

Munich, Germany, December 15, 2008

Statement of Siemens Aktiengesellschaft: Investigation and Summary of Findings with respect to the Proceedings in Munich and the US

Just over two years ago, in November 2006, offices of Siemens Aktiengesellschaft were raided by the Munich prosecutor, following allegations that the Company had made corrupt payments. The Company decided to investigate the allegations independently of any government proceedings and also committed to cooperate with investigating authorities in Germany and abroad.

Over the past two years, the Company has had only a limited ability to describe the work that has taken place. This was necessary to enable the success of the processes in which the Company was engaged, and in some cases required by the authorities. With the proceedings announced on 15 December by the Munich and US authorities, the Company can now provide a summary of the occurrences of the past two years as follows:

- Describe the scope of the internal investigation conducted by Debevoise & Plimpton LLP and supervised by the Compliance Committee of the Supervisory Board;
- Describe the nature of the problems at Siemens that formed the basis for the cases brought by German authorities and the US DOJ, using information contained in the charging documents of the Munich State Prosecutor and US DOJ; and
- Provide an update on the many far-reaching improvements that have taken place at Siemens over the past two years.

I. The Compliance Committee Investigation and Cooperation

Shortly after the Munich prosecutor's raid, on 29 November 2006, the then-Chairman of the Siemens AG Audit Committee promptly convened a meeting in Düsseldorf with the Chairman of the Supervisory Board, the Company's CFO, its Chief Compliance Officer, its Head of Corporate Finance Reporting & Taxes and two of the Company's outside auditors from KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. Siemens needed to

1 / 26

find out the truth about the allegations of corruption. At that meeting, all of the participants recognized that an internal investigation would be required.

At the outset, it was also clear that Siemens' internal investigation would take place at the same time that the Munich prosecutor was conducting a criminal investigation, and the United States Department of Justice ("DOJ") and the Securities and Exchange Commission ("SEC") likely would begin their own investigations, quite apart from ongoing proceedings against the Company in other jurisdictions, such as Liechtenstein, Austria and Switzerland. The Company decided to cooperate fully with the investigating authorities.

A. Assistance of Outside Experts

The participants in the 29 November Düsseldorf meeting agreed that given the nature of the allegations, the investigation should be directed by a Company organ separated from operational management, with the Audit Committee being the most logical choice. Of course, the Audit Committee could not conduct the investigation on its own and therefore required the expertise and independence that outside professionals could offer.

Several international law firms were considered to provide assistance. It was important to identify a firm that had the requisite experience and capacity. To ensure the independence of the investigation, it was also critical to select a firm that had not previously worked for Siemens. After careful consideration, at a special meeting on 11 December 2006, the Audit Committee voted to retain the international law firm Debevoise & Plimpton LLP ("Debevoise"). On 15 December 2006, in a letter signed by the Chief Financial Officer and by the General Counsel, and countersigned by the Chairman of the Audit Committee, Debevoise was engaged by the Company with a mandate to advise and report directly to the Audit Committee. The Audit Committee oversaw the investigation until 25 April 2007. Thereafter, the Supervisory Board transferred responsibility for compliance-related matters, including the investigation, to the newly-created Compliance Committee (together with the Audit Committee, the "Committee"). With the Company's agreement, Debevoise, in turn, retained forensic accountants and risk management specialists from the accounting firm Deloitte & Touche GmbH ("Deloitte") to assist in conducting the investigation.

Debevoise and Deloitte regularly consulted with the Committee on all decisions regarding the scope and conduct of the investigation, and reported on a regular basis in detail on the progress and findings of the investigation. There were twelve lengthy reports starting four weeks into the investigation and continuing at least every eight weeks thereafter. After each detailed briefing to the Committee, investigators gave a summary of the briefing to the full Supervisory Board.

B. Comprehensive Scope of Work

The Company engaged Debevoise “to conduct an independent and comprehensive investigation to determine whether anti-corruption regulations have been violated and to conduct an independent and comprehensive assessment of the compliance and control systems at Siemens.”

A “comprehensive” investigation meant that the investigation had to be not only thorough, but also far reaching. At the time, the known allegations concerned only the fixed networks business at the Company’s telecommunications, or “Com,” group. However, it was clear to the Committee that if those allegations were even partially true, the Company needed to understand whether the practices that occurred there had been repeated in other businesses. Hence, the Committee instructed the investigation to look beyond Com.

The known allegations included accusations about high level employees – including even a former member of the Zentralvorstand. Therefore, the investigation had to look at the actions of senior management, including the Vorstand. The Committee also specifically requested that Debevoise examine the past conduct of the Audit Committee itself. The investigation was not primarily aimed at ascribing responsibility for misconduct to particular individuals but it was necessary to identify any structural deficiencies that allowed any misconduct to occur.

C. How the Investigation Was Conducted

An internal investigation typically involves investigators combing through documents, examining financial and accounting records, interviewing witnesses and attempting to pull together fragmentary information until, like a puzzle, the pieces fall into place and the picture becomes reasonably clear.

In these respects, the Siemens investigation was no different from most other company investigations. However, Siemens’ size and complexity presented unique challenges. In FY 2006, Siemens’ revenue exceeded €87 billion. The Company employed some 475,000 people and conducted business in 190 countries. The Company’s products and services ranged from design and construction of some of the world’s most sophisticated power plants and trains to manufacture and sale of light bulbs. Siemens was organized in a “matrix” structure, with significant sales activity for the Germany-based operating groups carried out by employees of regional or local companies. It was clear to the Company and acknowledged by the investigating authorities in Germany and the US that no investigation of this sort could look at every transaction, or even every facet of Siemens’ business.

The investigation accordingly focused on the parts of Siemens' business that appeared to present the highest risk of corruption. The Committee considered risk to be inherently present in operations with significant amounts of government business, large infrastructure projects, work in countries notorious for corruption, contracts procured with the assistance of outside business consultants, and projects or businesses where existing compliance files contained preliminary indications of possible bribery. Using these criteria, and upon approval of the Committee, the internal investigation focused principally on six of Siemens' eleven operating groups ("*Bereiche*") at the time the investigation began at the end of 2006: Communications ("Com"), Power Generation ("PG"), Power Transmission and Distribution ("PTD"), Transportation Systems ("TS"), Industrial Solutions and Services ("I&S") and Medical Solutions ("Med"). In FY 2006, these groups accounted for approximately 60 percent of Siemens' revenues. The investigation also examined select Siemens regional companies, with special attention to regional companies operating in high-risk jurisdictions.

Even with this tighter focus, the Siemens investigation has been among the largest of its kind. It is difficult meaningfully to capture the amount of work that went into this investigation. The investigation included:

- 1,750 interviews with Siemens employees and other individuals;
- 800 informational briefings with employees to obtain background information;
- 82 million documents electronically searched to identify potentially relevant material;
- 14 million documents reviewed;
- 38 million financial transactions analyzed; and
- 10 million bank records reviewed.

Concurrently with the investigation, Debevoise and Deloitte conducted an assessment of the Company's internal control systems. The aim of the assessment was to identify weaknesses and gaps and help Siemens improve its control systems to make it more likely that misconduct would be deterred, detected, investigated and remedied in the future. The internal controls assessment included 850 informational briefings with Siemens employees around the world.

D. The Investigation Was Conducted Legally and Fairly

Siemens took extraordinary care to ensure that the investigation complied with the laws of Germany and the countries in which the investigation was conducted, in particular laws regarding the protection of personal data and, in some countries, laws meant to address the risk of espionage. The German Federal Ministry of Justice and German data protection authorities have had the opportunity to satisfy themselves that the investigations by foreign investigating agencies and by the Company did not contravene applicable German legal requirements, including laws governing international legal assistance.

The Company also took steps to make sure that the conduct of the investigation was fair to Siemens employees. All interviewees were provided the opportunity to conduct interviews in their native language. Siemens supplied professional foreign-language interpreters whenever requested. Independent external counsel retained and paid for by Siemens were made available to assist current and former employees with the interview process and accompany them to interviews. In addition, interviewees could opt to pay for and be accompanied by their own lawyers. Where possible, interviews and informational briefings were scheduled days or weeks in advance in recognition of other demands on employees' time.

Debevoise regularly consulted with and sought necessary approvals from the Siemens Works Council regarding the mandate and conduct of the investigation, including processes for conducting interviews, and for collecting, reviewing and securing documents and data. In cooperation with Debevoise, Siemens entered into shop agreements (*Betriebsvereinbarungen*) with labor representatives that reflected the processes agreed upon.

Furthermore, the Company and Debevoise adopted strict procedures to ensure that Siemens' competitively-sensitive information was secured during the investigation, including the creation of secure data-review centers with strict controls on the exit of any data, encryption of data, and the use of locked metal boxes to transport paper documents to and from document scanning facilities.

E. Concrete Steps Taken by Siemens That Helped the Investigation Succeed

Throughout the investigation, the Company ensured that investigators had access to the information they needed. Within weeks of the beginning of the investigation, Siemens established a Project Office Compliance Investigation ("POCI"), a group solely dedicated to facilitating the investigation. POCI was headed by a senior Siemens in-house counsel and included 16 full-time personnel, who were located mostly at Siemens' offices in Munich and Erlangen. POCI assisted the investigators in many ways, including by arranging interviews, ensuring there was adequate

technical support to assist with document and data collections, helping with the rollout of the investigation to Siemens regional entities around the world, and obtaining information from specially retained local counsel about laws and regulations in each country that affected how the investigation could proceed.

Perhaps the most important step that Siemens took to help ensure the success of the internal investigation was to establish, in October 2007, an amnesty program for current and former employees. Such a program appears to be unique in modern German business history and was only implemented thanks to strong support from the Committee and current senior management. Generally, the program was designed to protect employees or former employees who were fully cooperative with the investigation. The program provided that qualifying current and former employees would not face civil damages claims or, in the case of current employees, involuntary termination. The Company reserved the right to impose lesser disciplinary sanctions. The amnesty program excepted certain senior managers from its scope, including members of the Siemens AG Vorstand, members of the group executive managements and regional company CEOs and CFOs. The program aimed, for reasons of fairness, to accommodate those individuals who, in contrast to certain decision-makers, may have been pressured to participate in potentially improper activities.

In April 2008, the Company went even further, and created a “leniency” program, which provided for individualized disciplinary determinations for employees significant to the Debevoise investigation, including senior management excluded by the original amnesty program.

The amnesty and leniency programs were successful. Numerous individuals came forward who had not been interviewed previously. Others sought amnesty and provided truthful information after having lied in pre-amnesty interviews. Still others provided information that opened up entirely new areas for investigation. All told, more than 171 Siemens employees applied for amnesty or leniency pursuant to these initiatives. The Company offers its sincere thanks to these employees for having the courage to discuss sometimes difficult issues and for helping the Company learn from the past in order to avoid similar problems in the future.

F. Cooperation with Authorities

As noted above, the Company—at the outset of the investigation—adopted a policy of cooperating with investigating authorities in Germany, the US and other countries. That directive was later extended to investigations by multilateral development banks that financed some of the projects in which Siemens has participated.

Soon after Debevoise was engaged, Siemens and Debevoise lawyers met with the Munich prosecutor to discuss the proposed independent investigation and the Company's interest in cooperation. Siemens and Debevoise from the beginning sought to accommodate any concerns that the internal investigation could interfere with the public investigation. The Company and the law firm made sure that the public investigation took precedence, when so requested, even if that meant that Debevoise was delayed, sometimes considerably, in obtaining information. This process facilitated the task of the public prosecutor and assured that the conclusions of the public prosecution and those of the internal investigation were reached independently of each other.

In the US, the role of an independent investigator and the notion of company cooperation with government investigations is firmly established. In Germany, however, such an approach is unusual if not unprecedented.

It is now clear that the Company's cooperation and its remediation efforts were highly valued by the Munich prosecutor. As the Munich Prosecutorial Decree regarding Siemens AG ("Munich Prosecutorial Decree") states:

"A substantial mitigating factor was that, during the investigations, Siemens AG cooperated extensively with the investigators and assisted them in clarifying the allegations."

Munich Prosecutorial Decree at 12.

The Company achieved substantial benefits from its cooperation with authorities and its extensive remediation efforts. Among those benefits are:

- Conclusion of the matter in Germany with respect to the Company long before all individual cases are resolved;
- Coordinated conclusion of German and US proceedings so as to avoid having the Company pay twice for the same conduct;
- Conclusion of the matter in the US much faster than is typical for a Foreign Corrupt Practices Act ("FCPA") case, even for cases that are much smaller and less complex;
- US DOJ recommendation that the court impose a reduced sentence based on the Company's extraordinary cooperation and far-reaching remedial measures, resulting in a fine that is only a fraction of what it could have been;

- The first-ever appointment of a German compliance monitor as part of a US enforcement action. The monitor, former Minister of Finance Dr. Theodor Waigel, is widely respected in Germany and abroad. He will be uniquely positioned to fulfill his monitoring mandate while also understanding fully the practices, constraints and challenges of a German company engaged in international business.

The Company's resolution with German and US authorities is completely independent of the resolution of any investigations that the authorities are conducting or may conduct with regard to the conduct of individuals, including any former officers or employees of Siemens. As the Munich authorities have stated, their investigations into former members of the Vorstand and employees will continue and are likely to take considerable time to conclude. The authorities view these as separate investigations and will make any decisions regarding individuals independently of decisions made regarding the Company itself. The Company did not, and indeed does not have the ability to, influence the resolution of the investigation of any individual. Moreover, authorities in a number of other jurisdictions around the world are conducting ongoing investigations into allegations of public corruption involving the Company, which the Company is working to resolve.

The investigative and controls work briefly summarized here required significant time and money. The direct costs to Siemens for the independent investigators through October 2008 were €204 million for Debevoise and €349 million for Deloitte. The Company believes that the costs were justified by the relatively favorable results and the speed with which they were achieved.

II. The Widespread Nature of the Problems at Siemens

The German and US DOJ criminal charging instruments set forth the kind of systemic problems that beset the Company for a long time. In addition to concluding the criminal cases brought by the Munich Public Prosecutor and the US DOJ, the Company has also entered into a settlement with the US SEC that resolves the SEC's investigation. Because the Company has neither admitted nor denied the allegations set forth in the SEC's Complaint, this Report does not reference the SEC's allegations.

A. Long History of Troubling Practices

The DOJ information against Siemens AG, made public in connection with the resolution of DOJ charges ("Siemens AG Information"), recounts decades of the Company's history of doing business overseas, including in places where corruption was "endemic." It also states:

"Until in or about February 1999, certain systems existed within SIEMENS that allowed for corrupt payments as necessary to win

business. For example, there were multiple ‘cash desks’ housed within SIEMENS offices where employees could withdraw large sums of cash, up to and including one million Euros at a time. In addition, in the 1990s, very large sums of money – more than one billion Euros – were withdrawn for questionable business purposes from off-books accounts in Austria, Switzerland, Liechtenstein, and elsewhere. SIEMENS also relied heavily on purported ‘business consultants,’ in many cases for the sole purpose of passing along corrupt payments from SIEMENS to foreign government officials responsible for awarding business.”

Siemens AG Information at ¶38.

Before 1999, German law did not prohibit payment of foreign bribes (local laws, however, did), and even permitted tax deductions for such payments. That changed in 1999, when Germany ratified the Organization for Economic Cooperation and Development (“OECD”) Convention against foreign bribery and adopted legislation criminalizing the payment of bribes to foreign government officials. On March 12, 2001, Siemens listed on the New York Stock Exchange (“NYSE”) and became subject to the FCPA and certain other US laws.

Despite these changes in the laws applicable to Siemens, these practices did not end but persisted in diverse businesses and regions. The Munich Prosecutorial Decree, at pages 11-12, refers to slush funds created using consulting contracts, and to bribes used to procure orders overseas until November 2006.

A few examples can be found in the three DOJ charging instruments filed in connection with the guilty pleas by three Siemens AG subsidiaries, Siemens S.A. (Argentina), Siemens S.A. (Venezuela) and Siemens Limited Bangladesh. Siemens Venezuela and Siemens Bangladesh were convicted of conspiring to violate the FCPA’s antibribery provisions, while Siemens Argentina was convicted of conspiring to violate the FCPA’s books and records provisions.

The DOJ Information against Siemens S.A (Venezuela) (“Venezuela Information”) states that between late 2001 and January 2006, Siemens Venezuela made or caused to be made over \$18.7 million in payments to various third-party agents and consultants “with the understanding that some or all of those funds would be passed along to Venezuelan officials for the corrupt purpose of obtaining and retaining” two mass transit projects in the City of Maracaibo and the City of Valencia. See Venezuela Information at ¶15. To obtain these funds while at the same time concealing their true purpose, Siemens Venezuela employees and others “caused the creation of sham

agreements for ‘studies,’ ‘consulting,’ ‘workshop equipment,’ and ‘supplies,’” and, among other things, entered into sham supplier contracts with a consulting firm controlled by a former PG employee. *Id.* at ¶¶19(c)-(d), and 26.

As set forth in its Information against Siemens Bangladesh (“Bangladesh Information”), the DOJ states that between May 2001 and August 2006, Siemens Bangladesh “engaged or caused to be engaged purported business consultants to pay bribes to various Bangladeshi officials in exchange for favorable treatment” in connection with a tender to build a mobile phone network for the government-owned customer, the Bangladesh Telegraph and Telephone Board (“BTTB”). See Bangladesh Information at ¶22. Siemens Bangladesh “made or caused to be made approximately \$5,335,839.83 in corrupt payments in connection with the BTTB project,” *id.* at ¶27(a), and, some cases, channeled such payments through payment intermediaries used by Siemens, including a Cyprus company, and a former Siemens subsidiary based in Switzerland, *id.* at ¶¶5-6 and 28.

Finally, as set forth in the DOJ Information against Siemens S.A. (Argentina) (“Argentina Information”), in 1998, Siemens Business Services (“SBS”) was awarded a \$1 billion project to create a national identity card for the Argentine Ministry of the Interior. See Argentina Information at ¶¶21-22. Siemens Argentina pled guilty to an Information that charged that there were significant, improperly-recorded corrupt payments reflected on its books and records in connection with this project. Between 1997 and January 2007, Siemens Argentina “paid or caused to be paid at least \$15,725,000 directly to entities controlled by members of the Argentine government,” and it paid over \$85 million to certain third party consultants or entities which performed no legitimate business function but which helped to facilitate payments for the “purpose of obtaining, retaining, or reinstating for Siemens Argentina the national identity card project.” *Id.* at ¶25. Some of the payments were made in the first instance by PTD, which had no involvement in the project. The PTD payments were channeled through a third-party payment intermediary, booked to a totally unrelated project, and eventually reimbursed by SBS. *Id.* at ¶¶33(u)-(z).

B. Sophisticated Schemes to Carry Out the Practices

The Siemens AG Information describes in some detail the methods employed by the operating groups that were the focus of the Compliance Committee investigation—Com, I&S, PG, PTD, Med, and TS—to make suspect payments. All of the methods used shared a common theme: to obscure the purpose for and the ultimate recipient of monies paid by Siemens in connection with efforts to acquire business.

Whereas payments in the 1990s were largely in cash and through the use of off-the-books accounts, as the legal environment and Siemens’ policies grew more restrictive the methods to

10 / 26

make payments became more elaborate, often conforming to the letter but not to the spirit of Siemens' policies.

Managers, across *Bereiche*, made wide use of vaguely-worded, sometimes backdated business consulting agreements ("BCAs") "to justify third party payments." Siemens AG Information at ¶89(b), (j). After the Company imposed new, mandatory restrictions on the use of BCAs in mid-2005, some managers simply "chang[ed] the name of purported business consulting agreements to 'agency agreements' or similar titles to avoid detection and conceal noncompliance" with the new rules. *Id.* at ¶89(k).

Other employees and former employees established or used companies set up specifically to act as intermediaries for suspect payments on behalf of the Com, Med, PG, PTD and TS businesses. *Id.* at ¶90(e). Com, PG, PTD and some regional company managers also established shell companies and off-the-books "slush funds" to generate monies for suspect payments. *Id.* at ¶90(f); see also Munich Prosecutorial Decree at 11-12. And numerous employees across *Bereiche* signed contracts or payment authorizations without questioning the purposes of such contracts or payments, and many signed on Post-It notes that could be removed if the contracts or payments were later scrutinized. *Id.* at 89(h).

The Siemens AG Information echoes the ruling of the Munich court in the October 2007 Com case, where the court observed that the fixed networks business made illicit payments either via payment intermediaries, through business consultants acting as front men for the actual payees, or directly to decision-makers. See 4 October 2007 Order of the 5th Criminal Division of the Landgericht Munich I issued against Siemens AG, at 4. The court determined that the former Com commercial manager involved had established a system of slush funds in order to disguise the money flows. "[H]e unobtrusively siphoned off monies from Siemens AG and accumulated them on several accounts, in order to be able to, inter alia, secretly forward the required sums in cash to the sales representatives or use these funds to transfer slush monies." *Id.*

C. Role of Senior Managers

Recent criminal trials in Germany against former Com and PG managers, the October 2007 Com findings, the Munich Prosecutorial Decree, and the Informations filed in the court in the US in connection with the resolution of the DOJ charges all indicate that misconduct was not simply the result of poor judgment by low level employees but instead was often known about or directed by relatively senior managers.

For example, the former Com commercial manager who helped arrange improper payments on behalf of the fixed networks business had been a Siemens AG Director and a member of the top management circle, one level below the Bereichsvorstand. A former Bereichsvorstand member has admitted that he administered slush fund accounts for his group. The Munich Prosecutorial Decree states that, in some groups, “[h]igh-ranking managers, including members of group boards, were themselves also directly involved in this policy” of making corrupt payments. Munich Prosecutorial Decree at 13. The DOJ Informations against the three Siemens regional companies also discuss the participation of certain senior executives in specific corrupt payments or in the improper recording of transactions in the Company’s books and records. Finally, the Siemens AG Information describes the use by some groups of complex payment mechanisms and payment amounts that required the knowledge or participation of some senior group managers.

D. Problems Not Limited to COM

As the resolutions of the US DOJ cases, the Munich court proceeding, and the Munich prosecutor’s decision make plain, there were widespread problems at Siemens that affected business in many regions. Problems existed, albeit to differing degrees, across several Siemens operating groups. And misconduct was not limited to employees working at Siemens AG in Germany; certain regional company employees also participated in requesting or making improper payments.

E. Very Large Amounts of Money Involved

The amounts set forth in charging documents and the Siemens AG Information provide some measure of the scope of the problem the Company was confronted with when the internal investigation began two years ago:

- \$66.6 million was withdrawn *in cash* by former employees of the Com business prior to September 30, 2004 but after Siemens AG was listed on the NYSE on March 12, 2001. *Id.* at ¶90(b).
- Between 2000 and September 2002, another approximately \$82 million was issued in the form of bearer checks or *Barschecks* to just two former Com managers who were then able to transfer such instruments into off-the-books accounts which were then used to make suspect payments. *Id.* at ¶90(c)-(d).

- Employees from Com, Med, PG, PTD, TS, I&S and some regional companies paid out over \$183 million directly to business consultants after March 12, 2001, “knowing that at least some of those funds would be passed along to foreign government officials.” *Id.* at ¶90(a).
- More than \$185 million was paid by the Com, Med, PG, PTD and TS businesses to fewer than a dozen payment intermediaries between March 12, 2001 and November 15, 2006, “for the sole purpose of transferring money from Siemens to purported business consultants, who then used some or all of the money to pay bribes to government officials.” *Id.* at ¶90(e).
- Between March 2001 and September 2004, Com, PG, PTD and certain regional companies paid approximately \$192 million to third parties through off-the-books slush funds. *Id.* at ¶90(f).
- Finally, PG, MED and certain regional companies paid over \$49 million through payment mechanisms or from accounts which did not require invoices and otherwise obscured information regarding the source and/or recipient of the funds. *Id.* at ¶90(g)-(h).

In total, according to the Siemens AG Information, after being listed on the NYSE, Siemens “made payments totaling approximately \$1,360,000,000 through these various mechanisms,” including \$805,500,000 which was “intended in whole or in part as corrupt payments to foreign officials.” *Id.* at ¶90.

III. Why Problems Persisted

One of the most challenging questions the Company sought to have answered by Debevoise was why did problematic practices continue even after German law changed and the Company listed in the US? Many at the Company understood Siemens to be a global leader in all respects, and assumed that the Company did business in a lawful and straightforward way. The Company’s many legitimate accomplishments do not easily reconcile with the kind of conduct described in the German and US DOJ charges.

Set forth below is evidence reflected in the Munich and US DOJ charging documents that helps to explain why the problems persisted in recent years. Among other things, Siemens failed to:

- implement sufficient antibribery compliance policies and procedures;
- appropriately investigate and respond to allegations of corrupt payments;

- discipline employees involved in making corrupt payments;
- establish a sufficiently empowered and competent Corporate Compliance Office; and
- fully and candidly report to the Audit Committee about looming and systematic problems.

In addition to these specific shortcomings, it is clear that Siemens' top management did not establish an adequate "tone from the top" that past practices had to end immediately, that only lawful business would be tolerated, and that the Company would rather forego business opportunities and miss performance targets than win business corruptly.

Information like this, which was also developed in the course of the Company's internal investigation, led the Supervisory Board, after receiving advice from Hengeler Müller, to authorize the Company to pursue claims against former members of the Vorstand.

A. Lack of Strong Compliance Systems

The Munich and US DOJ charging documents clearly show that although the Vorstand adopted some anti-corruption policies, as a body it did not create a sufficient anti-corruption culture or instill sufficient ethical values throughout the Company. While the level of knowledge and effort by individual Vorstand members surely varied and, of course, the Vorstand membership changed over time, as a whole, the Vorstand did not provide the leadership that was needed for Siemens to adapt swiftly enough to its changing regulatory environment.

While the vast majority of Siemens employees always have been honest and law-abiding, the charging instruments make plain that, over many years, certain managers in operating groups and regional companies across the Company had come to view making illicit payments as an unseemly but necessary business practice. Munich Prosecutorial Decree at 13. Going back to the time before Germany's adoption of the OECD Convention, payment systems, business consultants, secret bank accounts, cash safes and the like appear to have been handed down from one generation of managers to the next. This was the way business had long been done in some markets, and was often considered necessary to continued business success in them even in the 2000s. Siemens AG Information at ¶¶36-38, 44, 51, 64 & 90(a)-(i).

Changes in legislation or internal policies that outlawed corruption did not relieve these managers of their ambitious business targets, did not change the reality on the ground in corrupt countries, and did not end what many believed was widespread corruption by competitors. There was also a lack of serious disciplinary consequences for employees involved in making improper payments—when they were caught, which was rare. Certain managers who were involved in making

questionable payments, or even implicated in criminal misconduct received the same severance packages ordinarily reserved for early retirees. *Id.* at ¶86; see also *id.* at ¶¶59, 68 & 135.

The kind of reform that needed to occur did not happen. In general, from 1999 through 2006, too many people at the Company viewed new compliance measures as requiring changes in form, not in substance. As an example, the Company provided templates for and guidance on BCAs, as well as consultant due diligence forms. See, e.g., Siemens AG Information at ¶81. But, as noted above, some sales managers simply used these new forms to continue relationships with the same consultants, who performed the same illicit activities as before. *Id.* at ¶135(m).

Top management did not explicitly, emphatically and convincingly instruct management that Siemens would rather lose a business opportunity than win it through corruption, and did not take steps required to ensure compliance with that instruction. *Id.* at ¶64. The Siemens AG Information states that it was not until the summer of 2004—more than five years after Germany adopted the Act on Combating Bribery of Foreign Public Officials in International Business Transactions, and more than three years after Siemens listed on the NYSE—when one Vorstand member gave a speech entitled “Tone from the Top,” that a member of the Vorstand told a large group of Siemens managers that the Company was willing to sacrifice orders in exchange for anti-bribery compliance. *Id.* at ¶69.

The Munich Prosecutorial Decree describes the Vorstand’s failure, as an institution, to create a strong compliance culture:

“The fact that in the past slush funds were built up at Siemens AG over a long period of time and across many areas of the business should, however, be regarded as an aggravating factor. Substantial sums of money flowed through these accounts. Paying bribes from slush funds that were fed by bogus consultant agreements was an accepted corporate strategy within some of the business groups. . . . Because the Siemens AG Managing Board did not make it sufficiently clear that business that could not be obtained without bribes was business that had to be forfeited, the Vorstand itself facilitated this practice. Instead, the expectations placed on each business group were ratcheted up year after year. At the same time, the Vorstand failed to make radical improvements to what was clearly an inadequate compliance system. Employees who were involved in handling illegal payments, moreover, faced no obvious consequences. This policy of ‘turning a blind eye’ only served to

strengthen the assumption made by those employees who undertook such payments that their actions were backed by the Managing Board.”

Munich Prosecutorial Decree at 13.

B. Weaknesses in Internal Controls

As Siemens has acknowledged through its guilty plea in the US, the Company had flawed internal controls and compliance systems. Too often, the policies that were adopted were weak; there was insufficient education and training about them; there was too little effective monitoring or auditing of compliance with them; warning signs that they were failing were not heeded; and employees who violated them did not receive adequate punishment. The two-year period leading up to the Company’s NYSE listing saw a flurry of compliance-related activity at the Vorstand level, including detailed discussions on the new organization taking shape and expressions of concern at the number of compliance issues. The three years following the NYSE listing, by contrast, lacked similar intensity. Between March 2001 and April 2004, the General Counsel was asked to report to the Vorstand on compliance issues just once, in July 2002.

The Siemens AG Information details the failures in corruption-related controls. Among these are:

- *Entering into purported business consulting agreements with no basis, and without performing any due diligence, sometimes after Siemens had won the relevant project.* DOJ Information against Siemens AG at ¶135(t). Many suspicious payments were made through a business consultant or similar third party. Until 2005, there were no Company-wide mandatory rules regarding business consultants, and a new policy adopted in 2005 could be circumvented simply by relabeling business consultants as “agents” or something similar. *Id.* at ¶¶53, 81, and 135(m).
- *Failing to implement sufficient controls over third party bank accounts and the use of cash.* *Id.* at ¶135(b). For example, until 2004, employees were able to withdraw very substantial amounts of cash from what were supposed to be petty cash desks, without supporting documents justifying the withdrawals. *Id.* at ¶¶38, 90(b).
- *Using off-books accounts for corrupt payments even after compliance risks associated with such accounts were raised at the highest levels of management.* *Id.* at ¶135(j). Siemens managers were thereby able to amass pools of money that could be used without supervision or controls.

- *Allowing third party payments to be made based on a single signature in contravention of Siemens' "four eyes principle." Id. at ¶135(l).* Siemens required two signatures for many transactions—one by a “commercial” employee (responsible for budget and financial matters), and one by a “technical” employee (responsible for sales and business matters). But evasion and misuse compromised the effectiveness of the four-eyes principle as a control mechanism. Sometimes, abuse of the four-eyes principle actually helped diffuse responsibility and permitted each signatory to disclaim knowledge of improper conduct and to claim he signed in reliance on his counterpart.

C. Missed Opportunities for Improvement

The Munich Prosecutorial Decree, particularly at pages 6-10, and the Siemens AG Information also highlight some instances where the Company's top management missed opportunities to fix important controls that did not work properly.

As described in the Siemens AG Information, on April 25, 2000, a Siemens officer issued a report to the Zentralvorstand recommending the creation of a company-wide list of agents and consultants and a committee to review these relationships. The Vorstand did not take up this suggestion. Instead, a debate ensued regarding whether to promulgate company-wide uniform guidelines for consultants, and meeting minutes indicate that the Zentralvorstand rejected the concept of instituting such guidelines due to “different business practices” in each division. Siemens AG Information at ¶¶42-43; Munich Prosecutorial Decree at 6. Although certain groups did adopt business conduct guidelines at this time, the Committee and Board now know that business consultants (including those paid through payment intermediaries) were the single most common means for continuing improper payments in this decade. Siemens AG Information at ¶¶90-91.

In June 2002, Siemens issued non-mandatory principles and recommendations regarding business-related internal controls and agreements with business consultants, including that such agreements should be in writing, transparent, and as detailed as possible. These non-binding recommendations were, however, largely ineffective. *Id.* at ¶53. In June 2005, Siemens finally enacted a Z Circular containing mandatory guidelines regarding agreements with business consultants. The guidelines prohibited success fees and required relevant compliance officers to sign off on consulting agreements and attached a due diligence questionnaire. *Id.* at ¶81; Munich Prosecutorial Decree at 11. Yet because the Circular applied only to business consulting agreements, it left the door open for some employees to continue to enter into questionable

agreements simply by calling them “agency agreements” or something similar. Siemens AG Information at ¶89(k).

D. Weak Compliance Function

Additionally, the compliance infrastructure was inadequate. *Id.* at ¶87. Despite the Company’s enormous size and geographic reach, until late 2006, the headquarters compliance organization consisted of a part-time chief compliance officer and just five or six other compliance lawyers. Munich Prosecutorial Decree at 9-10. During this time, there also grew to be approximately 75 compliance officers in the operating groups and regional companies, but they reported to group or regional management (not to central compliance) and also had continuing responsibilities in the businesses, which put them in the position of checking up on themselves and the people to whom they reported.

The Corporate Compliance Office also had few powers of its own, and had to request assistance from one of two audit units, or other departments, when it wanted to examine information that had come to its attention. In a sprawling company, with a history of doing business in countries susceptible to corruption, such a small and constrained compliance organization was insufficient. Munich Prosecutorial Decree at 10.

Members of the Vorstand were given notice on several occasions that the resources devoted to the compliance regime were insufficient. *Id.* at 8-10 One clear example is a July 2005 memorandum, prepared in response to a request by a Vorstand member, which compared the compliance program of General Electric Company (“GE”) to that of Siemens. This analysis went to two Vorstand members, including the member who requested the GE comparison. The analysis pointed out that GE’s program was more efficient at penetrating the organization because it had 300 “ombudsmen,” compared to only six Corporate Compliance Office lawyers at Siemens (plus about 75 group Compliance Officers and regional Compliance Officers). Despite this memorandum, no action was taken to expand the resources available to the Company’s compliance program until 2007. Siemens AG Information at ¶79.

The Compliance Office also suffered from an inconsistent mandate: policing compliance internally while at the same time defending the Company externally when compliance-related issues arose, making it essentially both prosecutor and defense counsel at the same time. *Id.* at ¶87. For years, this contributed to missed opportunities to detect patterns of corruption within Siemens and put a stop to them. Despite clear indications of systemic problems in Com and PG, no broad investigation was done. *Id.* at ¶¶72-73, 77, 84. At least some Vorstand members were aware that in addition to being under-resourced, the compliance function suffered from structural defects. The

structure was not revised until October 2004, and even under the new structure, compliance officers still had a legal defense function.

E. Failure to Heed Warning Signs

The government charging documents show that both the Vorstand as a whole and certain individual Vorstand members were made aware of evidence of bribery in specific cases that should have alerted them to a possible broader problem at Siemens, but in many cases they failed to take sufficient action. As a body, the Vorstand was told about cases including the Enel matter in Italy involving PG, an investigation of ICN in Liechtenstein, the corruption prosecution of a regional company CEO in Asia, bribery on a PG project in Belgrade, the investigation by authorities in Bolzano of a Com employee for potential bribes via an off-the-books Austrian account, and payments to consultants by Intercom, a wholly-owned Siemens subsidiary, via Swiss accounts held in trust by a member of the managing board of a regional company. Siemens AG Information at ¶¶77, 84-86.

The Enel matter in 2004 was the most critical of the bribery cases. Enel revealed fundamental problems with Siemens' compliance program, and made plain to the Vorstand that the Company could face serious legal consequences if these gaps were not addressed. While the Vorstand took affirmative steps to improve the Company's compliance program, it failed comprehensively to address inadequate controls and ingrained habits. *Id.* at ¶¶68-78.

The Siemens AG Information states that:

“From in or about 2004 to in or about 2006, in addition to learning of the corruption issues involving SIEMENS in Nigeria, Italy, Greece, Liechtenstein, and elsewhere, SIEMENS' senior management became aware of government investigations into corruption by SIEMENS in Israel, Hungary, Azerbaijan, Taiwan, and China. Nevertheless, SIEMENS ZV members and other senior management failed to adequately investigate or follow up on any of these issues. SIEMENS ZV also failed to take effective disciplinary measures with respect to any of the employees implicated in the various investigations. For example, the three PG managers implicated in the Enel cases each received a severance package standard for early retirees, despite the fact that certain SIEMENS ZV members

knew that at least two of the PG managers had already admitted to paying bribes at the time of their retirement.”

Id. at ¶186.

As the Information suggests, rather than viewing the cases as indicative of a systemic problem, Vorstand members treated each of them as an isolated incident.

F. Facts Not Brought to Audit Committee’s Attention

With respect to the work of the Audit Committee, the Siemens AG Information explains:

“From in or about 2004 to in or about 2006, there was a consistent failure on the part of certain members of management to alert the Audit Committee to the significance of the compliance failures discovered within SIEMENS. Reports to the Audit Committee by the Chief Compliance Officer were principally status reports on prosecutorial investigations and often conveyed incomplete information. In some instances, management provided inaccurate information in response to Audit Committee inquiries. At no time did management convey to the Audit Committee a sense of alarm or growing crisis.”

Id. at ¶188. See also *id.* at ¶¶174, 75, 78, 82 & 83.

IV. **Siemens Today**

In the two years since the Munich prosecutor’s raid, the Company has made transformative changes, replacing its top management, streamlining its organizational structure, overhauling and strengthening its compliance, legal and audit functions, and addressing internal controls gaps. The Company’s new management has been committed to the Compliance Committee’s investigation, to determining what had gone wrong at Siemens, to fixing weaknesses, and to cooperating with prosecutors around the world. Siemens today simply is not the same Company it was just two short years ago.

A. Changes in Top Management

In the past two years, the most senior management of Siemens has changed dramatically. Siemens has replaced its CEO, General Counsel, Chief Audit Officer and Chief Compliance Officer. In July 2007, Mr. Löscher, who had most recently served as an executive at Merck & Co.

20 / 26

and GE, became the first person ever hired as Siemens CEO without prior experience at the Company. Siemens also hired Mr. Solmssen as its General Counsel, with responsibility for compliance matters, and named him to the Vorstand – the first time a General Counsel was ever elevated to the Siemens Vorstand. Mr. Solmssen had spent the previous nine years as a corporate officer with GE and General Counsel of GE Healthcare. In September 2007, the former Executive Vice President and Chief Administrative Officer at Celanese Corporation who was also responsible at Celanese AG for legal matters, corporate governance, compliance and risk management, was named Chief Compliance Officer. A former forensic audit partner at PricewaterhouseCoopers LLP was named Chief Audit Officer heading up a reorganized internal audit function. All of these new leaders were chosen in part due to their understanding of anti-corruption laws around the world and their commitment to compliance.

The Company also streamlined its operations, combining its operating groups into three sectors – Industry , Energy and Healthcare – and grouping its regional companies into clusters for improved governance and compliance. The CEO of each sector was named to the Vorstand and each now bears responsibility for compliance within his sector. In addition, Siemens reduced the size of the Vorstand from eleven members to eight. None of the eleven members of the Vorstand as it was constituted in April 2006 remain at Siemens.

The reporting lines in the legal and finance functions were changed substantially. In both organizations, a new global functional reporting structure was implemented so that all finance officers report directly or indirectly to the Company’s CFO and all legal counsel report directly or indirectly to the Company’s General Counsel. Through these measures, the concentration of control is enhanced in the functions essential for compliance and monitoring compliance.

The Supervisory Board has also seen changes. In April 2007, the Supervisory Board created a Compliance Committee consisting of the Supervisory Board Chairman and four other members. In addition, the then-Audit Committee Chairman became Chairman of the Supervisory Board.

B. Enhanced Tone at the Top

In addition to placing responsibility for compliance with the CEO and General Counsel, Siemens’ new management has made clear that it simply will not tolerate future compliance breaches. In August 2007, the Company created a Corporate Disciplinary Committee, the function of which is to impose discipline on employees found to have engaged in violations of anti-corruption laws or Siemens policies, and to pursue claims for damages against former employees believed to have been complicit in corrupt activities or to have failed to meet their duty to prevent such activities. The Corporate Disciplinary Committee has already recommended disciplinary sanctions against

21 / 26

dozens of individuals for misconduct related to corruption, including, in some cases, employment termination; in a number of cases, the recommended discipline already has been imposed.

The Company's top management is committed to transparency and ethical business, has acknowledged that misconduct has occurred in the past, and stated that it will ensure that such misconduct is investigated fully and not tolerated in the future. In an April 2008 letter to all employees, Mr. Löscher wrote:

"[I]t is evident that irresponsible and apparently also criminal actions have occurred in our company. What exactly happened and how it was possible that this has gone unnoticed for a long time is being investigated by state authorities in Germany and abroad and at the same time by independent investigators, mandated by the company. We do everything we can for a full clarification and we want to find out who was responsible. Needless to say that it will be supervisory authorities and courts that eventually judge the responsibilities. Nonetheless, our interest is: Transparency, clarity, verity, responsibility.

It is equally important that we encourage you all to deal with Compliance issues in an appropriate fashion and to look closely for in the future we can control the risks, which the company did not have sufficiently under control in the past. For that reason we devised our Compliance program. We are making good progress with it and have obtained great acceptance.

We only do clean business. And only clean business is sustained business. This holds true always and everywhere. Please attend to our clients and our business with this attitude and great commitment. Then we are on the right track."

C. Specific Steps to Address Corruption Risks

The Company has taken significant steps to address the corruption risks posed by business consulting and similar agreements, risks that prior Company policies had not fully eliminated. In February 2007, management imposed a moratorium on new BCAs and on payments under existing BCAs. The Company also undertook a thorough review of all BCAs that were still in force and, with the assistance of an outside law firm, a review of all sales agency agreements.

The Company also took a more far-reaching step, establishing strict new guidelines that apply to the establishment of all types of business partner relationships, irrespective of whether the business partner is labeled a consultant, an agent, a supplier or something else. The new policy, issued on 30 July 2008, requires that, “before entering into a relationship with a third party, all Siemens business units must take certain steps to ensure that the relationship is appropriately evaluated and managed.” The steps include a risk assessment and rigorous due diligence review supported by an online tool that provides assistance, transparency and accountability across the process. The current policy, which takes a risk-based approach for classification of every type of business partner, sets the standard for best practices in regulating such third party relationships.

D. An Improved and Dramatically Expanded Compliance Program

In January 2007 the Company formed a steering committee consisting of five senior executives with a mandate to improve compliance at Siemens. Since then the steering committee, acting partly on information developed in the Compliance Committee investigation and internal controls assessment, has proposed and implemented significant changes.

Siemens also has taken action to create clear reporting lines for the compliance function, with responsibility culminating at the top of the management structure. The Company reformed the Corporate Compliance Office and established a direct reporting relationship between sector and regional compliance officers and the Chief Compliance Officer. The Chief Compliance Officer now reports to the General Counsel and the CEO.

The Legal Services and Compliance organizations have been combined and consolidated under the leadership of the General Counsel. The Corporate Compliance Office established four new departments to develop and support the compliance effort throughout the Company. The new structure offers much-needed support, clarity and accountability for the compliance function. The Legal Department has also been restructured, with many new senior level appointments from inside and outside the Company. Most importantly, the lawyers have been empowered to participate actively in the businesses to which they are assigned and instructed to be proactive in addressing potential compliance issues.

Today, Siemens has over 500 full-time compliance employees worldwide. In addition, the Company has a new compliance investigative unit, headed by a former Interpol official, that is in the process of hiring investigators.

Since November 2006, Siemens has created a far more substantial anti-corruption training program. More than 180,000 employees, representing over one third of the Company’s global

workforce, have received training on compliance issues including the FCPA and other anti-bribery laws. Siemens has instituted a regular series of meetings and conferences designed to bring the Company's compliance officers together to discuss important anti-corruption challenges. For the first time, the Company now offers monetary incentives for demonstrated performance in the compliance realm.

The Company has also issued a new compliance handbook for employees and a clearer global anti-corruption policy. Recognizing that local management worldwide are in the best position to set the appropriate tone from the top and to implement the new compliance initiatives, the Company also designed and instituted a comprehensive program to ensure the full implementation of Siemens' global anti-corruption program and enhanced internal controls in over 1,400 Siemens entities around the globe. To help employees report compliance-related concerns, the Company created an online compliance help desk and a 24-hour compliance hotline, and has engaged an external ombudsman. Finally, the Company has also embarked on a number of collective action initiatives, including one with the World Bank, that seek to ensure that other multi-national companies commit themselves to abide by anti-corruption principles in their worldwide businesses.

E. A Strengthened and Consolidated Audit Function

The internal audit function at Siemens has also been reorganized. The Company combined all audit functions into one 450-employee unit, named Corporate Finance Audit ("CF A"), under the control of a former partner of PricewaterhouseCoopers LLP who has extensive international anti-corruption experience. The Chief Audit Officer reports to the CFO and has direct access to the Audit Committee. The new CF A department is adding significant additional auditing staff, including hundreds of new hires from outside Siemens, and is evaluating the qualifications of existing employees and new hires in an effort to ensure that only qualified and capable employees will be involved in the audit function.

CF A has redesigned the internal audit methodology at Siemens, taking into consideration financial reporting integrity, effectiveness of risk management and internal control systems, and adherence to compliance. All audits are now directed by CF A and will be reported centrally. One of the key resources used in this process is the information available from Siemens' recently developed "Enterprise Risk Management" or ERM process. ERM assesses on an enterprise-wide basis the strategic, operational, financial and compliance risks and opportunities faced by Siemens.

F. Enhancing Internal Controls

Since November 2006, the Company has also taken significant steps to enhance its internal controls. An interdisciplinary task force is addressing weaknesses in controls over the use of funds, bank accounts, and the IT-based accounting systems, which contributed to improper use of Siemens' funds. Among other steps, Siemens' new management has issued a series of rules and guidance designed to centralize the process of managing all bank accounts and tighten control over cash and cash equivalents. Such steps include:

- Reducing the number of bank accounts held by Siemens entities and instituting rules and processes designed to ensure that all bank accounts are centrally registered and monitored at Siemens Financial Services, which is the Siemens central treasury function;
- Clarifying prohibitions on Siemens' funds being held in bank accounts registered in the name of a Siemens employee or third party;
- Enhancing the rules governing signature authorization for payments and other transactions;
- Further centralizing and automating processes for payments to third parties;
- Strengthening the restrictions on cash advances to employees and on Siemens entities keeping and disbursing cash;
- Establishing a process to ensure that intercompany accounts are reconciled;
- Instituting data assurance processes and additional controls over payment systems; and
- Updating approval processes for project management to address corruption risks in bidding for and performing projects.

V. Remaining Challenges

While Siemens has dramatically improved over the past two years, the Company will not rest. The Company is determined to take whatever steps are necessary to maintain and further enhance controls improvements and the new compliance culture. Doing so will require sustained commitment from employees at all levels.

The events of November 2006, while among the Company's most challenging moments, served as a catalyst for significant, long overdue changes. By taking these important steps, improving its compliance and audit functions, continuing to enhance internal controls, and bringing in new leaders who have set the right tone at the top, Siemens is well positioned to confront the challenges that will arise and achieve the goal of pursuing only clean, sustainable business.

These last two years have not been easy ones for Siemens. But it is gratifying that so many of the Company's investors, employees and customers have remained loyal to Siemens, and that through prodigious effort and unprecedented self-examination the Company has begun to rebuild the trust of authorities in some of the most important places where Siemens does business. The Company looks forward to a future in which it is again recognized as a leader, not just in the business sectors where the Company competes, but also in corporate governance and compliance.

Siemens AG (Berlin and Munich) is a global powerhouse in electronics and electrical engineering, operating in the industry, energy and healthcare sectors. The company has around 430,000 employees (in continuing operations) working to develop and manufacture products, design and install complex systems and projects, and tailor a wide range of solutions for individual requirements. For over 160 years, Siemens has stood for technical achievements, innovation, quality, reliability and internationality. In fiscal 2008, Siemens had revenue of €77.3 billion and a net income of €5.9 billion (IFRS).

Further information is available on the Internet at: www.siemens.com.