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## Auditor Policy

### Philips Policy on Auditor Independence

Koninklijke Philips Electronics N.V. (Philips), including all its consolidated subsidiaries, will only use the appointed external auditor (“External Auditor”) to provide services in cases where these services do not conflict with the auditor’s independence.

In line with current rules and regulations in the Netherlands, The United States and the European Union, the External Auditor must be independent of the company both in fact and appearance to ensure that the External Auditor is capable of exercising objective and impartial judgement on all issues encompassed within his engagement. The External Auditor is not independent if he/she, directly or indirectly, maintains a financial, employment or businesses relationship with Philips or provides services which:

- create a mutuality of interest;
- place the auditor in a position to audit his/her own work;
- result in the auditor acting as a Philips manager or Philips employee; or
- put the auditor in the role of advocate for Philips.

### Services provided

Consistent with the abovementioned policy, the External Auditor is entitled to provide the services specified below as audit, audit related, tax and other services. The Audit Committee reviews this policy including the lists of audit related, tax and other services annually.

The External Auditor cannot provide the prohibited services.

### Audit services

Audit services are:

- a. issuing audit opinions on the Philips’ consolidated financial statements;
- b. issuing audit opinions on the statutory financial statements of the holding company and its subsidiaries;
- c. issuing audit opinions or consents in relation to the Form 20-F and other SEC filings;
- d. reviews of interim financial statements;
- e. attestation services pursuant to Section 404 of the Sarbanes-Oxley Act.



The External Auditor can be engaged to perform the above audit services without the requirement of a separate tender process. Such services will be pre-approved by the Audit Committee on the basis of the annual audit services engagement agreed with the External Auditor.

### **Audit related services**

Audit related services are assurance services or other work traditionally provided to Philips by the External Auditor in his role as external auditor. They usually result in a certification or specific opinion on an investigation. These audit related services include:

- a. audits of businesses acquired or to be sold & due diligence services;
- b. employee benefit plan audits;
- c. opinions/audit reports on information provided by the company upon request from a third party (prospectus, comfort letter, GSA audits);
- d. forensic audits;
- e. advice on accounting policies and financial reports;
- f. EDP audits;

The External Auditor can be engaged to perform these audit related services without the requirement of a separate tender process. Unless these services are pre-approved by the Audit Committee in its first meeting of each calendar year these services need specific pre-approval of the Audit Committee.

### **Tax services**

Tax services may include local tax compliance, advice on tax planning and advice on transfer pricing issues, including all services performed by the External Auditors professional staff in its tax department, except those rendered in connection with the audit. In addition tax services can encompass licensing or selling income tax preparation software to Philips.

For tax services a tender process is required for work anticipated to generate fees of above EUR 250,000. Unless these services are pre-approved by the Audit Committee in its first meeting of each calendar year these services need specific pre-approval of the Audit Committee.

### **Other services**

Other services are provided by the External Auditor but not directly related to the audit of the financial statements. These include sustainability audits/reviews and royalty audits.

Unless these services are pre-approved by the Audit Committee in its first meeting of each calendar year these services need specific pre-approval of the Audit Committee. For other services that are not pre-approved by the Audit Committee a tender process is required for work anticipated to generate fees of above EUR 250,000.

The total annual fee for tax and other services shall not exceed the sum of the annual fees for audit and audit-related services.

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## Pre-approval

Proposed services either may be pre-approved without consideration of specific case-by-case services by the Audit Committee (general pre-approval) or be specifically pre-approved by the Audit Committee (specific pre-approval). Unless general pre-approval has been given at the beginning of the year all proposed services require specific pre-approval. Any services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval. The general pre-approval will be based on an itemized overview of services to be provided. The term of any general pre-approval is 12 months from the date of the pre-approval unless the Audit Committee states otherwise.

The Audit Committee may delegate pre-approval authority to its Chairman or to individual members provided that decisions by the Chairman or the delegated member shall be presented to the full Audit Committee in its next meeting.

## Prohibited services

Under the Philips policy of auditor independence, the External Auditor may not provide the following categories of services:

- a. appraisal or valuation services, fairness opinions or contribution in kind reports;
- b. financial information systems design and implementation;
- c. bookkeeping;
- d. management functions;
- e. human resources;
- f. broker-dealer, investment advisor or investment banking;
- g. legal;
- h. internal audit outsourcing;
- i. actuarial.

For more details on the various services reference is made to the current SEC Rules 2-01. For further clarification on prohibited services the management of Corporate Control should be contacted.

## Rotation of key audit partners

Philips requires its External Auditor to adhere to a rotation policy that is widely accepted and provides an appropriate balance between going concern considerations (effectiveness and efficiency, e.g. audit costs), risk management, independence and credibility. This necessitates a rotation of the lead audit partner, concurring review partner and, if applicable, "relationship" partner after a maximum period of five (5) years. Other audit partners who are members of the audit engagement team will rotate after a maximum period of seven (7) years. The starting measurement date for this rotation policy is 1-1-2000.

## Appointment of auditor

The External Auditor will be appointed for a period of three years.

Every 3 years the Audit Committee of the Supervisory Board will assess the performance of the External Auditor against measurable criteria laid down in a formal service level agreement.

The Supervisory Board will inform the shareholders on the outcome of this review at the next annual meeting and submit a proposal to the general shareholder's meeting on the appointment of the External Auditor. In case the Supervisory Board proposes not to reappoint the existing External Auditor, a tender process will be applied to select a new external auditor. The first review will be reported in the annual shareholders meeting for the reporting year 2004.

## Responsibility of the external auditor

The External Auditor will maintain a quality control system that provides reasonable assurance that its independence will not be impaired. The External Auditor will report annually to the Audit Committee of the Supervisory Board on all aspects concerning independence, including possible conflicts with this policy, if any. The External Auditor will annually confirm its independence in writing.

## Responsibility of the Audit Committee

Each year the Audit Committee will formally evaluate the auditor independence issue, document its position on this matter, and address any changes to this Policy or situation as needed.

## Hiring arrangements

Philips and the External Auditor agree on a restricted hiring policy:

- a. Philips will not hire partners or professional employees of the External Auditor who have been involved in the Philips audit or in the audit of Philips' subsidiaries within the preceding two (2) years;
- b. the External Auditor will not hire any officer, director or employee of Philips for involvement in the Philips audit within two (2) years after termination of their employment agreement with Philips.

## Communication

Philips will communicate its policy on auditor independence to stakeholders and disclose the audit and non-audit fees incurred for professional services provided by its External Auditor during the reporting period. In this disclosure the total fee of the External Auditor will be broken down in fees for audit services, audit related services, tax services and other services.

This policy is effective from the date of its adoption by the Audit Committee.

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