

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 69327 / April 5, 2013

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3452 / April 5, 2013

ADMINISTRATIVE PROCEEDING
File No. 3-15265

In the Matter of

Koninklijke Philips
Electronics N.V.,

Respondent.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 21C OF THE SECURITIES
EXCHANGE ACT OF 1934, MAKING
FINDINGS, AND IMPOSING A CEASE-
AND-DESIST ORDER AND
DISGORGEMENT**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), against Koninklijke Philips Electronics N.V. (“Philips” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing a Cease-and-Desist Order and Disgorgement (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

Summary

1. This matter concerns violations of the books and records and internal controls provisions of the Foreign Corrupt Practices Act ("FCPA") by Philips. The violations took place through Philips's operations in Poland from at least 1999 through 2007. The violations relate to improper payments made by employees of Philips's Polish subsidiary, Philips Polska sp. z o.o. ("Philips Poland") to healthcare officials in Poland regarding public tenders proffered by Polish healthcare facilities to purchase medical equipment.

Respondent

2. **Koninklijke Philips Electronics N.V.** is a Netherlands-based parent of an affiliation of companies that manufacture and supply goods and services related to healthcare, consumer lifestyle, lighting business sectors (collectively referred to as "Philips"). Philips's New York Registry Shares are listed on the New York Stock Exchange and the company files periodic reports pursuant to Section 12 of the Exchange Act as a foreign private issuer. Philips's common shares are also listed on Euronext Amsterdam.

Facts

3. Since at least 1999, Philips has participated in public tenders to sell medical equipment to Polish healthcare facilities. From 1999 through 2007, in at least 30 transactions, employees of Philips Poland made improper payments to public officials of Polish healthcare facilities to increase the likelihood that public tenders for the sale of medical equipment would be awarded to Philips.

4. Representatives of Philips Poland entered into arrangements with officials of various Polish healthcare facilities whereby Philips submitted the technical specifications of its medical equipment to officials drafting the tenders who incorporated the specifications of Philips' equipment into the contracts. Incorporating the specifications of Philips' equipment in the tenders' requirements greatly increased the likelihood that Philips would be awarded the bids.

5. Certain of the healthcare officials involved in the arrangements with Philips also decided whom to award the tenders, and when Philips was awarded the contracts, the officials were paid the improper payments by employees of Philips Poland.

6. The improper payments made by employees of Philips Poland to the Polish healthcare officials usually amounted to 3% to 8% of the contracts' net value.

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

7. At times, Philips Poland employees also kept a portion of the improper payments as a “commission.” The Philips Poland employees involved in the improper payments often utilized a third party agent to assist with the improper arrangements and payments to Polish healthcare officials.

8. The improper payments made by employees of Philips Poland to Polish healthcare officials were falsely characterized and accounted for in Philips’s books and records as legitimate expenses. At times those expenses were supported by false documentation created by Philips Poland employees and/or third parties. Philips Poland’s financial statements are consolidated into Philips’ books and records.

Discovery, Internal Investigation and Self Report

9. Philips became aware of misconduct by Philips Poland employees in August 2007, when Polish officials conducted searches of three of Philips’ offices in Poland and arrested two Philips Poland employees.

10. In response to the search of Philips’ offices and arrests of its employees, Philips conducted an internal audit in 2007. Philips failed to discover the improper payments to Polish healthcare officials in its internal audit, but terminated and disciplined several Philips Poland employees and made substantial changes to Philips Poland’s management and significant revisions to the company’s internal controls.

11. In December 2009, the Prosecutor’s Office in Poznan, Poland, indicted 23 individuals, including three former Philips Poland employees and 16 healthcare officials, for violating laws related to public tenders for the purchase of medical equipment. That indictment described the improper payments discussed in this Order.

12. In response to the Polish authorities’ indictment, Philips conducted an internal investigation. The findings of the investigation supported the allegations of the 2009 indictment and revealed that Philips Poland employees had made unlawful payments to Polish healthcare officials, that its books, records and accounts failed to accurately account for the improper payments and that its internal controls failed to ensure that transactions were properly recorded by Philips in its books and records.

13. In early 2010, Philips self-reported its internal investigation to the staff of the Commission and to the Department of Justice. As the internal investigation progressed, Philips shared the results of the investigation with the staff and undertook significant remedial measures.

Philips’s Remedial Measures

14. In response to its internal audit and investigation, Philips terminated and disciplined several Philips Poland employees and installed new management at Philips Poland, as stated above. Philips also retained three law firms and two auditing firms to conduct the investigation

and design remedial measures to address weaknesses in its internal controls. Included in changes to internal controls, Philips established strict due diligence procedures related to the retention of third parties, formalized and centralized its contract administration system and enhanced its contract review process, and established a broad-based verification process related to contract payments. In addition, Philips has made significant revisions to its Global Business Principles policies and continually revises the policies to keep them current and relevant. Philips also established and enhanced an anti-corruption training program that includes a certification process and a variety of training applications to ensure broad-based reach and effectiveness.

Violations

A. Standard for the Issuance of a Cease-and-Desist Order

15. Under Section 21C(a) of the Exchange Act, the Commission may impose a cease-and-desist order upon any person who is violating, has violated, or is about to violate any provision of the Exchange Act or any rule or regulation thereunder.

B. The Requirements of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act

16. Section 13(b)(2)(A) of the Exchange Act requires reporting companies to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and disposition of the assets of the issuer. 15 U.S.C. § 78m(b)(2)(A).

17. Section 13(b)(2)(B) of the Exchange Act requires reporting companies to, among other things, devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that the transactions: (i) are executed in accordance with management's general or specific authorization; and (ii) are recorded as necessary to permit preparation of financial statements in conformity with GAAP or any other criteria applicable to such statements, and to maintain accountability for assets. 15 U.S.C. § 78m(b)(2)(B).

C. Philips Violated Sections 13(b)(2)(A) and 13(b)(2)(B)

18. Employees of Philips Poland made improper payments to healthcare officials in Poland to increase the likelihood that Philips would be awarded public tenders to sell medical equipment to Polish healthcare facilities. The payments were improperly recorded in Philip's books and records as legitimate expenses. Philips Poland employees also utilized falsified records to support the false accounting entries. Accordingly, as a result of its misconduct, Philips failed to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflected its transactions and the disposition of its assets as required by Section 13(b)(2)(A) of the Exchange Act.

19. Philips Poland's improper payments to healthcare officials in Poland related to at least 30 public tenders over a period of eight years. Philips's internal controls failed to detect or prevent the improper payments and false recordings of those transactions during that time. As a result, Philips failed to devise and maintain a system of internal accounting controls sufficient to

provide reasonable assurances that transactions were properly recorded by Philips in its books and records. Philips also failed to implement an FCPA compliance and training program commensurate with the extent of its international operations. Accordingly, Philips violated Section 13(b)(2)(B) of the Exchange Act.

Commission Consideration of Philips's Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent and cooperation afforded the Commission staff.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

20. Pursuant to Section 21C of the Exchange Act, Respondent cease and desist from committing or causing any violations and any future violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act.

21. Respondent shall, within 10 days of the entry of this Order, pay disgorgement of \$3,120,597 and prejudgment interest of \$1,394,581 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Koninklijke Philips Electronics N.V. as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Karen L. Martinez, Assistant Director, Salt Lake Regional Office, Securities and Exchange Commission, 15 W. South Temple Street, Suite 1800, Salt Lake City, Utah 84101.

22. Respondent acknowledges that the Commission is not imposing a civil penalty based upon its cooperation in a Commission investigation and related enforcement action. If at any time following the entry of the Order, the Division of Enforcement (“Division”) obtains information indicating that Respondent knowingly provided materially false or misleading information or materials to the Commission or in a related proceeding, the Division may, at its sole discretion and without prior notice to the Respondent, petition the Commission to reopen this matter and seek an order directing that the Respondent pay a civil penalty. Respondent may not, by way of defense to any resulting administrative proceeding: (1) contest the findings in the Order; or (2) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Elizabeth M. Murphy
Secretary