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Att. Dr. Hans-Otto Jordan

June, 2008

Ref.: Siemens' Illegal Practices in Brazil

Dear Dr. Jordan,

I would like to bring to your knowledge some facts and documents that demonstrates Siemens' past and current illegal practices in Brazil, particularly in the following projects:

- CPTM Line G Project (Metro Sao Paulo Line 5 Project)
- CPTM EMU's Series 3000
- Metro DF Full Maintenance Project

This kind of practices is not privilege of the Transportation Division. They are also common practice in the Power Transmission and Distribution, Power Generation and Medical Systems Divisions, which deal with public owned companies.

For tour information, this letter and the attached documents will be distributed to Brazilian authorities currently investigating ALSTOM's involvement in bribing of Government Officials in several projects in Brazil, among them CPTM Line G (Metro Sao Paulo Line 5) Project.

As you can read from the enclosed documents, SIEMENS has also paid bribe in this Project.

CPTM Line G Mass Transit Project

- This project was developed by ALSTOM Brazil and consisted of a turnkey project for the implementation of a new commuter rail line (Line G) for Sao Paulo's Mass Transit Authority CPTM.
- ALSTOM has massively influenced the bid conditions in order to achieve an advantage over its competitors and to gain control over the bid process.
- This was only possible with customer's support, a common practice that implies "contribution" to Government Officials.
- ALSTOM coordinated an agreement with all other players in order to achieve maximum share and profit.
- The agreement included the payment of a commission to Government Officials. The commission amounted 8.0% of the contract value.
- Following "players" were contemplated in the "internal agreement": ALSTOM, ADTRANZ (BOMBARDIER), CAF, SIEMENS, TTRANS and MITSUI.
- MITSUI kept the original document establishing the internal agreement among all parties regarding scope of supply and price to be submitted by each party.

- The document was kept in vault at MITSUI's office in Sao Paulo and was allegedly destroyed after completion of the project. Personally, I believe that Mitsui still keeps a copy of the document, either in its Sao Paulo, or in its Tokyo office.
- Each party had its own ways for paying the commission to Government officials. ALSTOM and SIEMENS did it through the consulting firms – PROCINT and CONSTECH – and its *offshores* located in Montevideo, Uruguay – LERAWAY and GANTOWN. Copies of the contract are attached to this letter.
- PROCINT and CONSTECH are owned by Mr. Arthur Gomes Teixeira and Mr. Sergio Meira Teixeira, who have long history in bribing Government Officials in Brazil, especially in the State of Sao Paulo, where the above mentioned projects were implemented.
- Teixeira's links to ALSTOM in Brazil are quite strong in the power generation and rail transportation business.
- According to a former ALSTOM employee, there were "kickbacks" from PROCINT and CONSTECH to ALSTOM management.
- In case of CPTM Line G Project, SIEMENS AG/SGP signed a contract with Arthur and Sergio Teixeira's offshore (Uruguay) companies LERAWAY and GANTOWN. Copies of the contract are attached to this letter.

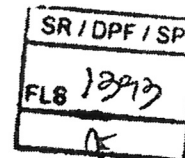
CPTM EMU's Series 3000

- This project was developed by MITSUI and consisted in the delivery of 10 (ten) commuter trains by SIEMENS AG/SGP to Sao Paulo Mass Transit Authority CPTM.
- MITSUI's role was to "compensate" the Government Officials and signed for this purpose a consortium agreement with Siemens AG and SGP (Austria).
- The attached copies are excerpts (change orders) from this contract.
- According to the contract, MITSUI should provide technical support, spare parts and training during the commissioning and warranty period.
- A close look at the contract indicates that the amounts involved are not compatible with the scope of supply.
- Besides of that, MITSUI is a trading company without any qualification for the services provided.
- MITSUI has indeed subcontracted the services to third parties. However, this makes even less sense, since SIEMENS AG/SGP are the original equipment manufacturers and therefore qualified to do the services.
- Long story made short – the contract was only a "smoke curtain" intended to hide the true purpose, which was bribing the customer.

Metro DF Full Maintenance Contract

- Metro DF is the Transit Authority in charge of operation and maintenance of Metro Brasilia metro system, which was constructed many years ago by a Consortium led by ALSTOM.
- Since the very beginning of its operation, Metro DF outsourced the maintenance of all its subsystems (i.e. the full maintenance) to ALSTOM, which dominated the project since its construction. This happened without a public bid.
- According to experts, the prices charged by ALSTOM and its consortium members INEPAR (IESA) and TCBR were extreme high, leading to net margins over 50%.
- According to insiders, this project has been ALSTOM's cash cow for more than 5 years in a row and was considered the best project in terms of profit.

- According to former ALSTOM employees, more than 10% bribe was paid to former Governor Roriz and his team, which consisted of his Chief of Staff Mr. Valerio, his Secretary of Infrastructure Mr. Tadeu Felippelli, Metro DF President Mr. Paulo Victor Rezende and Metro DF Director of Operations Mr. Antonio Manoel Soares.
- The payments were done over more than five years and the monthly "fee" paid amounted approx. R\$ 700.000 (approx. € 265.000).
- Knowing that the project would have to be re-bid by end of 2005 ALSTOM engineers directly involved in the project had all the time in the world to "help" Metro DF technicians in writing the conditions for the new bid.
- The bid conditions were written in such a biased way that only ALSTOM would be able to achieve maximum scores. This would ensure them the contract award independently from competitors' price.
- The scores were based on specific experience of the future maintenance staff, which had to be documented by affidavits ("atestados") issued by a Transit Authority.
- This is a common practice used in public bids to eliminate competition and narrow down the number of competitors to a minimum, making easier a price agreement between the remaining bidders.
- Only two ALSTOM engineers who have been working in the Metro DF maintenance project since its beginning – Mr. *Luis Antonio Taulois da Costa* and Mr. *Ben-Hur Coutinho Viana de Souza* – would be able to fulfill the very specific requirement and therefore achieve the maximum scores.
- Unhappy with their employer ALSTOM and also (maybe the main reason) attracted by a significant success fee (approx. 1% of the net contract value), these two engineers decided to leave ALSTOM to join SIEMENS.
- This move caused massive protest from ALSTOM's management. There were several frustrated attempts to convince SIEMENS' management not to hire them.
- ALSTOM then appealed to the Governor of Brasília, Mr. Joaquim Roriz, who – in order to avoid "noise" – "convinced" SIEMENS and ALSTOM to come to an agreement, where both consortiums would be able to achieve a win-win situation.
- For Governor Roriz, it did not matter who would win, provided that the winner would continue to pay the "fee".
- According to the agreement between the Consortiums led by ALSTOM and SIEMENS, both parties would agree on submitting a pre-established price. The prices would be very close to Metro DF's budget and would differ by only 0.5%.
- The attached memo in Portuguese ("*Memória de Negociações*") is the "internal agreement" between the Consortiums led by ALSTOM and SIEMENS. It is self-explaining.
- The corresponding prices were assigned each consortium in a kind of raffle, where SIEMENS drew the highest price (94.5% of the budget). According to the procedure, ALSTOM would then submit the lowest price (94% of the budget). In case the technical scores would be equal, the lowest price would win.
- However, ALSTOM did not pay attention to the fact that, even in case both bids would present exactly the same price, the final result could be different, depending on the prices of each subsystem. The evaluation criteria had been carefully chosen to allow this kind of manipulation.
- SIEMENS knew that and used this knowledge to win the bid, despite of having agreed on a 0.5% lower than price than ALSTOM. SIEMENS then determined the subsystems prices in order to achieve maximum scores.
- This knowledge was "the assets" ALSTOM's former employees Luis Antonio Taulois da Costa and Ben-Hur Coutinho Viana de Souza brought to SIEMENS.
- A proof of that is the unusual extra remuneration (success fee) they are receiving directly from SIEMENS and also through SIEMENS' subcontractor MGE Transportes on a monthly basis. This kind of remuneration does not fit into SIEMENS' compensation practices.



Background on MGE Transportes and its Connection to SIEMENS

- MGE is frequently used by SIEMENS for this kind of payments to third parties (mainly to customers) and has performed at least one payment to a Law Office in Brasilia in order to expedite the Metro DF bid process in the Justice.
- The referred payment was necessary to neutralize the constants lawsuits from the third competitor MPE.
- MPE had apparently a much lower price than ALSTOM and SIEMENS – which had previously agreed on submitting 94% and 94.5% of the customer's budget – and had therefore to achieve MPE's technical disqualification.
- MPE's disqualification was finally achieved with the help of the referred law office. The money was probably used to bribe the judge taking care of the case.
- MGE's Director Ronaldo Moriyama is known for his aggressive and risk taking attitude when it comes to bribe Government Officials in order to get profitable contracts.
- Several Metro SP and CPTM directors were on his payroll for several years. The most known were: Decio Tambelli (former Metro SP Director of Operations), Jose Luiz Lavorente (former CPTM Director of Operations) and Nelson Scaglione (Metro SP Maintenance Manager).
- MGE was founded while both Ronaldo Moriyama and his close friend Paulo Edu Celidonio Costa Filho were still working for GE (General Electric) in Brazil. Paulo Edu was GE's CEO and Ronaldo Moriyama reported to him as Sales Director.
- MGE was run by Carlos Alberto Roso, which is also a former GE employee.
- During the "overlap period", which lasted for a few years, GE has systematically lost all its service contracts with CPTM and Metro Sao Paulo to MGE and decided to give up the business. This was of course no coincidence, since both Ronaldo and Paulo Edu were working for both sides.
- MGE was created to serve exactly the same service market as GE's and R. Moriyama and Paulo Edu were hidden partners of MGE.
- Mr. Antonio Edmundo Lopes Carolo in his function as GE Ombudsman discovered later that both R. Moriyama and Paulo Edu were hidden partners of MGE. He became then MGE's fourth shareholder.
- Both R. Moriyama and Paulo Edu were fired by GE later under the accusation of balance manipulation.
- MGE has been recently subcontracted by SIEMENS for the CPTM Series 3000 maintenance contract, where both companies provide maintenance services to the CPTM Series 3000 trains supplied by Siemens a few years ago.
- MGE, as usual, is in charge of the "contribution" to the Government officials.
- The total provision for this purpose usually appears as a separate position in the contract in order to facilitate the annual adjustments. The corresponding scope of supply for this specific position does not exist.
- How MGE operates: R. Moriyama and his other three partners (Roso, Carolo and Paulo Edu) use their private accounts to pay bribes via dividends distribution. The dividends are legally deposited on their private accounts and then drawn and handed over in cash to the customers.

Siemens Limitada's CEO, Mr. Adilson Primo and his relationship with the Governor of Brasília, Mr. Jose Roberto Arruda

- It's important to note that Metro DF Maintenance Project was signed during the mandate of the new Governor of DF (Brasilia), Mr. Jose Roberto Arruda.
- Gov. Arruda is a former classmate and close friend of Mr. Adilson Primo, current Siemens Brazil CEO.

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- Gov. Arruda is called "Mr. Siemens" in Brasilia, because of his close contacts to SIEMENS.
- Rumors from the grape vine say that Mr. Adilson Primo intends to candidate for Major of his hometown Itajubá in the near future and counts on his buddy's support.

It is amazing to observe that despite of all the scandals and consequences for the whole company, SIEMENS Brazil continues to pay bribes in Brazil in order to get profitable contracts. This continues to happen directly or indirectly through consultants like PROCINT/CONSTECH or subcontractors like MGE.

The above mentioned Metro DF and CPTM Series 3000 maintenance contracts are current examples of SIEMENS systematic corruption practices. And these practices occur with the blessing of Siemens Brazil top management.

I hope that the above information can help you in your difficult function as Ombudsman in a company that did not learn the lessons from the past.

As already mentioned in the beginning of my letter, copies of these documents will be handed over very soon to the Brazilian authorities investigating illegal practices in the CPM Line G Project.

Sincerely yours,

Attachments

1. Project Agreement between Siemens AG, Siemens Ltda and Leraway
2. Project Agreement between Siemens AG, Siemens Ltda and Gantown
3. "Cronograma de Desembolso – Aditivo 06", Contract between SIEMENS, MITSUI and SGP for the CPTM Series 3000 EMU's Project
4. "Cronograma de Desembolso – Aditivo 07", Contract between SIEMENS, MITSUI and SGP for the CPTM Series 3000 EMU's Project
5. "Cronograma de Desembolso – Aditivo 09", Contract between SIEMENS, MITSUI and SGP for the CPTM Series 3000 EMU's Project
6. "Internal Agreement" between ALSTOM and SIEMENS for the Metro DF Maintenance Project
7. Metro Sao Paulo Line 5 (CPTM Line G) Project Description
8. Metro DF Maintenance Project – Commercial Proposal / Cover Page ("Envelope No. 3")
9. Metro DF Maintenance Project – METROMAN Commercial Proposal / Cover Letter
10. Metro DF Maintenance Project – METROMAN Commercial Proposal / Price Schedule (94% of Metro DF's budget)
11. Metro DF Maintenance Project – METROMAN Commercial Proposal / Price Schedule (94.5% of Metro DF's budget)