

PHILIPS

Charter of the Audit Committee

Philips Lighting N.V.

Definition

Board of Management	:	the board of management of the Company;
Company	:	Philips Lighting N.V.;
Audit Committee	:	the audit committee of the Supervisory Board;
Audit Committee Rules	:	these rules of the Audit Committee;
Supervisory Board	:	the supervisory board of the Company; and
Supervisory Board Rules	:	the supervisory board rules of the Company.

Responsibilities of the Audit Committee

Article 1

- 1.1. The Audit Committee shall advise the Supervisory Board and prepare the decision-making of the Supervisory Board in relation to the committee's responsibilities.
- 1.2. The Audit Committee assists the Supervisory Board in fulfilling its oversight responsibilities for the integrity of the Company's financial statements, the financial reporting process, the system of internal business controls and risk management, the internal and external audit process, the internal and external auditor's qualifications, independence and performance as well as the Company's process for monitoring compliance with laws and regulations and the General Business Principles.
- 1.3. The Audit Committee reviews and discusses the Company's annual and interim financial statements to be disclosed, including related press releases and the statement of the Supervisory Board to shareholders to be inserted in the Company's annual accounts. The Audit Committee reports its findings to the Supervisory Board before these documents are signed by the Supervisory Board or issued by the Company, unless decided otherwise by the Supervisory Board. In performing these reviews the Audit Committee devotes special attention to:
 - (a) any changes in accounting policies and practices;
 - (b) adjustment resulting from the internal and external audit, as the case may be, and any difficulties encountered during the audits;
 - (c) the going concern assumption;
 - (d) compliance with applicable accounting standards and consideration of announcements by professional accounting industry associations;
 - (e) compliance with statutory and legal requirements and regulations in particular in the financial domain;
 - (f) detection of fraud, defalcation and illegal acts;
 - (g) significant financial exposures in the area of treasury (such as currency risks, interest rate risks, derivatives and any other hedging strategies);

- (h) significant judgmental areas;
 - (i) complex or unusual transactions, including important M&A transactions, and “off balance sheet” arrangements;
 - (j) significant deviations between actual performance and planned performance;
 - (k) the overall quality of the earnings;
 - (l) alternative accounting policies and treatments discussed with the external auditor;
 - (m) significant changes in financial statement presentation;
 - (n) development of relevant financial ratios, changes in the Company’s ratings;
 - (o) reports of rating agencies;
 - (p) significant operational risks;
 - (q) the Company’s policy on tax planning;
 - (r) the applications of information and communication technology; and
 - (s) compliance with recommendations and observations of internal and external auditors.
- 1.4. The Audit Committee reviews and discusses non-financial information to be provided in the management commentary, including the Company’s disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, before release and considers the accuracy and completeness of the information.
- 1.5. The Audit Committee discusses, as appropriate, (i) analyses prepared by the Board of Management and the external auditor setting forth significant annual financial reporting issues and judgements made in connection with the preparation of the financial statements and (ii) financial information and earnings guidance provided to analysts and rating agencies.
- 1.6. The Audit Committee reviews all matters required to be communicated to the Supervisory Board and the Board of Management by the external auditor under generally accepted auditing standards.
- 1.7. With regard to the internal audit, the Audit Committee:
- (a) reviews at least annually the internal audit charter, audit plan, audit scope and its coverage in relation to the scope of the external audit, staffing, independence and organizational structure of the internal audit function. The Audit Committee also reviews and approves any significant subsequent changes in the audit plan;
 - (b) ensures there are no unjustified restrictions or limitations, and reviews and concurs in the appointment, replacement or dismissal of the internal auditor;
 - (c) reviews at least annually the effectiveness of the internal audit function; and
 - (d) discusses with the internal auditor his year-end report and report on internal control and advises the Supervisory Board thereon.
- 1.8. With regard to the external audit and in preparation of final resolutions to be adopted by the Supervisory Board, the Audit Committee:
- (a) reviews the external auditors’ proposed audit scope, approach and fees, including the coordination efforts with internal audit;
 - (b) formally evaluates at least annually the external auditor’s independence, documents its position on this matter and addresses any changes to the Company’s policy on auditor

- independence or situation as needed. The Audit Committee will annually obtain and review a report from the external auditor confirming its independence in writing. This confirmation should be duly substantiated and cover all aspects concerning independence, including a description of the firm's internal quality-control procedures, related review procedures/findings and conflicts with the Company's policy on auditor independence, if any;
- (c) assesses the performance of the external auditor against measurable criteria laid down in a formal service level agreement and advises every three years the Supervisory Board on:
 - (i) the appointment or reappointment of the external auditor; and
 - (ii) the rotation of the members of the audit engagement team, within the form of the external auditor;
 - (d) approves non audit services provided by the external auditor in conformity with the Company's policy on auditor independence;
 - (e) approves changes on the Company's policy on auditor independence;
 - (f) discusses with the external auditor his year-end report and report on internal control and advises the Supervisory Board based on this discussion;
 - (g) takes all other actions with respect to the Company's relationship with its external auditor that may be required by applicable law or listing rules; and
 - (h) acts as the primary point of contact for the external auditor, in the event the external auditor finds any irregularities in the financial reporting by the Company.
- 1.9. The Audit Committee periodically discusses the Company's policy on business control, the general business principles including their deployment, and the Company's major risk areas.
- 1.10. The Audit Committee will periodically review the effectiveness of the system for monitoring compliance with the general business principles and the results of the Board of Management's investigation and follow-up (including disciplinary action of any instances of noncompliance). The Audit Committee will obtain regular updates from the CEO and CFO of the Company, the chairman of the corporate review committee on general business principles, the external auditor and internal auditor and the chief legal officer regarding compliance matters and the effectiveness of the compliance programmes.
- 1.11. The Audit Committee is responsible for establishing procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of the Company's group of concerns regarding questionable accounting or auditing matters.
- 1.12. The Audit Committee, when preparing the decision making by the Supervisory Board, will provide all information and documents reasonably required by the Supervisory Board to fulfil its oversight responsibilities as referred to in article 1.2, or as otherwise requested by the Supervisory Board.
- 1.13. The Audit Committee shall prepare a report of its deliberations and findings and send this report to this Supervisory Board.

Composition of the Audit Committee

Article 2

- 2.1. The Audit Committee consists of members of the Supervisory Board with a minimum of three. The members of the Audit Committee, its chairman, vice-chairman and secretary shall be appointed by the Supervisory Board. The chairman of the Audit Committee must have accounting or related financial agreement expertise. The Audit Committee as a whole must have competence relevant to the sector in which the Company operates. The secretary does not need to be a member of the Supervisory Board.
- 2.2. The chairman is primarily responsible for the proper functioning of the Audit Committee. He/she shall act as the spokesperson of the Audit Committee and shall be the main contact for the Supervisory Board.
- 2.3. Rules regarding the independence of members of the Audit Committee must be complied with, unless they apply on a comply or explain basis and the non-compliance is explained.
- 2.4. Without prejudice to other relevant requirements, the following requirements must be observed in composing the Audit Committee:
 - (a) at least one of its members must have relevant expertise in financial administration and accounting for listed companies or other large companies;
 - (b) all of its members including the chairman of the Audit Committee must be independent within the meaning of article 8.4 of the Supervisory Board Rules, with the exception of no more than one member; not being the chairman of the Audit Committee; and
 - (c) the chairman of the Supervisory Board or any of the Company's (former) members of the Board of Management may not (simultaneously) be chairman of the Audit Committee.
- 2.5. If a member of the Audit Committee is or becomes aware of any circumstance which may reasonably impair or affect his or her independence or the perception of his or her independence, that member will inform the Audit Committee promptly. The Audit Committee will then consult with the Supervisory Board to determine whether there is sufficient cause for that member to resign from, or terminate his or her membership of the Audit Committee.
- 2.6. The vice-chairman deputises for the chairman when the occasion arises. The vice-chairman acts as contact of individual members of the Supervisory Board concerning the functioning of the chairman.

Meetings

Article 3

- 3.1. The Audit Committee must meet at least before the publication of the annual results. Other meetings may be called by the chairman of the Audit Committee or the members of the Board of Management of the Company if necessary. The external auditor may, under special circumstances, request holding a special meeting with the Audit Committee to be held.
- 3.2. The external auditor will, unless decided otherwise, attend the meetings of the Audit Committee. The Audit Committee and the chairman may request officers, external advisors of

the Company's group or other parties to be present at a meeting of the Audit Committee. The Company's CEO and the CFO will attend the meetings of the Audit Committee unless the Audit Committee on an ad hoc basis decides otherwise.

- 3.3. Meetings of the Audit Committee are chaired by the chairman and in his absence by the vice-chairman. If both the chairman and the vice-chairman are not present at a meeting, the most senior member present will act as chairman.
- 3.4. If a member of the Audit Committee is frequently absent during meetings of the Audit Committee, the chairman of the Audit Committee will discuss this with that member. If the chairman of the Audit Committee is frequently absent during meetings, the vice-chairman will discuss this with the chairman.
- 3.5. The minutes of the meeting are prepared by the secretary of the Audit Committee or any other person designated by the chairman or in his absence or inability by the vice-chairman of the Audit Committee. The minutes must be signed for adoption by the chairman and the secretary of the relevant meeting.
- 3.6. The Audit Committee shall provide the Supervisory Board with a report of its deliberations and findings.

Resolutions of the Audit Committee

Article 4

- 4.1. The provisions of the Supervisory Board Rules regarding the adoption of resolutions by the Supervisory Board apply mutatis mutandis to the adoption of resolutions by the Audit Committee.
- 4.2. In deviation of article 4.1, if no resolution can be adopted by the Audit Committee as a consequence of a Conflict of Interest (as defined in the Supervisory Board Rules) of all members of the Audit Committee, the relevant resolution will be referred to the Supervisory Board.

Status and contents of the Audit Committee Rules

Article 5

- 5.1. The Audit Committee Rules have been adopted by the Supervisory Board pursuant to article 3.3 of the Supervisory Board Rules.
- 5.2. The Audit Committee Rules are complementary to the rules and regulations (from time to time) applicable to the members of the Supervisory Board under Dutch law, the articles of association of the Company and the Supervisory Board Rules. If and to the extent the Audit Committee Rules are inconsistent with Dutch law, the articles of association or the Supervisory Board Rules, the Audit Committee Rules shall not apply.
- 5.3. The Audit Committee may in exceptional cases, as the circumstances may require, at its discretion decide to deviate from the Audit Committee Rules.

Governing law

Article 6

The Audit Committee Rules are governed by and to be construed in accordance with Dutch law.

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