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7.3.3 - Code of Conduct with respect to trading and market activities

In 2006, the Group adopted a Code of Conduct with respect to trading and market activities, which was reviewed in the first six months of 2011 to take into account AMF recommendation No. 2010-07 of November 3, 2010 on the prevention of insider misconduct by executives of listed companies.

This Code, adopted by the Board of Directors on June 2, 2006, applies to Company officers, similar persons, insiders and occasional insiders. The Board has appointed the Group's Chief Financial Officer to be in charge of ethical duties, responsible for ensuring compliance with the Code of Conduct.

The main provisions of this Code of Conduct aim to control the Company securities transactions that may be carried out by persons with regular access to privileged information about the Company (see paragraph 7.4.2 of this Registration Document).

7.4 - 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 6, 2013.

The Company makes formal reference to the principles of corporate governance for listed companies set out in the Afep-Medef Code of Corporate Governance issued in December 2008 completed by the recommendations issued in April 2010 ("Code of Corporate Governance"). This Code of Corporate Governance can be viewed on the MEDEF website: www.medef.com.

In line with the "apply or explain" principle espoused by the Code of Corporate Governance, any recommendations with which the Company is not in strict compliance are summarily set out and explained in the table below:

Code of Corporate Governance recommendations with which the Company is not strictly compliant	Explanations
Staggering of Directors' terms of office The Code of Corporate Governance recommends the staggering of Directors' terms of office so as to avoid replacement of the entire body and to favour a smooth replacement of directors.	For historic reasons related to the Company's share ownership structure, the membership of the Board and its specialized committees used to reflect the joint striving by two leading shareholders to achieve a lasting balance between Directors representing these shareholders, independent Directors and senior executives. For this reason, contrary to the Code of Corporate Governance recommendations, the terms of office of directors representing these shareholders have not been staggered.
Obligation to acquire a defined quantity of shares The Code of Corporate Governance recommends making the awarding of performance shares to executive directors conditional upon the purchase of a defined quantity of shares upon the availability of the awarded shares.	The Chairman and CEO has already substantially invested in the Company (0.8% at December 31, 2012) and is subject to requirement to hold at least 30% of all shares acquired (including options and performance shares) until the termination of his duties.

7.4.1 - Composition of the Board of Directors

At December 31, 2012, the Board had twelve members. The term of office was reduced to four years for any renewals or appointments after the General Meeting of May 27, 2010. The biography and list of directorships outside the Group of Directors can be found in chapter 7.1.1 of the Company's Registration Document.

In accordance with the Company's Articles of Association, each Director must hold at least 500 Company shares.

Membership of the Board of Directors

Name	Duties	Date of first appointment	Year of the AGM during which the term expires
Mr. Gilles Schnepp	Chairman and CEO	12/10/2002	2014
Mr. François Grappotte	Honorary Chairman	12/10/2002	2014
Mr. Olivier Bazil	Director	12/10/2002	2014
Ms. Christel Bories	Independent Director	05/25/2012	2016
Mr. Jacques Garaïalde	Director	06/06/2003	2014
Ms. Angeles Garcia-Poveda	Independent Director	05/25/2012	2016
Mr. Gérard Lamarche	Independent Director	04/06/2006	2016
Mr. Thierry de La Tour d'Artaise	Independent Director	04/06/2006	2016
Mr. Frédéric Lemoine	Director	05/05/2009	2014
Mr. Dongsheng Li[(1)]	Independent Director	07/26/2012	2014
Ms. Éliane Rouyer-Chevalier	Independent Director	05/26/2011	2015
Mr. Patrick Tanguy	Director	02/10/2010	2014

(1) Director appointed at the Board of Directors meeting on July 26, 2012 to replace Mr. Mattia Caprioli, who was standing down. His appointment is subject to ratification by the Combined Annual General Meeting on May 24, 2013.

Induction programme for new Directors

To facilitate the induction of new Directors and their assumption of their new duties, an induction programme has been set up, including especially site guided tours and meetings with Company senior and operational management.

Independent Directors

As a result of the changes in composition of the Board of Directors during 2012, the proportion of independent Directors on the Company's Board of Directors is 50% at December 31, 2012. The membership of the Board of Directors of the Company, which is no longer controlled by majority shareholders, is thus compliant with the Code of Corporate Governance, which recommends that half of the Board members of uncontrolled companies should be independent Directors. In addition, the Board of Directors proposed to the General Meeting to be held on May 24, 2013 the appointment of a new Director that meets the independence criteria of the Company's internal rules, Ms. Annalisa Loustau Elia. In the event of a favorable vote, the Board of Directors would have, following the General Meeting of May 24, 2013, thirteen members including seven independent Directors (*i.e.* given the composition of the Board of Directors as of December 31, 2012, 54% of independent Directors).

The composition of the specialized committees of the Board of Directors at December 31, 2012, is described in section 7.4.2 of the Company's Registration Document.

Ms. Christel Bories, Ms. Angeles Garcia-Poveda, Ms. Éliane Rouyer-Chevalier, Mr. Gérard Lamarche, Mr. Thierry de La Tour d'Artaise and Mr. Dongsheng Li are all independent Directors.

In accordance with the Company's internal rules, which can be viewed on the Company's website www.legrand.com, Directors' independent status is analyzed every year by the Nominating and Compensation Committee which draws up a report on this matter. The situation of each Director is then examined by the Board of Directors with regard to the independence criteria defined by the Company's internal rules, based on the report by the Nominating and Compensation Committee. The qualification of a Director as "independent" defined by the Company's internal rules includes the independence criteria set out in the Code of Corporate Governance.

During its meeting of March 6, 2013 the Board of Directors renewed its assessment that Ms. Christel Bories, Ms. Angeles Garcia-Poveda, Ms. Éliane Rouyer-Chevalier, Mr. Gérard Lamarche, Mr. Thierry de La Tour d'Artaise and Mr. Dongsheng Li could be qualified as independent in accordance with the stipulations of the Company's internal rules.

Diversity of membership of the Board of Directors

Every year, the Board of Directors investigates the desirable balance of its membership and that of its Committees, particularly as regards the representation of women, the diversity of skills and internationalization, so as to assure shareholders and the market that their work is carried out with the necessary independence and objectivity.

At December 31, 2012, the share of female Directors on the Board of Directors is 25%. Membership of the Board of Directors is thus compliant with the Code of Corporate Governance which recommends that this share be at least 20% from 2013. Moreover, the Board of Directors is pursuing its considerations on the issue of male-female balance in its membership, with the aim of reaching a share of 40% female Directors by 2016, in line with the Code of Corporate Governance. In that respect, the Board of Directors proposed to the General Meeting to be held on May 24, 2013 that a new female Director be appointed, Ms. Annalisa Loustau Elia. In the event of a favorable vote, the Board of Directors would have following the General Meeting of May 24, 2013, thirteen members including four women (*i.e.* given the composition of the Board of Directors as of December 31, 2012, 31% of independent Directors).

The Board is also increasingly open to an international dimension. At December 31, 2012, it contains four different nationalities including one non-European nationality, with Directors who are Belgian, Chinese, French and Spanish nationals. Since Ms. Annalisa Loustau Elia is an Italian national, the Board of Directors would contain five different nationalities, should the proposed appointment of Ms. Annalisa Loustau Elia receive a favorable vote during the General Meeting of May 24, 2013.

Plurality of mandates

Mr. Gilles Schnepp, Chairman and Chief Executive Officer, is also a member of the Board of Directors of another French listed company.

The Company's Chairman and Chief Executive Officer has undertaken to inform the Chairman of the Nominating and Compensation Committee of any intention to take on another directorship.

7.4.2 - Preparation and organization of Board of Directors work

Taking the information below into account, the Company's practices in terms of preparing and organizing the work of the Board and its Committees are in compliance with the recommendations of the Code of Corporate Governance.

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

The Company's Board of Directors has adopted internal rules (including a Directors' Charter) which can be viewed on the Company's website: www.legrand.com.

The Group has also adopted a Code of Conduct with respect to trading and market activities, which is also available from the Company's website. Its main purpose is to define the rules governing dealings in Company's shares by executive directors, similar persons, insiders and occasional insiders. The content of this Charter was revised during the second half of 2012 to specify the appointment of the Group CFO to the role of compliance officer of the Code, in charge of issuing an opinion prior to the performance of any transaction on Company shares by a person included in the insiders' list, in line with the recommendation of the French Financial Markets Authority on November 3, 2010.

Under this Code, Executive Directors and persons with access to inside information are prohibited from effecting, directly or indirectly, whether on their own behalf or on behalf of others, transactions in Legrand shares (i) as a minimum, during the 30 days preceding publication of annual, half-yearly and quarterly financial statements, and the two stock market trading days following their publication, and (ii) where they are apprised of a project liable 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 incorporated into its internal rules a Directors' Charter setting out the rights and duties of Directors, which each Director must comply with.

Conflicts of interest

Article 7 of the Directors' Charter explicitly states that every "*Director agrees to make the Board of Directors aware of any actual or potential conflict of interest and to refrain from taking part in the corresponding discussions and voting*". Furthermore, in accordance with the Directors' Charter, Directors cannot be personally involved in companies that are competitors of the

Company and its Group, without notifying the Board of Directors and obtaining its consent.

As far as the Company is aware, there is no conflict of interest.

Furthermore, as mentioned above, the Company's Chairman and Chief Executive Officer has undertaken to inform the Chairman of the Nominating and Compensation Committee of any intention to take on another directorship.

Information of Directors

In order to allow Board members to carry out their duties effectively, the Chairman of the Board provides Directors with all documents and information necessary to consider items on Board meeting agendas at least five days prior to the meeting.

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 2012, the Board met six times. The requests expressed by the Directors through the self-evaluation process carried out at the end of 2011 have been taken into account to improve the operation and performance of the Board of Directors in 2012 (please refer to the section "Evaluation of the Board of Directors and its Committees" below).

Attendance of Directors at Board meetings was satisfactory, with the attendance rate 82% for the year. Participation in meetings of specialized Committees averaged over 97%. Representatives of the Central Works Council 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 state that its deliberations should 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.

In 2012, the Board met to consider the following agenda:

- *Company results*:
  - approval of the consolidated and company financial statements for the financial year ended December 31, 2011 and the related reports, the consolidated quarterly financial statements at March 31, 2012, the half yearly consolidated financial statement and the related report at June 30, 2012, and the consolidated quarterly financial statements at September 30, 2012,
  - report of the Audit Committee on its review of the annual, half-yearly and quarterly consolidated financial statements as well as the Company financial statements, related management reports and the half yearly activity reports, on the summary of the statutory auditors, the review of accounting options, the related press release figures, the work of external auditors and the budget for their fees, the Group's risk management approach, the internal audit plan and the review of audit summaries,
  - review and approval of the press release on the annual, half-yearly and quarterly consolidated financial statements,
  - proposal for appropriation of earnings,
  - presentation of forecast financial statements for 2012.
- *governance:*
  - changes in the membership of the Board of Directors and its committees in terms of the numbers of independent and female directors,
  - self-evaluation of the performance of the Board of Directors and its Committees (summary and proposals),
  - review of the Code of Conduct with respect to trading and market activities,
  - report of the Nominating and Compensation Committee on the selection process for new directors, the examination of applications, especially those of Ms. Christel Bories, Ms. Angeles Garcia-Poveda and Mr. Dongsheng Li as independent directors, the procedure for status of independent directors, the membership of specialized committees, fixed compensation and bonuses of Executive Directors in respect of 2011 and the principles of compensation of the Executive Director in respect of 2012, allocation of performance shares in respect of 2011, the setting-up of long term incentive scheme in respect of 2012, coverage of the performance share plan set up in March 2010, allocation of attendance fees, and approval of parts of the Registration Document, in particular parts on the compensation of Executive Directors;
- *financial management of the Company:*
  - financing of the Company and the Group,
  - renewal of annual powers granted to the Chairman for guarantee, endorsements and security,
  - delegation of financial powers to the Board of Directors to be proposed to the General Meeting of Shareholders;
- *Company strategy and growth:*
  - Strategy Committee report on the 2012 budget, on projected acquisitions, and on a review of acquisitions made and of strategic guidelines for future acquisitions,

- presentation of strategic topics, including in particular annual review of the sustainable development process and policy on equal opportunity for employment and compensation; presentation of a partnership project in the field of assisted living and a presentation of the Group's operations in the Russia/CIS area;

- *preparation for the Annual General Meeting:*
  - convening of the annual Combined Ordinary and Extraordinary Meeting of Shareholders (proposed agenda and resolutions),
  - production of reports for the General Meeting (report by the Board on Company operations in 2012 (company management report), report by the Chairman of the Board on corporate governance and internal control, and the special reports on the allocations of stock options and performance shares);
- *others:*
  - implementation of the delegation approved under the tenth resolution of the Combined Ordinary and Extraordinary Meeting of Shareholders of May 25, 2012, and
  - confirmation of capital increase following the exercise of options and terms of coverage for the performance share plan set up in March 2010.

Audit Committee

The powers and operation of the Audit Committee are outlined in the Board's internal regulations. An excerpt of these regulations can be found in section 7.3 of the Company's Registration Document. The duties and operating rules of the Company's Audit Committee were determined on the basis of the conclusions of the AMF working party on Audit Committees in July 2010.

Membership and duties

The Audit Committee is made up of three members appointed by the Board of Directors, including two independent Directors: Mr. Gérard Lamarche (independent Director), Ms. Eliane Rouyer-Chevalier (independent Director) and Mr. Patrick Tanguy. Their biographies and education can be found in chapter 7.1.1 of the Company's Registration Document. It is chaired by Mr. Gérard Lamarche, an independent Director, who has broad financial and accounting skills. Ms. Eliane Rouyer-Chevalier and Mr. Patrick Tanguy also possess financial and accounting skills.

With two independent Directors out of three members, membership of the Audit Committee is compliant with the Code of Corporate Governance which recommends that two-thirds of members be independent Directors.

The Audit Committee assists the Board of Directors in finalizing separate and consolidated financial statements, and in preparing the information made available to the Company's shareholders and the market. It monitors the effectiveness of internal control and risk management systems. It is also responsible for ensuring monitoring of matters relating to the production and control of accounting and financial information and the legal auditing of financial statements. In particular, its main roles are:

- assessing the effectiveness and quality of internal control procedures for the collection and control of information to ensure that such information is reliable, reviewing the Group's internal audit plan and the work schedule of the Statutory Auditors, apprising itself of the Group's internal audit programs;
- analyzing and monitoring the risks, and track the implementation and effectiveness of the Group's risk management processes;
- reviewing the financial statements of the Company and the Group;
- ensuring 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;
- guaranteeing the effective verification of parent company and consolidated financial statements by the Statutory Auditors, and their independence and objectivity;
- guiding the process for selecting or renewing the terms of the Statutory Auditors and examining any questions relating to their appointment, renewal, revocation and compensation;
- considering any financial or accounting issue submitted to it by the Chairman of the Board or by the Chief Executive Officer; and
- examining the report by the Chairman of the Board of Directors on internal control and risk management.

The Audit Committee meets 48 hours before the review of the annual, half-year and quarterly financial statements by the Board of Directors, as recommended by the Code of Corporate Governance.

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 question the Group Chief Financial Officer 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.

Work done in 2012

The Audit Committee met on four occasions during 2012 financial year. Attendance for the year was 92%.

In 2012, the Audit Committee met to consider the following agenda:

- *Company results:*
  - presentation of parent company and consolidated annual financial statements at December 31, 2011, of the management report on the consolidated financial statements for the financial year ended December 31, 2012, of quarterly consolidated financial statements at March 31, 2012, of half-year consolidated financial statements at June 30, 2012 together with the half-year financial report, and the financial statements for the quarter ended September 30, 2012 (review of work of Statutory Auditors),

- review of key figures in the press release on annual, quarterly and half-year consolidated financial statements and prospects for 2012 as well as accounting options;

- *risk management and internal control:*
  - review of the internal control and risk management section of the report of the Chairman of the Board,
  - risk management;
- *auditing and relations with external auditors:*
  - assignments of Statutory Auditors and budget for auditors' fees,
  - review of the 2012 internal audit plan, review of the audit summaries and fraud report;
- *others:*
  - presentation of the Registration Document.

The Audit Committee meets as often as necessary and reports to the Board of Directors on the performance of its duties.

Nominating and Compensation Committee

The powers and operation of the Nominating and Compensation Committee are outlined in the Board's internal rules. An excerpt of these regulations can be found in section 7.3 of the Company's Registration Document.

Membership and duties

The Nominating and Compensation Committee is made up of three members appointed by the Board of Directors, including two independent Directors: Ms. Angeles Garcia-Poveda (independent Director), Mr. Gérard Lamarche (independent Director) and Mr. Frédéric Lemoine. It is chaired by Mr. Frédéric Lemoine.

With two independent Directors out of three members, membership of the Nominating and Compensation Committee is compliant with the Code of Corporate Governance which recommends that a majority of members be independent Directors.

In particular, the Nominating and Compensation Committee is responsible for:

- formally expressing and considering all proposals of candidates for membership of the Board, Chief Executive Officer, Chairman of the Board, members and Chair of the Audit Committee and the Strategy Committee;
- examining all proposed succession plans for Executive Directors;
- performing periodic evaluation of the operations of the Board of Directors and the performance of management;
- deciding on 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;
- deciding on 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 Chairman and Chief Executive Officer is involved in the Committee's work as far as examining directorship applications are concerned, as well as the succession plan for executive directors.

The Nominating and Compensation Committee meets at least twice a year, and in all cases prior to approval of the agenda of the Annual General Meeting of Shareholders, to review the draft resolutions which are to be submitted to it and which fall within the Committee's scope of competence.

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.

Work done in 2012

The Nominating and Compensation Committee met on seven occasions during 2012 financial year. Attendance for the year was 100%.

In 2012, the Committee met to consider the following agenda:

- *compensation:*
  - compensation of Executive Directors in respect of 2011 financial year (amount of compensation: fixed compensation, quantitative and qualitative bonuses, insurance, retirement supplement, non-competition clause, benefits in kind, allocation of performance shares and setting of performance conditions),
  - attendance fees (allocation for 2011 financial year, and determination of the allocation rules for 2012),
  - rules for the compensation of the Executive Director for 2012 financial year (setting fixed compensation, principles for calculating bonuses, principles of the long term incentive plan and related performance and presence conditions),
  - implementation of plans for performance shares allocated in 2012 in respect of 2011 financial year (individual allocations of performance shares to employees and to the Executive Director, setting the number of shares to be held by the Executive Director, plan rules), and conditions of coverage of the performance share plan set up in March 2010,
  - principles relating to long term incentive plans in respect of 2012 financial year;

- *composition of the Board of Directors and its Committees:*
  - procedure for the review of the status of independent Directors,
  - compliance with the law and the Code of Corporate Governance as regards the share of independent Directors and balanced male/female representation on the Board of Directors,
  - examination of the various directorship applications, particularly those of Ms. Christel Bories, Ms. Angeles Garcia-Poveda and Mr. Dongsheng Li,
  - renewal of the terms of office as Directors of Mr. Gérard Lamarche and Mr. Thierry de La Tour d'Artaise; and
- *others:*
  - 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 Registration Document.

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

Strategy Committee

The powers and operation of the Strategy Committee are outlined in the Board's internal rules. An excerpt of these regulations can be found in section 7.3 of the Company's Registration Document.

Membership and duties

The Strategy Committee is made up of four members appointed by the Board of Directors: Mr. Olivier Bazil, Ms. Christel Bories (independent Director), Frédéric Lemoine and Gilles Schnepp. It is chaired by Ms. Christel Bories, and its responsibilities include:

- examining major projects relating to the strategic development and positioning of the Group, and in particular, strategic partnerships projects and main investment or divestment transactions; and
- 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.

The Strategy Committee meets whenever necessary, and in any case at least twice a year.

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

Work done in 2012

The Committee met on three occasions during 2012 financial year. Attendance for the year was 100%.

In 2012, the Strategy Committee met to consider the following agenda:

- *acquisitions*:
  - review of acquisitions made from 2005 to 2012,
  - projected acquisitions,
  - strategic orientations for future acquisitions;
- *budget:*
  - presentation of the 2011 estimate and the projected 2012 budget; and
  - approval of the 2012 budget.

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 was carried out at the end of 2011. The summary at the start of 2012 revealed that Directors were satisfied on the whole, particularly as regards (i) membership of the Board and its evolution, (ii) the operation of the Board of Directors and its specialized Committees as well as the latter's reporting to the Board, and (iii) presentations made to Directors which had enabled the latter to enhance their knowledge and awareness of the Group's expansion, its products and its markets.

During this self-evaluation, Directors expressed the following requests:

- to have further presentations organized on specific topics and major operational issues in 2012;
- to have site guided tours organized; and
- to increase the share of independent Directors on the Board.

Accordingly, in response to these requests, the Board of Directors implemented the following initiatives in 2012:

- organization of several presentations on strategic topics, namely: annual review of the sustainable development process and policy on equal opportunity for employment and compensation, presentation of a partnership project in the field of independent assisted living, and a presentation of the Group's operations in the Russia/CIS area;
- guided tours of Legrand industrial facilities for new Directors and meetings with operations managers of the Group;
- guided tour of a showroom of Legrand designed for customer training purposes and specialized in products for commercial and industrial environments;
- increase of the share of independent Directors on the Board, with the appointment in 2012 of three new independent Directors.

In November 2012, a questionnaire was sent to Company Directors to assess the functioning of the Board and its Committees for 2012 financial year.

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7.4.3 - Limits on the powers of the Chief Executive Officer

The Board of Directors, at its meeting of March 17, 2006, decided 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.

Subject to the transactions and decisions that require prior approval from the Board of Directors in accordance with Article 1 of the internal regulation (which are listed in section 7.3.1.1 of the Company's Registration Document), the Board of Directors did not place any limitation on the powers of the Chief Executive Officer.

7.4.4 - 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.

7.4.4.1 COMPENSATION AND BENEFITS OF EXECUTIVE DIRECTORS

Principles for determining compensation

The Chairman and Chief Executive Officer's compensation includes the following items:

- a fixed annual compensation;
- an annual bonus which is determined according to quantitative and qualitative criteria of an economic, strategic and social nature;
- a long term incentive;
- a supplementary pension with defined benefits;
- 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.

The Chairman and Chief Executive Officer receives no compensation either in the form of director's fees or any other in respect of directorships held in Group subsidiaries.

Annual compensation

Annual compensation for the Chairman and Chief Executive Officer includes the following items:

- fixed annual compensation of €625,000. The amount for fixed annual compensation was set at €625,000 by the Board of Directors on March 3, 2011, in view of levels of responsibility and experience as well as market practices determined by way of a survey conducted by independent consultants. It was agreed that this amount would remain unchanged for three financial years, as recommended by the Code of Corporate Governance;
- a bonus which is determined on the basis of:
  - a pre-defined quantitative criterion linked to the Company's financial performance, measured each year by the "economic result" (*i.e.* adjusted operating income, less the cost of capital used). This quantitative part, the target value of which was set at 50% of the fixed compensation, could vary between 0% and 100% of said fixed compensation, depending on the level of economic result achieved in respect of 2012 financial year, and
  - the following qualitative criteria: (i) sales growth, innovation and increased market share, (ii) the external growth policy and (iii) general criteria linked to risks management, sustainable development and labour relations concerns. This qualitative part, the target value of which was set at 50% of the fixed compensation, could vary between 0% and 100% of said fixed compensation.

Long term incentive

The long term incentive for the Chairman and Chief Executive Officer was designed to reflect the achievement by the Group of long term economic performance. It can come in the form of either of the following instruments:

- incentive in the form of future performance units ("Future Performance Units"); or
- incentive in the form of options for the subscription and/or purchase of shares, and performance share plans.

Future Performance Units

Considerations by the Nominating and Compensation Committee have led to the setting-up of an Future Performance Unit scheme in the Group. The aim of the scheme is to create a stronger bind between the compensation of the Chairman and Chief Executive Officer, members of the Group's Executive Committee and Management Committee members in subsidiaries or central functional departments, and the Group's medium term achievement of economic performance, so as to ensure better alignment between the interests of company management and those of shareholders.

In 2013, Mr. Gilles Schnepp was granted a number of Future Performance Units set at the Board of Directors meeting on March 6, 2013, namely 37,732 Future Performance Units (the "2013 Performance Unit Plan").

After a period of three years from the date of first award (the "Vesting Period"), and subject to compliance with service conditions, performance conditions will be tested to determine the number of Future Performance Units finally granted.

At the expiry of the Vesting Period, the performance conditions to be assessed in respect of the 2013 Performance Unit Plan are twofold, based on the Group's future achievements:

- An "external" performance condition, accounting for 50% of the total award, results from a comparison between the arithmetic average of Legrand's consolidated EBITDA margin as published in consolidated financial statements over the three financial years preceding the day of expiry of the Vesting Period and the average of EBITDA margins achieved by the MSCI World Capital Goods index component stock companies over the same period. The number of Future Performance Units finally granted shall be:
  - zero if the difference between the two averages is equal to 4 points or less in the Company's favour ("Limit 1"),
  - 69% of half the Future Performance Units if the difference between the two averages is equal to 8.3 points in the Company's favour ("Limit 2"). Between Limit 1 and Limit 2, the number of Future Performance Units finally granted shall be calculated in a linear way; and
  - 100% of half the Future Performance Units if the difference between the two averages is equal to 12 points or more in the Company's favour ("Limit 3"). Between Limit 2 and Limit 3, the number of Future Performance Units finally granted shall be calculated in a linear way.
- An "internal" performance condition, accounting for 50% of the total award, results from the level of normalized free cash flow as a percentage of sales, as published in consolidated financial statements over the three financial years preceding the day of expiry of the Vesting Period. The number of Future Performance Units finally granted shall be:
  - zero if the average normalized free cash flow as a percentage of sales is equal to 9% or less ("Limit 1'"),
  - 69% of half the Future Performance Units if this average is equal to 12.4% ("Limit 2'"). Between Limit 1' and Limit 2', the number of Future Performance Units finally granted shall be calculated in a linear way; and
  - 100% of half the Future Performance Units if this average is equal to 16% or more ("Limit 3'"). Between Limit 2' and Limit 3', the number of Future Performance Units finally granted shall be calculated in a linear way.

From the above, it can be seen that the final number of Future Performance Units finally acquired by Mr. Gilles Schnepp can vary between 0 and 100% of the initial number of Future Performance Units awarded to him on the date of first award.

With respect to Mr. Gilles Schnepp and to the members of the Executive Committee of the Group, an additional two-year period of unavailability is imposed, upon expiry of the Vesting Period. During the two-year period of unavailability, no payments shall be made to their benefit in respect of their Future Performance Units. Upon expiry of the two-year period of unavailability, the amount paid to them with respect to their Future Performance Units is equal to the unit value of their Future Performance Units* plus the equivalent of dividends per share paid on Legrand shares during the two-year period of unavailability and capitalised over said period and multiplied by the number of Future Performance Units finally granted to each beneficiary.

The resignation of a beneficiary during the Vesting Period automatically cancels the granting of Future Performance Units.

Plans for the allocation of options for the subscription and/or purchase of shares, and performance share plans

In 2013, no allocation of options for the subscription and/or purchase of shares was made, nor any allocation of performance shares.

The plans for the allocation of options for the subscription and/or purchase of shares implemented by the Company in respect of previous financial years are outlined in sections 8.2 and 8.3 of the Company's Registration Document. No discount was applied and the Company has implemented no hedging instruments for options and performance shares. Mr. Gilles Schnepp has formally undertaken to refrain from using any hedging instruments for the options and/or performance shares allocated to him.

* *The unit value of the Future Performance Units amounts to the closing price of Legrand shares on the NYSE Euronext Paris market on the day of the exercise by any beneficiary of his/her Future Performance Units during the two-year period of unavailability. Therefore, the unit value of the Future Performance Units depends on the company's performance on the stock market.*

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. The Chairman and Chief Executive Officer has not benefited from this.

The Company is complying with the rules on the granting of options and performance shares defined in this Code of Corporate Governance, apart from the recommendation on the granting of performance shares on the condition that a set number of shares are purchased when granted performance shares vest. Mr. Gilles Schnepp has already substantially invested in the Company's share capital and is already subject to the requirement to hold at least 30% of all shares acquired until the termination of his duties (including options and performance shares). The Board of Directors, on the proposal of the Nominating and Compensation Committee, has therefore decided not to comply with this recommendation to the letter, as the undertaking to retain shares constitutes a scheme with equivalent effect.

Pension plan

The Chairman and Chief Executive Officer benefits from a supplementary pension entitlement, compliant with the recommendations of the Code of Corporate Governance with regard to the number of beneficiaries, seniority, the limited percentage of compensation and the reference period used to calculate the entitlements (this information can be found in section 7.2.1.3 of the Company's Registration Document).

Moreover, the Chairman and Chief Executive Officer's overall compensation was determined taking account of the benefit of the abovementioned supplementary pension entitlement.

Termination benefits

With the exception of benefits due on retirement (this information is noted in section 7.2.1.3 of the Company's Registration Document) and of the covenant not to compete described below, the Chairman and Chief Executive Officer does not benefit from any commitment concerning components of compensation, indemnities or other benefits that might be due as a result of the termination of his office or assignment to a different position, or subsequently ("golden parachutes").

A non-competition agreement was entered into between the Company and Mr. Gilles Schnepp for two years with the main purpose of submitting the latter to the restrictions under a covenant not to compete. If this non-competition clause is implemented by the Company, this would occasion the payment of a monthly indemnity equal to 50% of his average fixed compensation and bonuses received over the last 12 months with the Group. The amount of this indemnity would be in line with the recommendations of the Code of Corporate Governance which limit the amount of said indemnity to two years' compensation. This non-competition covenant can only be implemented once Mr. Gilles Schnepp as left the Company and at the sole initiative of the Company.

As such, the Company is compliant with the recommendation of the Code of Corporate Governance relating to the benefit of these termination benefits.

Contract of employment of the Chairman and CEO

In accordance with the Code of Corporate Governance, the Board of Directors, on March 4, 2009, acknowledged the termination of the contract of employment between Mr. Gilles Schnepp and the Company, with immediate effect and without compensation.

7.4.4.2 ATTENDANCE FEES PAID TO DIRECTORS

The maximum amount of attendance fees was set at €600,000 by the Shareholders General Meeting of May 26, 2011. This resolution remains in force until a new one is adopted.

The Board of Directors decided, from 2011 financial year, to allocate the attendance fees paid to Directors as follows:

- €35,000 a year to be paid to each member attending all meetings of the Board of Directors, this amount being reduced by €3,000 for each absence from a meeting of the Board of Directors;
- €5,000 a year further to be paid to each Director 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 chairs of the Strategy Committee and the Nominating and Compensation Committee, and to €20,000 for the chair of the Audit Committee, each of these amounts being reduced by €1,000 for each absence.

These rules for attendance fees comply with the Code of Corporate Governance.

The Chairman and Chief Executive Officer waived his right to receive attendance fees from 2011 during the exercise of his duties.

Readers are invited to refer to section 7.2.2 of the Company's Registration Document on attendance fees paid to Directors in the course of financial years 2011 and 2012.

7.4.5 - Participation of shareholders in the General Meeting

Conditions for participation in the Company's General Meeting are outlined in Article 12 ("General Meetings") of the Company's Articles of Association (available on the www.legrand.com website) and in section 10.3.5 of the Company's Registration Document.

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

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.

7.4.7 - Risk management and internal controls

7.4.7.1 DEFINITIONS, PURPOSES AND FRAMEWORK

Definition and purposes of risk management and internal control procedures

Risk management involves using a set of concepts, tools, methodologies and initiatives adapted to the Group's specific 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, Group objectives or the Group's reputation.

Risk management 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.

The Group's internal control system involves the use of appropriate resources and behavior 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
- enable it to take appropriate account of significant operational, financial and compliance risks.

The objective of the Group's internal control procedures is to ensure the following:

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

It should be noted that the internal control mechanism cannot provide an absolute guarantee that the Group's targets will be met. However, the unique nature of its economic model is a major factor which facilitates understanding and appropriation of the internal control principles by all of the Group's subsidiaries.

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Links between risk management and internal control procedures

Risk management and internal control procedures interact as a virtuous circle within the framework of a deliberate approach aimed at the continuous improvement of Group processes, in terms of reliability, compliance and efficiency.

Risk mapping and evaluation lay the foundation for internal control by defining risk levels that are acceptable to the Group and the guidelines for compliance. The latter are translated, where appropriate, into procedures and controls under the responsibility of the internal control department.

The risk map is updated each year and presented to the Audit Committee.

In parallel, the internal control schemes 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.

Given 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. It also handles internal audits.

Scope of action

Legrand's internal control scheme covers all controlled companies that fall within the Group's scope of consolidation. Newly acquired companies are included in the internal control framework as part of their docking process, on the occasion of a first inspection by Group internal control teams within the first few months following acquisition.

Framework

In order to implement these risk management and internal control objectives, the Group's Management has established an internal control and risk management framework based on the recommendations of the AMF in the reference Framework published in June 2010.

7.4.7.2 INTERNAL CONTROL AND RISK MANAGEMENT SCHEME

Risk management

Organizational framework

The Group's Risk Management strategy is led by the Risk Management and Internal Control department, under the responsibility of the Group CFO. The Group's risk management policy defines the process for identifying, analyzing and dealing with risks. The Risk Management and Internal Control department is responsible for implementing this policy, by gathering the indicators necessary to assess them and by following the action plans implemented by the Group's various Operational or Functional departments.

This general approach is overseen and monitored by a Risk Committee which is chaired by the Group's General Management and includes the Group Vice Presidents of the industrial divisions and the main functional departments. The Risk Committee met twice during 2012. 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 summary is subsequently presented 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. From this perspective, 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. 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"); a detailed classification of risks has been established for this purpose, which is updated whenever necessary, enabling to address the potential 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;
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);
3) Risks are dealt with in several ways: the 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;

Steering

Steering of the Risk Management scheme is continually 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 and the Internal Control department. The major risk factors are set out in section 4 of the Company's Registration Document.

Internal control

Control environment

The control environment is based on principles structuring Group philosophy in this area and determining the appropriate level of staff awareness regarding internal control requirements. The principal purpose of the related organization deployed by the Group is to ensure that the responsibilities of each unit and department are clearly defined. It is also based on messages and values that are broadly communicated and shared across the Group as a whole. The resulting control environment is in particular materialized by the Group's Charter of Fundamental Principles, aimed at sharing values and principles with all entities and staff members.

Risk evaluation and management

Risk evaluation and management is a fundamental aspect of the Group's internal control scheme. Related structures and processes are described in the section above dedicated to Risk Management.

Structure of communication and information flows

The Group has adopted processes and procedures ensuring timely, reliable communication of relevant information to the parties concerned. Reporting structures have been set up for all the Group's major business processes, providing a common language for the exchange of information between different levels of Group organization (subsidiaries, divisions, Group departments and management).

Internal control operations

The Group's internal 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 operations through enforcement of the dedicated procedures.

Application of these rules 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.

Internal control operations are revised annually, using a process that combines detailed tests of critical controls and self-evaluation questionnaires completed by the subsidiaries concerned. Data gathered in these questionnaires and tests is documented, consolidated and analyzed using a dedicated intranet tool. This review mechanism is reflected in the implementation of dedicated action plans, which contribute to the ongoing improvement of internal control and risk management. The self-evaluation questionnaire contains some fifty questions taken from the COSO matrix and Group risk mapping, addressing both fundamental internal control aspects and wider questions relating to 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.

These mechanisms all contribute to fraud prevention and the optimisation of Group procedures. In the event of fraud, a detailed report specifying the relevant circumstances and amounts must be forwarded to the Group's internal control department for validation of the proposed action plans. A summary of cases of fraud is presented to the Audit Committee once a year and whenever necessary.

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), 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 the 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 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 operational entities and functional departments. Recommendations issued directly address underlying risks, categorized according to the Group's classification, thus boosting the previously mentioned bottom up approach. An internal audit team with strong computer skills is also deployed.

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 will be fully dedicated to internal control in 2013.

7.4.7.3 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:

- 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;
- the Board of Directors that approves the financial statements, based in particular on the preparatory work conducted by 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 so that it can be disclosed externally and published by the markets. The system is deployed through concerted action involving contributions from the following staff within the Finance Department:

Financial managers in 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 finance control

The Group finance control department plays an important role in the monitoring and control of subsidiary performance. It coordinates the preparation of annual budgets and regularly reviews 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, an income statement and analysis, allowing detailed monitoring of their performance.

Corporate financial analysis

The corporate financial analysis unit 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, 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

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

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, and improved protection and access conditions to systems and networks.

Internal control is managed by the Risk Management and Internal Control Department. Evaluation and test methods are in place and are applied annually at all Group subsidiaries where this is required. These methods, which are applied to each of the business's major financial and accounting cycles, ensure that fundamental controls for these cycles are duly deployed.

7.4.8 - Financial ratings of the Company

At December 31, 2012, Legrand was rated as follows by financial rating agencies:

- Standard & Poor's: A- stable outlook;
- Moody's: Baa1 stable outlook.

Fitch no longer rates the Company.

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