

7.4 - Report of the chairman of the board of directors on internal controls

The report of the Chairman of the Board of Directors relating to internal controls is prepared 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.

7.4.1 - Corporate governance and conditions of preparation and organization of the work of the Board

The Board of directors

Legrand is a *société anonyme* with a Board of Directors.

As at December 31, 2006, the Board was made up of 11 members, appointed for a term of six years.

Composition of the Board of Directors:			
Name	Duties	Date of first appointment	Term of office expires on
Gilles Schnepf	Chairman and CEO	12/10/2002	12/31/2007
François Grappotte	Honorary Chairman	12/10/2002	12/31/2007
Olivier Bazil	Vice-Chairman – COO	12/10/2002	12/31/2007
Arnaud Fayet	Director	12/10/2002	12/31/2007
Jacques Garaialde	Director	06/06/2003	12/31/2007
Edward A. Gilhuly	Director	12/10/2002	12/31/2007
Henry Kravis	Director	12/10/2002	12/31/2007
Jean-Bernard Lafonta	Director	12/10/2002	12/31/2007
Gérard Lamarche	Director	04/06/2006	12/31/2011
Ernest-Antoine Seillière	Director	12/10/2002	12/31/2007
Thierry de La Tour d'Artaise	Director	04/06/2006	12/31/2011

* As at the date of the shareholders meeting to approve the accounts of the past financial year.

The Board of Directors meets on a regular basis and at least five times a year. In 2006, the Board met on nine occasions.

A specific training of the members of the Board of Directors in relation to the market ethics charter of the Group and issues related to the holding of insider information was carried out in 2006.

The Board approved the consolidated accounts of the Group for each quarter, following their presentation by the general management. Attendance of Directors at Board meetings was satisfactory, with a presence rate for the year of 70%.

These meetings were used by the general management to inform members of the Board of Directors in relation to the strategy, development and performance of the Group.

During the 2005 financial year, Deloitte & Associés was appointed as the Group's second statutory auditor and BEAS was appointed as alternate statutory auditor.

Members of the Central Works Committee (*Comité central d'entreprise*) will be attending meetings of the Board of Directors starting the meeting of the Board to approve the 2006 accounts. This will improve the corporate governance of the Group.

In order to perform its duties under the best conditions, the internal regulations of the Board provide that its deliberations will be prepared in certain fields by specialized Committees: the Audit Committee, the Strategy Committee, and the Nominating and Remuneration Committee.

The Audit Committee

The powers of the Audit Committee and its organization are specified in the internal rules of the Board.

The Audit Committee is composed of 3 members appointed by the Board of Directors: Arnaud Fayet, Jacques Garaialde and

<

>

H

1

2

3

4

5

6

7

8

9

10

11

12

Gérard Lamarche. It is chaired by Gérard Lamarche. Its duties are as follows:

- review the accounts of the Company and the Group;
- ensure that the accounting methods used for preparation of the consolidated or company accounts are consistent and accurate, and that material transactions at the Group level and major risks are adequately addressed;
- ensure that internal control procedures for the collection and control of information, which guarantee the reliability thereof, are determined, review the internal audit plan of the Group and the plan of intervention of the statutory auditors, become familiar with the internal audit programs of the Group;
- provide an opinion on the renewal or appointment of the statutory auditors; and
- review any financial or accounting issue which is 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 becomes aware.

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

Meetings of the Board of Directors 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 team, or receive the observations of the statutory auditors without the members of the general management being present.

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

The Audit Committee met on four occasions during the 2006 fiscal year.

During these meetings, the findings of the 2005 fiscal year audit were presented and approved. The Audit Committee reviewed in detail the accuracy of the annual accounts and of the consolidated accounts for the fiscal year ended December 31, 2006, as well as the half-year financial statements. The statutory auditors presented their findings to the members of the Committee. The Committee also reviewed the work agenda and the findings of the internal and external audits. It reviewed, in particular, the progress made on the IFRS and internal control projects.

The chairman of the Audit Committee has reported on the Committee's work on a regular basis to the meetings of the Board of Directors.

The Nominating and Compensation Committee

The powers and organization of the Nominating and Compensation Committee are specified in the internal rules of the Board.

The Nominating and Compensation Committee is made up of four members appointed by the Board of Directors: Jacques Garaïalde, Edward A. Gilhuly, Jean-Bernard Lafonta and Gérard Lamarche. It is chaired by Jean-Bernard Lafonta. Its duties are to approve:

- all types of remuneration of managers, including benefits in kind received from any company of the Group or any affiliated company, as well as any provisions relating to their retirement;
- the establishment of share subscription option or share purchase option plans, and any other types of remuneration based on shares or indexed to or connected with shares to the benefit of the managers or of any employee or group of employees of the Company or of its subsidiaries.

The Nominating and Compensation Committee meets as often as necessary.

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

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

The Nominating and Compensation Committee met on two occasions to determine the remuneration of the managers of the Group as well as the terms and framework of the Legrand stock option plan and the free share allocation plan. It also determined the attendance fees to be allocated to the members of the Board of Directors based on their participation to the Boards and Committees.

The Strategy Committee

The Strategy Committee is made up of four members appointed by the Board of Directors: Olivier Bazil, Jacques Garaïalde, Jean-Bernard Lafonta and Gilles Schnepf. It is chaired by Jacques Garaïalde. Its responsibilities include:

- the review of 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;
- the review of the draft annual budgets and development plans of the Company submitted to the Board of Directors. As such, the Strategy Committee consults with the managers of the Company in relation to the assumptions on which such plans and budgets are based or amended.

The Strategy Committee met on three occasions during the 2006 fiscal year.

In its meetings, it reviewed, in particular, the budget of the Group, the main investments made and reviewed all of the acquisition projects.

<
>
H
1
2
3
4
5
6
7
8
9
10
11
12

7.4.2 - Determination and goals of the Groups' internal control procedures

In addition to the tasks carried out by the various control bodies of the Company – the Audit Committee, the Nominations and Compensation Committee and the Board of Directors – it should be noted that the assets of the Company are almost exclusively comprised of shares corresponding to its shareholding of the Group.

It must also be highlighted that the uniqueness of the Group's business model is a key aspect for understanding and assimilating the internal control principles of all of the subsidiaries of the Group.

The goals of internal control within the Group are based on compliance with a number of principles:

- protection and maintenance of assets through procedures such as stock monitoring through permanent inventories, tangible asset monitoring through regular inventories, or insurance policies adapted to the Group's needs;
- fraud prevention and detection, in particular as regards accounting and financial information;
- reliability and accuracy of accounting information in relation to existing transactions;
- compliance with management's goals;
- compliance with laws and regulations and internal procedures;
- contribution to the optimization of operations.

In order to implement these goals, the Group's management has established an internal control system of reference based on the COSO principles, adapted to the particularities of Legrand, which also covers the draft system of reference recently published by the AMF:

- control environment of the Group, the principles of which organize the internal control philosophy of the Group, and

determine employees' awareness of the need for internal controls;

- risk assessment and management. At Legrand, the reduction in the number of hierarchical levels, and the existence of short decision-making processes with easy access to the general management allow the Company to identify and control the risks it must face;

- internal control procedures which guarantees compliance with the goals determined by the management. The fact that the Group has an activity focused on only one core business permits the definition of simple organization rules in each of the staff and line management units of the Group;

- reliable financial information giving rise to action plans in a timely manner, due to permanent follow-up of the performance of the subsidiaries by the reporting system of the Group;

- running of Group's activities through an adequate delegation of powers and supervision thereof.

The roll-out of this system of reference, initially launched in the context of the Sarbanes-Oxley Act, has continued, and it is now effective in all of the subsidiaries of the Group where needed.

This roll-out consisted in the launch of various improvement measures in all of the relevant subsidiaries. At the end of December 2006, over 80% of such measures had already been implemented and therefore slightly contributed to the improvement of the quality of internal control on all of the processes. Measures not yet implemented will be carried out in 2007.

Lastly, thanks to its organizational nature, this system of reference is also used to harmonize the internal control methods of the new subsidiaries of the Group and make their integration easier.

7.4.3 - Organization of Legrand's internal controls

The organization implemented by the Group mainly aims at allowing a clear definition of assignment of responsibilities to the various operational units and duties, while keeping an efficient level of control by complying with widespread internal control procedures and by setting up adequate control departments both at the corporate level and at subsidiary level.

Internal control procedures

This system of reference, in particular internal control procedures of the Group, is part of an administrative and financial procedures and accounting, management and reporting rules manual. This procedure manual has existed for over ten years and is adapted to the economic context and to the industrial activity of the Group. It clearly focuses on the follow-up of movement of products (reliability of stocks followed-up through permanent inventories, analysis and justification of stock discrepancy) and on sales transactions (compliance with product recognition rules, follow-up and authorization of discounts or rebates). These procedures are updated on a regular basis when necessary.

Internal control

The main duties of the internal control section of the Group are to lead the internal control policy of the Group and to carry out audit duties in the various entities of the Group.

Moreover, for the most substantial entities of the Group (France, Italy and USA), the internal control section of the Group relies on local internal controllers, dedicated to the implementation of the internal control policy in their respective units.

In 2006, the internal control system of the Group was strengthened as a result of the implementation of a system based on the COSO system of reference, as well as on the planned AMF reference framework. This internal control policy is now implemented at the very heart of the core businesses of the Group, which permits constant adaptation to the Group's specificities and an easier implementation for all players.

The internal control section reports to the Secretary of the Group, who reports to the Vice Chairman and Chief Operating Officer.

Operational audit

The Group's operational audit section plays a key role in the follow-up process of the performance of the subsidiaries. It coordinates the preparation of annual budgets and carries out an in-depth control of the achievements and estimations. This work follows specific rules for drawing-up reporting and budgets, which are included in the internal control procedures manual.

All subsidiaries deliver on a monthly basis a consolidation reports including a balance sheet, profit and loss account and analysis, allowing for a detailed follow-up of their performance.

Corporate financial analysis

The corporate financial analysis section aims at drawing up and analyzing the consolidated financial statements of the Group. It prepares and circulates, on a monthly basis, a trends chart showing the consolidated performance of the Group, as well as the difference between effective performance and targeted results.

The consolidation of the accounting data is carried out by a dedicated team based on the consolidation reports which are available *via* software accessible to all of the subsidiaries of the Group. Consolidated accounts are drawn up on a monthly basis, with the exception of August, following a consolidation agenda circulated in all of the subsidiaries, which allows them to organize accordingly and provide the financial information in due time.

Almost all of the consolidated entities have their consolidation reports reviewed by the local affiliated offices of the statutory auditors of the Group.

Subsidiaries' financial managers

The financial manager positions of the subsidiaries are defined as key positions in the financial management of the Group. Appointments to these duties are systematically reviewed by the financial managers of the Group, which allows a consistent and optimized level of skills for the successful candidates.

Moreover, internal control is the responsibility of the financial manager of each operational unit. Regular reviews are carried out by the internal audit section and by the operational audit section of the Group in order to verify the implementation of and compliance with the Groups' procedures.

Cash-flow management

Cash flow is monitored through specific Group procedures. In particular, placement, indebtedness or hedging transactions are centralized and controlled by the financial management of the Group.

This allows the monitoring of the Groups' indebtedness, the management of interest rates and exchange rates risks and to optimize the cash-flow management and the financing of the subsidiaries.

IT Department

In order to ensure the reliability of accounting and financial data processing, Legrand implemented a system of IT procedures and data back-up plans relating to the various IT systems used by the Group.

Moreover, the roll-out of internal controls strengthened and harmonized all provisions connected with the implementation and operation of IT systems, as well as the protection and access conditions for systems and networks.

7.4.4 - Principles and rules for determining remunerations and benefits granted to corporate officers and directors

The remuneration of the corporate officers and directors is determined by the Board of Directors of the Company and is approved by the Appointment and Remuneration Committee.

Remuneration and benefits granted to the Chairman and Chief Executive Officer and the Vice-Chairman, Chief Operating Officer

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

- a fixed annual remuneration, determined with regard to the level of responsibility and the experience of each person as well as the market practice;
- a variable portion based on the achievement of specific targets, both quantitative and qualitative. The quantitative targets are linked to the financial performance of the Company. Qualitative targets are mainly connected with the implementation of the Group's strategy;
- the benefit of the stock options or free shares allocation plans which will be implemented during 2007;

- the amount of the profit sharing bonus (*prime d'intéressement*) within the legal limitations;
- the benefit of a company car and of a cell phone as benefits in kind;
- a retirement supplement described in section 7.2.2 of this reference document.

Attendance fees paid to members of the Board of Directors

The rules for determining the amount of the attendance fees paid to the members of the Board of Directors are as follows:

- €20,000 per year to be paid to each member attending each meeting of the Board of Directors, this amount being decreased by €1,000 for each absence from a Board of Directors meeting;
- in addition, €2,500 per year to be paid to each member of the Board of Directors who is also a member of a Committee, this amount being increased to €5,000 per year if such member is also Chairman of the Strategy Committee or of the Appointment and Remuneration Committee, and to €10,000 for the Chairman of the Audit Committee.

7.4.5 - Statutory Auditors' report prepared in accordance with article L.225-235 of the French Commercial Code

Statutory Auditors' report prepared in accordance with article L.225-235 of the French Commercial Code (Code de commerce) on the report by the Chairman of the Board of Directors of Legrand S.A on internal control procedures relating to the preparation and processing of accounting and financial information

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

Fiscal year 2006

To the Shareholders,

In our capacity as the Statutory Auditors of Legrand (formerly Legrand Holding SA), and in accordance with the provisions of article L.225-235 of the French Commercial Code, we report to you on the report prepared by the Chairman of your Company in accordance with the provisions of article L.225-37 of the French Commercial Code, for the year ended December 31, 2006.

It is for the Chairman to give an account, in his report, notably of the conditions in which the duties of the Board of Directors are prepared and organized and the internal control procedures in place within the company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman of the Board's report, prepared in accordance with article L.225-37 of the French Commercial Code.

Neuilly-sur-Seine, March 16, 2007

The Statutory auditors

PricewaterhouseCoopers Audit
Edouard Sattler

Deloitte & Associés
Dominique Descours

<

>

H

1

2

3

4

5

6

7

8

9

10

11

12