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## Rules of Procedure Supervisory Board Koninklijke Philips Electronics N.V.

### Chapter 1 Responsibilities of the Supervisory Board

#### Article 1.1

1. The Supervisory Board supervises the policies and management and the general affairs of Koninklijke Philips Electronics N.V. (the “**Company**”) and the companies and enterprises that belong to its group (together with the Company: the “**Philips group**”) and (b) assists the Board of Management and Executive Committee with advice on general policies related to the activities of the Company and the Philips group.
2. In fulfilling its responsibilities the Supervisory Board and its members will act in the interest of the Philips group and give specific attention to the relevant interests of the Company’s shareholders and of the employees, customers, suppliers and other stakeholders of the Philips group. In carrying out the supervisory function, the basic principles of responsible and reasonable entrepreneurship aiming for a satisfactory return on investment will serve as guiding principles for the Supervisory Board. The Supervisory Board shall ensure that policies are at any rate in conformity with the provisions of applicable law, the Articles of Association of the Company (the “**Articles of Association**”), and that the proper continuity of the Company and the Philips group is ensured. Criteria for this shall include considerations such as whether the decisions made or to be made by the Board of Management and the Executive Committee are well founded, in the interest of the Philips group and whether they are arrived at with due care.
3. The Supervisory Board and its members shall act in a manner that is critical and constructive. Its supervisory function requires a certain restraint in respect of the actual policies and management and the general affairs of the Philips group, in order to facilitate an impartial supervision and, if necessary, intervention. In carrying out its supervisory function, the Supervisory Board shall, in principle, not get involved with the day-to-day implementation of the Company’s policies.
4. The responsibilities and tasks of the Supervisory Board shall in any case include:
  - (a) Supervising and advising the Board of Management and the Executive Committee with respect to:
    - the Philips group’s performance;
    - the Philips group’s general strategy and the risks connected to its business activities;

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- the operational and financial objectives;
  - the parameters to be approved in relation to the strategy;
  - corporate social responsibility issues;
  - the structure and management of the systems of internal business controls;
  - the financial reporting process;
  - the compliance with applicable laws and regulations; and
  - the company-shareholders relationship;
- (b) Supervising and advising the Board of Management and the Executive Committee with respect to the corporate governance structure of the Company;
- (c) Approving the annual accounts of the Company;
- (d) Approving the Philips group's annual budget and significant capital expenditures of the Philips group;
- (e) Reviewing and approving any resolutions of the Board of Management concerning the matters referred to in Article 15 of the Articles of Association;
- (f) Selecting and recommending the appointment of members of the Board of Management, proposing the remuneration policy for members of the Board of Management for adoption by the General Meeting of Shareholders of the Company and establishing the remuneration and the employment terms for the individual members of the Board of Management in conformity with such remuneration policy;
- (g) Reviewing and approving the appointment of members of the Executive Committee (other than members of the Board of Management);
- (h) Selecting and recommending the appointment of members of the Supervisory Board and proposing the remuneration policy for members of the Supervisory Board;
- (i) Reviewing the functioning of the Supervisory Board, its committees, and its individual members and the conclusions that must be drawn on the basis thereof at least on an annual basis;
- (j) Reviewing the functioning of the Board of Management and its individual members and the conclusions that must be drawn on the basis thereof at least on an annual basis;
- (k) Selecting and recommending the appointment of the Company's External Auditor;
- (l) Approving the appointment of a member of the Board of Management and the Executive Committee as member of the supervisory board or in a similar position at a company; and
- (m) Recommending and approving the appointment and dismissal by the Board of Management of the General Secretary of the Company.
5. The Supervisory Board shall prepare and publish a report that shall be included in the Company's annual report over such year. The report shall relate to the functioning and activities of the Supervisory Board during that financial year.
6. The Board of Management and the Executive Committee shall provide the Supervisory Board and its committees in due time with such information as the Supervisory Board and its committees need for the performance of their duties and shall regularly report to the Supervisory Board on the course of business of the Philips group. The Supervisory Board and its individual members each shall have an own responsibility for obtaining all (additional) information from the Board of Management and the Executive Committee and the External Auditor necessary for the due performance of its supervisory duties. If the Supervisory Board, or its committees after having informed the Chairman of the Supervisory Board and the President/CEO of the Company, determine it necessary or advisable, it may also
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obtain information from officers, employees and (external) advisors of the Philips group and can it engage its own internal and external experts and advisors (subject to appropriate confidentiality requirements imposed on such experts and advisors). The Company will make the necessary resources available to do so. The Supervisory Board may inspect all corporate records, interview all officers and employees of the Philips group as it deems necessary to fulfil its duties.

## **Responsibilities of the Chairman, Vice-Chairman and Secretary of the Supervisory Board and of the General Secretary of the Company**

### **Article 1.2**

1. The Chairman, Vice-Chairman and the Secretary of the Supervisory Board shall be appointed by the Supervisory Board from among its members. The Chairman shall be independent in the sense of the applicable US Securities Regulations and the Dutch Corporate Governance Code.
  2. Meetings of the Supervisory Board shall be chaired by its 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 will act as chairman.
  3. The Chairman ensures that the Supervisory Board and its committees function properly in all respects and comply with the rules as set forth herein. He shall in principle be available at all times for consultation by the other Supervisory Board members and the Board of Management. The Chairman shall remain in close and frequent contact with the President/ CEO and if and when required with the other members of the Board of Management and the Executive Committee and shall keep the Supervisory Board informed of these contacts regularly.
  4. The Chairman and the Secretary will monitor the information to be submitted by or on behalf of the Board of Management and the Executive Committee to the Supervisory Board and request such other information as they deem appropriate.
  5. The Vice-Chairman shall deputise for the Chairman when the occasion arises. With reference to article 1.5, paragraph 2, the Vice-Chairman shall act as contact of individual members of the Supervisory Board or the Board of Management concerning the functioning of the Chairman of the Supervisory Board.
  6. The Supervisory Board shall be supported by the General Secretary of the Company. The General Secretary sees to it that correct procedures are followed and that the Supervisory Board shall act in accordance with its obligations under applicable law, regulations and the Articles of Association. The General Secretary will assist the Chairman in the actual organization of the affairs of the Supervisory Board - such in respect of information, agenda, evaluation, training program - and is the contact person for interested parties who want to make concerns known to the Supervisory Board. The General Secretary shall, either on the recommendation of the Supervisory Board or otherwise, be appointed and dismissed by the Board of Management, after the approval of the Supervisory Board has been obtained.
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## Committees of the Supervisory Board

### Article 1.3

1. The Supervisory Board, though remaining responsible, may assign certain tasks to one or more permanent and/or ad hoc committees formed from among its members. The function of such committees is to prepare the decision-making of the Supervisory Board and such committees have no independent or assigned powers unless and to the extent explicitly assigned by these Rules of Procedure or by the Supervisory Board. The committees, on a regular basis, report on their actions, reviews, proposals, and findings to the Supervisory Board.
2. The members of such committees will be appointed by the Supervisory Board, which will also appoint the committee's chairman and secretary, who does not need to be a member of the Supervisory Board, and establish the form and frequency of reporting to the Supervisory Board.
3. Three permanent committees will assist the Supervisory Board: a Corporate Governance and Nomination & Selection Committee, an Audit Committee and a Remuneration Committee. The charters of these committees are set out below in Chapters 2, 3 and 4.

## Meetings of the Supervisory Board

### Article 1.4

1. The Supervisory Board shall meet at least 6 times per year. The schedule for its meetings in the next year will be adopted each year at the latest in the last meeting of the preceding year. One meeting will be scheduled to approve the annual accounts to be submitted to the General Meeting of Shareholders.
  2. Meetings of the Supervisory Board will be called in writing by or on behalf of the Chairman of the Supervisory Board or in his absence or inability by the Vice-Chairman. The invitation to meetings will contain the agenda. Every member can suggest items for the agenda. The agenda and accompanying materials for the meeting will be sent to the members in good time before any meeting.
  3. Meetings of the Supervisory Board and its committees may be held, and members of the Supervisory Board may participate in meetings, by telephone or videoconference.
  4. Unless the Supervisory Board decides otherwise, the meetings of the Supervisory Board shall be attended by the President/CEO and, if practically possible, by the other members of the Board of Management and the Executive Committee except for the (parts of the) meeting during which the issues referred to in article 1.5, paragraph 2 hereof are discussed. In case a conflict of interest concerning a member of the Supervisory Board or the Board of Management or the Executive Committee is discussed, the relevant member shall not be present during such discussions. The External Auditor of the Company shall attend the (part of the) meetings of the Supervisory Board in which the annual accounts of the Company are discussed and approved.
  5. The Supervisory Board and/or its Chairman may request officers or external advisors of the Philips group to be present at a meeting of the Supervisory Board.
  6. If a member of the Supervisory Board is frequently absent during meetings of the Supervisory Board, the Chairman will discuss this with such member.
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7. The minutes of the meetings of the Supervisory Board shall be prepared under the responsibility of the General Secretary or any other person designated by the Chairman. The minutes shall be signed for adoption by the Chairman and the Secretary of the Supervisory Board.

## Items to be discussed in the Supervisory Board (mandatory)

### Article 1.5

1. At least once a year the Supervisory Board - on the basis of a written report of the Board of Management and the Executive Committee - will discuss the general strategy of the Company and the Philips group, as well as the main risks associated with their business activities, and the results of the assessment by the Board of Management and the Executive Committee of the structure and operation of the systems of internal business controls and any significant changes therein. The Audit Committee of the Supervisory Board will advise the Supervisory Board on these issues.
2. At least once a year the Supervisory Board shall discuss - without the Board of Management and the Executive Committee being present - (a) its own (and its individual members') functioning, (b) the profile and composition of the Supervisory Board, (c) its relationship with the Board of Management and the Executive Committee, (d) the composition and the functioning of the Board of Management and the Executive Committee and their individual members, (e) the succession of members of the Board of Management and the Executive Committee and (f) the remuneration of members of the Board of Management and the Executive Committee.
3. The Supervisory Board in consultation with the Board of Management and the Executive Committee will resolve to put on the agenda of the General Meeting of Shareholders any proposal from shareholder(s), made in accordance with article 25, paragraph 3 of the Articles of Association, unless substantive Company concerns prevail.

## Resolutions of the Supervisory Board

### Article 1.6

1. Resolutions of the Supervisory Board are taken by majority vote. Resolutions can only be taken if at least one third of the members is present, with the proviso that members who have a conflict of interests as referred to in article 1.10 shall not be taken into account when calculating this quorum, and the item has been put on the agenda previously circulated. If all members are present and agree hereto the Supervisory Board may resolve on issues not on the agenda.
  2. Upon a proposal by or on behalf of the Chairman, resolutions of the Supervisory Board can also be taken in writing if (a) a proposal for such resolution has been sent to all members prior to the meeting, (b) no one member has objected to taking such resolution in writing and (c) more than half of the members have voted in favour of the proposed resolution. In such case the resolution of the Supervisory Board will be recorded in writing and signed by the Chairman and the Secretary.
  3. A declaration signed by two members of the Supervisory Board that a resolution has been adopted serves as evidence to third parties of that resolution.
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## Period of appointment and re-election

### Article 1.7

1. Members of the Supervisory Board shall be appointed for a period of four years and resign at the first General Meeting of Shareholders after such period has elapsed. Thereafter members may be re-elected twice for a period of four years, unless the Supervisory Board resolves to deviate from this provision in specific cases.
2. The members of the Supervisory Board shall resign in accordance with a rotation plan established by the Supervisory Board.
3. Resolutions to nominate a member for re-election to the Supervisory Board will be dealt with in the same manner and with the same degree of diligence as resolutions to nominate a person for election to the Supervisory Board for the first time.
4. A member of the Supervisory Board will step down in the event of inadequate functioning, structural conflicts, structural conflicts of interest, any other compelling reason or when this is otherwise deemed necessary at the discretion of the Supervisory Board.
5. Members of the Supervisory Board who temporarily take on the management of the Company in the event (a) member(s) of the Board of Management is (are) absent or unable to perform its (their) duties shall resign as a member of the Supervisory Board or temporarily suspend their activities as member of the Supervisory Board for the period that they are performing such management duties.
6. Each member of the Supervisory Board shall follow after his appointment an introduction programme, in which attention shall be paid to: (a) the general financial and legal affairs of the Philips group, (b) the financial reporting by the Philips group, (c) specific aspects unique to the Philips group and its business activities and (d) the responsibilities of members of the Supervisory Board. The Supervisory Board will review each year on which aspects further training and education of the Supervisory Board is required on the basis of an annual evaluation.

## Composition and “Profile” of the Supervisory Board

### Article 1.8

1. The Supervisory Board will exercise its powers to recommend persons for election to the Supervisory Board in such a way that the Supervisory Board and its members can fulfil their supervisory and advisory tasks in an independent and critical way.
2. The Supervisory Board's composition follows the profile, which aims for an appropriate combination of knowledge and experience among its members encompassing marketing, manufacturing, technology, financial, economic, social and legal aspects of international business and government and public administration in relation to the global and multiproduct character of Philips' businesses. The Supervisory Board pays great value to diversity in its composition. More particular it aims for having members with a European and a non-European background (nationality, working experience or otherwise), one or more female members and one or more members with an executive or similar position in business or society no longer than 5 years ago.

All members of the Supervisory Board, with the exception of not more than one person, shall be independent within the meaning of the Dutch Corporate Governance Code. Each member of the Supervisory Board shall be capable of assessing the broad outline of the

overall policy of the Company.

The profile of the Supervisory Board will be made public through publication in the Company's annual reports or on the Company's website.

3. The Supervisory Board will recommend such persons for election to the Supervisory Board as necessary to ensure that the combined composition of the Supervisory Board will match the profile for the Supervisory Board and that the Supervisory Board and its members will be able to fulfil their supervisory and advisory tasks in an independent and critical way from one another, the Board of Management and the Executive Committee and any particular interest and carry out their responsibilities in a proper manner.
4. The Supervisory Board, in exercising its powers to nominate persons for appointment to the Supervisory Board or the Board of Management, will take care, having due regard to article 1.1, paragraph 2, that nominees will have the confidence of the General Meeting of Shareholders.
5. Members of the Supervisory Board shall not hold in total more than five supervisory board memberships (including non-executive board memberships) of Dutch listed companies, the chairmanship of a supervisory board counting double. In taking up other positions or interests other than those disclosed at the time of election, members inform the Chairman and ensure that they will remain able to fulfil their tasks as a member of the Supervisory Board or its committees.
6. The Supervisory Board may appoint one of its members as Delegate Member in accordance with Article 20 of the Articles of Association. A Delegated Member shall be assigned with a special task. Its delegated authority may not exceed the authority or tasks of the Supervisory Board itself and does not include the task of managing the Company. The delegation relates to a more intensive supervising and advising role of and more frequent consultation with the Board of Management and the Executive Committee with regard to the general affairs of the Company by the delegated Supervisory Board member. The delegation shall be for a temporary period only and the term of the delegation shall be stated in a resolution of the Supervisory Board. The delegated Supervisory Board member shall remain a member of the Supervisory Board.

### Article 1.9

1. Should any Supervisory Board member hold shares in the share capital of the Company, this will be for the purpose of long-term investment; members of the Supervisory Board will refrain from short-term transactions in Philips securities<sup>1</sup>.
2. With respect to Philips securities, members of the Supervisory Board are bound to the Philips' Rules of Conduct with respect to Inside Information and must at all times comply with all applicable laws and regulations, including applicable notification requirements, applicable to the ownership of and transactions related to Philips securities.
3. With respect to the ownership of and transactions with securities other than regulated by the Philips' Rules of Conduct with respect to Inside Information, members of the Supervisory Board must at all times comply with all applicable laws and regulations, including applicable notification requirements.

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<sup>1</sup> For the purpose of article 1.9 securities are amongst others shares, bonds, convertible bonds, options, warrants and other derivative securities, share swaps and similar agreements, securities whose value is determined in whole or in part (e.g. more than 10%) by the value of securities before mentioned, and with regard to Philips securities also convertible personnel debentures, employee stock options and restricted share rights.

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4. With respect to transactions (with the exception of any acquisition of securities issued by way of a stock dividend) related to securities in any of the companies belonging to the peer group of leading multinational electronics/electrical equipment companies as determined by the Supervisory Board and published in the Company's annual report, members of the Supervisory Board are prohibited from trading, directly or indirectly, during Blocked Periods - according to and as defined in the Philips' Rules of Conduct with respect to Inside Information - preceding the disclosure of Philips' annual or quarterly figures. However the prohibition referred to in the previous sentence does not apply if the relevant member of the Supervisory Board has transferred the discretionary management of his securities portfolio to an independent third party by means of a written mandate agreement.
5. Members of the Supervisory Board, as well as of its committees, will receive a remuneration to be determined by the General Meeting of Shareholders in accordance with the Articles of Association. Travel and other expenses will be reimbursed separately.
6. Each member of the Supervisory Board shall provide such information to the Company as is necessary to enable the Company to comply with applicable laws and regulations (including the rules of any stock exchanges on which the Company may be listed).

## Conflicts of interests

### Article 1.10

1. In the event of a legal act or a lawsuit between the Company and:
    - (a) a member of the Supervisory Board him/herself; or
    - (b) the spouse, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree of the member of a Supervisory Board; or
    - (c) another legal entity, though not a company belonging to the Philips group or participating interest of the Company, in which a member of the Supervisory Board is an executive or non-executive board member; or
    - (d) another legal entity, though not a company belonging to the Philips group or participating interest of the Company, of which an executive board member has a relationship under family law, as referred to above, with a member of the Supervisory Board; or
    - (e) another company with share capital in which a member of the Supervisory Board has an interest that is greater than 5% of the issued capital; or
    - (f) a partnership in which a member of the Supervisory Board is a partner, and insofar as the legal act is of material significance to the Company and/or to the respective member of the Supervisory Board,the respective member of the Supervisory Board shall not take part in the decision-making in respect of the legal act or the lawsuit. Resolutions in respect of such legal act or lawsuit must be approved by the Supervisory Board.
  2. Unless the rules of article 1.10, paragraph 1 are complied with, each member of the Supervisory Board (other than the Chairman of the Supervisory Board) shall immediately report in respect of a decision any conflict or potential conflict that is of a material significance to the Company and/or to such member of the Supervisory Board to the Chairman of the Supervisory Board. The member of the Supervisory Board with such conflict of interests must provide the Chairman with all information relevant to the conflict of interests, including information concerning the spouse, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree of the
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member of the Supervisory Board.

The Chairman will determine whether a reported conflict of interests qualifies as a conflict of interests to which article 1.10, paragraph 1 applies or to which article 1.10, paragraph 1 should be applied in a similar way in respect of the decisionmaking.

Unless the rules of article 1.10, paragraph 1 are complied with, the Chairman shall immediately report in respect of a decision any conflict or potential conflict that is of a material significance to the Company and/or to him, to the Vice-Chairman of the Supervisory Board. The Chairman must provide the Vice-Chairman of the Supervisory Board with all information relevant to the conflict of interests, including information concerning the spouse, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree of the Chairman.

The Supervisory Board will determine whether a reported conflict of interests qualifies as a conflict of interests to which article 1.10, paragraph 1 applies.

3. Legal acts to which article 1.10, paragraph 1 applies shall be mentioned in the Company's annual report for the financial year in question.
4. All legal acts in respect of which a member of the Supervisory Board has a conflict of interests shall be agreed on terms that are customary in the sector concerned.

## Status and contents of the Rules of Procedure

### Article 1.11

These Rules of Procedure are complementary to the rules and regulations (from time to time) applicable to the Supervisory Board under Dutch law or the Articles of Association. Where these Rules of Procedure are inconsistent with Dutch law or the Articles of Association, the law or, as the case may be, the Articles of Association shall prevail.

## Governing law

### Article 1.12

These Rules of Procedure shall be governed by and construed in accordance with the laws of the Netherlands.

## Chapter 2

### Charter of the Corporate Governance and Nomination & Selection Committee

1. The Corporate Governance and Nomination & Selection Committee (the “**CGNS Committee**”) shall consist of at least two members, including the Chairman and the Vice-Chairman of the Supervisory Board.
  2. The CGNS Committee shall meet at least twice a year. Other meetings may be called by the chairman of the CGNS Committee if deemed necessary or desirable by the CGNS Committee or its chairman. The agendas and accompanying materials of the CGNS Committee will be circulated to the members of the Committee, and the minutes of such meetings will be prepared, under the responsibility of the secretary of the CGNS Committee or any other person designated by the chairman of the CGNS Committee.
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3. The specific responsibilities of the CGNS Committee shall include:
  - (a) preparing the selection criteria and appointment procedures for members of the Supervisory Board, the Board of Management and (other members of) the Executive Committee;
  - (b) periodically assessing the size and composition of the Supervisory Board and reviewing and making recommendations relating to the profile for the Supervisory Board;
  - (c) periodically assessing the functioning of individual members of the Supervisory Board and the Board of Management and the Executive Committee and reporting the results thereof to the Supervisory Board;
  - (d) periodically assessing the size and composition of the Board of Management and the Executive Committee;
  - (e) making proposals to the Supervisory Board for the (re)appointment of members of the Supervisory Board and the Board of Management;
  - (f) supervising the policy on the selection and appointment of senior executives within the Philips group; and
  - (g) reviewing, at least once a year, and making recommendations to the Supervisory Board relating to the corporate governance of the Company.
4. The CGNS Committee will consult with the President/CEO and, if it so desires, other members of the Board of Management and the Executive Committee from time to time on the matters referred to in paragraph 3 above. The CGNS Committee will interview or have interviewed on its behalf possible candidates. The CGNS Committee will present its proposal to the Supervisory Board. In proposing a candidate for nomination to the Supervisory Board, the CGNS Committee shall take into consideration article 1.8.
5. The CGNS Committee will review and minute its charter formally on an annual basis

### **Chapter 3**

#### **Charter of the Remuneration Committee**

1. The Remuneration Committee of the Supervisory Board shall consist of at least three members. Not more than one member of the Remuneration Committee shall be an executive board member of a Dutch listed company. The Head of Corporate HRM/Global Reward or any other person as may be designated by the chairman of the Remuneration Committee will act as secretary to the Committee, will circulate the agendas and accompanying materials for meetings of the Remuneration Committee and will prepare the minutes of such meetings.
2. The Remuneration Committee shall meet at least twice a year. Other meetings may be called by the chairman of the Remuneration Committee if deemed necessary or desirable by the Remuneration Committee or its chairman. The agendas and papers to be discussed in the meeting of the Remuneration Committee will be sent to the members of the Remuneration Committee in good time before the meeting.
3. The specific responsibilities of the Remuneration Committee shall include:
  - (a) reviewing and preparing - after consultation with the President/CEO and the Head of Corporate HRM/Global Reward - proposals for the Supervisory Board concerning the remuneration policies for the Board of Management and the Executive Committee;

- (b) reviewing and preparing proposals for the Supervisory Board concerning the individual remuneration of members of the Board of Management;
  - (c) reviewing and preparing proposals for the Supervisory Board concerning the corporate goals and objectives relevant to the annual incentive of members of the Board of Management;
  - (d) reviewing the performance of members of the Board of Management and the Executive Committee in light of those corporate goals and objectives and preparing proposals for the Supervisory Board on the compensation levels of the members of the Board of Management based on such review;
  - (e) preparing the Supervisory Board's report on the remuneration policies for the Board of Management;
  - (f) exercising oversight over the development, implementation and administration of the Company's compensation programs for members of the Board of Management and the Executive Committee; and
  - (g) reviewing and preparing proposals for the remuneration of the members of the Supervisory Board.
4. In making any proposals relating to the long-term incentive component of the compensation of the members of the Board of Management and the Executive Committee, the Remuneration Committee shall consider, among other factors, the Company's performance, the enhancement of the value of the Philips group and the remuneration package for board-level executives of other multinational companies operating in global markets.
  5. The President/CEO or the Head of Corporate HRM/Global Reward will provide the Remuneration Committee with all the information necessary to make a well-considered judgement on the remuneration of members of the Board of Management and the Executive Committee.
  6. If the Remuneration Committee makes use of the services of an external remuneration consultant in carrying out its duties, it shall verify that the consultant concerned does not provide advice to the Board of Management.
  7. The Remuneration Committee has – at any time – the right to seek advice from internal and external experts and advisors on all kind of remuneration matters.
  8. The Remuneration Committee will review and minute its charter formally on an annual basis.

## **Chapter 4**

### **Charter of the Audit Committee**

#### **Composition, meetings and working procedures of the Audit Committee**

##### **Article 4.1.**

1. The Audit Committee of the Supervisory Board shall consist of at least three members.
  2. The agendas and accompanying materials for meetings of the Audit Committee will be circulated to the members of the Audit Committee, and the minutes of such meetings will be prepared, under the responsibility of the General Secretary of the Company. The minutes will be submitted promptly to the Supervisory Board for information.
  3. Each member of the Audit Committee shall not have any material relationship with the Company and must be independent at the time of appointment, reappointment and at
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any time while serving as a member of the Audit Committee. In order to be considered independent, members cannot:

- (a) accept any consulting, advisory or other compensatory fee, other than the fees referred to in article 23 of the Articles of Association, from the Company or any subsidiary of the Company either directly or indirectly, such as through a spouse or an entity in which the member is a partner, member or principal; and
- (b) be “affiliated persons” of the Company, i.e. a person that directly or indirectly controls, or is controlled by, or is under common control with, the Company or any subsidiary of the Company.

In addition, each member shall comply at the time of his appointment or reappointment to the Audit Committee and at any time while serving as a member of the Audit Committee with the requirements regarding independence set forth in applicable law or in the applicable rules of any stock exchange on which securities issued by the Company have been listed and/or traded with the permission of the Company or in a code of conduct applied by the Company.

4. In the event that a member of the Audit Committee is or becomes aware of any circumstance which may reasonably impair or affect his independence or the perception of his independence, he will inform the Audit Committee thereof promptly. The Audit Committee shall consult with the Supervisory Board in order to determine whether there is sufficient cause for resignation from, or termination of, the membership of the Audit Committee.
  5. The Supervisory Board may grant to one or more members of the Audit Committee specific exemptions from the independence requirements of paragraph 3 to the extent that such exemption is compatible with the applicable laws or listing requirements referred to in paragraph 3 and would not otherwise result in a breach of such requirements.
  6. At least one Audit Committee member will be a financial expert in the sense of the applicable Dutch Corporate Governance Code and each member of the Audit Committee is financially literate (or will become so within a reasonable time after the appointment as member of the Audit Committee). The chairman of the Audit Committee shall have accounting or related financial management expertise. No members of the Audit Committee may serve on the audit committees of more than two other public companies, unless the Supervisory Board determines that such simultaneous service would not impair the ability of such member to effectively serve on the Audit Committee and discloses such determination in its annual report. Neither the Chairman of the Supervisory Board nor any of the Company’s (former) members of the Board of Management, may be the chairman of the Audit Committee.
  7. The Audit Committee will meet according to an annual schedule and shall at least meet before the publication of the annual and the quarterly results. Other meetings may be called by the chairman of the Audit Committee or the Board of Management if necessary. The External Auditor may, under special circumstances, request a special meeting with the Audit Committee to be held.
  8. The External Auditor will, unless decided otherwise, attend the meetings of the Audit Committee. The Audit Committee may invite the Internal Auditor and/or Group Controller to attend its meeting(s). The Company’s President/CEO and the Chief Financial Officer will attend the meetings of the Audit Committee unless the Audit Committee on an ad hoc basis decides otherwise. If the External or Internal Auditor believes an issue should be raised he will be heard by the Audit Committee.
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9. The Audit Committee will meet separately at least quarterly with each of the President/ CEO, the Chief Financial Officer, the Internal Auditor and the External Auditor.
10. The Audit Committee is authorised by the Supervisory Board to exercise all powers of the Supervisory Board needed to discharge itself of its assignment and may consequently inspect all relevant corporate records, interview all officers and employees of the Philips group in so far as necessary to fulfil its assignment.
11. No later than on the fifth day before the meeting the agenda and accompanying materials for the meeting will be sent by the secretary of the Audit Committee in consultation with the chairman of the Committee. If circumstances dictate, the chairman may determine that an extra-ordinary meeting shall be convened.
12. The Audit Committee will review and minute its charter formally on an annual basis.

## Tasks and powers of the Audit Committee

### Article 4.2.

1. The Audit Committee shall assist 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. The Audit Committee shall report its findings to the Supervisory Board.
  2. The Audit Committee shall review and discuss the Company's annual and interim financial statements to be disclosed, including related press releases and the statement of the Supervisory Board to shareholders as 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;
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- (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;
  - (s) compliance with recommendations and observations of internal and external auditors.
3. The Audit Committee shall review and discuss non-financial information to be provided in the annual and quarterly reports, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations", before release and consider the accuracy and completeness of the information.
  4. The Audit Committee shall discuss, as appropriate, (i) analyses prepared by the Executive Committee and or the External Auditor setting forth significant (annual and quarterly) financial reporting issues and judgments made in connection with the preparation of the financial statements and (ii) financial information and earnings guidance provided to analysts and rating agencies.
  5. The Audit Committee reviews all matters required to be communicated to the Supervisory Board and the Board of Management and the Executive Committee by the External Auditor under generally accepted auditing standards.
  6. With regard to 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 shall review and approve 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;
    - (d) discusses with the Internal Auditor his year-end report and report on internal control and advises the Supervisory Board thereon.
  7. With regard to the external audit and in preparation of final resolutions to be taken 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 Philips 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 thereof and conflicts with the Philips 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
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- (i) the (re-)appointment of the External Auditor, and
  - (ii) the rotation of the members of the audit engagement team, within the firm of the External Auditor;
- (d) approves non audit services provided by the External Auditor in conformity with the Philips Policy on Auditor Independence;
  - (e) approves changes on the Philips Policy on Auditor Independence;
  - (f) discusses with the External Auditor his year-end report and report on internal control and advises the Supervisory Board thereon;
  - (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;
  - (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.
8. The Audit Committee periodically discusses the Company's policy on business control, the General Business Principles including the deployment thereof, and the Company's major risk areas.
  9. 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 and the Executive Committee's investigation and follow-up (including disciplinary action of any instances of non compliance). The Audit Committee will obtain regular updates from the President/CEO and Chief Financial Officer, 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 programs.
  10. The Audit Committee is responsible for the establishment of 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 Philips group of concerns regarding questionable accounting or auditing matters.
  11. The Audit Committee, in preparation of the resolutions to be taken by the Supervisory Board, shall provide all information and documents reasonably required by the Supervisory Board to fulfil its oversight responsibilities as referred to in Article 4.2, paragraph 1, or as otherwise requested by the Supervisory Board.

*July 2011*

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