

Siemens Compliance System – Track Record and Challenges

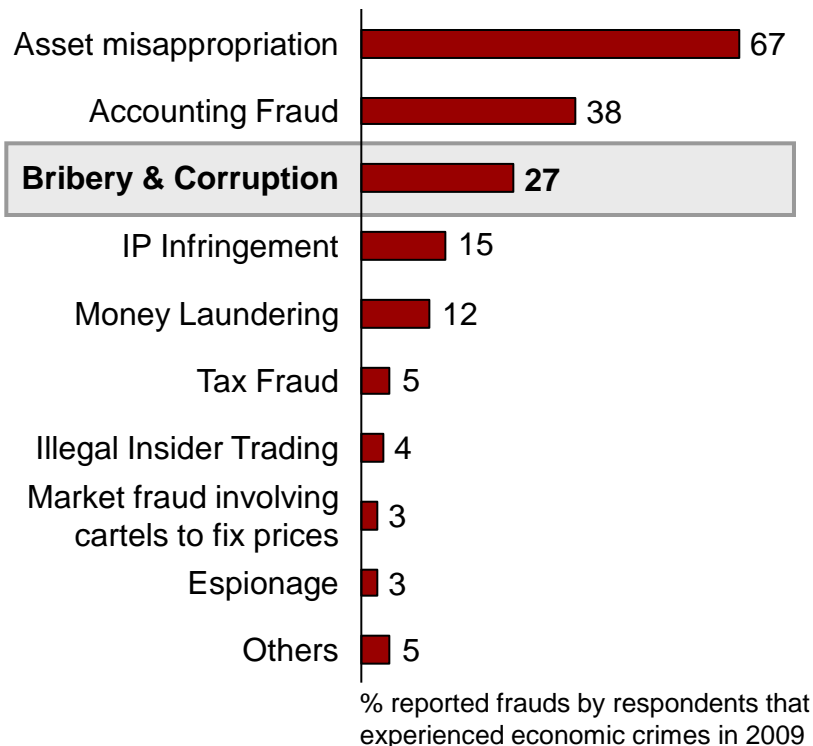
How to establish a robust anti-corruption compliance program

Seminar on ethics and anti-corruption
FSi, 10. November 2011
Wilhelm Klaveness
Regional Compliance Officer



Being one of three most common types of economic crimes, **SIEMENS** corruption needs to be fought with effective measures

Bribery and corruption is one of three most common types of economic crimes in 2009 ¹



New measures are necessary to intensify the fight against corruption ²

- 1** The focus has to go from **setting rules** to issues of **implementation, monitoring and accountability** of results
- 2** More **stakeholders** must join business **executives** and **regulators** in **tackling corruption** in business
- 3** **Collective Action** needs to be better recognized as **essential principles** in **addressing corruption** challenges in business

Total Cost of Corruption 2008 worldwide: US\$ 2.6 trillion (= 5% global GDP) ³

1) PWC 2009, The Global Economic Crime Survey (Countries: 54, Industries: 18, Companies: 3,000)

2) Transparency International 2009, Global Corruption Report

3) The World Bank Institute 2008

The Company

A look back in recent history

How we do it – the Siemens Compliance system

What we achieved

Where we're going

Megatrends shape our future

Urbanization



Demographic change



Globalization



Climate change



Innovative green technology: 270 million tons reduction in CO2 emissions in 2010

**Fossil
Power
Generation**



**Renewable
Power
Generation**



**Power
Transmission**



**Power
Distribution**



**Solutions
for Industry**



Healthcare



**Water
Technologies**



**Building
Technologies**



Mobility



**Lighting
(OSRAM)**



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In 2008, Siemens was punished drastically for engaging in systematic corruptive mechanisms

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Siemens' pattern of bribery was in scale and geographic unprecedented – 4,283 payments for 332 projects totaling bribes of

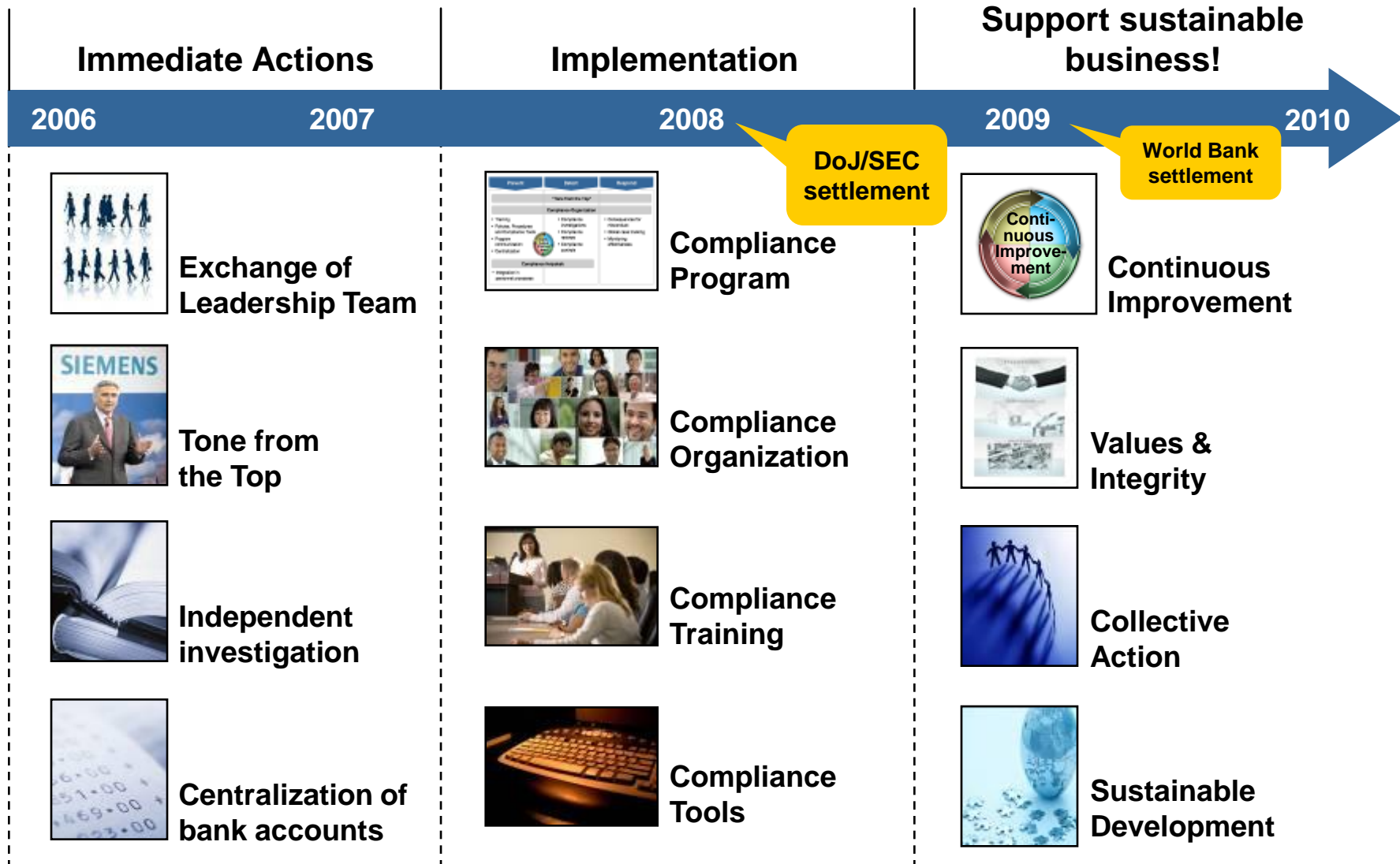
US\$ 1.4 billion



...as a result, Siemens had to pay fines and disgorgements amounting to a record sum of

US\$ 1.6 billion *

In the change process, several elements were crucial in becoming a recognized leader in terms of integrity



A chapter is closed but the fight against corruption is never over

- A painful chapter is over - settlement with German and US-authorities reached
Overall costs ~2 billion Euros
- DoJ/SEC has appointed a Monitor who is watching our compliance progress

What's next?

- **Compliance still has top priority**
- **Siemens has a best-in-class compliance system – and on this basis has started to fight corruption with "Collective action"**



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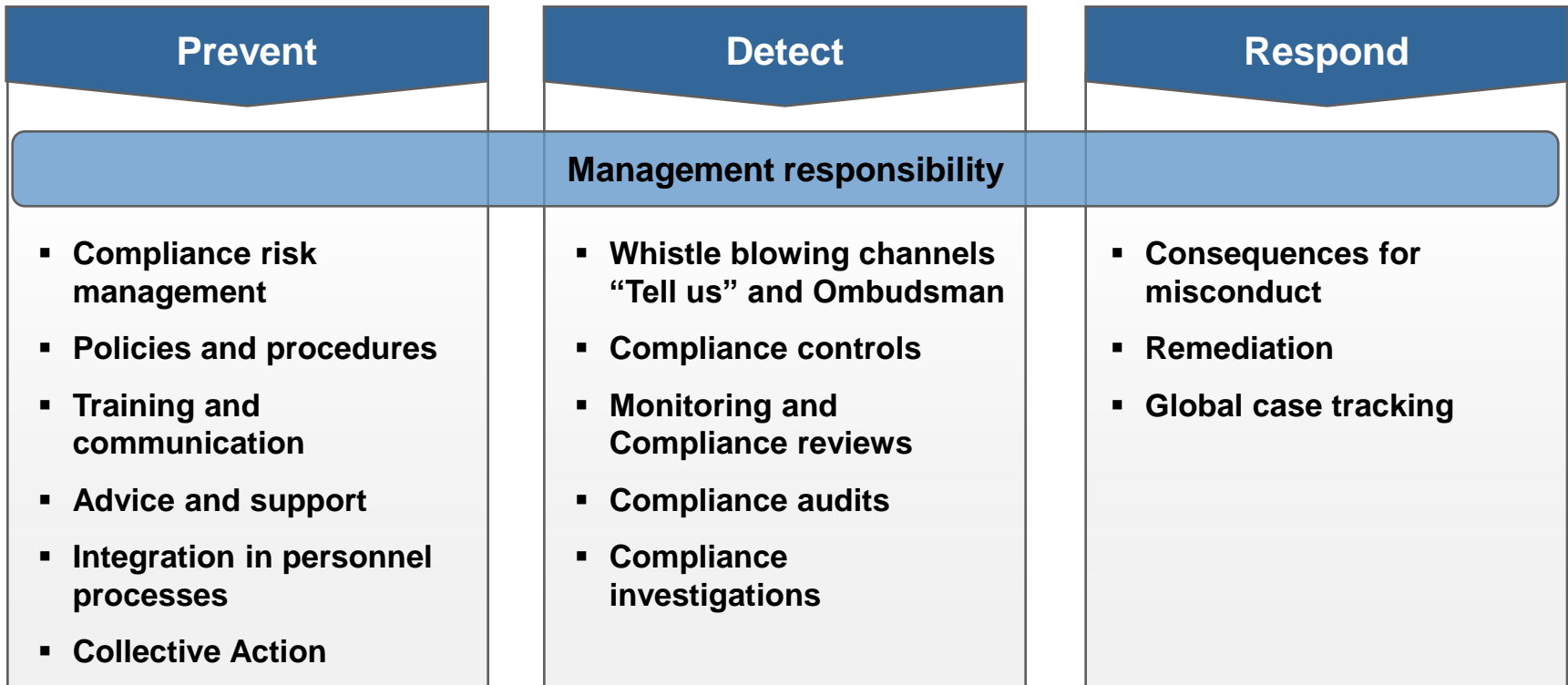
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The Siemens Compliance System: Prevent – Detect – Respond

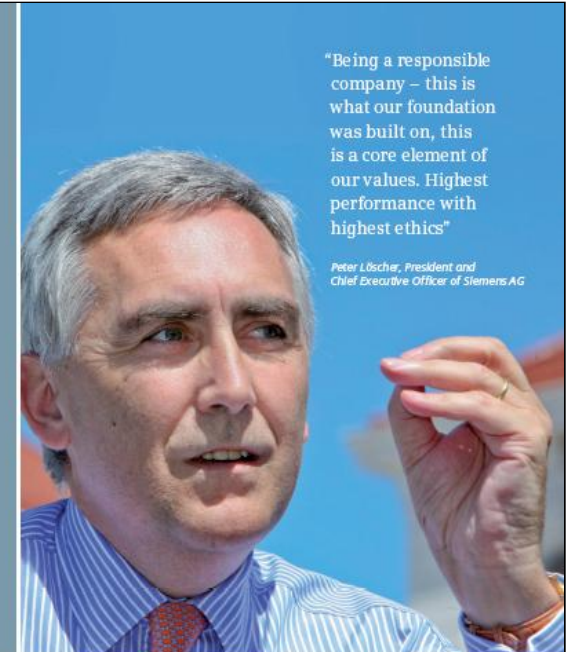


**The message concerning Compliance is authentic,
clear and non-compromising**

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“Being a responsible company – this is what our foundation was built on, this is a core element of our values. Highest performance with highest ethics”

*Peter Löscher, President and
Chief Executive Officer of Siemens AG*



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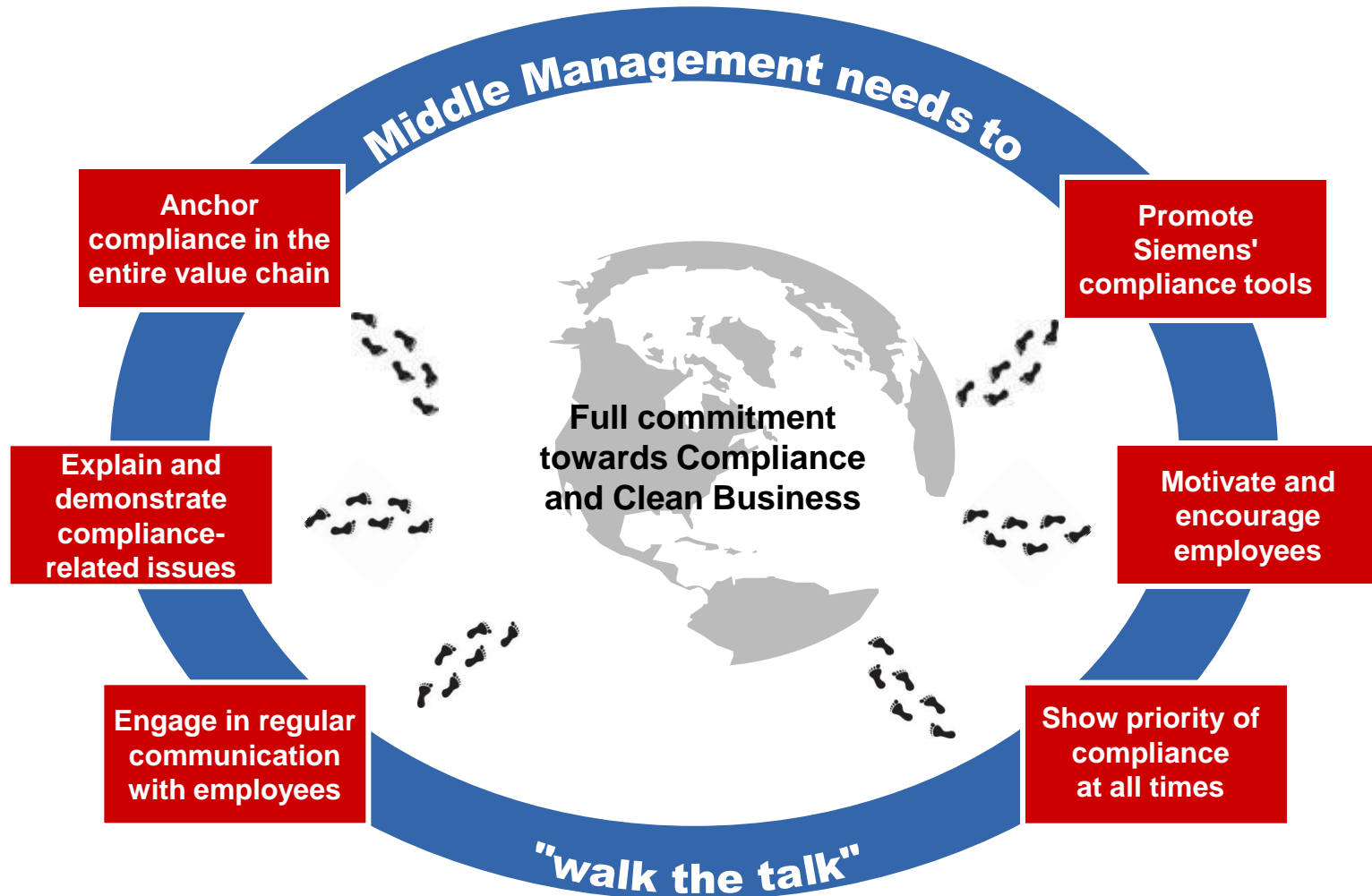
We Stand for Our Values

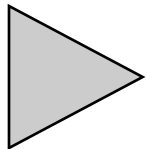
Responsible – Excellent – Innovative

Find further information at internet.siemens.com/compliance and
internet.siemens.com/raee

SIEMENS

... but, "the tone from the top" has to be lived and communicated throughout all management levels






Compliance is not a program, it's a way of doing business – promoting integrity at Siemens


Compliance Helpdesk consists of five parts

"Tell Us"




The Compliance HelpDesk "Tell Us" function provides global, round-the-clock facilities for making statements on compliance-related breaches.

"Ask Us"



Do you have any questions about compliance? You can ask them at any time via the Compliance HelpDesk "Ask Us."

"Find It"



Use "Find It" to search for compliance related information, such as FAQs, policies & guidelines or training material.

"Approve It"



"Approve It" is the platform for approval requests regarding gifts and hospitality



"Improve It"



With "Improve It" you can help to improve the Compliance program by adding your ideas and suggestions.

Compliance Helpdesk & Monitoring

Siemens provides employees with training in line with their roles and responsibility

	Type of Training	Target Group
 <p>In-person trainings</p>	<ul style="list-style-type: none"> ▪ Training in Global Bribery and Global Competition awareness ▪ Anti-Corruption Basic & Refresher Training ▪ Antitrust Risk Assessment & Measures ▪ Training on Compliance Tools ¹⁾ ▪ Compliance Officer Trainings 	<ul style="list-style-type: none"> ▪ Senior Management ²⁾ ▪ “Sensitive Functions” ³⁾ ▪ Business/regional specific groups (e.g. sales, project management, procurement, etc.) ▪ All entities based on their risk class ▪ Compliance Organization
 <p>Web-based trainings</p>	<ul style="list-style-type: none"> ▪ Anti-Corruption ▪ Global Competition (Antitrust) ▪ Business Conduct Guidelines ▪ Your Signature – Your Responsibility 	<ul style="list-style-type: none"> ▪ Employees with signing authority

1) Limits of Authority (LoA, approval process for business projects), Business Partner Due Diligence, gift & hospitality 2) conducted March 2007-September 2007 3) Manager / staff who interact with govt. officials (“sensitive functions”), personnel involved in sales, project management, regular interactions with government (such as Tax, Customs)

“Compliance is not a program, it’s a way of doing business - promoting integrity at Siemens”

Our mid term objectives

**Ensure Compliance
most efficiently**

Compliance Risks are known, and

- monitored and managed effectively (no systematic breaches)
- managed efficiently (minimum administrative burden)

**Drive Business
Integrity**

- Enable Organization to take integer decisions and live up to Siemens values
- Promote and drive Collective action in order to level the playing field for fair competition

**... however, ultimately, controls are not enough.
We need to continue fostering an integrity culture**

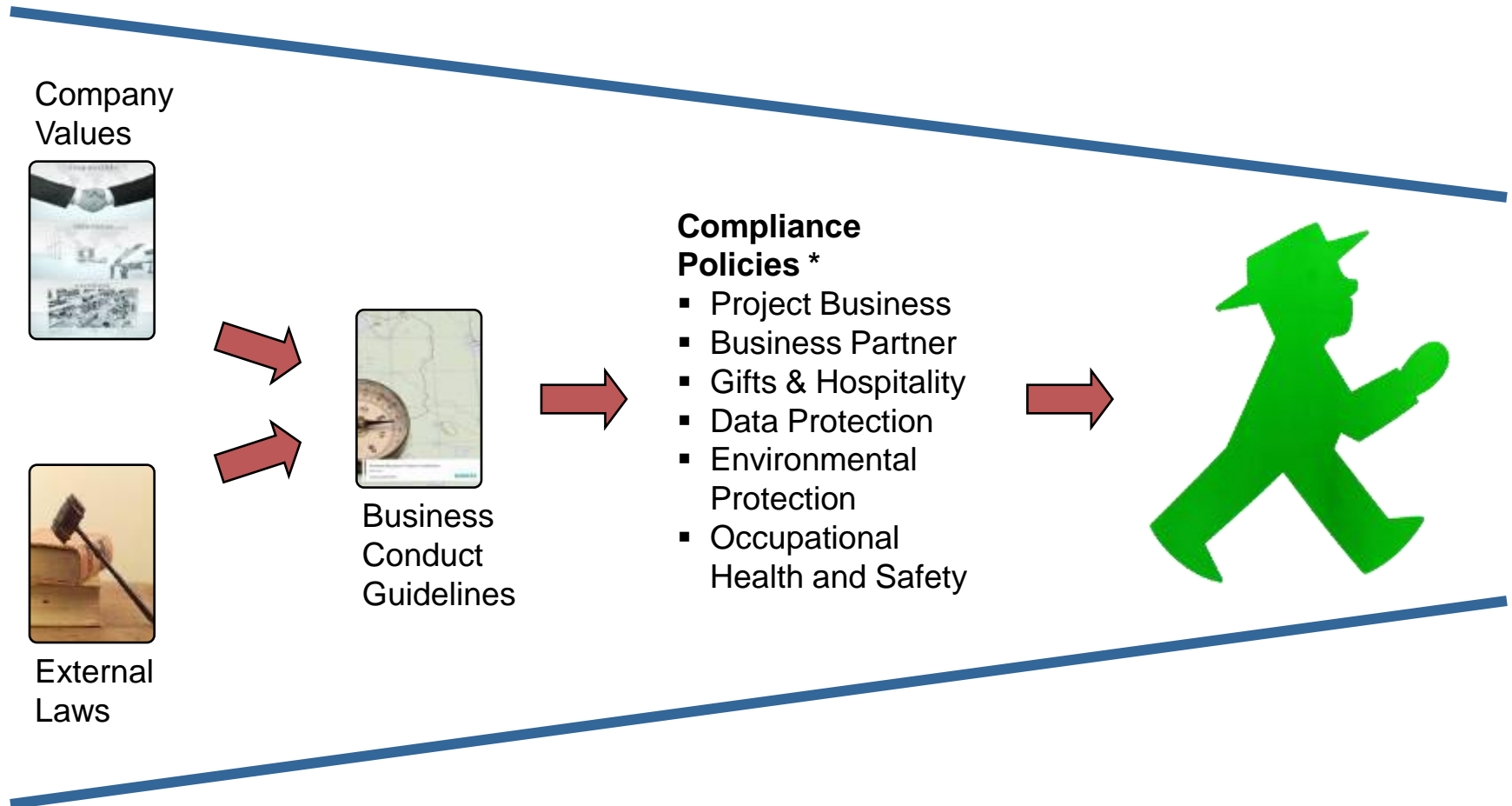
Questions to guide Siemens employees towards compliant and responsible behavior

- 1 Is it the right thing for Siemens?**
- 2 Is it consistent with Siemens core values and mine?**
- 3 Is it legal?**
- 4 Is it something I am willing to be held accountable for?**

**If the answer is YES to all of those questions,
DON'T WORRY, BE CONFIDENT**



Employees get guidance for their daily work through policies that are based on external laws and internal values & guidelines **SIEMENS**



* Examples of Compliance Policies

IT-based tools make sure, that compliance policies are implemented in an effective and reviewable way



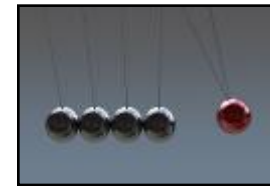
Policies:*

- Project Business
- Business Partner
- Sponsoring, Donations, Memberships
- Gifts & Hospitality
- Compliance Investigations



Smart IT Tools:

- Limits of Authority
Approval procedure for external projects
- Business Partner
Due Diligence
- Sponsoring, Donations and Memberships
- Approve It
Approval process for gifts & hospitality
- TRACI
Compliance Case Tracking Tool



Internal:

- Maximum support for global implementation
- Transparency
- Standardized processes and language

External:

- Minimized corruption risk in the entire value chain
- Improved company reputation in the external environment

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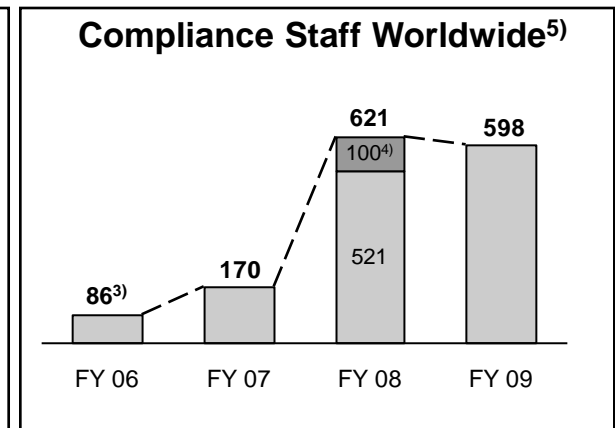
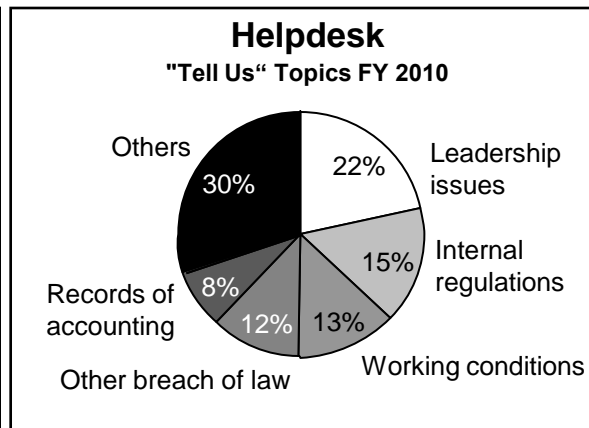
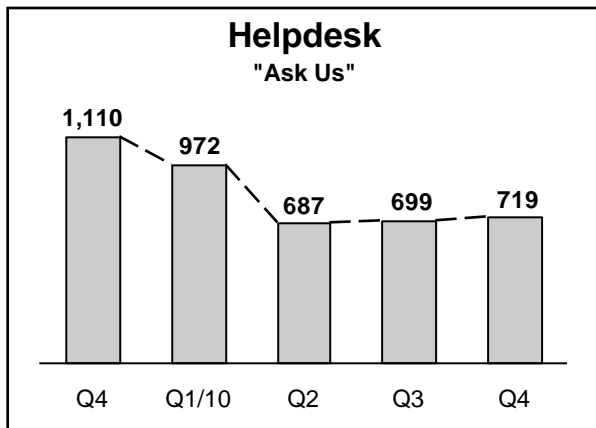
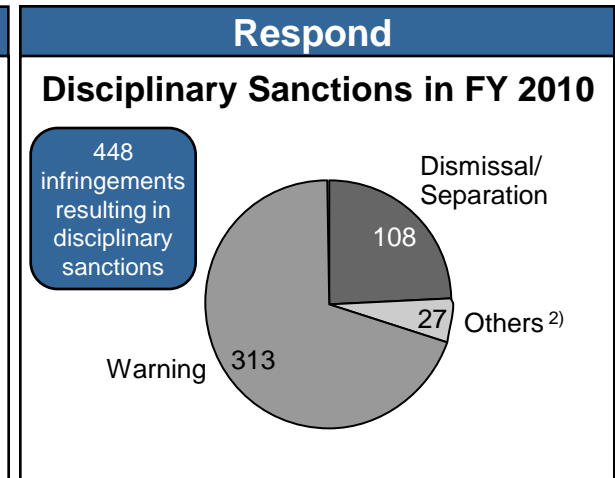
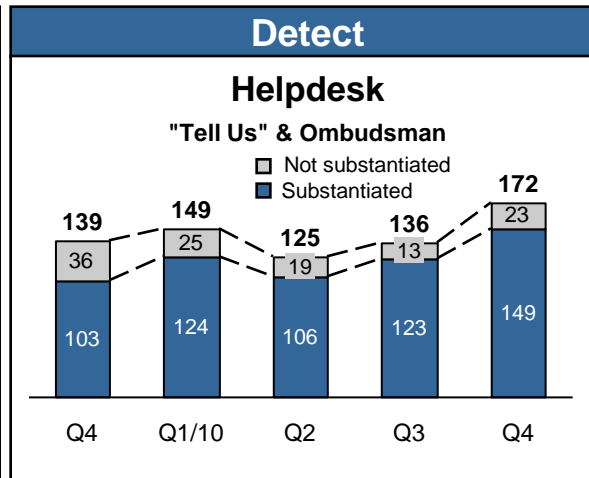
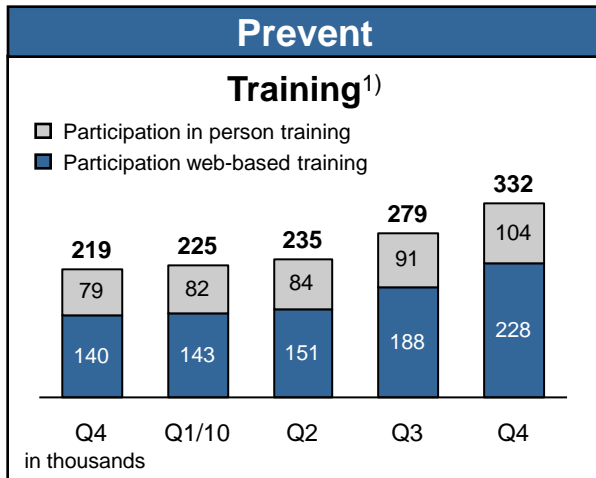
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Compliance – Progress Report FY 2010



1) Cumulative 2) Forfeiture of variable payment elements, transfer to another position, suspension 3) Compliance only one area of responsibility
 4) Including Implementation Management 5) KPI not continued after successful ramp up of Compliance Organization

Siemens is the strongest performer in the three categories of the Diversified Industrials sector

Siemens is included for the 12th time in a row in the DJSI World Index



1) Average score of all assessed companies in the Diversified Industrials sector

Source: SAM, Sustainability Office

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A look back in recent history

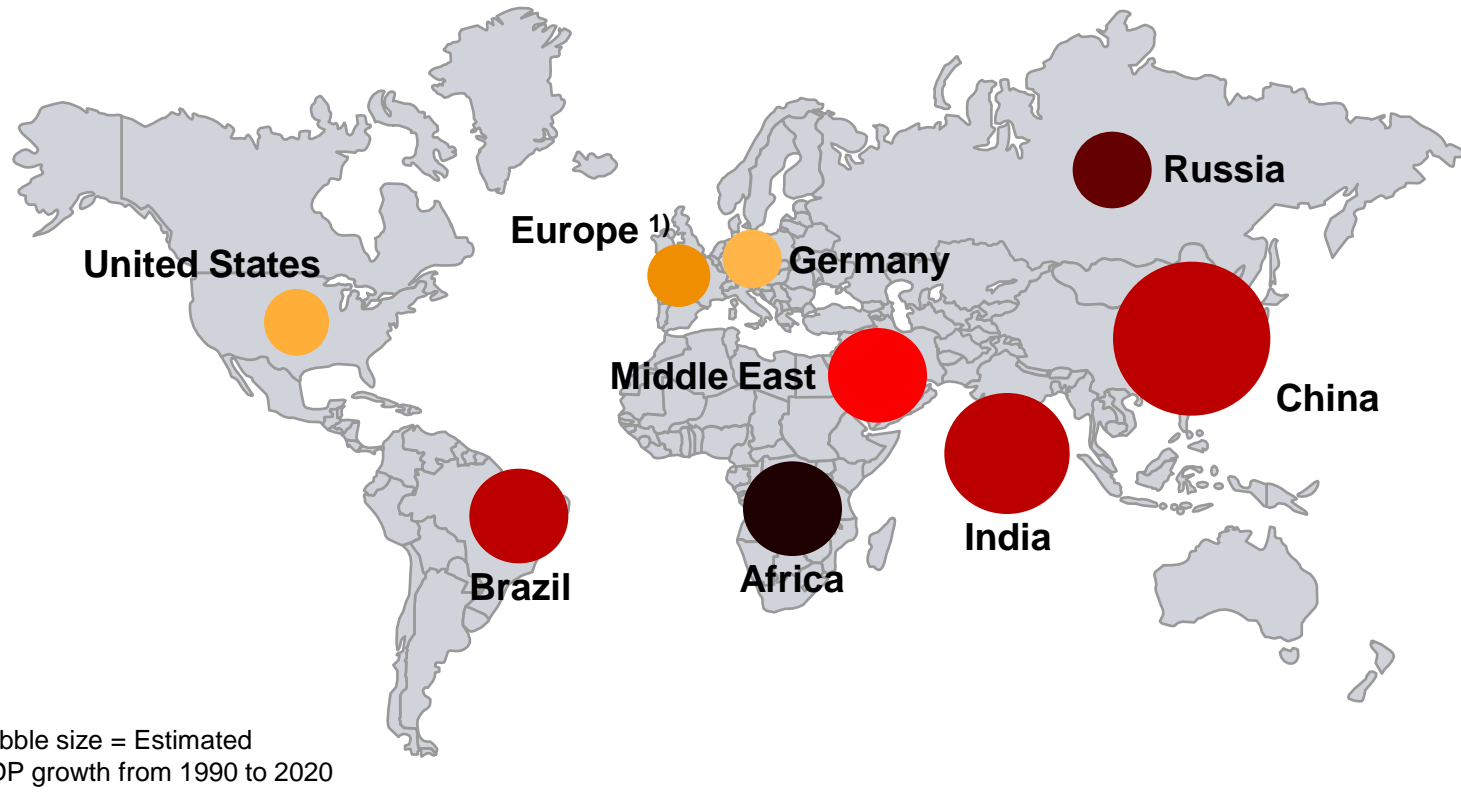
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Tapping future growth in emerging markets requires a proper implementation of compliance

Strengthening local presence in fast-growing markets to gain market share...



○ Bubble size = Estimated GDP growth from 1990 to 2020

TRANSPARENCY INTERNATIONAL
CPI 2009 2)
 8.0 – 8.9
 7.0 – 7.9
 6.0 – 6.9
 4.0 – 4.9
 3.0 – 3.9
 2.0 – 2.9
 1.0 – 1.9

...is as important as implementing compliance to protect against the high corruption risk

1) Europe = EU 15 w/o Germany 2) Source: Transparency International – Corruption Perceptions Index 2009

“Collective Action” fosters high compliance standards for all market players

- Fight corruption in concert with competitors and other players
 - Create high compliance standards via a concept of prevention
- 
- Integrate an independent institution for promotion and monitoring
 - Define sanctions in case of violations



1) Non-governmental organizations such as Transparency International

Collective Action: What we do to drive fair market conditions

Since 2008

Since 2009

Q4/'10

Continuous stakeholder dialogue

Collective Action project

Project Compliance Learning Initiative



- Fight corruption in joint agreement with industry peers and other stakeholders
- Promote Integrity and Compliance Pacts as well as Long-Term Initiatives in order to foster fair competition in public sector
- www.siemens.com/integrity-initiative to fight fraud and corruption (US\$ 100 million over next 15 years)



- Increase compliance awareness of current and future business leaders
- Share compliance best practices with stakeholders by www.siemens.com



Start March 2010

1) **NGO**: Non-Government Organization
IO: International Organization
IBLF: International Business Leaders Forum

TI: Transparency International
PACI: Partnering Against Corruption Initiative

ICC: International Chamber of Commerce
CIPE: Center for International Private Enterprise

2) Is designed for class room discussions in university and highlights the importance of business integrity and compliance. Will be taught in the spring term 2010.

Major lessons from the Compliance turnaround



1

Establish an independent Compliance Organization with strong governance

2

Implement a compliance program which interlocks prevention and sanctions

3

Let people understand why only clean businesses are sustainable

4

Make compliance a rigorous component of the incentive system

5

Collective Action - Find allies to level the playing field

Keep always momentum and be never satisfied

Backup

Compliance is one of the four main categories of the Internal Control System



Risk and Internal Control

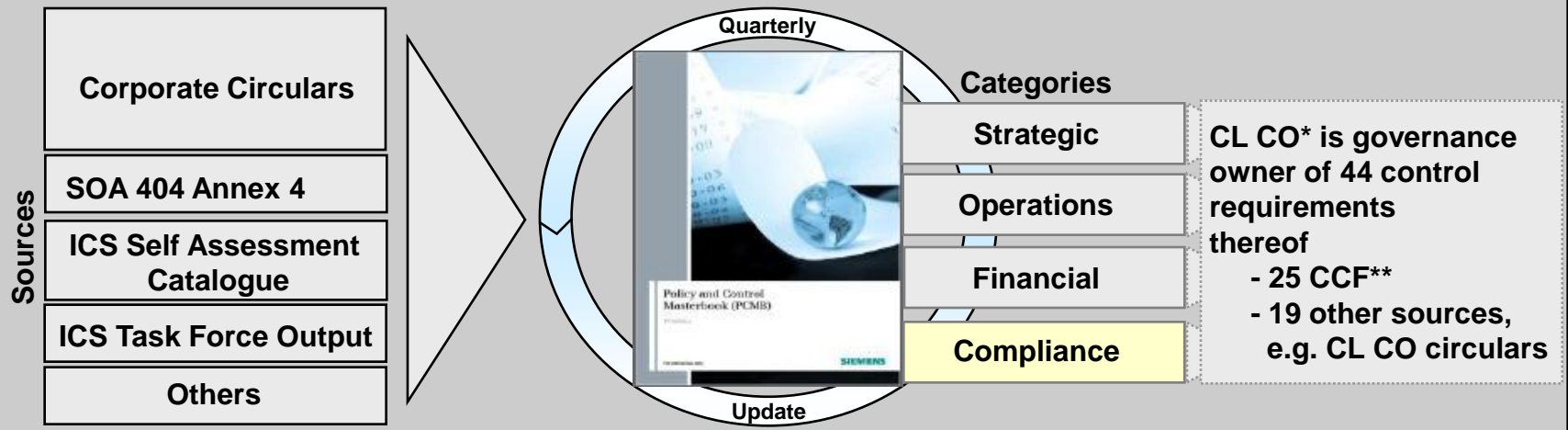
Enterprise Risk Management (ERM)

Risk identification highlights gaps in internal controls and influences the identification of necessary control requirements as well as their monitoring.

Internal Control System (ICS)

Monitoring of control requirements may result in the identification of unmitigated risks.

The Policy & Control Masterbook (PCMB) comprises in total ~750 Siemens global control requirements and forms the basis for the Siemens "In Control" Statement.



* CL CO = Corporate Legal Compliance; ** CCF = Compliance Control Framework

Corruption kills our markets



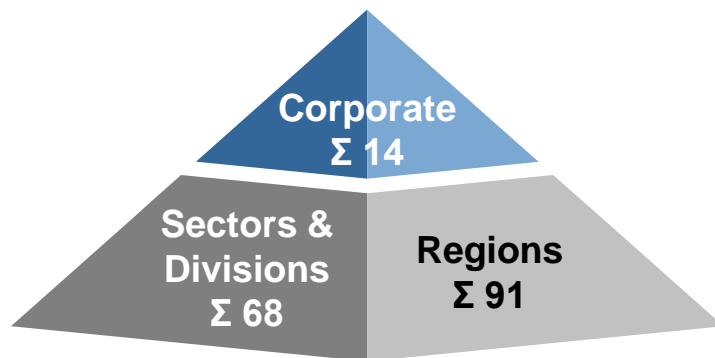
1 A corrupt company culture diminishes transparency and credibility

2 With less incentive to compete on the basis of quality and price, product quality suffers

3 Inaccurate accounting (books and records) leads to loss of control

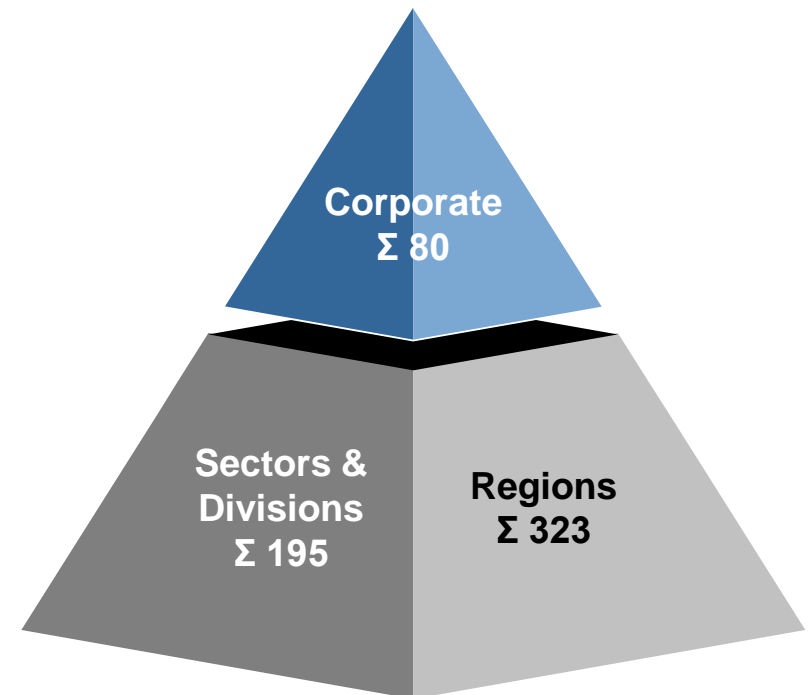
Global Compliance Organization in the Sectors and Regions

Employees FY 2007



Σ 173

Employees FY 2009



Σ 598

Compliance at Siemens: Responsibilities and Roles are clearly defined

What is Compliance?

- Observing the law in every country where we do business and the applicable Siemens policies - especially the Siemens Business Conduct Guidelines

Responsibilities and Roles of the Compliance Organization

Support sustainable business success:

- Drive a continuous communication about the importance of Compliance for Siemens
- Expertise for Antitrust and Anticorruption (prevent, detect, respond)
- All violations of law, regulations or Siemens procedures are Compliance issues if they entail a risk of penalties or reputational loss to Siemens – the Compliance Organization assures that all reported compliance violations are being properly handled, analyzed and remediated together with the responsible Governance owners and management
- Governance for investigations and disciplinary response
- Drive collective action initiatives in order to level the playing field for clean business



Compliance is not a program, it's a way of doing business – promoting integrity at Siemens