

## **Audit Guidelines (Annex B2)**

These audit guidelines lay down basic elements for the audits to be performed by Licensee's auditors.

### **1. Auditor's qualifications**

Licensee's auditor who issues the auditor's opinion on the Royalty Reporting Form shall be the same as the auditor who issues an auditors' opinion on the financial statements of Licensee. The auditor shall be a certified public auditor, chartered accountant or registeraccountant (as these terms are generally known in the U.S.A., the United Kingdom and The Netherlands respectively) or equivalent professional qualification, in the country concerned, and a member of a well-respected firm, preferably one of the big 4 internationally operating auditing firms and/or the auditor shall be a member of the ICA, NIVRA or CPA association in the country concerned, or a member of a professional body of similar standing where this is not practicable.

### **2. Opinion**

The auditor's opinion on the Royalty Reporting Form, as described below, shall read as per the attached format of the Independent Auditors' Report (Annex A).

### **3. Work paper review**

Licensee shall procure that Licensee's auditor who issues the opinion on the Royalty Reporting Form shall allow the auditor appointed by Philips to conduct a work paper review in order to verify the correctness of the opinion.

Annex A: Format Independent Auditors' Report

Annex A

## **Independent Auditors' Report to the <directors/management> of <XYZ Corporation>**

We have audited the accompanying Royalty Reporting Forms (the "Schedules"), duly initialed by us for identification purposes, of <XYZ Corporation> for the period starting <ddmmyy> and ending <ddmmyy> as submitted under the terms of a license agreement dated <ddmmyy>, between <Philips Company> and <XYZ Corporation> (the "Agreement").

### **Respective responsibilities of <directors/management> and auditors**

The <directors/management> are responsible for preparing the Schedules in accordance with the terms of the Agreement, so as to present fairly the information required to be reported under the Agreement > for the <xx> month period ending <ddmmyy> and the amount of royalties applicable thereto under the Agreement.

Our responsibility is to express an opinion on the Schedules based on our audit.

This report is intended solely for use by the board of directors and management of <XYZ Corporation> for the purpose of your reporting requirements under the terms of the Agreement and therefore may be made available by you to < Philips Company >. We will consent to such distribution on the understanding that under no circumstances will we accept any liability or responsibility to < Philips Company > or any other party to whom our report is given or into whose hands it may come. Our report may not be made available to any other party without our prior written consent.

### **Basis of audit opinion**

We have conducted our audit in accordance with those elements of generally accepted international standards on auditing relevant for the purposes of forming an opinion on the Schedules. These standards require that we plan and perform the audit in order to obtain reasonable assurance as to whether the Schedules are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedules. An audit also includes assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall Schedules' presentation. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion, the Schedules referred to above present fairly, in all material respects, the information required to be reported under the Agreement by <XYZ Corporation> for the <xx> month period ending <ddmmyy> and the amount of royalties applicable thereto, under the Agreement referred to above.

(signed) audit firm

city, Month xx, 20xx

Enclosures: Royalty Reporting Forms (“Schedules”) (xx pages)