161 <i>et seq.</i> of the Company's Registration Document
	Section 7.1.1.3 " <b>Work done by the Board of Directors in 2013</b> " of the Company's Registration Document	
	Section 7.1.2.2 " <b>Functioning of the Board of Directors' specialized Committees</b> " of the Company's Registration Document	
	Section 7.1.2.3 " <b>Work done by the Board of Directors' specialized Committees in 2013</b> " of the Company's Registration Document	
Potential limits on the powers of the Chief Executive Officer	Section 7.1.3 " <b>General Management of the Company</b> " 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
Formal reference to a code of corporate governance		Page 140 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	Section 7.1 " <b>Administration and management of the Company</b> " of the Company's Registration Document	Table summarizing the recommendations with which the Company is not in strict compliance, page 140 of the Company's Registration Document
Indication of where the code of corporate governance may be accessed		Page 140 of the Company's Registration Document
Formalities for participating in General Meetings	Conditions for participation in the Company's General Meeting are outlined in Article 12 (" <b>General Meetings</b> ") of the Company's Articles of Association (available on the www.legrand.com website) and in section 10.3.5 " <b>General Meetings</b> " of the Company's Registration Document	Page 263 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 " <b>Principles and rules for determining the compensation and benefits of Executive Directors</b> " of the Company's Registration Document	Pages 164 <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 DEFINITIONS, PURPOSES AND FRAMEWORK

#### 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.

#### Definition and purposes of risk management

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 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.

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 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;
- 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 control

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 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.

### Relationship between risk management and internal control procedures

The risk management and internal control systems make complementary contributions to control of the Company's business:

- the risk management system aims to identify, analyse and deal with the main risks faced by the Company. The controls to be set up accordingly are the responsibility of the internal control system.
- in parallel, the internal control activities deployed by the Group and its operational and functional departments enable the identification and updating of risks and the performance of reporting according to a single framework, thereby enhancing the overall risk management approach.

The relationship and balance between these two schemes are conditional upon the control environment, which is their shared

foundation, especially the risk and control culture specific to the Company, and the Company's ethical values.

In view of these close links, all of these functions are grouped together in the same department: "Risk Management and Internal Control", which is attached to the Group's Finance Department, and also handles internal audits.

### Scope of action

Legrand'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, by defining a minimum internal control requirement which is mandatory for all Group entities and through audits carried out by the internal audit team every 3-4 years, as specified by the rules for drafting the internal audit plan.

Newly acquired companies are included in the internal control system as part of their docking process, and subjected to a first audit by Group internal control teams within the first few months following acquisition.

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.

### 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 FRAMEWORK

### Risk management

#### Organizational framework

Risks are defined as both threats and missed opportunities, to the extent that the latter are either inherent to the Group's business model and/or can be considered as such by other stakeholders.

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

The Group's risk management framework is coordinated by the risk management and internal control department, under the responsibility of the Finance Management. The risk management and internal control department makes sure the policy is enforced and the control activities are operational, in particular by:

- conducting risk mapping exercises;
- designing risk indicators together with the Group's functional or operational departments, and monitoring these indicators;

- monitoring action plans implemented under the responsibility of the Group's various functional or operational departments;
- leading Risk Committee meetings.

This general approach is overseen and monitored by a Risk Committee which is chaired by the Group's General Management and includes the management of the industrial divisions and the functional departments. The Risk Committee met twice during 2013. Furthermore, crossover matters are regularly discussed at the Group's Executive Committee meetings.

The Group's 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 has three stages:

- 1) Risks are identified at all levels of the Group's value chain. A detailed classification of risks has been drawn up, which is updated whenever necessary, enabling to address the possible impact of risks both from the point of view of the Group and its functional departments and from the point of view of its operational entities. This risk framework is regularly updated by the Risk Committee using data gathered from the Group's main senior executives ("Top-Down") or using contributions from Group subsidiaries or departments ("Bottom-Up"). This bottom-up approach was enriched in 2013 by 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, ensuring the approach has an operational footing.
- 2) Risks are analyzed 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 fed back to the Risk Management and Internal Control Department for each risk by the operational or functional departments responsible. Indicators are then used to measure and rank risks relative 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). In 2013, as part of implementation of the Compliance Programme, a specific risk analysis was performed in 8 pilot countries covering 80% of overall sales. The approach will be deployed throughout the Group in 2014.

- 3) Risks are dealt with in several ways, by 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 within the operational and functional departments. The Risk Committee directly validates the procedure for dealing with the main risks and monitors the progress of action plans.

#### Steering of the risk management framework

Steering of the Risk Management scheme is ensured by the dedicated function within the Risk Management and Internal Control department and the risk owners within the Group's operational and functional departments. In addition, the Group has assigned each major risk to the functional department in charge of the related risk management mechanism, with coordination by the Risk Committee. The major risk factors are set out in section 4 of the Company's Registration Document.

#### Internal control

##### 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, which have been widely circulated among its teams and endorsed by all, especially the very first value, ethical behaviour. This value is 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.

##### Risk assessment and management

Risk assessment and management is a fundamental pillar of the Group's internal control framework. Related structures and processes are described in the section above dedicated to Risk Management. The internal control scheme adapts in response to developments in the Group's risk environment.

##### 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, operational and functional departments). Examples are provided by the intensive management dialogue involved in the budget construction process, as well as the reporting schemes for finance, human resources or CSR.

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. A summary of reported cases of fraud is presented to the Audit Committee on a quarterly basis and whenever necessary.

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 transgression of the Group's ethics rules.

### Internal control activities

The Group's internal control and risk control operations are defined in a manual of administrative and financial procedures that also includes accounting, management and reporting rules. This manual, designed for the Group's specific economic environment and industry, has existed for over a decade, and is updated regularly. Clear emphasis is placed on tracking product flows (reliability and safety of inventories, cycle counts, analysis and justification of inventory discrepancies), purchasing and sales transactions (compliance with rules of separation between financial years, tracking and authorization of discounts or rebates, order procedures), and more generally the compliance of transactions through enforcement of the dedicated procedures.

Internal control activities are revised annually, using a process that combines detailed tests of critical controls (for the largest entities) and internal control self-assessment questionnaires for all entities, completed by the subsidiaries concerned via a dedicated tool. Data gathered in these questionnaires and tests is systematically reviewed, consolidated and analyzed by the internal audit and internal control department.

The self-assessment questionnaire 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 such as compliance, business continuity plans, etc. Beyond the register of essential and mandatory critical controls, this questionnaire is adapted in line with developments in terms of risks and the control environment. For instance, the 2014 edition of the questionnaire will be extended to include a certain number of controls enabling to make sure of the correct deployment of the Group Compliance Programme across all entities within the scope, in line with the targets of the 2014-2018 CSR Roadmap.

Deployment in 2013 of a new version of the self-assessment tool has enabled communication on expectations in terms of internal control (list of critical controls suited to the entity's size and the scale of risk faced), better steering of action plans identified by subsidiaries, which contribute to the ongoing improvement of the internal control scheme, and facilitated reporting to the General Management.

### Steering

The Group's internal control department:

- coordinates the Group's internal control operations and ensures that reviews are conducted in keeping with appropriate methodology;
- conducts internal audits at Group entities.

Assigning these two 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.

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 and presented to the Audit Committee, takes into account major and emerging risks, while ensuring a reasonable rotation of audits (performed on average every 3 to 4 years) on key processes and controls in all of the Group's country entities and its operational and functional departments.

An information systems audit team has also been set up and carries out audits jointly with the Group internal audit department, which monitors the implementation of action plans subsequent to such information systems audits.

The recommendations expressed directly address the underlying risks, thereby strengthening the previously mentioned bottom-up approach.

The tools, procedures and results of internal control reviews are available to the Group's Statutory Auditors at all times, 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.

In the Group as a whole, a total of around 20 staff members are fully dedicated to internal control in 2013.

#### 4.6.2.3 PROCEDURES FOR PREPARING AND PROCESSING ACCOUNTING AND FINANCIAL INFORMATION

### Objectives

Internal control 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.

### Contributors

Main contributors are:

- 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;
- General Management, insofar as it is responsible for setting up and structuring the Group's internal control system, as well as preparing financial statements for approval and publication;
- External auditors who, through their work, express an independent opinion on published consolidated financial statements;
- The Board of Directors that approves the financial statements, based in particular on the work of the Audit Committee.

### 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 so that it can be disclosed externally and published by the markets. The mechanism is deployed through concerted action involving contributions from the following staff within the Finance Department:

#### Financial managers in subsidiaries

The position of Financial managers, who are functionally attached to the Group Finance Department and entrusted with responsibility for internal control and with the role of Compliance Officer in their respective subsidiaries, is considered a key position in the Group's finance function. Nominees for these positions are reviewed systematically by the Group's financial management, to ensure consistently outstanding levels of expertise.

#### Group finance control

The Group Finance Control Department, 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 financial 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 management, ensuring a degree of overall consistency in relationships with banks.

### IT Department

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.

Implementing internal controls has also strengthened and harmonized procedures and operations relating to IT systems, and improved protection and access conditions to systems and networks.

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 nature itself of the activity of information treatment in a changing environment in terms of scope of Group activity as well as information systems used, make the IT risk management a process of continuous improvement.

### 4.6.3 - Financial ratings of the Company

At December 31, 2013, Legrand was rated as follows by financial rating agencies:

- Standard & Poor's: A- stable outlook;
- Moody's: A3 stable outlook (unsolicited rating).

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

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

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### 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 French 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 on the internal control and risk management procedures relating to the preparation and processing of financial and accounting information issued in French and is provided solely for the convenience of English speaking users. This report should be read in conjunction and construed in accordance with French law and the relevant professional standards applicable in France.*

Year ended December 31, 2013

#### 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, 2013.

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

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the 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 on 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 the necessary procedures to assess the fairness of the information provided in the chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, contained in the report prepared by the Chairman of the Board, in accordance with Article L. 225-37 of the French Commercial Code.

### Other disclosures

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

Neuilly-sur-Seine, March 26, 2014

The Statutory Auditors

**PricewaterhouseCoopers Audit**

Édouard Sattler

**Deloitte & Associés**

Jean-Marc Lumet