The Siemens Compliance System: 
“Prevent – Detect – Respond and Continuous Improvement”

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Introduction
The current Siemens Compliance System was developed in 2007 and 2008, initially in response to criminal investigations undertaken by the Office of the Public Prosecutor in Munich, the US Securities and Exchange Commission, the US Department of Justice and numerous other investigating authorities worldwide. These inquiries, as well as the independent internal investigation undertaken by US law firm Debevoise & Plimpton between January 2007 and January 2009, exposed systematic violations of anti-corruption laws and accounting regulations in many Siemens business units and Regional Companies which had been taking place over many years, as vividly described in the documents produced by the US authorities for the final judgment in the USA on December 15, 2008. It was only possible to conclude the proceedings against the company in Germany and the USA because – as explicitly stated by the US authorities – Siemens not only launched its own investigations into past malpractices and fully cooperated with public authorities, but also developed a comprehensive new Compliance System in under two years which it has implemented worldwide. The new Compliance System is based on a clearly defined system into which Siemens’ worldwide Compliance measures must fit:
The fundamentals of the new Compliance System and its status within this structure are outlined in the following.

I. Management responsibility: The Tone from the Top

One of the main findings of last year’s investigations was that the corporate culture had failed with regard to Compliance and had facilitated systematic corruption. This insight resulted, in the course of 2007, in new appointments to key positions: the Chairman of the Supervisory Board (Dr. Gerhard Cromme), the President and CEO (Peter Löscher), the General Counsel (Peter Solmsen, who was also appointed as Member of the Board with responsibility for Legal and Compliance), the Chief Compliance Officer (Dr. Andreas Pohlmann) and the Chief Audit Officer (Hans Winters). Almost the entire Siemens AG Managing Board was replaced. In a groundbreaking speech the new President and CEO, Peter Löscher, made quite clear that:

“Only clean business is Siemens business – everywhere – everybody – every time...
Compliance as part of Corporate Responsibility is 1st priority”

All Siemens executives were told to spread the message throughout the company. By September 30, 2008 the Managing Board, the Chief Compliance Officer and senior members of the Compliance Organization had visited 54 countries as part of a special Compliance Roadshow – all countries which, either owing to the large volume of business or corruption risks, are of critical importance for the success of the Compliance System – and spoken at employees’ meetings and with the local management about the importance of Compliance. These activities are ongoing since then.

An anonymized survey (Compliance Perception Survey) held among a representative group of 90,000 employees worldwide in the summer of 2008 confirmed that the message had got through to them. Over 80% of responses then confirmed that management was speaking out clearly on Compliance issues to employees, that the Compliance System and employees’ responsibility for its observance were being understood and that violations were being taken seriously and sanctioned accordingly. This survey was repeated in fiscal year 2009 in order to be able to follow up further developments and this showed an even higher satisfaction of the employees with the Compliance efforts. During 2010 the Compliance Perception Survey was integrated into the new “Engagement and Compliance Survey”, which is directed at all the 400,000 or so Siemens employees worldwide, and the results of which confirm how firmly Compliance is embedded within the company.

Responsibility for Compliance is ultimately held by management while the requisite processes are provided by the Compliance Organization. Siemens has implemented a company-wide Compliance Review Process to ensure that this continues to be the case. Management and the Compliance Organization discuss the current status of the Compliance System, its implementation, fundamental development and relevant cases at quarterly meetings. In this framework the Compliance Review Process brings together the findings produced from various other reporting sources.

This means that the reports of the Chief Compliance Officer (CCO) and of the Chief Counsel Compliance (CCC) to the Managing Board and to the Supervisory Board’s Compliance Committee are based on information and findings which have been previously obtained at the business operations level and discussed with the management.
II. Compliance Organization

In early 2007 the Siemens Compliance Organization consisted of a handful of legal experts at corporate headquarters and around 60 Compliance Officers in the business units and regions, most of whom worked as Compliance Officers as a secondary activity. This situation has changed fundamentally. Today, approximately 600 employees work “full time” as part of a single organization which was managed at the top by the Chief Compliance Officer (CCO) until July 2010.

Compliance Organization prior to July 2010

After the departure of the Chief Compliance Officer, Dr. Andreas Pohlmann, this structure was amended by the Managing Board, effective July 1, 2010. In future the Siemens Compliance Organization will be headed by the Chief Compliance Officer and the Chief Counsel Compliance, who both report direct to the Head of Corporate Legal and Compliance for Siemens, board member Peter Solmssen.

The former head of Siemens Germany, Josef Winter, was appointed the new Chief Compliance Officer, while Dr. Klaus Moosmayer, formerly Compliance Operating Officer, was named Chief Counsel Compliance. Siemens is thus strengthening the Compliance Organization by focusing organizationally on operational functions on the one hand and legal ones on the other.

Compliance organization from July 2010
Of the 600 or so heads within the Compliance function, around 80 work in the corporate headquarters, and the remaining employees are deployed fairly evenly in the Sectors/Divisions and the Regional Companies.

**Role of the Compliance Organization**

- We enable a successful sustainable business as a trusted partner and drive a continuous communication about the importance of Compliance for Siemens.
- We have the 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.
- We have the governance for investigations and disciplinary response.
- We drive collective action initiatives in order to level the playing field for clean business.

In this “straight line” organization, the CCO also makes decisions about the appraisals, careers and remuneration of his/her Compliance Officers, all of whom must report to the CCO, including in countries on the other side of the world. Responsibilities are clearly assigned. Compliance Officers are responsible (in their Corporate Units, Sectors, Divisions and Regions) for introducing and implementing the Compliance System. Cluster Compliance Officers are leading the Compliance Organization in all Siemens’ global regions.

The Chief Counsel Compliance (CCC) manages the four departments - Compliance Legal, Compliance Investigations, Discipline and Integrity and Compliance Remediation and Risk Prevention. The CCC’s organization takes on the entire process of dealing with indications of potential Compliance violations, from the time these are brought to the notice of the company, through the legal proceedings and investigation to the employment law-related sanctions which may follow and finally any legal response and investigation of such violations (“Remediation”). The Chief Counsel Compliance is also responsible for the legal aspects of the corporate Compliance guidelines and controls.

The Chief Compliance Officer and the Chief Counsel Compliance are jointly responsible for the group’s Compliance risk analysis activities and together report to the company’s Managing Board and Supervisory Board.
The new management of the Compliance Organization has set itself four strategic objectives for the further development of the Compliance System:

- We want to **maximize the effectiveness and efficiency** of our proven compliance **processes** and **tools**.
- Through **Compliance risk analyses**, we want to take even better account of the particular conditions at our various businesses.
- We want to anchor compliance more firmly in business activities Company-wide.
- To protect our reputation for compliance, we want to strengthen the commitment of all our stakeholders to the battle against corruption – in particular, through the **Siemens Integrity Initiative** and our participation in **Collective Action**.

The following precept here applies to all activities: **Compliance is not a program, it’s a way of doing business – promoting integrity at Siemens.**

The Compliance Organization is not intended to be a static body, but aims at allowing movement to and from other company staff and operating units. Compliance success depends critically on the work undertaken in the Compliance Organization being regarded as a step up the career ladder. In this respect a separate expertise development program has been designed with the Personnel Department (**Competency Management**), as one element of systematic Compliance organization employee development.

The cohesion of the Compliance Organization is strengthened by regular Compliance **conferences** both in the Regions and at global meetings of Compliance Officers, such as events held in 2010 in Feldafing/Munich, Mumbai, Johannesburg, Beijing, Singapore, Bogota and Dubai.

### III. Prevent

#### III.1. Compliance Guidelines

The **Business Conduct Guidelines**, a revised version of which was approved by the Managing Board in January 2009, are at the heart of the Siemens Compliance System. These guidelines detail centrally-defined rules of conduct and go well beyond competition law issues and efforts to combat corruption. The additional Compliance Guidelines are comprehensive and deal with Compliance issues relevant to M&A transactions as well as sponsoring and donation activities.

However, during the course of 2008 it has become apparent that a deluge of rules and regulations is more likely to undermine employee confidence than to provide genuine help. There is then the risk that Compliance may be seen as a bureaucratic issue. Bearing this in mind, fundamental, but equally stringent, Compliance rules were simplified and integrated in business processes in 2008 and 2009.

A good example is the new **Business Partner Policy**. By mid-2008, all payments and contracts signed with all sales related business consultants throughout the company had to be approved by the CCO in Germany – after a lengthy procedure in which assessments were performed by management and the responsible Compliance Officers of the relevant units. By way of background to this process, a moratorium was declared at the outset of 2007 following the discovery that the deployment of such consultants was one of the main methods used to siphon off money from the company for corrupt purposes. This procedure did have a number of disadvantages, however. It proved to be excessively bureaucratic and unwieldy, failed to distinguish between Compliance risks really associated with particular consultants and also ignored the fact that corrupt payments
could equally well be made via other business partners, such as commercial agents, customs agents and consortium members. A decision was therefore taken in mid-2008 to adopt a new approach with the Business Partner Policy. A uniform company-wide risk assessment (performed with an electronic tool) of business partners performing intermediary functions between Siemens and the customer was made a requirement.

Based on defined risk indicators – such as the risk of corruption in the country in which the work is undertaken – a risk class (high, medium or lower risk) is specified for the business partner which determines the subsequent action taken (due diligence, approval requirements and mandatory contractual clauses). To date around 17,000 business partners have been classified in this process and treated according to their risk class before any payments are made or new contracts entered into. This demonstrates the acceptance of this risk-focused procedure in business operations. Similar procedures apply to the approval process for Siemens project business (Limits of Authority). Potential orders are no longer evaluated simply in terms of financial and technical risk, but also according to specific Compliance risks. Based upon the experience gained since the implementation some years ago, in 2011 the Business Partner Policy was developed further and adapted to increased management responsibility and additional risks which have been identified.

In 2009, 2010 and 2011 further essential steps have been taken to continue the development of Compliance rules and make their handling more efficient and convenient. In the practice-oriented area of gifts and hospitality, the existing rules were revised to such an extent that employees can check themselves with the help of country-specific “scorecards” if for example invitations to dinner require the approval of the manager or the Compliance Officer. After the check using “scorecards” had initially been mandatory for employees, without value limits and undifferentiated according to the public and private sector respectively, this regulation was amended in December 2010 with a view to increasing the personal responsibility of employees and their managers. While gifts and invitations made to public office-holders continue to be subject to mandatory scorecard-based checks, their use by employees is otherwise unrestricted. Sponsorships, donations and memberships will be channeled and approved enterprise-wide via an electronic tool, adhering to consistent Compliance criteria.

All Compliance regulations are continually evaluated with regard to their practicability and adjusted or developed further if necessary.

III.2. Training and other communication measures

Even the best Compliance rules are ineffective if employees are unaware of them and do not know how to put them into practice. This is why one of the key elements in implementation of the Siemens Compliance System is training.

Since 2007 over 300,000 employees world-wide have received Compliance training. Of these, around 100,000 employees have received training in face-to-face courses lasting between 4 and 8 hours, and around 200,000 authorized signatories in electronic training programs. Top management was no exception in this respect and also took part in Compliance instruction, with emphasis being placed on training legal, purchasing, sales and project management functions in particular. Following the successful performance of a “train-the-trainer” concept, the Siemens Compliance Organization and internal ongoing professional development functions are now able to provide training without external support. Finally, all new Compliance Officers worldwide undergo especially intensive training in a four-day introductory course. In order to ensure the sustainability of the Compliance knowledge and the respective conduct in the company, training refreshers for management and sensitive functions (for example sales personnel) have been conducted.
In addition to training, Siemens has also launched numerous communication campaigns to make sure that Compliance is a permanently integrated aspect of the company’s business practice. Employees and management are promptly and regularly informed about new Compliance measures and developments via the intranet and e-mail and in reports in the employee magazine. The Compliance Organization has its own newsletter which appears every two to three months.

III.3. Centralization
In addition to the uniform Compliance Organization which has already been discussed, the Legal and Audit functions were also centralized in 2008, with the aim of achieving uniform work processes and quality standards. Another vital element of centralization of elemental control mechanisms has been payment transactions. The number of Siemens bank accounts has been drastically reduced. Except in a few strictly monitored and documented exceptions, the holding of cash stocks is now completely prohibited. Outgoing payments are audited centrally whenever there is any indication of a potential risk (if, for example, payments are made to countries which are subject to a high risk of corruption).

III.4. Compliance Helpdesk (Part I)
The Compliance Helpdesk performs basic functions within the context of the Compliance System. The following discussion focuses initially on prevention.

Siemens employees all around the world are able to send questions about the Compliance System, its interpretation and practical application by e-mail to the Helpdesk (Ask Us function). Around 11,250 questions have been sent to Helpdesk staff since it was set up in September 2007; these questions were answered with the help of a company-wide network of experts within just a few days. “Ask Us” is an important indicator for topics which employees in the field of Compliance are occupied with in particular at present.

At the same time, “Ask us” reflects the development of the Compliance System. During the initial build-up of the new enterprise-wide Compliance Organization, “Ask us” served as the central clearing-house for Compliance questions for the many employees worldwide who did not yet enjoy an established contact to their on-site Compliance Officer. This has changed radically over the course of the last two years, so that “Ask us” has now become a discussion platform for Compliance Officers still wishing to clarify difficult specialist questions on a central basis.

Prevention also encompasses the Approve It function in which the Compliance Organization centrally processes, checks and documents applications for advance approval of more complex payments made to third parties (for instance the assumption of travel costs for works tours, invitations to events, etc.)

The Find It function enables employees to quickly find Compliance rules and regulations which apply worldwide and locally, as well as other information and training material, on an IT platform.

III.5. Integration of Compliance in human resources processes
In 2008, Siemens became one of the first companies in the world to include Compliance as one aspect of the compensation paid to its top management (around 5,500 worldwide; Compliance Related Incentive System). In fiscal 2008, 2009 and 2010, about 20% of the annual unit performance bonus was contingent on achievement of defined Compliance targets. In addition to the results of the employee survey, referred to above, other target achievement criteria were the audited implementation of the Compliance
System, whether management had responded appropriately to new Compliance incidents, had reported them immediately to the Compliance Organization and supported the latter’s investigations.

Overall the results for the last fiscal year were exceptionally good despite substantial differences, both positive and negative, between particular units and Regional Companies. From fiscal year 2011, the system will be modified, insofar as after the full implementation of the Compliance System the corresponding incentivization of the managers no longer appears necessary. Nevertheless, managers in whose area of responsibility deficiencies in the enforcement and application of the Compliance System have become evident will be advised of this fact by the Compliance Organization at the mid-point of the fiscal year by the issuing of a “yellow card”. If these deficiencies are not rectified, the performance-related component of their annual bonus will be cut to 0%.

Another important connection between Compliance and personnel processes is the Compliance Screening of such employees as are envisaged for corporate key functions, or for work relating to Compliance, Audit or in the Legal Department. Appropriate shortlisted candidates are assessed by the Compliance Organization to determine whether there is any evidence of misconduct (such as ongoing internal or official investigations) which might be prejudicial to a decision to promote. This process, for which the Personnel Department and the Compliance Discipline and Integrity Department are responsible, is also clearly explained to candidates in advance.

IV. Detect

IV.1. Compliance Helpdesk (Part II)

As well as the prevention functions which have already been discussed, the Compliance Helpdesk’s Tell Us also has a “whistleblower hotline” to which potential Compliance violations can be notified. This is available 24 hours a day in almost all languages for employees and third parties all around the world, and is operated by a provider which is independent of Siemens. As a result it is possible to provide anonymous or protected information which can be passed on to the Helpdesk in report form immediately, however the Helpdesk cannot trace this information against the will of the informant. All information received by the Helpdesk is recorded on the spot and then examined by experts in the Compliance Legal Department to determine whether there are reasonable grounds for suspicion which would justify taking further measures or which call for investigation.

Since early 2007, Siemens has also had an independent legal ombudsman in Nuremberg who can be contacted in person. In 2011, some 790 reports were made to Tell Us and to the ombudsman (many of which relate to personnel issues); the majority of these reports have required a follow up or further investigation.

In the course of the restructuring of Compliance in 2010 the “Tell us” function was transferred to the Compliance Legal department, which was already responsible for the legal examination and processing of the reports.

IV.2. Compliance investigations

A key finding of Siemens’ assessment of past malpractices and of the deficits of the earlier Siemens Compliance System was that existing evidence of misconduct was not investigated soon enough or with the necessary resolve. A decision was consequently taken, with the introduction of the new Compliance System, to create a special investigation process for Compliance violations and to furnish it with the necessary resources.
Investigations of tip-offs on possible malfeasance obtained by the company via Tell Us reports, the ombudsman or investigating authorities are launched centrally for the entire company by the CCO and, in legal terms, by the CCC who takes responsibility. Investigations are undertaken by the Compliance Investigations Department established in 2008 or by Forensic Audit, with the full support of experts in the Compliance Legal Department. The investigatory process is based on the presumption of innocence, the codetermination rights of the Employee Representative Council and data privacy.

Completed investigations are followed up by another group of specialists from the Compliance Organization, to assess whether the identified deficits have been remedied and whether there are any structural shortfalls in the implementation of the Compliance System (Remediation). The Compliance investigations furthermore serve as an important source of material for the Compliance risk analysis.

Finally, the Compliance Organization has issued guidelines for all corporate units, which prohibit factual clarifications within the company being conducted “without regard to the consequences”, and set out clear standards for the fair and respectful treatment of employees within the context of factual clarifications or investigations.

IV.3. Compliance reviews and controls
The new corporate Audit Organization has established a Compliance Audit function which regularly reviews implementation of the Compliance System. Compliance reviews and controls in fiscal 2008 were especially important in testing of the Implementation Toolkit Anti-Corruption. By the end of March 2008 a total of 56 High-Risk Entities and a further 106 units with especially high sales volume were required to implement over 100 local Compliance System controls. These involved matters such as verifiable communication of the Compliance System, development of a Compliance organization, reporting and following up Compliance cases, providing training and the implementation of stipulations governing such issues as the treatment of business partners or the centralization of payment transactions. Implementation of these measures was examined by Audit in several waves, and resulted by the end of fiscal 2008 in confirmation by the Siemens external auditors of the company’s effective internal control system, after the failures to obtain this attestation in either 2006 or 2007.

In the course of the already described measures to increase efficiency and debureaucratization of the Compliance System, the present “Toolkit Anti-Corruption” will be replaced from 2009 onwards by the “Compliance Control Framework (CCF)”. From 2010, the CCF has also comprised enhanced control measures for Compliance in the area of anti-trust laws and it provides a new structure to the controls making it more convenient for operative units to handle.

V. Respond
V.1. Consequences for misconduct
Prior to 2007, Siemens rarely responded to corruption or to unlawful competitive practices with disciplinary sanctions. The situation with the new Compliance System has now changed fundamentally. The Corporate Disciplinary Committee (CDC) was set up in August 2007 and tasked with assessing misconduct by members of the management (identified in the course of internal or official investigations) and with issuing binding recommendations for action. The employment law aspects of the procedures are prepared by the Compliance Discipline and Integrity Department, which also monitors their subsequent implementation by the personnel departments in the responsible units.

The CDC has a high-caliber membership and is chaired by the General Counsel of Siemens AG, who is also a member of the Managing Board. Other members include the
Managing Board member responsible for Corporate Human Resources, the Chief Financial Officer, the Head of the Corporate Personnel Department, the Head of the Corporate Personnel Development Department for Executives, CCO and the CCC. The supervising managers of the relevant employees (who have taken part with representatives of the Discipline and Integrity Department and the legal experts from the Compliance Legal Department in the hearing of the employee) are also involved.

Around 200 decisions have been taken in the CDC since it was set up – from informal warnings through to immediate dismissal. The Compliance Discipline and Integrity Department also keeps statistics on employment law-related measures taken throughout the company whenever Compliance violations occur which are not dealt with by the CDC because no other members of higher management are affected. Around 300 labor law related measures with reference to compliance worldwide were taken in 2012, including around 80 notices of dismissal.

An evaluation of employment law-related measures must also take into account Siemens’ own Amnesty Program. The independent investigation undertaken by the US law firm Debevoise & Plimpton was supported by an amnesty program agreed with the US authorities and the Office of the Prosecutor General in Munich which ran from October 31, 2007 to February 29, 2008, and which offered immunity to lower-level employees willing to cooperate in full with the investigation and to disclose corrupt practices. The amnesty offer included a waiver of damage claims and of unilateral dismissals by the company. A total of 123 employees responded to the amnesty program, most of whom were able to provide valuable information which contributed to the clarification of Compliance violations in the past, and who were therefore granted amnesty as a result.

V.2. Global case tracking
The information about potential Compliance violations notified to the Compliance Organization is processed and followed up on a company-wide basis – depending on the seriousness of the allegation - centrally in the Compliance Legal Department or by the respective Compliance Officer using a uniform Case Tracking Tool. Official investigations performed worldwide must be reported centrally, as well as information about violations of anti-corruption legislation or of competition law, and activities which may potentially have material financial consequences or threaten to damage the reputation of the company. All cases entered in the system are assessed (in terms of their impact on financial statements) by the Finance Department, Tax Department and the external auditors of Siemens, and these assessments are subsequently incorporated into the Compliance reports to the Managing Board and to the Supervisory Board’s Compliance Committee.

V.3. Monitoring the effectiveness of Compliance measures
The systems operated by the Compliance Organization (such as the Business Partner Tool or the numerous functions of the Compliance Helpdesk) are evaluated on an ongoing basis, with the aim of detecting any developments as early as possible and of monitoring functionality and breadth of application in the company by way of plausibility assessments and random samples. These monitoring activities have to be distinguished from the formal controls performed by Audit undertaken in the framework of the Compliance audit.

VI. Continuous Improvement
The Siemens Compliance System must continue to be developed, to enable it to respond to the insights gained from Compliance and business processes. It is critically important, how-ever, that the relevant sources are also utilized. These are primarily the company’s
employees. The latter are encouraged to submit ideas and suggested improvements for the Compliance System using the enterprise-wide innovation program. Another important source of suggestions and ideas are the insights derived from the Compliance investigations in the context of Remediation, in other words, the structural follow-up work on cases and the Compliance Reviews previously referred to.

For this reason the Siemens Compliance System will never be completed “once and for all”, but will continue to exist as part of an ongoing process of change and improvement.

VII. Collective Action

Collective Action is just as essential in effectively combating corruption as the efforts under-taken by individual companies to establish their Compliance System. Siemens has consequently collaborated with the World Bank Institute and other partners to develop a Collective Action Guide on tackling corruption, which was published in June 2008. This is a practical guide to the initiation and putting into effect of integrity agreements with competitors and customers, with the aim of creating corruption-free competition. Siemens has adopted the objective of actively working for the implementation of these rules in 2009, and aims to set up corresponding already identified projects with partners in industry and the public sector.

Furthermore, Siemens has started an Integrity Initiative with a budget of USD 100 mill. as part of the settlement with the World Bank in July 2009. The initiative funds organizations, projects and training activities worldwide in the fight against corruption. After the finalization of the selection process, the announcement of funding decisions within the first funding round was made on December 9, 2010, “World Anticorruption Day”. Currently 31 projects are funded with approx. USD 40 mill. and are in the realization phase.

Outlook

After the successful launch of the Compliance System with its Prevent, Detect, Respond and Continuous Improvement elements discussed above, the next step will be to ensure that the System is sustainably rooted in the company. Ultimately this entails a comprehensive, long-term Change Management Process. An important role will be played in this framework by the right communication of Compliance by the management. Compliance must be regarded and understood as an indispensable aspect of all business processes. The efficiency and feasibility of the Compliance System must be continuously further improved and the risk analysis adapted to the constantly developing business.

The Independent Compliance Monitor, former Federal German Finance Minister Dr. Theo Waigel, who was commissioned by Siemens in the context of agreements with the US authorities for a monitoring period of four years, has been accompanying this process on a continuous basis since fiscal 2009. After three years spent monitoring and evaluating Siemens’ Compliance System, Dr. Theo Waigel presented his third report in 2011 and attested to the fact that Siemens’ Compliance System, including its guidelines and procedures, has been appropriately drawn up and implemented for the detection and prevention of breaches of anti-corruption provisions within Siemens.