



MTS SYSTEMS CORPORATION



FY17 Global Code of Ethical Business Conduct Training

be certain.

This is an overview of the MTS Global Code of Ethical Business Conduct (“Code of Conduct”) and highlights the following key elements.

- » The purpose and Content of the Code of Conduct
- » What does it mean to **Speak Up**?
- » The MTS AlertLine
- » Introduction to the Chief Risk and Compliance Officer
- » Protecting against Retaliation
- » Compliance Spotlight:
 - 1. FCPA
 - 2. Conflict of Interest
- » Summary



The Purpose of the Code of Conduct



- » MTS is committed to its core values, ethical conduct, and compliance with the law.

The Code of Conduct is your first resource to:

- Guide decision-making based on MTS values
- Understand how to comply with laws and regulations
- Understand how to Speak Up about unethical or illegal conduct

- » The MTS Code of Conduct compliments our legacy of a strong commitment to ethics, as emphasized through MTS' leadership, Employee Guide, and policies

The Code of Conduct includes:

- Summary of MTS' Core Values
 - Responsibilities of each MTS employee
 - Compliance Focus Areas
 - Q&A and Practical Guidance
 - Resources to Speak Up
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- » The Code of Conduct is not a substitute for good judgment, nor does it cover every situation encountered, so when in doubt ask questions and **Speak Up**
 - » In the end, our confidence must rest, as it always has, on honesty, integrity and good sense within each of us

Our MTS Core Values



VALUES

INTEGRITY

We honor our commitments.



INNOVATION & PASSION

We thrive on delivering extraordinary solutions to our customers' most complex challenges.



CUSTOMER COMMITMENT

We partner with our customers and are committed to their success.



RESPECT

We support a "speak up" culture, encouraging transparency and enabling trust.



ACCOUNTABILITY

We are empowered to make decisions and accept responsibility for our performance.



INVEST IN OUR FUTURE

We are committed to both short- and long-term results



Our MTS Values reflect the deeply held beliefs that make MTS a vital partner for customers, employees, vendors and suppliers around the world. Every day, we reinforce our values through the collective and individual actions we take on behalf of our Company.

What does it mean to **Speak Up**?



- » MTS is a company where we talk openly of the risks of the company and challenges that employees face in the workplace

We have created multiple options to help you **Speak Up**:

Supervisors	Human Resources	Local Business Ethics Committees	Office of Risk & Compliance	Office of General Counsel	AlertLine
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- » We are all in this together and there are many ways to address challenges, so please ask questions and **Speak Up**!

One way to Speak Up is through the MTS AlertLine which is:

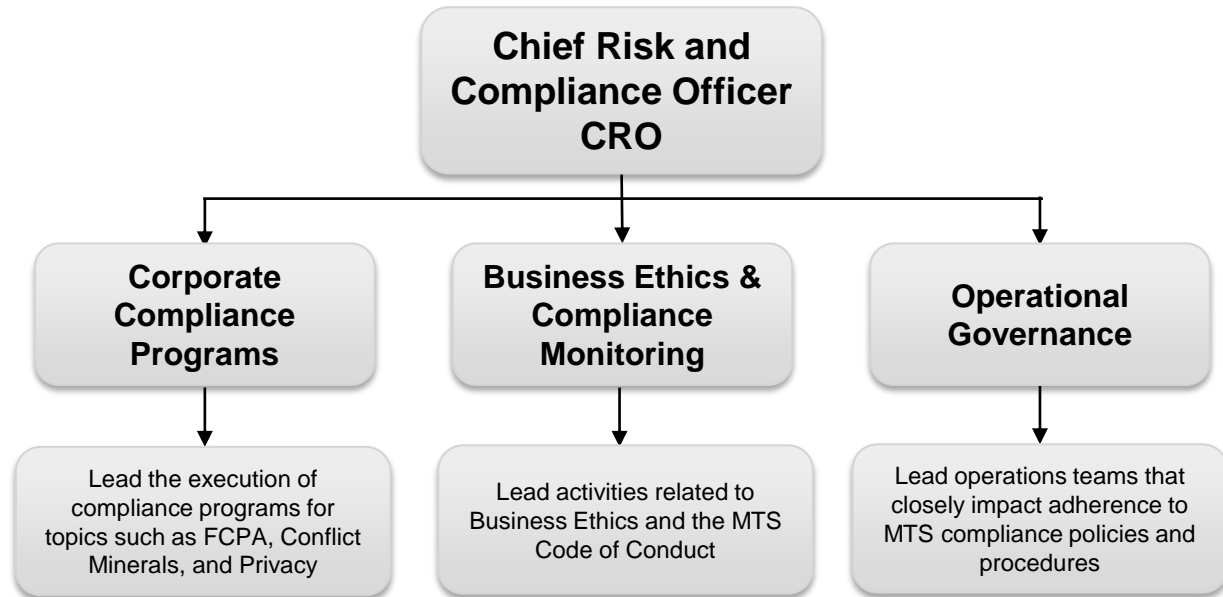
1. Operated by a third party
2. Easy to get to and accessible in any country
3. Available in your native language (translators are also available)



Ability to Remain Anonymous

- Employees can submit concerns via the following:
 - Internet – <https://mts.alertline.com/gcs/welcome>
 - Phone **888-321-5562** or via direct access number for various regions
 - Reporters are provided a unique code to follow up on concerns
- » Each matter is handled by the Office of Risk & Compliance and treated confidentially to the extent allowed

Phyllis Nordstrom – Chief Risk and Compliance Officer



How can you contact Phyllis?

MTS_Risk_&_Compliance@mts.com

- » Another way to **Speak Up** is through MTS' local Business Ethics Committees

Roles & Responsibilities of Ethics Committees:

- Assist employees in understanding and applying the MTS Code of Conduct
- Support implementation of the MTS Code of Conduct at the business unit level
- Communicate questions and areas of concern to MTS Corporate Compliance
- Meet regularly and report committee activities to MTS Corporate Compliance
- MTS Ethics Committees list is available on the intranet

How does MTS protect against retaliation?



- » MTS prohibits retaliation against anyone who asks questions or voices a concern in good faith



- » Retaliation occurs when an employee suffers an adverse employment action (punishment) for reporting a concern or cooperating in an investigation
- » There is less retaliation in companies where employees at all levels share a commitment to integrity
- » Retaliation declines dramatically when top managers and supervisors make ethics a priority and model ethical conduct

Retaliation is not tolerated at MTS!

- » “MTS takes a firm stance against corruption. Corruption or bribery runs counter to our Shared Values. These standards apply to all of us, regardless of where we work.” (*Code of Conduct, page 14*)
- » U.S. Foreign Corrupt Practices Act (FCPA)
 - Enforced by the U.S. Department of Justice (DOJ) and Securities and Exchange Commission (SEC)
 - The FCPA prohibits:



- » Additional laws and regulations apply in each country in which MTS conducts business (e.g. UK, China, Korea, etc.)

1



Anti-Bribery Provisions

2



Recordkeeping and
Internal Control
Provisions

- » No Company or person may offer or authorize payment of a **bribe** or **anything of value** directly or indirectly to any **foreign official** to **obtain or retain business** or improper advantage

Bribe { ■ Offer, payment or gift of money or anything of value for the purpose of obtaining or retaining an unfair business advantage

Anything of Value { ■ Cash, loans, gifts, favors, travel, meals or entertainment, charitable/campaign contributions, hiring, overpayment/underpayment of services, directing business to entities related to officials, etc.

Foreign Official { ■ Employees of all levels of government, public international organizations, or state-owned entities (e.g. university, state-owned companies)
■ Political party officials or military officials, including spouses / dependents / siblings

Obtain or Retain Business { ■ Winning or retaining a contract, influencing the procurement process, evading taxes or penalties, influencing lawsuits or enforcement actions, obtaining regulatory approvals, or avoiding contract termination

Kickback { ■ Payment made to someone who has facilitated a transaction or appointment, especially illicitly



Rule: Requires individuals and businesses to keep accurate and complete records of the transaction in which they engage

To Comply: MTS must maintain books and records that accurately reflect the transaction of the corporation

Rule: Prohibits individuals and businesses from knowingly failing to implement internal controls

To Comply: MTS must maintain a system of internal accounting controls to ensure accurate reporting of transactions and safeguarding of assets must be devised and maintained



FCPA Risk Areas Specific to MTS and Applicable MTS Policy / Procedure



Risk Area / Red Flags Raised	MTS Policy / Procedure
<p>Sales</p> <ul style="list-style-type: none"> ▪ Excessive customer entertainment & lavish hospitality ▪ Excessive commissions to agents or incentives to resellers which could create potential for bribes 	<ul style="list-style-type: none"> ▪ OGC-001 Code of Conduct ▪ OGC-004 Ethical Business Conduct ▪ OGC-009 Gifts, Business Courtesies and Sponsorships ▪ OGC-018 Foreign Corrupt Practices Act Compliance
<p>Operational activity and disbursements to third parties</p> <ul style="list-style-type: none"> ▪ Improper payments to customs officials to evade customs duties ▪ Sponsorships provided with the intent to win or retain business 	<ul style="list-style-type: none"> ▪ OGC-001 Code of Conduct ▪ OGC-008 Foreign Law Compliance ▪ OGC-009 Gifts, Business Courtesies and Sponsorships ▪ OGC-009A Event and Sponsorship Request Form ▪ OGC-010 Conflict of Interest ▪ OGC-018 Foreign Corrupt Practices Act Compliance
<p>Employee-related activity</p> <ul style="list-style-type: none"> ▪ Lodging at luxurious hotels and business/first class airfare ▪ Gifts that do not comply with local laws and customs 	<ul style="list-style-type: none"> ▪ FIN-008G Global Travel and Expense Reimbursement ▪ OGC-001 Code of Conduct ▪ OGC-004 Ethical Business Conduct ▪ OGC-009 Gifts, Business Courtesies and Sponsorships ▪ OGC-018 Foreign Corrupt Practices Act Compliance
<p>Financial recordkeeping and internal controls</p> <ul style="list-style-type: none"> ▪ Lack of adequate approvals and supporting documents ▪ Circumvention or evasion of internal controls 	<ul style="list-style-type: none"> ▪ OGC-007 Record Retention ▪ OGC-004 Ethical Business Conduct ▪ OGC-018 Foreign Corrupt Practices Act Compliance

How does the Code of Conduct Address Bribery and Corruption?



- » The Code of Conduct provides guidance about bribery and corruption risks faced by MTS personnel and about local laws and regulations.
- » The Code of Conduct also provides questions and answers to certain scenarios to facilitate understanding.
- » MTS has specific policies and procedures that address bribery and corruption.

- » “At MTS, we always expect one another to act in the best interests of the Company. This means that business decisions should be made free from any conflict of interest. They should also be impartial. We must make our decisions based on sound business reasoning.” (*Code of Conduct, page 11*)

WHEN:

an individual's outside activities or personal interests conflict, or appear to conflict, with his or her responsibilities to MTS



EXAMPLES:

- » Compete against the Company
- » Use of position or influence to secure an improper benefit for themselves or others
- » Use Company information, assets or resources for personal gain or the improper benefit of others
- » Accepting or using a business gratuity or gift from a competitor, supplier or customer that is inconsistent with MTS policy
- » Engaging in a personal relationship with another MTS employee that is inconsistent with MTS policy

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