

3.5.2 - Property damage and operating loss insurance

Subject to the usual excesses, exclusions and cover limits, the Group's property damage/operating loss insurance program covers direct material damage arising from any event of a sudden and accidental nature (such as fire, storm, explosion, electrical damage, water damage, etc.) affecting the insured property, as well as the resulting operating losses.

In addition to this insurance program, and as mentioned in section 3.2.4 of this Registration Document, Legrand has an

active industrial and logistics risk prevention policy, and intends to continue risk awareness and prevention campaigns in its operating entities.

OTHER RISKS INSURED

The Group's other main insurance programs cover the following risks: D&O (Directors' and Officers') liability, employer's liability, credit insurance and, since January 1, 2017, cyber-attacks.

03

3.6 - REPORT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

The Chairman's report relating to corporate governance, risk management and internal controls is drawn up pursuant to article L. 225-37 of the French Commercial Code (Code de commerce), under the responsibility of the Chairman of the Board of Directors.

This report was prepared with support from the Group Finance Department, the Internal Control and Finance Control Department and the Legal Department. It results from discussions with the main contributors involved in internal control and risk management within the Group, with the Company's Statutory Auditors, and with members of the Audit Committee.

The report was drawn up bearing in mind applicable legislation, recommendations issued by the French Financial Markets Authority (AMF) on corporate governance, internal control and audit committees, the reference framework published by the AMF on risk management and internal control, principles of corporate governance and recommendations made by AFEP and MEDEF, as well as market practice among listed companies.

The report was then examined by the Audit Committee on February 6, 2017 for its section on "Risk management and internal controls" before being reviewed by the Nominating and Governance Committee chaired by the Lead Director for its section on "Corporate governance".

The Chairman's report was approved by the Board of Directors on March 15, 2017.

The reader's attention is drawn to the fact that a description of the major risks and uncertainties facing the Company and the various entities within the scope of consolidation is part of the reports drawn up by the Board of Directors pursuant to articles L. 225-100 and L. 225-100-2 of the French Commercial Code and is presented in detail in Chapter 3 of the Company's Registration Document.

3.6.1 - Corporate Governance

Under French law, certain aspects of corporate governance are to be reported in the Chairman’s report on corporate governance, risk management and internal controls. Such aspects of corporate

governance are disclosed in several sections of the Company’s Registration Document, as mentioned in the following chart, and are incorporated by reference into this Chairman’s report:

Information relating to corporate governance required under article L. 225-37 of the French Commercial code	Heading of the section of the Company’s Registration Document disclosing the information required under article L. 225-37 of the French Commercial code	References
Membership of the Board of Directors and application of the principle of gender equality with a view to guaranteeing balanced representation of men and women	Section 6.1.1.1 “ Composition of the Board of Directors ” of the Company’s Registration Document	Pages 154 <i>et seq.</i> of the Company’s Registration Document
	Section 6.1.3.1 “ Composition of the Board of Directors’ specialized Committees ” of the Company’s Registration Document	Pages 169 <i>et seq.</i> of the Company’s Registration Document
Preparation and organization of Board of Directors work	Section 6.1.1.2 “ Functioning of the Board of Directors ” of the Company’s Registration Document	Pages 160 <i>et seq.</i> of the Company’s Registration Document
	Section 6.1.3.2 “ Functioning of the Board of Directors’ specialized Committees ” of the Company’s Registration Document	Pages 170 <i>et seq.</i> of the Company’s Registration Document
	Section 6.1.1.3 “ Work done by the Board of Directors in 2016 ” of the Company’s Registration Document	Pages 165 <i>et seq.</i> of the Company’s Registration Document
	Section 6.1.3.3 “ Work done by the Board of Directors’ specialized Committees in 2016 ” of the Company’s Registration Document	Pages 174 <i>et seq.</i> of the Company’s Registration Document
Potential limits on the powers of the Chief Executive Officer	Section 6.1.4 “ General Management of the Company ” of the Company’s Registration Document	Pages 176 <i>et seq.</i> of the Company’s Registration Document
Formal reference to a code of corporate governance	Section 6.1 “ Administration and management of the Company ” of the Company’s Registration Document	Page 154 of the Company’s Registration Document
Provisions of the code of corporate governance with which the Company is not in strict compliance and related explanations		Nil
Indication as to where the code of corporate governance may be accessed		Page 154 of the Company’s Registration Document
Formalities for shareholders’ participation in General Meetings	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 9.3.5 “ Shareholders’ General Meetings ” of the Company’s Registration Document	Page 275 of the Company’s Registration Document
Principles and rules set by the Board of Directors for determining the compensation and benefits of Executive Officers	Section 6.2.1 “ Compensation and benefits of company officers ” of the Company’s Registration Document	Pages 179 <i>et seq.</i> of the Company’s Registration Document
Factors likely to affect the outcome of a public offer	Readers are invited to refer to the management report, which contains factors likely to influence a public offering. This report can be found in Appendix 2 of the Company’s Registration Document	Pages 314-315 of the Company’s Registration Document

3.6.2 - Risk management and internal control

3.6.2.1 FRAMEWORK, DEFINITIONS, PURPOSES AND ORGANIZATION

Framework

The Legrand Group's risk management and internal control system falls within the legal framework applicable to companies listed on the Paris stock exchange and relies on the framework document on "Risk management and internal control systems" published by the AMF in 2010.

Scope

The Legrand Group's internal control system covers all controlled entities that fall within the scope of consolidation of which the Company is the parent company. No entity is excluded from the scope. The Company ensures that internal control and risk management are performed effectively throughout its subsidiaries. Newly acquired companies are subjected to a first audit by the Group Internal Audit team within about a year following acquisition, and included in the internal control system as part of their docking process.

The scope of application of internal control concerns every area within the Company. The internal control system is regularly updated, to keep it closely aligned with risk management issues and developments in the Company.

Definition and purposes of risk management

A risk represents the possibility of an event occurring that might have adverse effects on people, resources, the environment, the Group's objectives or its reputation.

Risk management involves a dynamic system which enables management to identify, analyse and deal with the main risks in view of the Company's strategic objectives (see section 4.2.1.3. of this Registration Document) so as to contain them at an acceptable level.

Risk management comprises a set of means, behaviours, procedures and actions suited to the Group's special features; it is a duty of all parties involved within the Group.

It seeks to be comprehensive, so as to cover all of the Group's activities, processes and assets.

Risk management is considered as a company management leverage tool, it aims to:

- ensure the safety of the Group's employees;
- preserve the Group's value, assets and reputation;
- make Group decision-making and processes secure, to contribute to the achievement of objectives and thereby to value creation for all stakeholders;
- ensure that initiatives undertaken are consistent with Group values;

- rally Group employees around a shared vision where major risks are concerned, and raise awareness both of the risks inherent to their activity and of newly emerging risks.

Definition and purposes of internal control

The Legrand Group's internal control system consists of a set of means, behaviours, procedures and actions suited to Legrand's special features, which:

- enable it to take appropriate account of significant risks, whether strategic, operational, financial or compliance-related; and
 - contribute to control of its business, the effectiveness of its operations and the efficient use of resources.
- The internal control system is a wide-ranging scheme not limited solely to procedures for making accounting and financial reporting data more reliable. More generally, it aims to:
- ensure compliance with laws and regulations;
 - ensure the enforcement of instructions and of targets set by the General Management;
 - guarantee the proper functioning of internal processes, especially those that contribute to the protection and safeguarding of assets;
 - support both organic and external growth;
 - contribute to the optimization of processes and operations;
 - provide assurance of the reliability of financial and accounting information.

Resources allocated to risk management and internal control

The Group's Internal Control Department coordinates and organizes monitoring of the risk management and internal control system, using key tools including risk mapping, the internal control framework, the self-assessment process, audits, and action plan follow-up. The Internal Control Department is also a contributor to the Group's compliance program.

Assigning these tasks to a single department ensures consistent methodology and constant adaptation of audit procedures to the internal control risk areas as well as rapid adaptation of the internal control framework in view of any weaknesses detected during audits.

For a dozen Group countries including the largest contributors in terms of business (France, Italy, United States, India, China, Brazil, Russia, Colombia, etc.), the Group's Internal Control Department relies on local internal controllers who steer the approach in their respective units. In smaller subsidiaries, internal control is the direct responsibility of the entity's Chief Financial Officer.

In the Group as a whole, the equivalent of 26 staff members were fully dedicated to internal controls in 2016.

The manager in charge of this function at Group level has direct access to the Chairperson of the Audit Committee with whom he confers independently in the context of Audit Committee meeting preparations.

The manager in charge of this function at Group level reports directly to the Chairman and Chief Executive Officer, which ensures he/she enjoys the required authority within the Company.

Other key contributors

Aside from the Internal Control Department, other key contributors include:

- the General Management, involved in the overall design and steering of the Group's internal control system;
- the Company's governance bodies, especially the Audit Committee whose assignment includes monitoring the effectiveness of the system;
- the Group's different departments, some of which take a leading role in the internal risk management and control system as part of various operational committees;
- the Finance Department in general, and especially Financial Managers appointed in the Company's various subsidiaries, who play an ongoing role in organizing the control environment and ensuring compliance with procedures;
- managers at all levels of the organization who are responsible for steering the internal control system in their particular area.

Section 3 of the integrated report contains a summary diagram presenting the existing governance structure on internal risk management and control.

Limitations

It should be noted that the internal control mechanism outlined above and detailed hereafter, however well designed and carried out it may be, cannot provide an absolute guarantee that the Group's targets will be met and that every risk, particularly of error, fraud or failure, will be fully controlled or eliminated.

3.6.2.2 COMPONENTS OF THE INTERNAL CONTROL AND RISK MANAGEMENT MECHANISM

Risk management

Organizational framework

The organization defines the players' roles and responsibilities, and establishes procedures. The Group's risk management policy defines the aims of the system, and the process for identifying, analyzing and dealing with risks.

The information system comprises a dedicated tool enabling internal dissemination of risk-related information.

Risk management procedure

The Group's risk management procedure involves three stages:

- 1) Risk identification: the risk environment has been jointly determined using data gathered from the Group's main senior executives ("top-down" approach) and supplemented both by contributions from Group subsidiaries and functional departments ("bottom-up" approach) and by external benchmark data;
- 2) Assessment of identified risks: risk assessment and ranking are performed by a college of Group senior executives, using a dedicated tool. Risks are assessed and ranked according to the probability of their materialization and their potential impact, assessed on the basis of a homogeneous set of criteria. The risk analysis is supported by a regular review of specific indicators (KRI – Key Risk Indicators). These indicators, produced using historic and prospective data, are tracked by the relevant functional departments and fed back to the Internal Control Department in charge of coordinating the process.

On the basis of this risk identification and assessment a risk map is produced, which is submitted to the Risk Committee for approval; information on risks and risk control systems are detailed in chapter 4: Risk factors.

- 3) Risk treatment: measures applied to deal with risks include the reduction, transfer, or acceptance of a risk. Action plans are decided upon by the Internal Control Department and the risk owners identified among the functional departments. The Risk Committee validates the procedure for dealing with the main risks and monitors the progress of action plans.

Ongoing monitoring of the risk management system

The Internal Control Department ensures the proper implementation of this policy, the coordination of the process, and the continuous improvement approach, by:

- leading risk committees and risk mapping exercises;
- designing risk indicators in cooperation with risk owners (Group functional departments) and monitoring these indicators;
- monitoring action plans deployed under the responsibility of risk owners;
- drawing lessons from risk occurrences;
- making sure the identified risk control schemes work properly, through targeted audits.

To illustrate the progress strategy, the risk management process was equipped with a specific tool in 2016, to enable formal recording of the approach, allow for greater involvement of the parties involved, and facilitate steering and reporting.

The approach as a whole is reviewed and monitored by a Risk Committee chaired by the Group's General Management and involving the functional departments. The Risk Committee met twice in 2016, in line with the usual semi-annual frequency of its meetings.

The Audit Committee is also regularly informed of the topics addressed. In particular, the risk assessment and treatment approach is discussed annually with the Audit Committee on a dedicated occasion, during which a review is done of major risks, control mechanisms put in place, and any action plans that may be in progress. A report on this is presented to the Board of Directors.

Internal control

Control environment

The Group's internal control environment is based on the following items:

- the Group's values, formally enshrined in a set of charters which have been widely circulated among its teams. For example, the Group's Charter of Fundamental Principles and its Application Guide setting out the Group's values, its Prevention charter and its Environment charter, and the Guide to good business practice. Commercial practices are framed by the Fair competition charter and the Guide to good business practice;
- exemplary behaviour, an essential means of disseminating values throughout the company;
- clear objectives deployed throughout the company and communicated to its employees (see section 2.2.1);
- an organizational and hierarchical structure enabling a clear definition of responsibilities and of powers;
- IT tools and access to information systems determined according to each person's role, complying with the rules of segregation of duties.

The risk management process continually feeds into the internal control scheme, which thereby adapts in response to developments in the Group's risk environment. The risk management process is outlined in the section above.

Communication and information

The reporting structures which exist for all the Group's major business processes, enable the gathering and circulation of relevant and reliable information at the various levels of the company, and ensure that a shared language exists between the Group's different organizational levels (subsidiaries and functional departments). Examples are provided by the annual budget process, the monthly and quarterly country performance reviews, and the various reporting schemes (financial, human resources, corporate social and environmental responsibility, etc.).

In the event of fraud, it is mandatory that a detailed form specifying the circumstances and amounts at stake be forwarded to the Group's internal control management, for validation of the proposed action plans. If this occurs, the Audit Committee is informed.

There is also an ethics alert hotline enabling employees and third parties to inform the Group's ethics officers (the Group Executive VP Legal Affairs and Group Executive VP Human Resources) of any breach of the Group's rules of ethics.

Internal control activities

The Group's internal control and risk control operations (procedures and controls) are defined in an internal control framework that is updated regularly. There is online access to this internal control framework on the Group's intranet, as well as to all of the legal, financial, management and accounting rules applied by the Group.

Internal control activities, particularly key controls, are reviewed annually, using a self-assessment scheme which is mandatory for all entities and supported by a dedicated tool. The scheme combines the completion of a questionnaire for all entities and more detailed tests on controls for the larger entities.

The self-assessment scheme addresses questions concerning the internal control environment, critical controls focused on the main Group processes (e.g. Purchasing, Sales, Inventory management, Payroll, Fixed assets, etc.). Beyond the register of essential and mandatory critical controls, the scheme is adapted as required in line with developments in terms of risks and the Group's control environment.

The self-assessment scheme as applied to the largest entities was reviewed in 2016 as part of the continuous improvement process, to enhance its effectiveness and ensure it is aligned with the rules and controls described in the internal control framework. The questionnaire is adapted according to the strengths and weaknesses identified during audits and self-assessments, to reinforce the messages to be conveyed.

The results of these self-assessment questionnaires and tests are systematically reviewed, consolidated and analyzed by the Internal Control Department.

The 2016 self-assessment campaign showed Group entities to have achieved an overall conformity rate of 90% with the minimum requirements of the internal control scheme, as against 88% in 2015. The Group considers this to represent a satisfactory conformity rate. Targeted support is provided to help all entities to reach this level, and cross-functional initiatives are launched as required. In 2017, specific projects will be conducted on some IT systems to improve internal control level and to further enhance these processes in line with developments in the external environment on related topics such as cybercrime.

The dedicated tool also includes a module for steering action plans identified by subsidiaries.

Steering and auditing

The Group's internal control system and any changes it may undergo are presented annually to the Audit Committee.

An audit plan, which is reviewed annually, ensures a rotation of audits in all of the Group's country entities and its functional departments. It also takes into account major and emerging risks. After approval by the General Management, the audit plan is presented annually to the Audit Committee.

Every audit assignment systematically generates a report. These reports are submitted to General management, and a quarterly summary is presented before the Audit Committee.

The recommendations expressed in the audit reports directly address the risks underlying any internal control weaknesses identified, thereby strengthening the previously mentioned bottom-up approach. Correct implementation of action plans is monitored systematically by the Internal Control Department.

An information systems auditing team has also been set up, which performs audits jointly with the Group Internal Audit Department.

The tools, procedures and results of internal control reviews are available to the Company's Statutory Auditors, 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.

3.6.2.3 PROCEDURES FOR PREPARING AND PROCESSING ACCOUNTING AND FINANCIAL INFORMATION

Objectives

Internal controls applied to accounts and finance must meet the following objectives:

- guarantee that the accounting and financial information published complies with applicable 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.

Main contributors

- General Management, by setting up and structuring the Group's internal control system, as well as preparing financial statements for approval and publication;

- the Board of Directors which approves the consolidated financial statements, based in particular on the work of the Audit Committee;
- the internal audit team, which, through its work, supplies various recommendations to General management and to the Audit Committee on areas for improving internal control applied to accounts and financial statements;
- the Statutory Auditors who, through their external audit work, express an independent opinion on published consolidated financial statements.

Control mechanism for accounting and financial information

This mechanism is based on the definition and implementation of processes to prepare and review financial and accounting data so that it can be used internally for steering purposes and disclosed externally for publication on the markets. The mechanism is deployed through concerted action involving contributions from the following staff within the Finance Department:

Financial managers in subsidiaries

The subsidiary Financial managers, who are appointed by, and functionally attached to, the Group Finance Department, are entrusted specifically with responsibility for internal controls and with the role of Compliance Officer in their respective subsidiaries. Nominees for these positions are reviewed systematically by the Group's Finance Department, to ensure consistently outstanding levels of expertise.

Group finance control

The Group Finance Control Department, which reports to the Group Finance Department, plays a key role in monitoring and controlling subsidiaries' performance and their enforcement of procedures. It coordinates the preparation of annual budgets and regularly performs in-depth review of achievements and estimates. This work relies on reporting and budget rules, which can be found in the internal control procedures framework.

All subsidiaries issue a detailed consolidation report every month, which includes a balance sheet and its analytical review, an income statement and its analysis, to enable detailed monitoring of their performance.

Corporate financial analysis

The Corporate Financial Analysis unit, which reports to the Group Finance Department, prepares and analyzes the Group's consolidated financial statements. It prepares and circulates, on a monthly basis, a progress sheet showing the Group's consolidated performance and the difference between actual performance and budget targets. This data is formally reviewed each month by the Group's Finance Management and General Management.

Accounting data are consolidated by a dedicated team using the consolidation reports available through a software application deployed in all Group subsidiaries. Consolidated financial statements are prepared on a monthly basis, except at the end of July, according to a schedule circulated to all subsidiaries. This allows them to plan accordingly and provide the financial information in a timely manner.

Almost all consolidated entities have their annual and/or consolidation reports reviewed by the local affiliated offices of the Group's Statutory Auditors or by independent auditors.

Group Financing and Cash Flow

The Treasury Department reports to the Group Finance Department.

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

All bank accounts are managed in accordance with the Group's Treasury Department, ensuring a degree of overall consistency in relationships with banks.

Information systems

The Information Systems Department reports to the Group Finance Department.

In order to decrease risks relating to reliability of accounting and financial data processing, the Group has implemented a full set of IT procedures to mitigate security risks and data back-up plans.

In addition, the deployment of internal control helps strengthen and harmonize processes related to the implementation and operation of information systems, as well as protections and access to system and network conditions.

The very nature of the activity of information processing in a changing environment in terms of scope of Group activity as well as information systems used makes IT risk management a process of continuous improvement.

3.6.3 - Company financial ratings

At December 31, 2016, Legrand's rating by financial rating agency Standard & Poor's was: A- stable outlook.

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

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

Year ended December 31, 2016

This is a free translation into English of the statutory auditors' report issued in French prepared in accordance with article L. 225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors of Legrand on the internal control and risk management procedures relating to the preparation and processing of financial and accounting information issued in French and is provided solely for the convenience of English speaking users. This report should be read in conjunction and construed in accordance with French law and the relevant professional standards applicable in France.

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, 2016.

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

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and
- to attest that the report sets out the other information required by article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

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

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

Other disclosures

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

Neuilly-sur-Seine, March 15, 2017

The Statutory Auditors

French original signed by

PricewaterhouseCoopers Audit
Edouard Sattler

Deloitte & Associés
Jean-François Viat