

Fraud Prevention in Project Business

Siemens A.E.

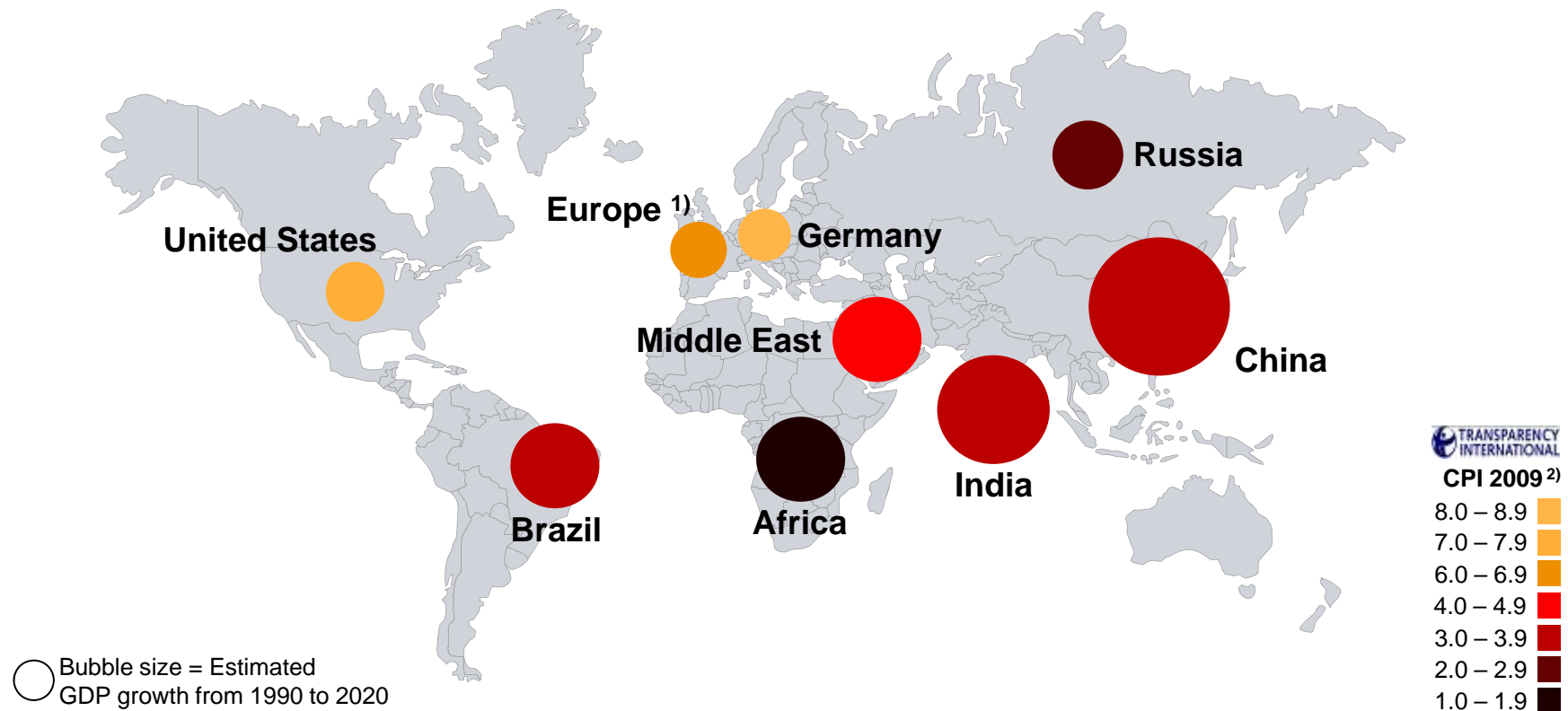
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Tapping future growth in emerging markets requires a proper implementation of compliance

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



...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

The values of a company make the difference

“The culture of a company and its values make the difference. People rightly associate Siemens with reliability, fairness and integrity.”

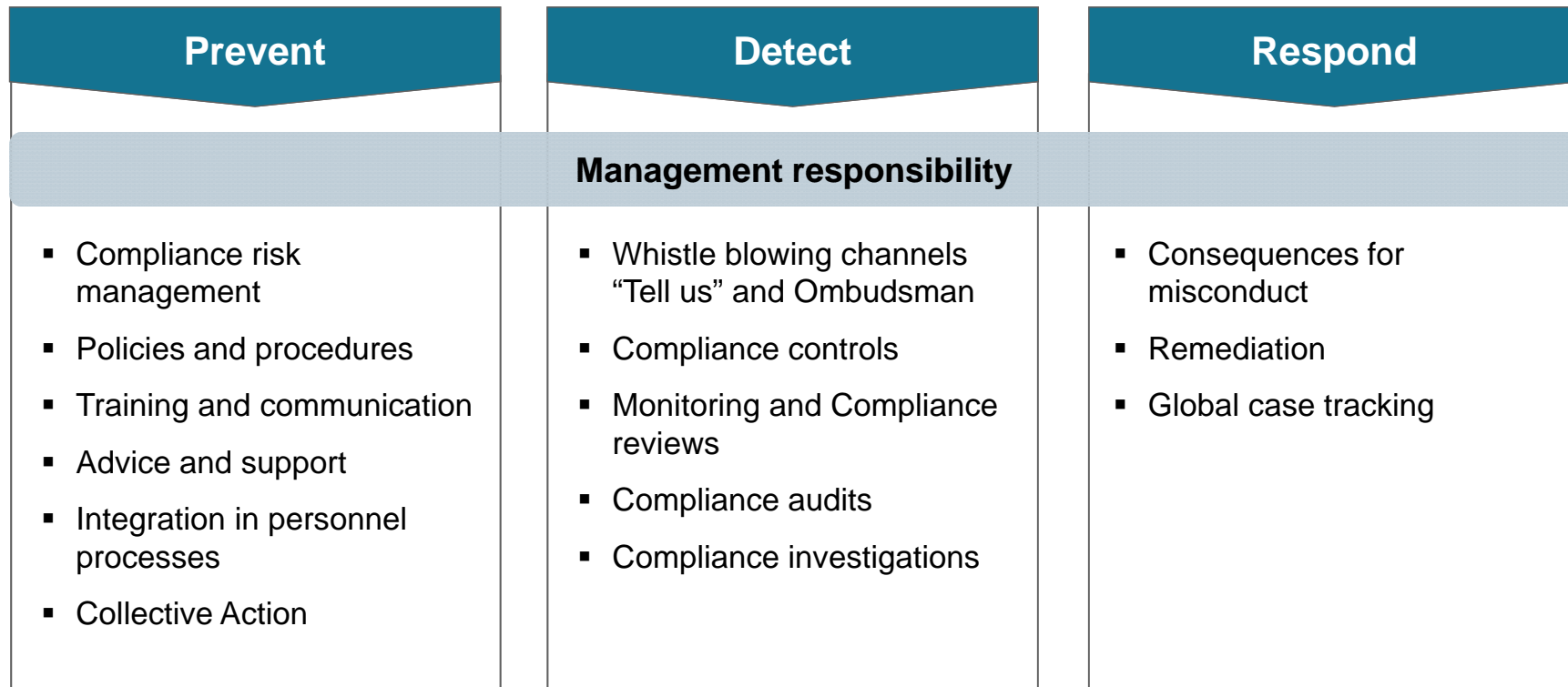
Joe Kaeser,
President and CEO of Siemens AG



Siemens Compliance System

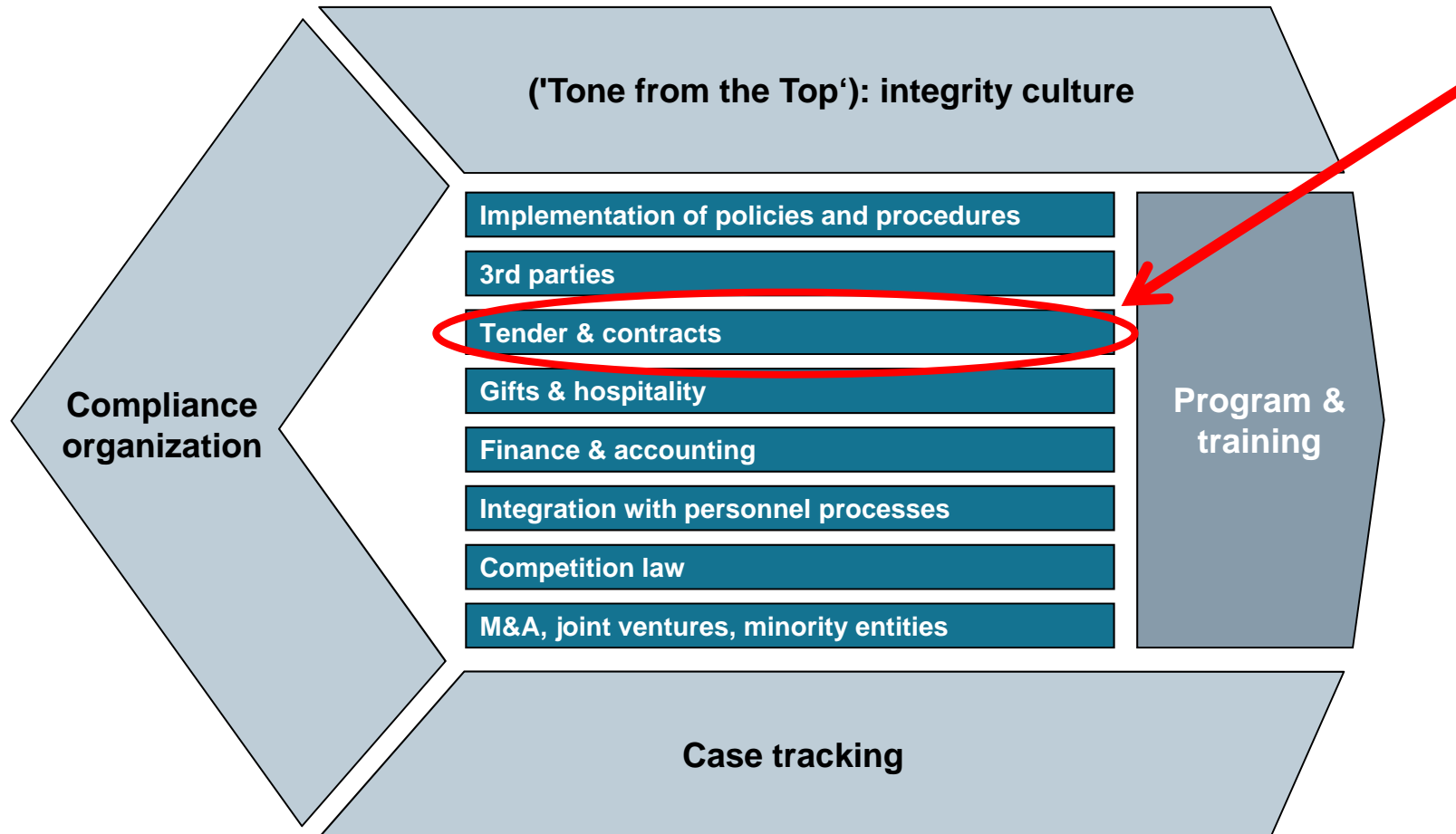


Siemens constantly strive to further develop and improve the compliance system



*) <http://www.sustainability-indices.com/>

Compliance risks mitigation measures are integrated in business processes and controls



Project Business in Siemens

Upholding **high standards of compliance** is especially important in the international project business.

Siemens' worldwide project business **is subject to strict approval rules**. In making the decision to proceed with a given project, the Company systematically evaluates a wide range of **legal, ethical, technical, economic, commercial and contractual criteria**.

To **ensure compliance** with the rules applicable to the project business, **Siemens has implemented a uniform, worldwide tool to govern the project approval process**.

That tool is designed to ensure the high quality of every decision to propose a project and the terms of that project. As a first step, project applications are assigned to a **risk category**, which determines the departments to be involved and the reviews to be conducted before the **final approval is granted**.



<http://www.siemens.com/sustainability/en/core-topics/compliance/management-approach/guidelines.htm#toc-5>

Compliance involvement prior to bidding for project business

The risk assessment ensures among other business topics that certain **compliance topics** will be examined and approved as appropriately:

- Use of intermediaries to acquire project (e.g. business consultants)
- Use of major suppliers/ subcontractors
- Use of named by customer 3rd party
- Prohibition of gifts and hospitality as a mean to influence the decision makers
- Adherence to the local anticorruption laws



Compliance involvement during project execution

Involvement of Compliance during the project execution on the below topics

eliminates corruption and fraud risks :

- Use of named by customer 3rd party during the execution
- Request by customer to use suppliers/ subcontractors privately.
- Major project milestones like acquiring licenses, permits or project acceptance
- Handling of excess material or scrap
- Handling of change orders or claims.



Compliance risks related to subcontractors

For example

- A **subcontractor proposes** to the Project Manager to **issue a higher bill** and share the excess amount between them
- A **new logistics service provider** has passed the Business Partner Compliance Due Diligence process. During the cooperation, however, it turns out that **a customs broker of the new provider may be paying bribes** to customs officials
- The **end customer's decision-maker advises** Siemens to **select a specific subcontractor** whose offer is more expensive without offering better quality. Questioned by the PM, the decision maker insists without any objective business reason

- **Have you faced these or similar risks in your daily practice?**
- **What can you do to mitigate these risks?**



Compliance risks related to scrap or excess material

For example

- Scrap or excess material is **sold "off the records"** - cash is kept at the project site for "unforeseen expenses"
- For a power plant project, a **backup** of 5% of copper cables **was ordered but nobody keeps track** of its usage. At the end of the project, no cables are returned to the warehouse.
- **Parts delivered** to the construction site are declared as damaged or as "**dead on arrival**". They **disappear**, without the PM knowing about the further use.

- **Have you faced these or similar risks in your daily practice?**
- **What can you do to mitigate these risks?**



Compliance risks related to customer decisions and required licenses or permits

For example

- A **customer employee asks** the PM for a "**signing fee**" for his signature of the customer's acceptance certificate. The PM is unsure how to handle this request.
- A **public authority permit** is needed to start work on a project. The authority states that it will take **at least 6 weeks** to issue the permit. If, however, a small "**facilitation fee**" is paid, the permit will be **ready in 3 days**.
- Support from qualified Siemens engineers is urgently needed at a project site located in a foreign country. The **immigration officials demand a handling fee in cash** to prepare the immigration documents. They refuse to hand out a receipt for the money

- **Have you faced these or similar risks in your daily practice?**
- **What can you do to mitigate these risks?**

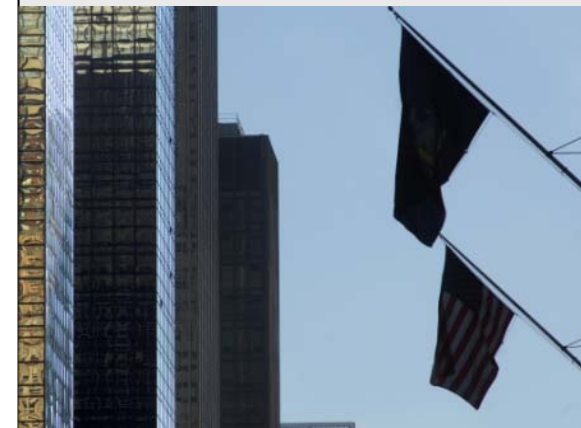


Further compliance risk areas in project business

For example

- A **customer employee proposes to refrain from issuing a justified claim** in exchange for a **private favor**, such as an invitation for a visit abroad with tickets and accommodation to be paid by Siemens
- The **customer's PM** requests a new car, incl. private use, from Siemens to be able to attend the project meetings and visit the project sites. He states that otherwise the cooperation would be more difficult

- **Have you faced these or similar risks in your daily practice?**
- **What can you do to mitigate these risks?**



Siemens Whistle Blowing Channel: “Tell Us”

The compliance help desk is a protected reporting channel by which all our employees and external stakeholders can report possible compliance violations.

➤ In order to justify the trust placed in Siemens by customers, partners, shareholders and employees, the integrity and transparency of business processes is the top priority. For this, it is essential for Siemens to find out about any breaches, particularly contraventions of the [Business Conduct Guidelines](#).

➤ The “Tell us” function **provides worldwide, 24/7** facilities for making statements, either online or by telephone, and in any of **up to 150 languages**. The Call Center and the Website facilities are **operated by an external provider** specializing in the secure and confidential handling of sensitive content. Incoming messages are not traced, neither is the sender automatically registered.

➤ **Siemens employees who report possible compliance violations are protected** by a special guideline that forbids sanctions of any kind for reports made in good faith. Thus, anyone who reports possible violations in good faith may not be disadvantaged in any way at Siemens.

➤ The responsible use of the help desk is especially important. The content of incoming reports is forwarded by the service provider to the Siemens Corporate Compliance Office for clarification. The decision on the further action to be taken is made there. **All reports are treated confidentially.**

This web page is hosted on EthicsPoint's secure servers, and is not part of the Siemens web site or intranet.

SIEMENS

choose your language ▼

Welcome to the Siemens Compliance Helpdesk “Tell us”

As a leading global company, integrity guides our conduct toward our colleagues, business partners, shareholders and the general public. Both our strategic considerations and our day-to-day business are based on the highest ethical and legal standards. Siemens has a zero-tolerance policy and will not tolerate any unlawful behavior or any violations of applicable laws or violations of the Business Conduct Guidelines of the Siemens group from management or from any employee, customer, supplier or business partner.

In line with this commitment to integrity, Siemens has selected LRN / EthicsPoint to provide you with simple and secure ways to confidentially report certain unlawful activities, violations of applicable laws and violations of the Business Conduct Guidelines of the Siemens group.

To File a Report with Siemens

Please be aware that the information you supply about yourself as well as about employees, suppliers, customers and business partners of the Siemens group or any aspect in relation to Siemens may result in decisions that affect employees of the Siemens group and other third parties involved in the relevant incident. We therefore ask you to provide only information that, to the best of your knowledge, is accurate. Complaints made to the best of your knowledge will not expose you to any sanctions. However, if you knowingly provide false or misleading information, this may lead to sanctions against you. The information you submit will be treated confidentially. We encourage you to identify yourself.

You may use any of the following methods to submit a report:

- Online by clicking on the link on the right side and then choosing the appropriate country and operation from the list;
- Find your toll-free telephone number for the call center at the link to your right.

After your report is completed, you will be assigned a unique code called a “report key”. Write down your report key and password and keep them in a safe place. Your report is forwarded to the Compliance Helpdesk team for clarification and follow-up. After six business days, use your report key and password to check your report for status feedback or questions.

Fraud and corruption case uncovered by Siemens in 2011

In 2011 Siemens received an allegation about “secret boxes” and cash built up in Middle East country that were about to be used for improper purposes.

Siemens immediately:

- Detected the case
- Investigated it
- Made it public
- Informed the relevant authorities right away
- Put disciplinary sanctions in place for the two employees involved

It's all about integrity

“Integrity is the basis of sustainable business – and it’s our way of doing business.”



Thank you for your attention!



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