



MTS SYSTEMS CORPORATION



Anti-Bribery / Anti- Corruption Training for Sales Employees

Presented by:
Phyllis Nordstrom, Chief Risk & Compliance Officer

be certain.

Anti-Bribery / Anti-Corruption Training

Training Agenda & Objectives



At the conclusion of this training, you will have a better understanding of:

- How your role specifically ties to anti-bribery and anti-corruption compliance requirements
- Bribery and corruption requirements under the Foreign Corrupt Practices Act
- Bribery risks to be aware of and avoid in your day to day interactions and your business decisions
- U.S. company bribery and corruption violations
- How to ask questions and seek guidance
- How to report concerns

Anti-Bribery / Anti-Corruption Training

Your Role in Sales



- » You have a key role at MTS, driving sales with customers and growth opportunities for the business.
- » Given your daily interactions with stakeholders both internal and external to MTS, it is imperative that you are aware of and understand anti-bribery and anti-corruption compliance requirements.



You must be mindful of the bribery risks that exist in the course of your interactions with customers, business partners, and others throughout all phases of your work.

For example, there are specific requirements to be aware of when:

- ✓ Evaluating third parties on orders and contracts
- ✓ Providing & paying for hospitality for your customers* and/or other business partners, in compliance with *ORC-006 Gifts, Business Courtesies and Sponsorships Policy*.
- ✓ Paying for customers* to travel to an MTS site for onsite training
- ✓ Sponsoring events or providing items of value at events where government officials** are participating

* Customers with government affiliation

** See slide 6 for definition of government officials

What is the Foreign Corrupt Practices Act?

- » Many countries have anti-bribery and anti-corruption laws and regulations.
- » In the U.S., bribery and corruption laws primarily fall under the FCPA.
- » The FCPA prohibits MTS employees and anyone who conducts business on our behalf from offering, promising, authorizing, or paying corrupt payments (or providing anything of value) to a government official in order to obtain business or gain an undue business advantage.



The result is a bribe, which is illegal.
Bribes can come in many forms, not just cash payments.

Under the FCPA (and MTS Policy), third parties are an extension of MTS and their actions performed on our behalf are the responsibility of MTS. As such, third parties should follow MTS's standards when conducting business on our behalf.

What is the Foreign Corrupt Practices Act?

The FCPA also requires MTS to keep detailed and accurate books and records, as an important way to prevent misuse of company funds.

In particular, the FCPA requires a company to:

- 1 Maintain books and records (*for example, providing accurate and complete information in a purchase order or contract*) at a reasonable level of detail to accurately reflect transaction activity of the business
- 2 Develop and maintain a system of internal accounting controls sufficient to ensure transactions are executed with the appropriate level of authorization.

The FCPA can penalize companies and individuals who cause inaccurate books and records or circumvent internal controls intentionally.

It is of the utmost importance that MTS create and approve records, payments, and expenditures that are accurate and complete, no matter the value, in accordance with applicable MTS policies and procedures.

Who is a Government Official?

The FCPA (and MTS Policy) define government official broadly. It is not always easy to identify government officials. When in doubt, contact the Office of Risk and Compliance for assistance.

DEFINITION

- ✓ Any official or employee of any department, ministry, agency, instrumentality or enterprise that performs a government function.
- ✓ An employee of any entity that is wholly or partially government owned or controlled.
- ✓ An employee of an entity where government has minority stakes (even just 1% equity).
- ✓ Any political party, officer, employee or other person acting for or on behalf of a political party, or any candidate for public office.
- ✓ Any employee or person acting for or on behalf of a public international organization.
- ✓ Any officer, employee or person acting for a regional or local authority

EXAMPLES

- Customs agency official
- Party officials
- Judges
- Zoning officials
- Person hired to review bids on behalf of a government agency
- Member of the armed services
- Employee of a tax agency
- Immigration official
- Government employees handling government-related activities, such as licensing or permitting
- Employee working for an institution funded by a third party, such as a University, research center, etc.

Anti-Bribery / Anti-Corruption Training



We All Play a Role in Compliance

- » MTS has established a formal FCPA Corporate Compliance Program, overseen by the Office of Risk and Compliance (ORC), with daily activities and transactions executed by you as sales employees.
- » This program requires that certain activities and transactions meet FCPA compliance requirements.

ORC ensures the following elements are part of the overall program:



MTS FCPA Policies & Procedures cover compliance requirements for:

Business Partner Screening & Due Diligence	Hospitality involving government officials	Events and Sponsorships	Customer Travel	Facilitation Payments	Political & Charitable Contributions	Local Purchases	Conflicts of Interest
--	--	-------------------------	-----------------	-----------------------	--------------------------------------	-----------------	-----------------------

The following slides include three example scenarios to provide further explanation of how bribes could exist or appear to exist in your daily interactions and decisions.

Scenario 1: Entertainment & Hospitality



An MTS Sensors sales employee was introduced to a potential new customer in Italy. This potential customer is a state-owned research center looking to purchase SWIFT® Evo Spinning Wheel Integrated Force Transducers.

- The sales employee has been in contact with the potential customer, meeting a few times for casual lunches.
- The potential customer suggests to the sales employee that they attend a soccer game at Stadio Olimpico located in Rome in a private suite with meals included, at which time they can further negotiate and work towards closing the deal.
- The sales employee knows that this sale will help Sensors achieve their sales goal.
- The sales employee asks his supervisor if MTS Sensors can pay for the soccer game and related expenses, and the sales supervisor approves.
- The sales employee and potential Italian customer attend the soccer game, enjoy the food, and finalize negotiations to sign a new contract to purchase the SWIFT® Evo Spinning Wheel Integrated Force Transducers.
- The sales employee keeps all receipts from the event and attaches them to his expense report, which gets approved by his supervisor.

What issues in the scenario present bribery risk?

Bribery Risk



Key Issues

- 1 Expenses would be considered excessive in nature.
- 2 Hospitality is:
 - ✓ being requested by the customer.
 - ✓ while sales negotiations are in process.

Because we have a deal in process and the customer is a state-owned entity (research center), any hospitality could be construed as influencing a business decision, which could be considered a bribe.

In addition, the excessive spend further supports the unreasonableness of this request.

What are the related MTS policy requirements?

Key Issues

- 1 Expenses would be considered excessive in nature.
- 2 Hospitality is:
 - ✓ being requested by the customer.
 - ✓ while sales negotiations are in process.

MTS Policy Requirements

- ✓ There are annual thresholds for gift giving (or other business courtesies) to any receiving organization (*ORC-006 Policy*).
- ✓ Be aware that some interactions with government officials require approval from the Office of Risk and Compliance prior to occurring (*business lunches are an exception and do not require approval*).

As sales employees, follow these policy requirements for hospitality expenses:

ORC-010 FCPA Compliance Policy
ORC-006 Gifts, Business Courtesies & Sponsorships Policy

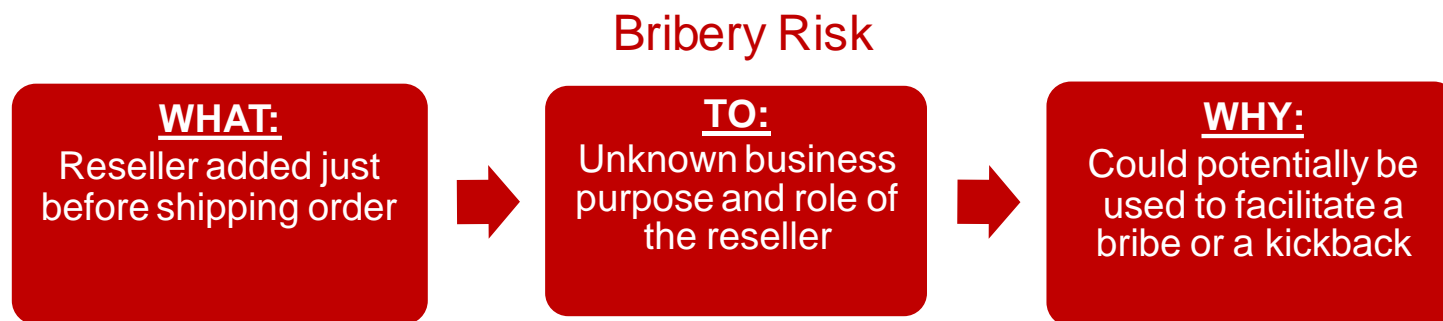
Scenario 2: Using a New Reseller



A Sensors sales employee is negotiating with an end user customer in China who wants to purchase a complete sensor and instrumentation solution for the measurement of NVH attributes. This end user customer is a foreign government entity.

- Sensors has consistently dealt directly with this end user customer on past orders. The end user customer has placed its orders through Reseller A for legitimate business reasons (e.g., payment terms, ability to import).
- At the time of this opportunity, Sensors issued a quote to Reseller A and an order was placed.
- Just before shipment and prior to payment by Reseller A, Sensors was advised that Reseller A was being replaced on the order with Reseller B at the request of the customer.
- Reseller B has not previously been involved with any Sensors orders for this end customer.
- Sales is unclear as to why Reseller B is being added to the transaction.

What issues in the scenario present bribery risk?



Key Issues

- 1 Sensors has consistently sold to the end user through an approved reseller, and now the end customer has inserted a new reseller without a business explanation.
- 2 By adding the reseller at the end of the process, the reseller may not have adequate time to complete screening.

Inappropriate or unclear use of resellers could be construed as being used for the purposes of bribery or kickbacks, and potentially violating FCPA regulation.

What are the related MTS policy requirements?

Key Issues

- 1 Sensors has consistently sold to the end user through an approved reseller, and now the end customer has inserted a new reseller without a business explanation.
- 2 By adding the new reseller at the end of the process, the reseller may not have adequate time to complete screening.

MTS Policy Requirements

- ✓ There needs to be a valid, legitimate business explanation for using a reseller (or any business partner) in a transaction.
- ✓ Resellers need to be screened by Sensors Legal (*if applicable based on defined criteria and thresholds*) prior to being added to a contract.

As Sales employees, follow these policy requirements when working with resellers or other business partners:

ORC-010 FCPA Compliance Policy
ORC-010.03 Business Partner and Local Purchases Procedure

Scenario 3: Tradeshow Giveaway



A sales employee has requested Sensors conduct a raffle of an iPad at an upcoming trade show. Government officials will be present at the trade show.

- The iPad raffle will be a great opportunity to drive customer traffic.
- Sales is looking forward to continuing negotiations with a prospective customer who will be attending the trade show as well.
- Prior to the trade show, the sales employee partners with Marketing to complete the *Event and Sponsorship Request Form* for the iPad giveaway, and documents the business purpose of the iPad raffle and the value of the item (*note that the iPad raffle and use of any Apple trademarks would need to be approved by Legal before proceeding*).
- The *Event and Sponsorship Request Form* is routed to the Office of Risk and Compliance for review and approval prior to the trade show date. ORC approves the raffle item.
- Sales arranges for the customer to win the iPad from the raffle.
- While at the trade show, the MTS team decides to initiate a second giveaway, given the success of the first iPad giveaway.

Scenario 3: Tradeshow Giveaway



What issues in the scenario present bribery risk?



Key Issues

- 1 Showing favoritism to a customer during ongoing negotiations with MTS.
- 2 Prior approval from ORC was not obtained for the second tradeshow giveaway.

The same anti-bribery rules apply to raffles as they do for providing gifts and entertainment. The iPad is considered an item of value. Targeting a customer to win the iPad raffle could be construed as being used for the purposes of bribery or kickbacks, and potentially violating FCPA regulation. The trade show attendees must be eligible for the raffle on equal terms and conditions, qualifications for which should be based on pre-established, objective criteria.

Since government officials are attending the trade show, MTS representatives at the trade show need to seek prior approval from ORC for any gifts, gratuities, business courtesies or sponsorships to ensure FCPA compliance.

What are the related MTS policy requirements?

Key Issues

- 1 Showing favoritism to a customer during ongoing negotiations with MTS.
- 2 Prior approval from ORC was not obtained for the second tradeshow giveaway.

MTS Policy Requirements

- ✓ Item(s) of value need to be reasonable in value.
- ✓ Item(s) must not be given in exchange for a promise of MTS business.
- ✓ Item(s) must be consistent with local laws and regulations.
- ✓ Item(s) given away must be supported by relevant documentation and receipts
- ✓ Since government officials are attending the trade show, the giveaways require ORC pre-approval via the *Event and Sponsorship Request Form*.

As Sales employees, follow these policy requirements for business courtesies and sponsorships:

ORC-010 FCPA Compliance Policy
ORC-006 Gifts, Business Courtesies & Sponsorships Policy

Anti-Bribery / Anti-Corruption Training

Outside Violation Examples



The following slides include two real-life situations to provide further explanation of how bribes were used at Panalpina and Embraer and the resulting penalties for their violations of the FCPA.

Outside Violation Example #1



Panalpina World Transport (Holding) Ltd. (“Panalpina”)

Violations

Between 2002 and 2007, Panalpina and its US-based subsidiary, Panalpina Inc., were accused of bribing foreign officials around the world, on behalf of customers.



- Panalpina’s goal was to avoid delays in importing goods.
- Delays could happen for many reasons, such as delayed departures, incomplete or incorrect documentation, etc.
- Panalpina felt pressure from Panalpina’s customers to:
 - ✓ Have services performed as quickly as possible
 - ✓ Receive preferential treatment regarding customs services

Outside Violation Example #1



Panalpina World Transport (Holding) Ltd. (“Panalpina”)

Bribe Scheme

- **Payment of Bribes:** Customers authorized Panalpina to pay bribes to foreign officials totaling at least \$27M in the following countries: Angola, Brazil, Kazakhstan, Nigeria, and Russia.
- **Invoicing Cover-Up:** Panalpina invoiced their customers for the bribes. The invoices concealed the bribes by inaccurately referring to them as “local processing,” “special intervention,” “special handling,” and other seemingly legitimate fees.

Penalties

- The U.S. Department of Justice charged Panalpina with violating the anti-bribery and books & records provisions of the FCPA.
- The Panalpina companies were:
 - Fined \$70.5M in an SEC settlement
 - Paid \$11.3M in disgorgement of profits

Company Background

Panalpina World Transport (Holding) Ltd is a logistics and freight forwarding company involved in providing supply chain management solutions. The company’s business divisions include air freight, ocean freight, logistics, energy and project solutions, road services, cargo security, and information solutions.

Customers often use Panalpina to ship goods internationally or seek assistance with customs / logistics services in countries where their goods are shipped.

An important reminder: A non-U.S. company can be liable for an FCPA violation as well..

Outside Violation Example #2



Embraer S.A.

Violations

Embraer executives and employees paid bribes to officials in the Dominican Republic, Saudi Arabia, and Mozambique. The bribes were paid by a U.S.-based subsidiary through fake third-party agents. The SEC also accused Embraer of an accounting scheme in India in which Embraer was allegedly hiding payments.



What	To	Why
Paid \$3.5M	To an influential Dominican Republic government official	To win a contract to sell 8 military aircraft to the Dominican Air Force.
Paid \$800K	To a high-level official at Mozambique's state-owned commercial airline	To win a contract to sell 2 aircraft to Mozambique airline.
Paid \$1.6M	To an official at a Saudi Arabian state-owned company	To win a contract to sell 3 aircraft to a Saudi Arabian state-owned enterprise.
Paid \$5.7M	To an agent in India, while concealing the relationship with the agent	To win a contract to sell 3 aircraft to the Indian Air Force.

Outside Violation Example #2



Embraer S.A.

Bribe Scheme

Payment Cover-Up: Embraer made payments to the country governments and officials using various methods, such as:

- Payments to corporate shell entities
- Payments funneled thru third party via phony consulting agreements with no legitimate services to Embraer

Penalties

- Embraer paid more than \$205M to the DOJ and SEC to resolve violations of the FCPA.
 - \$107M related to the criminal penalty to the DOJ
 - \$98M paid to the SEC in disgorgement of profits + interest
- The DOJ said that Embraer did not voluntarily disclose the FCPA violations and only began cooperating in the investigation after the SEC served it with a subpoena.
- Embraer disciplined executives and other employees for their bribery misconduct.

Company Background

Embraer S.A. is a Brazilian aerospace conglomerate that produces commercial, military, executive and agricultural aircraft, provides aeronautical maintenance and repair services, and markets spare parts for its jets.

It is headquartered in São José dos Campos, São Paulo.

Embraer markets its aircraft to commercial airlines mainly in the United States and Europe and to governments in Europe and Latin America.

An important reminder: A non-U.S. company can be liable for an FCPA violation as well..

Anti-Bribery / Anti-Corruption Training

In Summary



As you work with resellers, distributors and customers, remember to be aware of and fully understand compliance requirements, such as:

Hospitality:

- ✓ Do not pay for hospitality during sales negotiations.
- ✓ Do not pay for excessive, lavish, or unreasonable expenses.
- ✓ Be aware that interactions with government officials may require approval from the Office of Risk and Compliance.

Resellers:

- ✓ There needs to be a valid explanation and understanding for using a reseller in a transaction.
- ✓ Partner with Legal to determine if the reseller requires screening prior to being added to a contract.

Sponsorships:

- ✓ Items of value must not be given in exchange for the promise of business.
- ✓ If government officials are attending an event, any sponsorships (including giveaways) require ORC pre-approval via the *Event and Sponsorship Request Form*.
- ✓ Items of value given away at a tradeshow must be supported by relevant documentation and receipts.

Below is a listing of MTS FCPA Policies and Procedures:

- ORC-006 Gifts, Business Courtesies, and Sponsorships Policy
- ORC-010 FCPA Compliance Policy
- ORC-010.01 Customer Travel and Letter of Invitation Procedure
- ORC-010.02 Procedure for Compliance with FCPA
- ORC-010.03 Third Party Procedures: Business Partners and Local Sourcing

Anti-Bribery / Anti-Corruption Training

Raising Questions and Concerns



- » Anti-bribery and anti-corruption expectations are covered in the Global Code of Ethical Business Conduct, FCPA policies and procedures.
- » Bribery and corruption can be difficult to identify. The Office of Risk and Compliance is here to offer support, answer your questions and help address your concerns.
- » Always feel free to proactively ask questions and partner up front with the Office of Risk and Compliance. It takes all of us working together to ensure compliance.

Who to go to with Questions

- ✓ Office of Risk and Compliance at [MTS Risk And Compliance@mts.com](mailto:MTS_Risk_And_Compliance@mts.com)
- ✓ Your Local Ethics Committee

How to Report a Concern

- ✓ Your Supervisor, Local Ethics Committee, Human Resources
- ✓ Office of Risk and Compliance at [MTS Risk And Compliance@mts.com](mailto:MTS_Risk_And_Compliance@mts.com)
- ✓ MTS AlertLine* at <https://alertline.com> or 888-321-5562

* Reports to the AlertLine have the option to be made anonymously.

Anti-Bribery / Anti-Corruption Training

Acknowledgement



I acknowledge that I:

1. Have completed a review of and understand the Anti-Bribery and Anti-Corruption Training slides
2. Am aware of the MTS FCPA policies and procedures (*listed on slide 24*)
3. Know to contact the Office of Risk and Compliance with any questions
4. Understand the reporting options available if I have a concern