

# **AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

## **CHARTER**

### **I. AUDIT COMMITTEE PURPOSE**

The Audit Committee (the “Committee”) is appointed by and reports to the Board of Directors (the “Board”) of REGAL-BELOIT CORPORATION (the “Company”) to provide assistance to the Board in fulfilling its oversight responsibilities relating to:

- (a) the assessment of the overall quality of the financial statements and the financial reporting based on the input from the Company’s financial management, external and internal auditors and other communications;
- (b) the systems of internal accounting and financial controls;
- (c) the Company’s internal audit function (“Internal Audit”);
- (d) the qualifications, independence, performance, retention and termination of a qualified public accounting firm (the “Independent Auditors”);
- (e) the annual independent audits of the Company’s financial statements and internal controls over financial reporting; and
- (f) the Company’s compliance with legal and regulatory requirements.

It is the responsibility of the Committee to maintain free and open communication among the Committee, the Independent Auditors, Internal Audit, and Company management (“Management”).

In discharging its oversight role the Committee has the authority to investigate any matter appropriate to fulfilling its responsibilities, with full access to all books, records, facilities and personnel of the Company. The Committee is empowered to obtain advice and assistance from outside legal, accounting or other advisors as it deems appropriate to perform its duties and responsibilities. The Company shall provide appropriate funding, as determined by the Committee, for compensation to the Independent Auditors and to any advisers that the Committee chooses to engage.

The Committee shall make regular reports to the Board regarding the execution of its duties and responsibilities.

### **II. COMMITTEE COMPOSITION AND MEETINGS**

To serve on the Committee, individual members shall meet the independence and other applicable requirements of regulations and governing organizations, including the New York Stock Exchange, the Sarbanes-Oxley Act of 2002 (the “Act”) and the Securities and Exchange Commission (the “SEC”). The Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent directors. All members of the Committee shall have sufficient financial experience and ability to enable them to satisfactorily discharge their responsibilities. At least one member shall qualify as a “financial expert”, as defined by the aforementioned rules and regulations. The Chairperson shall be appointed by the Board, upon the recommendation of the Corporate Governance and Director Affairs Committee.

The Committee shall meet as often as it determines, but at least quarterly. The Committee shall meet privately in executive session periodically with the Independent Auditors, with Management and with Internal Audit to discuss any matters that the Committee or the other parties believe should be discussed.

### **III. LIMITATION OF ROLE OF COMMITTEE**

The Committee members are not employees of the Company and they do not represent themselves to be accountants or auditors of the Company. It is not the Committee’s duty to plan or conduct audits or to determine if the Company’s financial statements are prepared accurately and in accordance with accounting principles generally accepted in the United States (“GAAP”). These duties are the responsibility of Management and the Independent Auditors. The statements of responsibilities contained in this Charter are in all respects qualified by this limitation.

## **IV. COMMITTEE RESPONSIBILITIES AND DUTIES**

The following functions are commonly recurring activities of the Committee in carrying out its oversight responsibilities.

### **Financial Statement and Disclosure Matters**

1. Review the Company's annual audited financial statements and results of the audit, and quarterly, interim financial statements and results of the quarterly review, prior to filing or distribution. Review should include discussion with Management and the Independent Auditors of significant issues, and changes regarding accounting principles, practices, and judgments. Review material written communications between the Independent Auditors and Management including but not limited to annual or other Management letters, audit adjustments and schedules of unadjusted differences. Also review and consider with the Independent Auditors matters required to be discussed by Statement of Auditing Standards No. 61.
2. Review with Management and the Independent Auditors the Company's annual audited and quarterly interim financial results, its earnings press release and financial information and earnings guidance provided to analysts and ratings agencies, prior to the public release of earnings. The Chair of the Committee or his/her designee may represent the entire Committee for purposes of the earnings press release approval.
3. Review, comment on and approve the filing of the Company's periodic 10-Q and 10-K reports to the SEC.
4. Review the effects of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements.
5. Review and discuss Management's report on internal control and the Independent Auditors' attestation on Management's required assertion.
6. In consultation with Management, the Independent Auditors, and Internal Audit, review:
  - (a) as required, but not less than annually, the adequacy and integrity of the Company's disclosure controls and procedures and system of internal controls;
  - (b) quarterly, any Management disclosed significant deficiencies or material weaknesses in internal controls or any fraud by employees with a significant role in internal control; and
  - (c) annually, the internal audit function and internal audit plan.
7. Discuss the Company's policies with respect to risk assessment and risk management, and significant financial risk exposures and the steps Management has taken to monitor, control and report exposures. Review significant findings prepared by the Independent Auditors and Internal Audit on these matters together with Management's responses.

### **Oversight of Company's Relationship with Independent Auditors**

8. The Independent Auditors are accountable to the Audit Committee of the Board of Directors. Review the independence and performance of the Independent Auditors and annually appoint the Independent Auditors and report such appointment to the Board. Obtain a report from the Independent Auditors describing the firm's internal quality control procedures and any material issues raised by the peer or PCAOB reviews, or by any inquiry or investigation by governmental or professional authorities during the preceding five years with respect to the firm's independent audits, including steps taken to address any such issues.

On an annual basis, obtain from the Independent Auditors, a written statement disclosing any and all relationships between the Independent Auditors and the Company consistent with Independence Standards Board Standard No. 1. Review and discuss with the Independent Auditors all significant relationships they have with the Company that could impair the Auditors' independence.

9. Review annually, with Management, Internal Audit, and the Independent Auditors, the audit plan – discussing scope, staffing, locations, internal audit functions, reliance upon Management, audit assistance from the Company and general audit approach, among other items.
10. Review with the Independent Auditors any audit problems or difficulties and Management's response. Review any unresolved disagreement or disputes between Management and the Independent Auditors.
11. Review and approve the fees and other significant compensation to be paid to the Independent Auditors. Pre-approve non-audit services provided by the Independent Auditors, including tax services and other services not prohibited by law or SEC rules, which exceed the de minimis exceptions of the Act. A Committee member designated by the Committee may represent the entire Committee for these approvals.
12. Review the experience and qualifications of senior audit team members of the Independent Auditors annually and ensure that all partner rotation requirements, in accordance with applicable rules and regulations, are executed.
13. Establish hiring policies which comply with rules and regulations for employees or former employees of the Independent Auditors.

#### **Oversight of the Company's Internal Audit Function**

14. Review Internal Audit staff functions with Management and the Independent Auditors, including: (i) purpose, authority and organizational reporting lines; (ii) the annual audit plan budget and staff; (iii) review the annual performance evaluation and salary recommendation made by management, and (iv) the appointment or replacement of the senior internal auditing management.
15. Review significant reports to Management prepared by Internal Audit and Management's responses.

#### **Compliance Oversight Responsibilities**

16. The Committee shall establish and maintain procedures for:
  - (a) the receipt, retention and treatment of complaints received by the Company regarding accounting or auditing matters or controls, and
  - (b) the confidential, anonymous submission by the Company's employees of concerns regarding accounting or auditing matters.
17. Review and approve prior to filing, Management's responses to various regulatory bodies, such as the SEC, relating to matters for which the Committee has oversight responsibilities.

#### **Miscellaneous Other Responsibilities**

18. Review and approve the Audit Committee proxy disclosure required by the SEC annually.
19. Ensure that a performance assessment of the Committee is performed annually.
20. Review and reassess the adequacy of this Charter at least annually, submitting changes to the Charter to the Board for approval and publish the Charter publicly as required by regulations.

(January 2007)