

*A US holder should consult their own tax advisor regarding the United States federal, state and local and other tax consequences of owning and disposing of Common Shares in their particular circumstances.*

This discussion addresses only United States federal income taxation.

#### **Taxation of Dividends**

Under the United States federal income tax laws, the gross amount of any dividend paid out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal income taxation. For a noncorporate U.S. holder, dividends paid in taxable years beginning after December 31, 2002 and before January 1, 2011 that constitute qualified dividend income will be taxable at a maximum tax rate of 15% provided that the noncorporate US holder holds the Common Shares for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meets other holding period requirements. Dividends paid with respect to the Common Shares generally will be qualified dividend income. A US holder must include any Dutch tax withheld from the dividend payment in this gross amount even though it does not in fact receive it. The dividend is taxable to a US holder when it receives the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that a US holder must include in its income will be the U.S. dollar value of the Euro payments made, determined at the spot Euro/U.S. dollar rate on the date the dividend distribution is includible in its income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date a US holder includes the dividend payment in income to the date as US holder converts the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of a US holder's basis in the Common Shares and thereafter as capital gain.

Subject to certain limitations, the Dutch tax withheld in accordance with the Treaty and paid over to the Netherlands will be creditable or deductible against a US holder United States federal income tax liability. Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate. To the extent a refund of the tax withheld is available under Dutch law or under the US Tax Treaty, the amount of tax withheld that is refundable will not be eligible for credit against United States federal income tax liability. Dividends will be income from sources outside the United States, but dividends paid in taxable years beginning before January 1, 2007 generally will be "passive" or "financial services" income, and dividends paid in taxable years beginning after December 31, 2006 will, depending on a holder's circumstances, be "passive" or "general" income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit allowable to the holder.

#### **Taxation of Capital Gains**

A U.S. holder that sells or otherwise disposes of Common Shares will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that it realize and its tax basis, determined in U.S. dollars, in its Common Shares. Capital gain of a noncorporate U.S. holder that is recognized on or after May 6, 2003 and in taxable years beginning before January 1, 2011 is generally taxed at a maximum rate of 15% where the holder has a holding period greater than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

#### **Documents on display**

It is possible to read and copy documents referred to in this annual report on Form 20-F that have been filed with the SEC at the SEC's public reference room located at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The Company's SEC filings are also publicly available through the SEC's website at <http://www.sec.gov>.

#### **Item 11. Quantitative and qualitative disclosure about market risk**

The information required by this Item is incorporated by reference herein on pages 92 through 99 under the heading "Details of Financial Risks" and page 170 and 171 under the heading "Other financial instruments, derivatives and currency risk" of the 2006 Annual Report.

#### **Item 12. Description of securities other than equity securities**

Not applicable.

Item 13. Defaults, dividend arrearages and delinquencies

None.

Item 14. Material modifications to the rights of security holders and use of proceeds

None.

Item 15. Controls and procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(b) and 15d-15(b) under the Securities Exchange Act of 1934) as of the end of the period covered by the Annual Report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

Management's report on internal control over financial reporting and the report of independent registered public accounting firm on page 112 and 113 of the 2006 Annual Report are incorporated herein by reference.

Item 16A. Audit Committee Financial Expert

The Company does not have an Audit Committee financial expert as defined under the regulations of the US Securities and Exchange Commission serving on its Audit Committee. The information required by this Item is incorporated herein by reference from page 230 and 231 of the 2006 Annual Report under the heading "The Audit Committee".

Item 16B. Code of Ethics

The Company recognizes that its businesses have responsibilities within the communities in which they operate. The Company has a Financial Code of Ethics which applies to the CEO (the principal executive officer) and CFO (the principal financial and principal accounting officer), and to the heads of the Corporate Control, Corporate Treasury, Corporate Fiscal and Corporate Internal Audit departments of the Company. The Company has published its Financial Code of Ethics within the investor section of its website located at [www.philips.com](http://www.philips.com). No changes have been made to the Code of Ethics since its adoption and no waivers have been granted therefrom to the officers mentioned above in 2006.

Item 16C. Principal Accountant Fees and Services

The Company has instituted a comprehensive auditor independence policy that regulates the relation between the Company and its external auditors and is available on the Company's website ([www.philips.com](http://www.philips.com)). The policy includes rules for the pre-approval by the Audit Committee of all services to be provided by the external auditor. The policy also describes the prohibited services that may never be provided. Proposed services may be pre-approved at the beginning of the year by the Audit Committee (annual pre-approval) or may be pre-approved during the year by the Audit Committee in respect of a particular engagement (specific pre-approval). The annual pre-approval is based on a detailed, itemized list of services to be provided, designed to ensure that there is no management discretion in determining whether a service has been approved and to ensure the Audit Committee is informed of each service it is pre-approving. Unless pre-approval with respect to a specific service has been given at the beginning of the year, each proposed service requires specific pre-approval during the year. Any annually pre-approved services where the fee for the engagement is expected to exceed pre-approved cost levels or budgeted amounts will also require specific pre-approval. The term of any annual pre-approval is 12 months from the date of the pre-approval unless the Audit Committee states otherwise. During 2006, there were no services provided to the Company by the external auditors which were not pre-approved by the Audit Committee.

**Audit Fees**

The information required by this Item is incorporated by reference herein on pages 107 through 108 under the heading "Report of the Audit Committee" of the 2006 Annual Report.

**Audit-Related Fees**

The information required by this Item is incorporated by reference herein on pages 107 through 108 under the heading “Report of the Audit Committee” of the 2006 Annual Report.

**Tax Fees**

The information required by this Item is incorporated by reference herein on pages 107 through 108 under the heading “Report of the Audit Committee” of the 2006 Annual Report.

**All Other Fees**

The information required by this Item is incorporated by reference herein on pages 107 through 108 under the heading “Report of the Audit Committee” of the 2006 Annual Report.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

In the following table, the information is specified with respect to purchases made by Philips of its own shares.

Period	Total number of shares purchased	Average price paid per share in EUR	Total number of shares purchased as part of publicly announced programs	Maximum EUR amount of shares that may yet be purchased under the programs
January 2006	5,861,908	26.85	5,833,000	257,051,777
February 2006	9,261,219	27.79	9,258,513	—
March 2006	1,923	26.97	—	—
April 2006	3,927,151	27.33	—	—
May 2006	388,922	27.11	—	—
June 2006	320	23.63	—	—
July 2006	7,540,425	24.62	7,540,000	3,814,366,219
August 2006	9,456,500	26.01	9,456,500	3,568,434,098
September 2006	15,370,018	27.13	15,367,500	3,151,578,573
October 2006	26,037,187	27.69	26,032,747	2,430,666,521
November 2006	20,069,803	28.54	20,048,500	1,858,396,184
December 2006	8,033,929	28.07	8,027,247	1,633,069,420
<b>Total</b>	<b>105,949,305</b>	<b>27.38</b>	<b>101,564,007</b>	

Pursuant to the authorization given at the Company’s Annual General Meeting of Shareholders referred to below to purchase shares in the Company, the Company has purchased shares for (i) capital reduction purposes and (ii) delivery under convertible personnel debentures, restricted share programs, employee stock purchase plans and stock options in order to avoid dilution from new issuances. When shares are delivered, they are removed from treasury stock. In 2006, Philips acquired a total of 105,949,305 shares. A total of 35,933,526 shares were held in treasury by the Company at December 31, 2006 (2005: 114,736,942 shares). As of that date, a total of 65,456,296 rights to acquire shares (under convertible personnel debentures, restricted share programs, employee stock purchase plans and stock options) were outstanding (2005:68,994,091).

For information on the share repurchase programs, reference is made to the section on share repurchase program in “Other information” on page 51 of the 2006 Annual Report and is incorporated herein by reference.

The General Meeting of Shareholders, at their meeting of October 25, 2006 authorized the Board of Management, subject to the approval of the Supervisory Board, for a period until April 26, 2008, within the limits of the law and the Articles of Association, to acquire for valuable consideration, on the Amsterdam Stock Exchange or otherwise, shares in the Company, provided the Company does not hold more than 10% of its issued share capital.

Item 17. Financial statements

Philips is furnishing the Financial Statements pursuant to the instructions of Item 18 of Form 20-F.

Item 18. Financial statements

The following portions of the Company's 2006 Annual Report as set forth on pages 112 through 171 are incorporated herein by reference and constitute the Company's response to this Item:

"Consolidated statements of income of the Philips Group"  
"Consolidated balance sheets of the Philips Group"  
"Consolidated statements of cash flows of the Philips Group"  
"Consolidated statements of changes in stockholders' equity of the Philips Group"  
"Information by sectors and main countries"  
"Accounting policies"  
"New accounting standards"  
"Notes to the group financial statements of the Philips Group"  
"Report of independent registered public accounting firm"

Schedules:

Schedules are omitted as they are either not required or the required information is included in the consolidated financial statements.

As a result of Philips' holding in LG.Philips LCD meeting in 2004 the requirements of SEC Rule 3-09 under Regulation S-X for the provision of separate audited financial statements, the unaudited financial statements for the year 2005 and 2006 of LG.Philips LCD are required to be filed as part of this Annual Report. In response to this requirement Philips will file an amendment to this Annual Report on or before June 30, 2007, as required by the SEC Rule.

Item 19. Exhibits

***Index of exhibits***

Exhibit 1	English translation of the Articles of Association of the Company.
Exhibit 2 (b) (1)	The total amount of long-term debt securities of the Company and its subsidiaries authorized under any one instrument does not exceed 10% of the total assets of Philips and its subsidiaries on a consolidated basis. Philips agrees to furnish copies of any or all such instruments to the Securities and Exchange Commission upon request.
Exhibit 4	Employment contracts of the members of the Board of Management (incorporated by reference to Exhibit 4 of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2003) (File No. 001-05146-01).
Exhibit 4 (a)	Employment contract between the Company and G.J. Kleisterlee (incorporated by reference to Exhibit 4(a) of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2004, file No. 001-05146-01).
Exhibit 4 (b)	Employment contract between the Company and P-J. Sivignon (incorporated by reference to Exhibit 4(b) of the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2004, file No. 001-05146-01).
Exhibit 4 (c)	Employment contract between the Company and J.A. Karvinen.
Exhibit 4 (d)	Employment contract between the Company and R.S. Provoost.
Exhibit 4 (e)	Employment contract between the Company and A. Ragnetti.
Exhibit 4 (f)	Employment contract between the Company and T.W.H.P. van Deursen.
Exhibit 4 (g)	Employment contract between the Company and F.A. van Houten.
Exhibit 4 (h)	Stock Purchase Agreement among Koninklijke Philips Electronics N.V., Philips Semiconductors International B.V. and Kaslion Acquisition B.V. dated September 28, 2006.
Exhibit 8	List of Significant Subsidiaries.
Exhibit 12 (a)	Certification of G.J. Kleisterlee filed pursuant to 17 CFR 240. 13a-14(a).
Exhibit 12 (b)	Certification of P-J. Sivignon filed pursuant to 17 CFR 240. 13a-14(a).
Exhibit 13 (a)	Certification of G.J. Kleisterlee furnished pursuant to 17 CFR 240. 13a-14(b).
Exhibit 13 (b)	Certification of P-J. Sivignon furnished pursuant to 17 CFR 240. 13a-14(b).
Exhibit 15 (a)	Consent of independent registered public accounting firm.

Exhibit 15 (b)	The Annual Report to Shareholders for 2006 (except for the omitted portions thereof identified below) is furnished hereby as an exhibit to the Securities and Exchange Commission for information only. The Annual Report to Shareholders for 2006 is not filed except for such specific portions that are expressly incorporated by reference in this Report on Form 20-F. Furthermore, the International Financial Reporting Standards (IFRS) information, including the financial statements and related notes on pages 172 through 217 of the Annual Report to Shareholders for 2006, and the unconsolidated Company financial statements, including the Notes thereto, also prepared on the basis of IFRS, on pages 218 through 223 of the Annual Report to Shareholders for 2006, have been omitted from the version of such Report being furnished as an exhibit to this Report on Form 20-F. The IFRS information and Company statements have been omitted because Philips' primary consolidated accounts are prepared in accordance with accounting principles generally accepted in the United States and Philips is not required to include in this Report on Form 20-F the IFRS information and Company statements.
Exhibit 15 (c)	Description of industry terms.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

KONINKLIJKE PHILIPS ELECTRONICS N.V.  
(Registrant)

/s/ G.J. Kleisterlee  
G.J. Kleisterlee  
(President, Chairman  
of the Board of Management and  
the Group Management Committee)

/s/ P-J. Sivignon  
P-J. Sivignon  
(Executive Vice-President  
and Chief Financial Officer)

Date: February 19, 2007

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