

Audit Guidelines (Annex B2)

These guidelines lay down basic elements for the assurance to be performed by an independent accountant appointed by Licensee and preferably combined with the year-end closing audit of Licensee's financial statements.

1 Independent accountant's qualifications

Licensee's independent accountant who issues the assurance opinion on the Royalty Reporting Form shall normally be the same firm as the auditor who issues an auditor's opinion on the financial statements of Licensee. The independent accountant shall be a chartered accountant or equivalent professional qualification, in the country concerned. In case the opinion on the Royalty Reporting Forms will not be given by the financial statement auditor, the independent accountant should be a member of a well-respected firm, preferably one of the big 4 internationally operating auditing firms.

2 Opinion

The independent accountant's opinion on the Royalties reported on the Royalty Reporting Form, as described below, shall be in the form of the Independent Assurance Report set out in Annex A.

3 Work paper review

Licensee shall procure that Licensee's independent accountant who issues the opinion on the Royalty Reporting Form shall allow, subject to the provisions of appropriate release and hold harmless letters, an independent accountant appointed by Philips to conduct a work paper review as part of (i) Philips' audit statement verification procedure under Clause 4.5 or (ii) Philips' royalty inspection procedures under Clause 4.10.

4 Costs

Except as provided for in the Agreement, the cost of such work paper review by Philips' independent accountant will be incurred by Philips.

Annex A: Format of the Independent Assurance Report

Annex A

Independent Assurance Report to the directors of [XYZ Corporation]

We have been engaged to express an independent opinion on the accompanying Royalty Reporting Forms (the “Schedules”) for the period from [ddmmyyyy] to [ddmmyyyy], prepared in accordance with the terms of a license agreement dated [ddmmyyyy] between [Philips Company] and [XYZ Corporation] (the “Agreement”).

The preparation of the Schedules is the sole responsibility of the management of [XYZ Corporation] (the “Company” or the “Group”).

Scope and approach

Our engagement was designed to provide reasonable assurance on whether, in our opinion, the Schedules present fairly the information required to be reported under the Agreement and the amount of royalties due under the Agreement. In this regard, we planned and performed our procedures to provide us with reasonable assurance that the Schedules present fairly all the information required under the Agreement. We completed tests of the completeness, accuracy and validity of data presented in the Schedules as we considered necessary, including tests over data generation within the underlying management information systems of [Company/Group], data consolidation and reporting and tests over the mathematical accuracy of the Schedules.

We performed our engagement in accordance with the International Standard on Assurance Engagements 3000 (Revised) – “Assurance Engagements other than Audits or Reviews of Historical Information”. We have not performed an audit, and therefore do not express an audit opinion, in accordance with International Standards on Auditing.

We believe that our work provides a reasonable basis for our conclusion.

Considerations and limitations

This report, including the conclusion, has been prepared for and only for the directors of [XYZ Corporation] for the purpose of allowing [XYZ Corporation] to meet its obligations under the Agreement and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including [Philips Company], save where expressly agreed by our prior consent in writing.

Conclusion

In our opinion, the Schedules for the period from [ddmmyyyy] to [ddmmyyyy] present fairly the information required under the Agreement, including the amount of royalties due under the Agreement.

(signed)

[Name of Independent Accountant]

City, Month xx, 20xx

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