8.4 - REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE AND INTERNAL CONTROLS

The Chairman's report relating to corporate governance 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 present Chairman's report was approved by the Board of Directors on March 4, 2010.

The Company makes formal reference to the principles of corporate governance for listed companies set out in the Afep/Medef Code of corporate governance dated December 2008 ("Code of corporate governance"). As this Code allows for the principle of "comply or explain", those recommendations with which the Company does not comply in the strict sense are explicitly indicated in this report, as are the reasons for non-compliance.

The Afep/Medef Code of corporate governance may be consulted on Medef's website at www.medef.fr.

8.4.1 - Composition of the Board of Directors

At December 31, 2009, the Board was made up of 11 members, each appointed for a period of six years. Their profiles and directorships outside the Group are presented in the Company's reference document, which can be consulted on the website of the AMF (www.amf-france.org) and on that of the Company (www.legrandgroup.com). Directors are required to hold at least 500 Company shares each. The composition of the Board and of its specialized Committees, as well as the duration of mandates, reflect the two majority shareholders' efforts to seek a lasting balance among directors representing these shareholders, independent directors and management. With a view to complying with the Code of corporate governance regarding the duration of directors' mandates, the Combined Ordinary and Extraordinary General Meeting on May 27, 2010 will be asked to reduce the duration of directors' mandates to four years, with this reduction to apply to appointments and cooptation of directors after the Combined Ordinary and Extraordinary General Meeting on May 27, 2010.

Composition of the Board of Directors			
Name	Duties	Date of first appointment	Term of office expires on(1)
Gilles Schnepp	Chairman and CEO	12/10/2002	12/31/2013
François Grappotte	Honorary Chairman	12/10/2002	12/31/2013
Olivier Bazil	Vice-Chairman – COO	12/10/2002	12/31/2013
Mattia Caprioli	Director	07/25/2007	12/31/2013
Arnaud Fayet(2)	Director	12/10/2002	12/31/2013
Jacques Garaialde	Director	06/06/2003	12/31/2013
Edward A. Gilhuly	Director	12/10/2002	12/31/2013
Gérard Lamarche(3)	Director	04/06/2006	12/31/2011
Thierry de La Tour d'Artaise(3)	Director	04/06/2006	12/31/2011
Frédéric Lemoine(4)	Director	05/05/2009	12/31/2013
Ernest-Antoine Seillière	Director	12/10/2002	12/31/2013

(1) As of the date of the General Meeting of Shareholders called to approve the financial statements for the financial year closed at this date.

(2) Arnaud Fayet resigned from the Board on February 10, 2010 and Patrick Tanguy was coopted to replace him. This cooptation will be submitted to the Combined Ordinary and Extraordinary General Meeting on May 27, 2010 for ratification.

(3) Independent director.

(4) Director co-opted to replace Jean-Bernard Lafonta. This cooptation was ratified at the Combined Ordinary and Extraordinary Meeting of shareholders on May 26, 2009.

Independent directors

The Board of Directors ensures that there are at least two independent directors serving on the Board at all times. Messrs. Gérard Lamarche and Thierry de La Tour d'Artaise are independent directors.

Meeting on March 4, 2010, the Board confirmed its judgment that Gérard Lamarche and Thierry de La Tour d'Artaise qualify as independent directors as defined by the Code of corporate governance. In compliance with the criteria for independence included in the internal rules of the Board, available on the Company's website, the definition of "independent" is considered each year by the Nominating and Compensation Committee, which submits a report on this subject to the Board.

The Company being controlled by two shareholders with a Board of Directors composed of a majority of members that they propose, and the Company having also expressed the wish that its management be represented on the Board, it does not comply fully with the provision of the Code of corporate governance calling for at least one-third of directors to be independent.

8.4.2 - Preparation and organization of Board work

Considering the information presented below, the Company's practices in the preparation and organization of the work of the Board and its Committees comply with the recommendations of the Code of corporate governance.

Internal rules and Code of conduct with respect to trading and market activities

The Board of Directors of the Company has adopted a set of internal rules (integrating a Directors' Charter) that can be consulted on the Company website at www.legrandgroup.com. The Board has also adopted a Code of conduct with respect to trading and market activities, also posted on the Company website. Under this code, managers and others with access to inside information are in particular prohibited from effecting, directly or indirectly, whether for their own account or on behalf of some other person, transactions in Legrand securities (i) as a minimum, during the two weeks preceding publication of annual, half-year and quarterly financial statements and the two days following their publication, and (ii) where they are apprized of a project of a nature to constitute inside information, throughout the period from the date a meeting of the Board of Directors is called to consider this project and the date of its official public announcement by Legrand.

Directors' Charter

To promote good governance, the Board of Directors has adopted and integrated into its internal rules a Directors' Charter setting out the rights and duties of directors, which each director must respect.

Information on directors

In the execution of his duties, the Chairman of the Board communicates, at least 48 hours before each meeting, all documents and information necessary to the consideration of points on the agenda.

Directors may request any documents they believe relevant for the preparation of the meeting, provided that they submit such requests with reasonable notice.

When required by confidentiality, in particular where sensitive financial information is concerned, information may be communicated during the meeting.

In addition, directors receive all relevant information on significant events or transactions for the Company.

Board of Directors

In 2009, the Board met seven times.

Attendance of Directors at Board meetings was satisfactory, with the attendance rate 86% for the year. Participation in meetings of specialized Committees averaged 87%. Representatives of the Central Works Committee (*Comité central d'entreprise*) attend the meetings of the Board of Directors.

In order to allow it to perform its duties in the best conditions, the internal rules of the Board provide that its deliberations are to be prepared in certain fields by specialized Committees: the Audit Committee, the Strategy Committee, and the Nominating and Compensation Committee. At Board meetings, these committees present detailed reports on their work.

On February 10, 2009, the Board met to consider the following agenda:

- presentation of the consolidated financial statements for the year ended December 31, 2008;
- Audit Committee report on its review of annual consolidated and parent-company financial statements and related management reports, the report of the statutory auditors, and key figures to be included in the press release and projections;
- adoption of consolidated financial statements for the year ended December 31, 2008;
- adoption of parent-company financial statements for the year ended December 31, 2008 and proposal for appropriation of earnings;
- consideration and adoption of the press release;
- report of the Strategy Committee on the 2009 budget;

- nominating and Compensation Committee report on fixed and variable portions of compensation for executive directors for the year 2008 and related information, determination of the total allotment of stock options and free shares in respect of 2008, amounts of stock-option and free-share allotments to executive directors in respect of 2008, and breakdown of directors' fees in respect of 2008.

On March 4, 2009, the Board met to consider the following agenda:

- self-evaluation of the performance of the Board of Directors and its committees (summary and proposals);
- report of the Nominating and Compensation Committee concerning stock option and free-share plans to be implemented in respect of 2008, principles and conditions of stock options and free-share plans in respect of 2009, compensation of executive directors in respect of 2009 (fixed salary, calculation of bonuses and target allotment for stock options and free shares), and approval of certain parts of the reference document relative to compensation of executive directors);
- measures taken to comply with the Afep/Medef recommendations on corporate governance;
- renewal of annual powers granted to the Chairman and the Vice-Chairman for bonds, endorsements and sureties;
- delegation of financial powers to the Board of Directors to be proposed to the General Meeting of shareholders;
- convening of the annual Combined Ordinary and Extraordinary Meeting of shareholders (proposed agenda and resolutions);
- preparation of reports to be submitted to the General Meeting (report of the Chairman on corporate governance and internal control; special reports on allotment of stock options and free shares);
- communication of the list of agreements as defined in article L.225-39 of the French Commercial Code;
- presentation of forecast financial statements.

On April 17, 2009, the Board met to consider the following agenda:

- proposed appointment of a director.

On May 5, 2009, the Board met to consider the following agenda:

- resignation of a director;
- cooptation of a director;
- presentation of consolidated quarterly accounts at March 31, 2009;
- Audit Committee report on its review of quarterly accounts and key figures to appear in the press release;
- consideration and adoption of consolidated quarterly accounts at March 31, 2009;
- approval of the entering into new credit facility agreements;
- consideration and adoption of the press release;
- acknowledgement of the capital increase following exercise of options;
- presentation on an operational subject (organization of Group operations in Brazil) by the manager concerned.

On May 26, 2009, the Board met to consider the following agenda:

- implementation of the delegation approved under the sixth resolution of the Combined Ordinary and Extraordinary Meeting of shareholders held May 26, 2009 (share buyback program).

On July 28, 2009, the Board met to consider the following agenda:

- presentation of consolidated accounts for the six months ended June 30, 2009;
- audit Committee report on its review of half-year consolidated financial statements and related management report, of key figures to appear in the press release and of the half-year financial report, of the transposition of the 8th European directive and the updating of the internal rules of the Committee, and, correlatively, of the internal rules of the Board, and approval of the budget for auditors' fees in 2009 as well as a detailed review of the missions of the internal audit missions and organization of internal control;
- consideration and adoption of consolidated financial statements for the six months ended June 30, 2009 and drafting of the half-yearly financial report;
- consideration and approval of press release;
- presentation of Company's forecast financial statements.

On November 4, 2009, the Board met to consider the following agenda:

- Strategy Committee report on a review of acquisitions made between 2005 and 2008, and strategic guidelines for future acquisitions;
- Presentation of quarterly consolidated accounts for the quarter ended September 30, 2009;
- Audit Committee report on its review of quarterly financial statements and key figures to be included in the press release, review of risk mapping and implications for internal control, approval of non-audit assignments of external auditors, and procedure for the renewal of the terms of office of a Statutory Auditor and a Deputy Statutory Auditor;
- consideration and adoption of consolidated accounts for the quarter ended September 30, 2009;
- consideration and approval of press release;
- presentation of risk mapping for risks;
- presentation on public stimulus programs.

Audit Committee

The powers of the Audit Committee and its organization are specified in the internal rules of the Board of which an excerpt appears in section 8.3 of this chapter, page 100.

Membership and duties

The Audit Committee is made up of three members appointed by the Board of Directors, including one independent director. They are Jacques Garaïalde, Gérard Lamarche and Patrick Tanguy, whose personal profiles and education are presented in the Company's reference document. The Committee is chaired by Gérard Lamarche, independent director, who has expertise in finance and accounting. The Committee assists the Board of Directors in finalizing parent company and consolidated financial statements, and in preparing the information made available to the Company's shareholders and the market. It monitors the effectiveness of systems in place for internal control and risk management, and is also charged with coordinating issues relative to the preparation and control of accounting and financial information, as well as legal verification of financial statements. Its primary duties are to:

- assess the effectiveness and quality of internal control procedures for the collection and control of information to ensure that such information is reliable, review the Group's internal audit plan and the work schedule of the Statutory Auditors, apprize itself of the Group's internal audit programs;
- analyze and monitor risks, and track the Group's risk management processes;
- review the financial statements of the Company and the Group as communicated by the Company at least 48 hours before its meeting;
- ensure that the accounting methods used for the preparation of the consolidated and parent company financial statements are consistent and accurate, and that material transactions at Group level are adequately addressed, calling on the assistance of outside experts as necessary;
- guarantee the effective verification of parent company and consolidated accounts by the Statutory Auditors, and their independence and objectivity;
- guide the process for selecting or renewing the terms of the Statutory Auditors; and
- consider any financial or accounting issue submitted to it by the Chairman of the Board or by the Chief Executive Officer, as well as any issue of conflict of interest of which it is apprized.

The Audit Committee meets prior to the review of the annual, half-year and quarterly financial statements by the Board of Directors.

Meetings of the Audit Committee may take place by telephone or video-conference; a quorum exists when at least half of the members are present.

The Audit Committee may interview the Chief Financial Officer of the Group and/or members of his staff, the head of internal control, or receive the observations of the Statutory Auditors without the members of the general management being present.

2009 meetings

The Audit Committee met on four occasions during the 2009 financial year. Attendance for the year was 100%.

On February 5, 2009, the Audit Committee met to consider the following agenda:

- presentation of parent company and consolidated annual financial statements at December 31, 2008 (review of annual accounts, work of Statutory Auditors, impact of changes in the scope of consolidation and currency translation on 2008 activities);
- review of intangible assets and pension commitments;
- review of key figures in the press release and projects for 2009;
- review of the internal control section of the report of the Chairman of the Board.

On April 30, 2009, the Audit Committee met to consider the following agenda:

- presentation of consolidated quarterly financial statements at March 31, 2009;
- review of key figures in the press release;
- presentation of the 2008 reference document.

On July 24, 2009, the Audit Committee met to consider the following agenda:

- presentation of consolidated financial statements for the six months to June 30, 2009, together with the half-year financial report;
- review of key figures in the press release;
- assignments of statutory auditors and the 2009 budget;
- implementation of the 8th European Directive (update of internal rules);
- detailed review of internal audit assignments and organization of internal control (audit and control action taken in 2008 and assignments for 2009).

On November 3, 2009, the Audit Committee met to consider the following agenda:

- presentation of consolidated financial statements for the quarter ended September 30, 2009;
- review of key figures in the press release;
- risk mapping and implications for internal control;
- approval of non-audit assignments of statutory auditors;
- procedure for the renewal of the terms of office of a statutory auditor and a deputy statutory auditor.

The Audit Committee reports to the Board of Directors on the performance of its duties.

Nominating and Compensation Committee

The powers and organization of the Nominating and Compensation Committee are specified in the internal rules of the Board, of which an excerpt appears in section 8.3 of the present chapter, page 100.

Membership and duties

The Nominating and Compensation Committee is made up of four members appointed by the Board of Directors, including one independent director. They are Jacques Garaïalde, Edward A. Gilhuly, Gérard Lamarche and Frédéric Lemoine. The Committee is chaired by Frédéric Lemoine and its duties are to approve:

- all proposals of candidates for membership of the Board, general management, Chairman of the Board, members and Chair of the Audit Committee and the Strategy Committee;
- all types of compensation to managers, including benefits in kind received from any Group company or any affiliated company, as well as any provisions relating to their retirement;
- the establishment of stock option plans, and any other types of compensation based on shares or indexed on or otherwise connected with shares, for managers or employees or groups of employees of the Company or its subsidiaries.

The Nominating and Compensation Committee meets as often as necessary.

Meetings of the Nominating and Compensation Committee may be held by telephone or videoconference; a quorum exists when at least half of the members are present.

2009 meetings

The Nominating and Compensation Committee met on three occasions during the 2009 financial year. Attendance for the year was 67%, which is lower than that of other Committees due to the presence of a member resident in the United States.

On February 10, 2009, the Committee met to consider the following agenda:

- proposals concerning the recommendations of Afep/Medef concerning the compensation of executive directors;
- stock-option plans and free-share plans in respect of 2008 (total theoretical amount);
- compensation of executive directors in respect of 2008 (amount of compensation: fixed salary, bonus, performance-based, insurance, supplementary retirement benefits, non-compete covenant, benefits in kind, directors' fees from subsidiaries; allotments of stock options and free shares);
- principles for compensation in respect of 2009 (calculation of fixed salary following the study commissioned from an external consultant, principals for calculating bonuses, principles for allocation of stock options and free shares);
- directors' fees (breakdown in respect of 2008).

On March 4, 2009, the Committee met to consider the following agenda:

- implementation of stock-option and free-share plans allocated in 2009 in respect of 2008 (individual allotments of options and free shares to employees and to executive directors; exercise price; determination of number of shares to be held by executive directors; regulations for stock-option and free-share plans);
- stock-option and free-share plans allocated in 2010 in respect of 2009 (principles);
- procedure for the review of the status of independent directors;
- approval of part of the report of the Chairman of the Board of Directors on corporate governance and internal control, and of certain sections of the reference document.

On May 5, 2009, the Nominating and Compensation Committee met to consider the following agenda:

- appointment of the Chairman of the Nominating and Compensation Committee.

The Nominating and Compensation Committee reports on its work to the Board of Directors.

Strategy Committee

The powers and organization of the Strategy Committee are specified in the internal rules of the Board, of which an excerpt appears in section 8.3 of the present chapter, page 100.

Membership and duties

The Strategy Committee is made up of four members appointed by the Board of Directors: Olivier Bazil, Jacques Garaïalde, Frédéric Lemoine and Gilles Schnepp. It is chaired by Jacques Garaïalde, and its responsibilities include:

- reviewing all of the main projects relating to the development and strategic position of the Group, in particular strategic partnership projects and main investment and divestment transactions;
- reviewing the draft annual budgets and development plans of the Company submitted to the Board of Directors. In this capacity, the Strategy Committee consults with the managers of the Company concerning the assumptions on which such plans and budgets are based or amended.

2009 meetings

The Strategy Committee met on three occasions during the 2009 financial year. Attendance for the year was 100%.

On January 8, 2009, the Strategy Committee met to consider the following agenda:

- presentation of 2008 estimates and proposed 2009 budget.

On February 10, 2009, the Strategy Committee met to consider the following agenda:

- approval of the 2009 budget.

On October 1, 2009, the Strategy Committee met to consider the following agenda:

- review of acquisitions made from 2005 to 2008;
- outlook for future acquisitions.

The Strategy Committee reports on its work to the Board of Directors.

Evaluation of the Board of Directors and its Committees

In compliance with internal rules, the work of the Board of Directors is reviewed and assessed at least once a year. This is a separate point on the agenda of the meeting concerned, and is reported on in the Company's annual report.

A self-evaluation procedure was formalized at the end of 2008. The summary in early 2009 showed general satisfaction among directors as to the work of the Board and its Committees.

In the course of 2009, the Board of Directors deployed the following improvements in response to requests made by directors during the self-evaluation:

- simultaneous interpretation services were organized for the benefit of English-speaking members at each meeting of the Board to facilitate understanding of proceedings for these Directors;
- the schedule for meetings of the Audit Committee was amended to allow Committee members more time to consider documents provided to them.

In addition, presentations of operational and cross-functional subjects were made to Directors by the operational managers concerned. These subjects included Group organization in Brazil, risk mapping, and the implications for the Group of economic recovery plans adopted by various governments.

In November 2009, a questionnaire was sent to the Company's Directors for the purpose of assessing the operation of the Board and its Committees in 2009 and allowing Directors to express any requests for training. An item concerning this questionnaire was placed on the agenda for a meeting of the Board of Directors at the beginning of 2010.

8.4.3 - Limits on the powers of the Chief Executive Officer

Meeting on March 17, 2006, the Board of Directors voted to combine the functions of Chairman and Chief Executive Officer, both to be assumed by Mr. Gilles Schnepp. This decision was made as the Company was listed on the stock exchange. Combining the two functions corresponds both to Company tradition and to the reality of Legrand's operating model.

With the exceptions of transactions and decisions requiring the prior approval of the Board of Directors pursuant to article 1 of the internal rules (which may be consulted at www.legrandgroup.com), the Board of Directors has set no limits on the powers of the Chairman and Chief Executive Officer.

8.4.4 - Principles and rules for determining the compensation and benefits of executive directors

Compensation of executive directors is set by the Board of Directors on the basis of recommendations made by the Nominating and Compensation Committee.

8.4.4.1 COMPENSATION AND BENEFITS OF EXECUTIVE DIRECTORS

Contract of employment of the Chairman and CEO

On March 4, 2009, the Board of Directors took due note of the decision of Mr. Gilles Schnepp to renounce his contract of employment. No compensation or benefit of any sort was paid to Mr. Schnepp in exchange for his resignation.

The Board of Directors nonetheless judged that it was in the interest of the Company to enter into a new non-competition agreement with Mr. Schnepp, this agreement being for a period of two years and enforceable at the sole initiative of the Company. Mr. Schnepp agreed to provide this new covenant.

These initiatives bring the Company into compliance with the recommendation of the Code of Corporate Governance concerning the termination of contracts of employment in the case of a status of executive director.

Termination benefits

With the exception of benefits due on retirement and of the covenants not to compete described below, executive directors do not benefit from any commitment concerning components of compensation, indemnities or other benefits that might be due as a result of the termination of their office or assignment to a different position, or subsequently ("golden parachutes").

Mr. Gilles Schnepp is subject to restrictions under a covenant not to compete which would occasion the payment of an indemnity equal to a maximum of one year compensation (fixed and bonuses) and thus not exceeding the limit of two years' compensation provided for in the Code of corporate governance. This covenant can be enforced at the sole initiative of the Company. Similarly, Mr. Oliver Bazil is subject to the standard non-competition clause provided for in the collective labor agreement for metal industries, which provides for an indemnity equal to a maximum of one year compensation (fixed and bonuses) and thus not exceeding the limit of two years' compensation provided for in the same Code. This clause can be enforced at the sole initiative of the Company.

The Company thus complies with the Code's recommendation concerning this type of indemnity.

Pension entitlements

The executive directors benefit from a system of supplementary pension entitlements that meets the criteria defined in the Code, which concern the number of beneficiaries, seniority, the upper limit as a percentage of executive directors' compensation, and the reference period used for the calculation of entitlements (this information is noted in section 8.2.1.3 of this chapter).

Stock options and bonus shares

In March 2009, the Board of Directors decided to make allocations of stock options and bonus shares to around 1,000 employees in different countries, these allocations being dependent on achieving targets relating to economic income, which is to say adjusted operating income less the cost of capital. Allocations to executive directors represented 8% of the total.

The Company has for many years also implemented a system of profit sharing beyond the legal requirements for the benefit of all its employees and those of its French subsidiaries. Executive directors do not benefit from this system.

The Company complies with the rules for the allocation of stock options and free shares defined in the Code of corporate governance, with the exception of the following recommendations:

(i) allocation of free shares conditional on the purchase of a defined quantity of shares when the free shares vest.

The executive directors have already substantially invested in the Company's capital stock and are already subject to an obligation to hold at least 30% of all the shares acquired, including free shares and stock options, as long as they remain in office. Considering this, the Board of Directors, accepting the proposal of the Nominating and Remuneration Committee, has decided not to comply with this recommendation to the letter.

(ii) exercise of stock options and vesting of free shares.

Allocations of stock options and free shares are subject to conditions of performance defined each year on the basis of criteria applied in a constant manner. These rules for allocations apply to executive directors in the same way as they do to all other beneficiaries.

Criteria for allocations are aligned with the interest of the Company (depending as they do on operating income less cost of capital), and the fact that allocations are made directly following the performance recorded for the related financial year is considered a source of motivation. In addition, a certain consistency in allocations smoothes out the drawbacks of the volatility now observed. No additional conditions have thus been imposed on beneficiaries as regards exercise of options and vesting of free shares.

At the proposal of the Nominating and Compensation Committee, the Board of Directors has thus decided not to change the existing system.

Principles for determining compensation

The principles for determining the compensation of the Chairman and Chief Executive Officer and the Vice-Chairman, Chief Operating Officer include:

- a fixed annual salary, determined with regard to the level of responsibility and the experience of each person, as well as market practice with reference to a survey conducted by an outside consultant;
- a variable portion of which 70% is based on quantitative targets and 30% based on qualitative targets. The quantitative targets are pre-defined and linked to the financial performance of the Company, measured each year in terms of economic income (i.e., adjusted operating income less the cost of capital employed). Qualitative targets are mainly connected with the manager's implementation of the Group's strategy;
- a supplementary pension;
- a company car and a cell phone as benefits in kind;
- the mandatory group contingency insurance plan and supplementary health insurance for the Group's executives;
- allocation of stock options and free shares.

8.4.4.2 ATTENDANCE FEES PAID TO DIRECTORS

The maximum amount to be paid in attendance fees was set at €330,000 by the General Meeting of shareholders on April 6, 2006. This resolution remains in effect until the adoption of a new resolution.

Subject to this limit set by the General Meeting and based on the report of the Nominating and Compensation Committee, the Board of Directors sets the amount of attendance fees to be paid to directors in respect of the previous year as follows:

- €20,000 a year to be paid to each member attending all meetings of the Board of Directors, this amount being reduced by €1,000 for each absence from a meeting of the Board of Directors;
- in addition, €5,000 a year to be paid to each member of the Board of Directors who is also a member of a Committee, with the exception of executive directors, this amount being increased to €10,000 per year for the chairmen of the Strategy Committee and the Nominating and Compensation Committee, and to €20,000 for the chairman of the Audit Committee.

These rules for attendance fees comply with the Code of corporate governance.

8.4.5 - Participation of shareholders in the General Meeting

Conditions for the participation of shareholders in Company General Meetings are described in article 11 ("General Meetings") of Company articles, which can be accessed at www.legrandgroup.com.

8.4.6 - Information pursuant to article L.225-100-3 of the French Commercial Code concerning factors likely to affect the outcome of a public offer

Meeting on February 10, 2010, the Board approved the management report provided for under article L.225-100 of the Commercial Code, concerning in particular factors likely to influence a public offering (see page 230 of this reference document).

As provided by law, this management report will be filed with the registrar of the *Tribunal de Commerce* in Limoges at the same time as the present Chairman's report.

8.4.7 - Definition, purposes and organization of the Group's internal control procedures and risk management

8.4.7.1 DEFINITION AND PURPOSE OF THE GROUP'S INTERNAL CONTROL SYSTEM

The Group's internal control system involves the use of appropriate resources for procedures and action, implemented in ways 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
- enables it to take appropriate account of significant operational, financial and compliance risks.

The purpose of the Group's internal control procedures relates to enforcement of principles that include:

- protection and safeguarding of assets through procedures such as regular physical inventory controls, and inspections of plant and equipment as well as insurance policies matching the Group's needs;
- fraud prevention and detection, particularly with regard to accounting and financial information;
- the reliability and integrity of accounting information in relation to actual transactions;
- achievement of Management objectives;
- compliance with laws, regulations and internal procedures;
- optimization of operations.

While internal controls naturally cannot provide an absolute assurance that the Group's objectives will be met, it should be emphasized that the Group's unique business model makes it easier for all subsidiaries to understand and implement its principles regarding internal controls.

8.4.7.2 SCOPE OF INTERNAL CONTROL

The Company's assets consist almost exclusively of equity interests in Group companies.

The scope of its internal control system is thus the entire Group and all of its businesses.

8.4.7.3 FRAMEWORK

To achieve these internal control objectives, the Group's management has set up a framework based on COSO guidance as adapted to Legrand's special circumstances and drawing inspiration from the practices recommended by the France's financial market authority AMF in its framework document published in January 2007 as regards:

- the Group's internal control environment;
- risk assessment and management;
- internal control operations;
- communications channels and information flows;
- supervision and continuous monitoring of internal control.

This reference framework is implemented by all Group subsidiaries where this is warranted. Considering its structural impact, it also contributes to the harmonization of internal control practices at new subsidiaries, facilitating their integration.

8.4.7.4 INTERNAL CONTROL FRAMEWORK AND RISK MANAGEMENT

Internal control environment

The principles underpinning the Group's internal control environment structure its philosophy in this area and determine the level of staff awareness of the need for controls. The organization set up by the Group is designed to assign clear responsibilities to operating units and operational functions. It is founded on a set of core messages and values that are widely disseminated throughout the Group and shared by all, beyond corporate management structures. This internal control environment is defined in particular by the Group Charter communicating its values and principles to all entities and their employees.

Assessment and management of risk

The assessment and management of risk are the foundations of the Group's internal control procedures. They involve mapping major risks and updating data regularly, which also means that major operating risks are included appropriately in the reference document (chapter 3).

Team

This process is headed by the risk management unit reporting to the Corporate Secretary and working closely with the Internal Control department. The unit ensures in particular that the list of risks identified is up to date and that risks are evaluated and dealt with effectively within the Group, monitoring deployment of related action plans.

This general approach is overseen and monitored by a risk committee that includes the Group's general management. The risk committee met twice in 2009. Cross-functional issues are also addressed regularly at meetings of Group management committees.

The Group Audit Committee is kept informed of all issues, in particular updates to risk mapping, which the Committee reviews annually. All Group directors attended a presentation on risk management at Legrand at the November 2009 Board meeting, which discussed the issues.

Risk assessment

Risks are identified on the basis of information and comments from the Group's principal managers. The results of internal and external audits also contribute to risk mapping.

Once identified, risks are assessed in accordance with pre-defined methods validated by the Risk Committee. The assessment process is based on tables using homogeneous criteria that integrate the probability of occurrence and impact of the risk factors concerned. Additional indicators for the use of the Risk Committee and the Board of Directors are currently being deployed, the aim being to measure the effectiveness of risk management as accurately as possible. These indicators will also help define the internal audit plan so as to ensure the best possible fit with the need to monitor identified risk.

Risk management

The most appropriate ways of dealing with risks are defined in close cooperation with the operational staff concerned. Relays have been named within Group departments, divisions and subsidiaries to favor effective progress for the working groups in place.

The methodology defines specific tools and consistent methods that help structure subsidiaries' responses; easy to use in their day-to-day operation, these identify and process risks. Examples include risk matrices to rate certain types of third-party risks in transactions, as well as relating to certain products made by the Group. Subsidiaries working through the internal control reporting system implement these tools and methods, with internal audits to check that they are being properly applied.

Internal control operations

The Group's internal control operations are defined in a manual of administrative and financial procedures and accounting, management and reporting rules. This manual, designed for to 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 flow (with reliability of inventories monitored through cycle counts, analysis and justification of inventory discrepancies) and sales transactions (compliance with revenue recognition rules, tracking and authorization of discounts or rebates).

Application of these regulations ensures compliance with management objectives. The Group's dedication to a single strategic business area has allowed it to define simple operating rules for each of its functional and operational divisions.

Risk management procedures, compliance with principles of the control framework, and internal control operations are reviewed and tested each year. This review process has led to a large number of initiatives resulting in general improvements at subsidiaries. At the end of December 2009, over 90% of such initiatives had already been completed, contributing to a considerable improvement in the overall quality of internal controls. Others will be deployed in 2010.

8.4.7.5 STAFF INVOLVED IN INTERNAL CONTROL AT LEGRAND

The staff groups involved in internal control at Legrand make up an organization suited to the structure of the Group, ensuring the collection and dissemination within the business of reliable, relevant information. This overall organization is headed by the Internal Control unit.

These models and internal control flows are deployed through concerted action involving contributions from the following staff:

Financial managers at subsidiaries

Financial managers play a critical role in the finance function. Candidates for these positions are reviewed systematically by the Group's financial management, to ensure consistently outstanding levels of expertise.

Group financial control

The Group's financial control section plays a key role in monitoring of subsidiaries' performance. It coordinates the preparation of annual budgets and regularly reviews achievements and estimates. In this, it applies specific reporting and budget preparation rules, which are included in the internal control procedures manual.

All subsidiaries issue a detailed consolidation report every month, including a balance sheet, an income statement and analyses, allowing detailed monitoring of their performance.

Corporate financial analysis

The corporate financial analysis section 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 targets.

Accounting data are consolidated by a dedicated team using the consolidation reports available online to all Group subsidiaries. Consolidated financial statements are prepared on a monthly basis, except at the end of July, following 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 consolidation reports reviewed annually by the local affiliated offices of the Group's Statutory Auditors.

Cash flow management

Cash flow is monitored through specific Group procedures. Investment, borrowing and hedging transactions are centralized and controlled by the Group's Finance Department.

All management of bank accounts is carried out in agreement with the Group's treasury management, ensuring a degree of overall consistency in relationships with banks.

Risk Management

Risk Management is charged with identifying and qualifying risks for the Group, with coordinating action taken to manage these risks, and with monitoring the effectiveness of this action. The aim of this approach is to adapt control points to areas of identified risk.

IT department

To ensure the reliability of accounting and financial data processing, Legrand has implemented a full set of IT procedures and data back-up plans for the various IT systems used by the Group.

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

Legal affairs

The legal affairs unit ensures in particular that all significant contractual documents committing the Group are drawn up in strict compliance with laws and regulations, and in such a manner as to preserve the Group's interests. It also guarantees that models for internal delegation of powers are up to date. Finally, it contributes expertise when legal structures are to be changed or new structures created within the Group.

Management of Internal Control and ongoing supervision of the internal control framework

The Group's internal control section:

- coordinates the Group's internal control operations and ensures that reviews are conducted methodically;
- conducts internal audits at Group entities.

The assignment of these two tasks to a single section ensures consistent methodology and constant adaptation of audit procedures to the internal control risk areas.

For the Group's largest entities (France, Italy, the USA and China), the internal control section also relies on local internal control teams s that implement the internal control policy in their units. In smaller subsidiaries, internal control is the responsibility of the head of each operating unit. Regular audits by the Group's internal auditors and financial controllers ensure that the Group's procedures have been properly implemented and enforced. The tools, procedures and results of internal control reviews are made available to the Group's Statutory Auditors on a permanent basis, and there are regular consultations for the purpose of optimizing the internal control framework and cover of risk areas.

In the Group as a whole, a total of around 13 staff members will be fully dedicated to internal control in 2010.

8.4.8 - Financial ratings of the Company

At December 31, 2009, Legrand was rated as follows by financial ratings agencies:

- Standard & Poor's: BBB stable outlook;
- Moody's: Baa2 stable outlook;
- Fitch: BBB stable outlook.

This information is communicated in compliance with recommendations in the Code of Corporate Governance.

8.4.9 - Report of the Statutory Auditors prepared as provided by 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 relevant professional auditing standards applicable in France.

For the Year ended December 31, 2009

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, 2009.

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 of 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 engagement 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 5, 2010
The Statutory Auditors

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