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# Siemens Witnesses Cite Pattern of Bribery

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seven years and has ordered an external audit. Investigators now are trying to determine how far up the corporate ladder the corruption traveled.

Mr. Kutschenreuter is their star witness. If allegations by him and others pan out, Siemens could find itself barred from bidding for public-sector projects in many of the nearly 200 countries in which it is active. Mr. Kutschenreuter's lawyer declined to discuss the details of the witness statement but said investigators consider his client to be a reliable witness. The Munich prosecutor's office said the investigation is continuing and declined to discuss details of it. Police are looking into the veracity of Mr. Kutschenreuter's allegations.

**SIEMENS SUSPENDED Mr. Kutschenreuter after his arrest and says its payments to Beit Al Etisallat were perfectly legitimate.** Siemens says that it is cooperating with authorities and that any wrongdoing was confined to "individual acts" by renegade managers.

Arrest warrants and detailed witness statements by company executives, including Mr. Kutschenreuter, suggest a different story. The statements, reviewed by The Wall Street Journal, depict a company where payment of bribes was common and highly organized. The statements portray top Siemens executives as scrambling to escape detection while prosecutors from neighboring countries drew an ever-tighter net.

The allegations come at a difficult time for Siemens, which manufactures a wide range of products from power turbines and medical scanners to light bulbs. CEO Mr. Kleinfeld has been restructuring its far-flung operations to narrow the focus and bring up profit margins. A plan to merge the bulk of Siemens's telecom-equipment business—the main focus of the criminal investigation—into a joint venture with Nokia Corp. has been delayed by the bribery investigation.

The case also underscores what critics say is German industry's failure to improve corporate governance. Until Germany toughened its corruption laws in 1999, companies were actually allowed to write off as expenses bribes paid abroad. DaimlerChrysler AG is under investigation by the SEC and the U.S. Justice Department for what the auto maker acknowledges were "improper payments" in Africa, Asia and Eastern Europe.

Last week, Siemens was hit with a roughly €400 million fine by the European Commission for leading a cartel that allegedly fixed prices in the market for electric-power switching gear. Siemens says the fine is unjustified and that it plans to fight the penalty.

**I**N THE POTENTIALLY MORE damaging bribery investigation, Siemens says that while it's impossible to keep close watch over every one of its 480,000 employees, it knows of no wrongdoing by members of its current management or supervisory board. CEO Mr. Kleinfeld—who prosecutors have so far said is only a witness, not a suspect—says Siemens has "zero tolerance" for corruption. Mr. von Pierer also says he never engaged in illegal activity. Mr. von Pierer gave up the CEO post two years ago to head Siemens's supervisory board.

The highest-ranking executive arrested so far is Thomas Ganswindt, a member of the management board until last September. German prosecutors have also said that Heinz-Joachim Neubürger—Siemens's chief financial officer until last April—is a suspect. Mr. Ganswindt's lawyer said his client is not guilty. A lawyer for Mr. Neubürger declined to comment.

Mr. Kutschenreuter, in the witness statement made after his arrest, spread the blame far wider.

In the Beit Al Etisallat matter he described, Mr. Kutschenreuter said that a Siemens colleague of his met in London in early 2004 with the Saudi

## Inside a Scandal

Government witnesses disagree with top management over alleged bribery at Siemens AG. A snapshot of the company and the main players in the scandal:

### Siemens AG

Founded:	1847
Headquarters:	Munich, Germany
2006 sales:	\$113.23 billion
Number of employees:	480,000
Main businesses:	Power generation and distribution systems, factory automation, medical devices, telecommunications equipment, electronic auto parts, transportation systems

Note: Sales figures are for fiscal year ended Sept. 30; employee figure is as of Dec. 31.



**Klaus Kleinfeld,** Siemens CEO: Kept his position last week at annual shareholders meeting; says company has "zero tolerance" for corruption.



**Heinrich von Pierer,** former Siemens CEO: Says he ordered strict antibribery standards during tenure.



**Michael Kutschenreuter,** a suspended division-level executive of Siemens: Jailed for three weeks last year, then told prosecutors about years of alleged bribery at the company.

caller, Abdul Wahab Al-Akeel. According to the witness statement, the colleague returned to Munich with documents detailing bribes by Siemens from the late 1990s until early 2000. The payments allegedly were made to win contracts with Saudi Telecom to supply equipment for land-line and wireless communications networks.

The colleague said Beit Al Etisallat would settle for double-digit millions of dollars, according to Mr. Kutschenreuter—who added in his witness statement that he informed Messrs. Kleinfeld, Neubürger and Ganswindt of the situation in writing on April 26, 2004. Mr. Kleinfeld then was the senior executive in charge of Siemens's telecom business, a unit in which Mr. Kutschenreuter then oversaw finances for land-line operations.

Siemens's legal department recommended negotiations with Beit Al Etisallat after seeing Mr. Al-Akeel's documents, according to Mr. Kutschenreuter's witness statement.

Mr. Kutschenreuter said he then received a call from Mr. von Pierer, the CEO at the time, asking his opinion. He said he told the CEO it would likely cost \$50 million to settle with Beit Al Etisallat, a consulting firm that Siemens had dropped in favor of another Saudi firm in 2000.

Mr. Kutschenreuter said that he worked out the details over Christmas

schneureuter mention to me, that any "Hush-Money" was involved in any settlement and at no time did I have any knowledge of documents relating to bribes and still have no such knowledge," he added in his emailed statement.

**M**R. KUTSCHENREUTER, 52 years old, joined the company in 1974 and was posted to Algeria in the late 1970s. After six years abroad, including a stint in Iraq, he returned to Germany in 1984 and took up a position in the sales department for telecom contracts in Africa and the Middle East.

Back at Munich headquarters, he told prosecutors, he learned of an encryption code he alleged was widely used at Siemens to itemize bribe payments. He said it was derived from the phrase "Make Profit," with the phrase's 10 letters corresponding to the numbers 1-2-3-4-5-6-7-8-9-0. Thus, with the letter A standing for 2 and P standing for 5, a reference to "file this in the APP file" meant a bribe was authorized at 2.55% of sales.

A spokesman for Siemens said it has no knowledge of a "Make Profit" encryption system.

In the mid-1990s Mr. Kutschenreuter worked on financing for power projects. In that role, he alleged, he witnessed bribe payments for power projects in Russia and Slovakia.

After moving to Siemens's information-technology division in 1999, Mr. Kutschenreuter said, he learned of bribes paid to Argentine government officials as Siemens competed for a contract to develop electronically scannable passports. He said the payments stopped after the Argentine government changed hands in late 2001, before the contract had been awarded.

Siemens says allegations of bribe payments in Russia, Slovakia and Argentina are false. A spokesman at the Argentine embassy in Berlin declined to comment.

Mr. Kutschenreuter said he was personally involved in lots of bribe payments after becoming finance chief at the land-line telecom unit in early 2001. Though paying bribes abroad was illegal in Germany starting in 1999, many of his colleagues still saw them merely "as peccadilloes because it was all for the good of the company," he told prosecutors.

Two other former Siemens telecom executives have also described alleged bribes, in November statements to prosecutors reviewed by The Wall Street Journal. Reinhard Siekaczek and Andreas Mattes, onetime colleagues of Mr. Kutschenreuter, also said the bribes were carried out with the knowledge of senior managers.

Prosecutors have presented the three witness statements as evidence in the arraignment hearing of Mr. Ganswindt, the former management-board member. Mr. Ganswindt, like Messrs. Kutschenreuter and Siekaczek, was detained by authorities late last year and then released. Mr. Mattes wasn't detained.

Mr. Siekaczek, who worked at Siemens for four decades, said in his wit-

ness statement that he was asked to set up slush funds for bribes in 1999 or 2000. He described a bank account in Salzburg, Austria, through which he said more than €75 million in bribe funds flowed each year. In 2001, he alleged, Mr. Kutschenreuter warned him to shift funds elsewhere because Swiss authorities were following the trail of Austrian accounts linked to bribes in Nigeria.

Mr. Siekaczek gave prosecutors a long list of other countries in which he alleged that bribes were paid to win business, including Egypt, Cameroon and Kazakhstan. A lawyer for Mr. Siekaczek, who left Siemens in 2004, declined to comment on specifics but said police have investigated his client's statements and found them reliable.

Mr. Mattes told prosecutors that a member of the telecom unit's management board told him in 2001 that bribes were commonly paid for securing big telecom projects. Mr. Mattes is now an executive at Hewlett-Packard Co. in the U.S., after leaving Siemens in 2005. His lawyer said Mr. Mattes met with investigators in November and stands by his testimony. The lawyer said his client is suspected of playing only a minor role in the alleged activity.

Messrs. Kutschenreuter and Siekaczek alleged in their statements that Joe Kaeser, now CFO at Siemens, was aware of bribes while overseeing the wireless telecom unit's finances from 2001 to 2004. Mr. Kutschenreuter also cast blame on two other former wireless executives: Rudi Lamprecht, now a member of Siemens's management board, and Lothar Pauly, who left in 2005 to join the management board of Deutsche Telekom AG.

Siemens said Messrs. Kaeser and Lamprecht weren't aware of any alleged bribes and did nothing wrong. A lawyer for Mr. Pauly said allegations of wrongdoing by his client are false.

Prosecutors say bribes became more elaborate after a tightening of money-laundering laws following the Sept. 11, 2001, terrorist attacks and also after investigators in Italy, Switzerland and Liechtenstein began circling.

**I**NVESTIGATORS SAY SIEMENS lawyers filed briefs to keep prosecutors from accessing bank records in some countries. Cuno Tarfuser, a prosecutor in the Italian city of Bolzano, said in an interview that his investigation of Austrian accounts was held up for months in 2004 and 2005 by legal challenges.

Siemens says that at no point did it try to prevent prosecutors from examining company-linked accounts. Siemens said that it has been cooperating with authorities for years.

A German arrest warrant for Mr. Siekaczek issued last November, and reviewed by The Wall Street Journal, mapped out how prosecutors suspect bribes were carried out in Egypt, Greece, Indonesia, Kuwait, Saudi Arabia and Vietnam from 2002 to 2004. It said that generally, after money was routed through at least three layers of

secret accounts and shell companies, it was entrusted to "bag men" who carried bundles of cash to local "fixers." The fixers then organized the payoffs on behalf of Siemens.

In one case, prosecutors said in the arrest warrant, Mr. Siekaczek signed a consulting contract in July 2002 with Austrian firm Krhoma GmbH related to a project with Saudi Telecom. According to the arrest warrant, Siemens paid €4 million to Krhoma, which took a €60,000 commission before wiring the rest to a firm that was based in the British Virgin Islands and controlled by Mr. Siekaczek. •

A lawyer for Krhoma GmbH said Krhoma wasn't involved in illegal activity.

Mr. Kutschenreuter told prosecutors that the chief executive of Siemens in Greece, Michael Christoforakos, told him in October 2004 the company had made illegal payments for an infrastructure project related to the 2004 Athens Olympics. Mr. Kutschenreuter said he informed other senior managers, including Messrs. Ganswindt and Neubürger, of the conversation.

Mr. Siekaczek's arrest warrant cited €1.83 million in suspicious transfers from Siemens to third parties in 2004 and alleged they were related to an Athens security-systems contract.

A Siemens spokeswoman in Greece said Mr. Christoforakos "has never mentioned anything to anybody concerning improper payments" related to the Olympics. She said he has met as a voluntary witness with Greek prosecutors, who are conducting a preliminary probe of the awarding of a security-systems contract. She said Siemens was a subcontractor and "there is no evidence of any wrongdoing or improper behavior whatsoever."

Mr. Kutschenreuter had a busy Christmas in 2004. In addition to trying to settle the Saudi matter, he told prosecutors, he got a call from Mr. Siekaczek telling him that Liechtenstein authorities were investigating certain bank accounts there. Again, Mr. Kutschenreuter alleged, senior management was informed.

Siemens later told Liechtenstein authorities that the accounts were its own, and asked prosecutors to end their investigation, according to Robert Wallner, the lead Liechtenstein prosecutor. The authorities continued to dig. At the same time, investigators in Switzerland, Italy and Austria were tracking separate leads on suspicious transactions flowing through other bank accounts tied to Siemens or people acting on its behalf.

**T**HIS PAST NOVEMBER, armed with the information, more than 200 German police raided about 30 offices and homes of current and former Siemens employees. They searched offices of management-board members, including Mr. Kleinfeld, the CEO, and seized 36,000 documents. German prosecutors are sifting the material and questioning more people in a probe that could stretch for several more months or longer.

Mr. Kutschenreuter, who by the time of his arrest had moved on to Siemens's real-estate division, told prosecutors in December that he would cooperate because Mr. Kleinfeld had said he wanted to get to the bottom of the matter. "I can help him with that," he said in his witness statement.

At the company's annual meeting in Munich last week, Mr. Kleinfeld said he was "shocked" when he heard the allegations of wrongdoing. "I can assure you that we are doing everything that we can to clear up these incidents completely," he said.

His predecessor, Mr. von Pierer, told the crowd of 10,000 restive shareholders that while serving as CEO for more than a decade, he had taken major steps to combat corruption. He added, "I am deeply distressed that these efforts were not successful enough."

—*Mariam Fam and Almut Schoenfeld contributed to this article.*

## Peeved Club Members Turn on Leaders

In June 2005, Mr. Holthaus and Mr. Lightcap, the trustee, attended the meeting of an advisory group charged with cleaning up a big conference. Mr.

whether to ask Mr. Holthaus and then-chairman Kenneth Janke to step down. The group did not agree on a course of action, and Mr. Spindel resigned from

... trading, a victory for the government in the last of a... of high-profile prosecutions of corporate executives. **A3**

Siemens's board chairman... he would step down, as fall... from mounting corruption... ndals at the German engineering firm escalated. **A1, A3**

China's GDP expanded at an... % rate in the first quarter, fu... g concern that Beijing will... se interest rates. Asian mar... slid on the news. **A1, C7, C12**

Bank of America's net rose... %, even as profits shrank in... three main units and the firm... gged to lift revenue with... help from acquisitions. **A2**

Ferrill's net more than qua... pled to \$2.16 billion as gains... stock and bond trading and... nment-banking fees offset a... mp in mortgage revenue. **C3**

The Dow industrials edged up... 9 to 12808.63 as investors... gged off a slump in Chinese... es and hailed a drop in oil... \$61.83. Bonds fell. **C1, C5, C6**

Deloitte said its chief operat... officer will retire and that his... t won't be filled, signaling... at analysts see as unease with... fund firm's performance. **C1**

Home builder D.R. Horton said... fit tumbled 85% and warned... the housing market appears... ly to deteriorate further. **A2**

Appaloosa intends to move... ward with a deal to buy a... ke in Delphi despite the likeli... od Cerberus will pull out. **A3**

Southwest's net rose 52% but... t-revenue growth slowed. Con... ental swung to a profit despite... ssure from low-cost airlines. **B7**

Lenovo unveiled a restructur... plan aimed at saving \$100... lion this fiscal year by elimi... ing or moving 1,400 jobs. **B4**

Merck, Schering-Plough and... eth posted strong profits, but... ysts said the drug industry... l faces broader problems. **A4**

Union Pacific posted a 24%... fit jump despite a slowdown in... railroad's freight volumes. **A4**

Spanish builder Sacyr plans... launch a hostile, all-stock bid... French affiliate Eiffage. **A11**

Hannett and New York Times... sted lower profits and Trib... e swung to a loss, blaming a... f in print classified ads. **B7**

Nokia's earnings declined 7%,... ighed down by higher charges... d lower phone prices. **B4**

■ **Gates slipped** into Iraq to push political progress and warn leaders U.S. patience is running thin. Another suicide bomber breached the capital's security cordon, killing at least 12 in a Shiite area. An al Qaeda-linked group announced it has set up a shadow government. Republicans slammed Senate leader Reid for saying the war is already lost.

■ **Iraq oil reserves could double**, to 200 billion barrels, if western desert fields are developed, as could output if violence ends, IHS Inc. said.

■ **NBC and other media** were criticized heavily by Virginia Tech victims' kin for airing menacing photos Cho Seung-hui took of himself. A relative of the gunman said much-noted reluctance to speak began at an early age, and high school classmates said he was mocked for it. A school district in California was the latest to shut down in a threat alert.

■ **House Democrats succeeded** on a second try, voting 241-177 to give the District of Columbia a House vote, but Bush promises to veto it.

■ **Rep. Doolittle (R., Calif.)** is leaving the Appropriations panel temporarily after FBI agents searched his house in the Abramoff inquiry.

■ **Ex-Rep. Foley** spent \$206,000 in campaign contributions on legal expenses in the congressional page scandal, filings with the FEC show.

■ **Bush asked** a court to throw out all Guantanamo detainee suits after the Supreme Court sidestepped a decision on access to U.S. courts.

■ **Wolfowitz skipped** appearing at a health conference as the World Bank board considered how to deal with favors he did his girlfriend. **A5**

■ **Philadelphia's Drexel University** faces a suit by New York's attorney general, who says it took money to promote a loan firm to students. **A5**

■ **A Taliban-style** antiterror campaign is roiling Pakistan, with Islamist mobs beating up sinners and moderates fearful of a takeover. **A7**

■ **The U.S. is backing** a bid by Lebanon's premier to move the long-stalled probe of Syria's role in the 2005 Hariri slaying to the U.N. **A7**

■ **A Somalia suicide bomber** killed 12 in an attack on Ethiopian forces.

■ **France headed** into first-round presidential voting on Sunday. **A6**

■ **Cuban-airline bombing suspect** Posada was freed on bail by the U.S.

■ **New Hampshire is set** to be the fourth state to allow gay civil unions.

■ **Kyrgyz police fought** protesters seeking President Bakiyev's ouster.

■ **Moscow foreign students** braced for Hitler-birthday attacks today.

... challenge for General Motors Corp. in the world's second-biggest car market. The Roewe's maker, Shanghai Automotive Industry Corp., has been GM's partner in making Buicks in China for a decade, and it has learned a lot from GM. Now the Chinese company, using that know-how and the money earned from selling joint-venture cars, could become a serious competitor.

GM says the bargain it made—access to the Chinese market in exchange for transferring technology and expertise—was worth it. "We made a big bet back in 1997, and it's paid off for us very well," says Chief Executive Rick Wagoner.

GM's 50-50 joint venture, which also makes Chevrolets and Cadillacs, is the biggest car maker in China by volume, bringing GM hundreds of millions of dollars a year in profit. That's a rare bright spot for a company that has trouble earning anything in its home North American market. GM is also a minority partner in a successful Shanghai Automotive-led company that makes minivans and minicars in southwestern

## Friars Who Owned Polluted Mine Get All Sorts of Help

They Risked Costly Fines Over Arizona Toxic Waste; Prayer and a Good Lawyer

By JOHN J. FIALKA

GILA COUNTY, Ariz.—When Brother Tom Nichols, treasurer of the Franciscan Friars of California Inc., first hiked to the deserted Gibson Mine here in 2003, he was shocked by what he saw: junked cars, rusting barrels, piles of mine debris and old tunnels oozing a bright turquoise, copper-containing acid into nearby streams.

The friars had inherited partial ownership of the mine in 1970 from a donor who said it had great "potential



for the future." Over the years, operators had leased the land, 70 miles east of Phoenix, and then abandoned it. The friars, who got a small income from the operations, had rarely thought about the mine, but now the state was threatening to sue them over the mess.

Brother Nichols returned to Oakland, Calif., where the order is based, and showed his superiors pictures of a turquoise stream containing sulfuric acid that could dissolve barbed wire. Copper levels exceeded toxic limits by 2,500 times. "This is not your typical alpine lake," the 55-year-old former electrician told them.

The friars, who take a vow of poverty and spend much of their time helping the poor, had little money, but pray-

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... give away too much? Its Chinese partner could end up competing against GM both in China and, someday, abroad. Shanghai Automotive, owned by the Shanghai city government, already makes cars that rival GM's in a joint venture with Volkswagen AG.

Hu Maoyuan, chairman of Shanghai Automotive, says he wants to "build a global Chinese brand." His company, he says, will "take full advantage of the technical and management experience we've accumulated" in the GM and Volkswagen joint ventures.

As dozens of Chinese makers ramp up production, competition is threatening everyone's profits. Average vehicle prices in China have been falling by about 7% annually in recent years. GM's profit from China operations in the final quarter of 2006 fell nearly 19%. For the full year, it was up about 1% to \$306 million.

"It did give us an advantage, being first. It might have been nice to have had that advantage longer," says Nick Reilly, head of GM's operations in Asia. "But you live with that."

The four-door Roewe 750 that Mr. Li plans to buy is no cheap knockoff. Shanghai Automotive based it on plans acquired from the now-defunct MG Rover Group Ltd. The project included British veterans of Rover along with Chinese engineers, including some who trained at the joint opera-

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... services the nation produces, expanded 11.1% in the first quarter from a year ago, an acceleration from the 10.4% year-over-year growth recorded for the previous quarter.

All major indicators—including retail sales, factory output, capital spending and inflation—accelerated during the period, raising new worries about excesses in an economy that has grown by more than 10% a year for four straight years.

Concern among Chinese investors that the government would respond by seeking to slow growth by raising interest rates sent the Shanghai Composite Index down 4.5%, even before the economic data was released, and contributed to weakness in markets across Asia.

Global markets didn't sell off as much as they had on Feb. 27, when an 8.8% plunge in the Shanghai index helped trigger a slide in stock markets around the globe. Still, in stock trading around Asia, Japan's benchmark Nikkei index had its worst session in a month, Hong Kong's Hang Seng Index closed down 2.3% and Singapore's Straits Times Index lost 3.2%. The pan-European Dow Jones Stoxx 600 Index shed 0.4%, and major European markets were mixed, with London, Paris and Frankfurt all down. In the U.S., meanwhile, the Dow Jones Industrial Average edged higher for a sixth con-

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## INTERNATIONAL AIDE

# Siemens Probe Spotlights Murky Role of Consultants

## Mr. Arcaini Gets Deals, But a Question of How; Crackdown on Bribery

By DAVID CRAWFORD And MIKE ESTERL

MONTE CARLO, Monaco—Tonio Arcaini, who moves easily among the jet-setters in this swank tax haven on the Côte d'Azur, has gotten rich by bringing together people in business and government to cut deals.

He cruises the streets in a chauffeur-driven Mercedes and rubs elbows with Prince Albert II. "I'm very good at what I do," says the 62-year-old business consultant. "I can sell anything."

Over the past two decades, Mr. Arcaini has collected tens of millions of dollars from Siemens AG for helping the German engineering conglomerate win lucrative contracts in difficult-to-crack foreign markets. Now Si-

emens is embroiled in a bribery scandal, and German prosecutors are wondering precisely what Mr. Arcaini was being paid to do.

Late yesterday, Siemens said that Heinrich von Pierer, chairman of its supervisory board, intends to step down next week, although Mr. von Pierer denied any personal responsibility for the scandal. (See article on page A3.)

Two former Siemens executives, both suspects in the corruption probe, have told prosecutors that Mr. Arcaini's main job was to handle bribes, which helped Siemens seal deals in Eastern Europe and the Middle East. Last year, Siemens paid €14.5 million, or \$19.7 million at current exchange rates, to Mr. Arcaini.



Tonio Arcaini

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# Siemens Probe Spotlights Murky Role of Consultants

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Arcaini's company, part of it in connection with the termination of his consulting deal with Siemens.

Recently, over a lunch of quail, Mr. Arcaini said he never paid a bribe and never would. "I have records of everything I did for Siemens," he said. "If the police want to see my files, all they have to do is ask."

As a consultant specializing in helping companies land deals in foreign markets, Mr. Arcaini is part of a murky and controversial industry. Multinational companies often turn to consultants for help navigating perplexing markets and cultures, especially in the developing world. Such hired guns can bring language skills, local knowledge and valuable contacts.

But several recent scandals have raised questions about their involvement in bribery. U.S. authorities are investigating whether a consortium whose investors included a unit of Halliburton Co. used agents or subcontractors to bribe Nigerian government officials to facilitate a contract for a multibillion-dollar natural-gas liquefaction project, the Houston-based company said in a securities filing in February. Halliburton said it was cooperating with the investigation, and that the unit has since gone public as a separate company.

British authorities recently looked into whether London-based BAE Systems PLC made illicit payments through travel consultants to help secure Saudi Arabian defense-equipment contracts. The British government halted that investigation in December, citing national-security concerns. BAE denies any wrongdoing and says it cooperated fully with investigators.

In December, Siemens said it uncovered €420 million, or about \$570 million, in "suspicious transactions" spanning seven years. German authorities have arrested several former and current Siemens managers in connection with the probe. Mr. Arcaini hasn't been questioned by prosecutors or charged with any wrongdoing. He says he isn't the focus of the investigation. He knew of corruption in foreign countries by the Munich-based company, he says, and he blew the whistle to senior managers.

Siemens declined to comment about Mr. Arcaini, citing the ongoing criminal investigation. The company says it is cooperating with authorities and that any wrongdoing in recent years was the work of renegade managers.

In recent years, European authorities have adopted a new outlook on corporate bribery. Until 1999, German companies were permitted to write off as business expenses any bribes they paid in foreign countries. Many European countries didn't outlaw paying bribes abroad until the late 1990s, two decades after the U.S. tackled the issue by passing the Foreign Corrupt Practices Act.

While many European companies abandoned the practice, others appear to have tried to circumvent the new rules. Efforts to crack down on money laundering in the wake of the Sept. 11, 2001, terrorist attacks made it more difficult for companies to hide bribe payments. That may have led more companies to use third parties to handle illicit payments.

"It's much more difficult to detect bribery when funds are channeled

## Trouble Abroad

Siemens has been stung by a string of corruption scandals over the past 30 years, many of them involving bribery allegations. Some examples:

- **1981:** Siemens executives are convicted of bribery in Austria.
- **1993:** Siemens executives are convicted of bribery in Germany.
- **1995:** U.S. State Department lists Siemens as a top bribe payer.
- **1996:** Singapore temporarily blacklists Siemens for bribery.
- **2004:** Italy temporarily bans Siemens from public-sector contracts in bribery case.
- **2005:** U.N. panel accuses Siemens of kickbacks in Iraq's oil-for-food program.
- **2006:** German police raid Siemens's offices in bribery probe at its telecom-equipment unit.
- **January 2007:** European Commission fines Siemens €400 million for heading

through intermediaries," says Patrick Moulette, head of the anticorruption division at the Paris-based Organisation for Economic Co-operation and Development. "Today it seems this is a prevailing trend in international bribery schemes."

German prosecutors conducted a surprise search of Siemens's offices in November. They suspect employees of funneling money through layers of consulting contracts into slush funds in Europe and in offshore havens, according to warrants issued as part of their investigation. The prosecutors suspect that a network of consultants would then bribe potential customers, the warrants indicate.

KPMG, Siemens's longtime auditor, questioned the legitimacy of about €100 million in payments to more than a dozen consultants in the fiscal year ended Sept. 30, according to a November KPMG memo reviewed by The Wall Street Journal. One of the questionable payments was the €14.5 million paid to Mr. Arcaini's company, the memo indicated. Mr. Arcaini declines to comment on payments his company received from Siemens.

Christian Schmidt-Sommerfeld, the Munich prosecutor overseeing the investigation, says consulting contracts are one focus, although he declines to comment on specific individuals. People familiar with the matter say Mr. Arcaini's activities are a crucial part of the investigation.

Reinhard Siekaczek, a former Siemens executive jailed last year in connection with the probe, alleged in a witness statement that Mr. Arcaini handled illegal payments for Siemens in several Eastern European countries. Siemens paid about €20 million to Mr. Arcaini's firm, according to the statement. Mr. Siekaczek left Siemens in 2005 and is cooperating with prosecutors.

Michael Kutschenreuter, a former finance chief at Siemens's telecom-equipment unit who was also jailed last year, alleged in his witness statement that Mr. Arcaini helped Siemens ink a €150 million deal with the Turkish military a few years ago, despite



March 13, 2007: Former Siemens managers Horst Vigener (left) and Andreas Kley (right) attend trial in Germany. They are accused of paying around €6 million (\$7.9 million) in bribes to secure contracts with Italian utility giant Enel.

price-fixing cartel in electric-power switching gear.

■ **February:** Siemens's U.S. medical-equipment unit pleads guilty to obstruction of justice in federal court in Chicago.

■ **March:** Siemens management board member arrested as part of a German probe into payments allegedly routed to employer-friendly labor group.

Mr. Kutschenreuter's concerns about the legality of his methods. Mr. Kutschenreuter is also cooperating with prosecutors.

Mr. Arcaini denies he paid bribes in either Eastern Europe or in Turkey. He says he required all of his employees to pledge in writing that they would not engage in bribery or other unethical behavior. Siemens has disputed the accuracy of the witness statements by Messrs. Kutschenreuter and Siekaczek, and has said it has "zero tolerance" for corruption.

Mr. Arcaini was born in Italy. His father, a musician, moved the family from Milan to Germany when Mr. Arcaini was 14. Mr. Arcaini says he didn't speak German, and his classmates scorned him as a "spaghetti eater." Through a job selling encyclopedias door to door, he says, he discovered his talent for sales.

He dropped out of college after a year and landed a job selling copiers for the German arm of Rank Xerox, a former subsidiary of Xerox Corp. "Tonio wouldn't take 'no' for an answer," says Werner Krause, who worked with Mr. Arcaini at both Rank Xerox and Siemens, and is now retired. "He could sell anything."

Mr. Arcaini married and divorced, and then left Xerox to take a job selling homes for the German arm of American builder Kaufman & Broad, now called KB Home. In 1981, he started his own trading company, T.A. Handelskontor GmbH, in Frankfurt.

Mr. Krause says he urged Mr. Arcaini to look for deals in Iran, where trade with the West had deteriorated after the seizure of U.S. Embassy hostages in 1979. Mr. Arcaini says he found an Iranian intermediary he trusted, and began selling glue to a plywood company and parts to a gas company. His Iranian deal making ended in 1983, he says. He learned later that his intermediary had been cheating him, he says.

In 1984, he began arranging barter deals in Hungary, he says, at one point swapping televisions, cash registers and copy machines for shipping containers, which he resold in Hamburg. He

set up an office in Hong Kong to get electronic goods cheaper, he says, and "resided in style at the Budapest Hilton."

In 1987, two years before the fall of the Berlin Wall, Siemens was looking for someone to sell telephone-network systems in Eastern Europe. Mr. Krause, then at Siemens, says he recommended Mr. Arcaini. Mr. Arcaini says Siemens offered him \$50,000 a month, but that he persuaded the company to retain him as a consultant and to give him a 3% commission on all his sales. He would cover his own expenses.

His local contacts in Hungary, he says, helped him seal his first deal for Siemens, in 1989—an \$800 million telecommunications contract in Hungary. Over the next five years, he sold network-switching systems and equipment in Poland and other countries, according to Mr. Krause.

By 1994, Mr. Arcaini was doing so well that he decided to move himself and his company, now called T.A. Trade & Acquisition, to Monaco, where Italian is spoken and taxes are lower. "Here I pay 10% and have money for other things," he explains. He married again. (He and his German wife have four children, ranging in age from 3 to 12.) He joined prestigious yacht and golf clubs and chartered jets for business trips, he says.

He ranged far and wide for Siemens and other clients. He sold telecom systems, air-traffic-control systems, transportation systems, factory-automation systems, power stations and gas turbines, he says, and helped Siemens and other clients win business in Brazil, Hong Kong, Turkey, Bulgaria, Poland, Hungary, Germany, Spain, Ven-

ezuela, Greece, the Czech Republic and Cyprus. Between 2001 and 2006, Siemens paid Mr. Arcaini €36.5 million, according to an article in German news magazine Der Spiegel. A Siemens document reviewed by The Wall Street Journal confirmed that total.

KPMG warned in its November memo that consulting contracts like the one with Mr. Arcaini's company carried "a high risk" for corruption. The memo noted that many consulting contracts signed by Siemens before June 2005, when controls were tightened, didn't clearly define the services being provided. Those contracts, it said, often provided for "success" fees for securing infrastructure projects, but didn't clearly identify the beneficiaries. If consultants covered their own expenses—as was the case with Mr. Arcaini—there would be no documentation of how money was spent to further Siemens's interests.

Mr. Arcaini says his parting of ways with Siemens had nothing to do with the bribery investigation or the company's increased controls on consulting contracts. He says he quit out of frustration in 2005 after his recommendations for marketing improvements in Turkey were ignored. His lawyer says a large part of the €14.5 million he received last year was to fulfill a termination-of-services agreement, which requires him not to discuss his activities at Siemens.

Since then, Mr. Arcaini says, he has shifted his focus in other directions. He has donated money to organizations in Bethlehem and Berlin that help needy children, he says, and to a foundation in Belgium that helps victims of pedophile rings.

He founded the Monaco Oktoberfest in 2005, modeling it after Munich's annual beer blast. He displays photos of himself clicking beer mugs with Prince Albert II, Monaco's head of state, who attended both years. He has used the venue to market an alcohol-free health drink made from hops, for which he owns the patent. Several upscale cafes and bars in Monaco now serve the beverage.

Mr. Arcaini says he and his lawyer are ready if German prosecutors call

## Under Scrutiny

◆ **The Situation:** A bribery probe at Siemens has raised questions about its use of consultants in seeking foreign contracts.

◆ **The Background:** The company has uncovered \$570 million of 'suspicious transactions' over seven years.

◆ **The Bottom Line:** German prosecutors are looking into whether consultants paid bribes on behalf of Siemens.

## Friars Get Help With Polluted Mine

Continued from Page One

ing was an option. "We turned this whole issue over to a higher power," explains Father Melvin Jurisich, the provincial minister of the Franciscans. "It was our deep conviction that if we did the right thing, we would be helped."

More than 100,000 abandoned mines scar the West and pollute 40% of its streams, according to the U.S. Environmental Protection Agency. The mines, which once produced gold, silver, copper and other valuable minerals, are called "hardrock" to distinguish them from coal mines. They're also known as orphans because their owners often declare bankruptcy or disappear once they're finished excavating.

"It's done all the time," Mike Ford, the

He also asked other clients of his firm to help. As a result, crews from Metal Management Inc., a Chicago recycler, spent a week at the mine, removing junk free of charge. "This was a community effort for the Franciscan fathers," says Kenneth P. Mueller, president of the company's Arizona branch.



Tom Nichols

Meanwhile, Arizona began thinking twice about suing the friars. "Who in the world wants to go out after a bunch of Franciscan friars?" says Steve Owens, director of Arizona's Department of Environment and

Quadra Mining Ltd., a Vancouver-based mining company.

Edward Kirwan, a Quadra vice president, said he hoped the donation would encourage the state to allow it to expand nearby mining operations. But, he adds, the company would have "put up some portion" of the grant in any case. "You figure if you want to make it with the Big Guy," he says, "you better get in good" with Brother Nichols.

Some Arizonans weren't so well disposed to the friar. Tom Hale, a neighboring rancher, was so furious that debris leached copper into streams whenever it rained that he refused to let the friars cross his property to get to the site. He didn't budge until threatened with a lawsuit. "These guys may go

## GLOBAL BUSINESS BRIEFS

### FOOD

#### Foster's Group Ltd.

#### Archer Capital to Purchase Wine Clubs, Services Division

Foster's Group Ltd. agreed to sell the final asset in its wine clubs and services business to Archer Capital. The Australian brewer said gross proceeds are estimated at 270 million Australian dollars (US\$226 million). Archer Capital agreed to buy Cellarmaster Wines and Vinpac International in Australia, Cardmember Wines and Carters in New Zealand and its investment in Wine Buzz in Japan.

### FINANCIAL SERVICES

market capitalization said the move was prompted by new rules that allow European insurers to own 100% of Russian life-insurance businesses, and by the country's growing affluence. "Many factors make the Russian market attractive: legislative reform, stable economic growth and the rising middle class," Executive Director Philip Scott said. Life-insurance premiums represent just 0.05% of Russia's gross domestic product, allowing plenty of room for growth, he said. Aviva is mainly targeting people at least 30 years old with an annual salary of at least \$15,000.

### INDUSTRIAL

#### Mittal Steel Co.

## POLITICS &amp; ECONOMICS

## Inside Bribery Probe of Siemens

Liechtenstein Bank Triggered an International Hunt

**I**N THE SPRING of 2003, auditors for a bank owned by Liechtenstein's royal family spotted an unusual flurry of money transfers involving a small offshore firm called Martha Overseas Corp.

They discovered that Martha Overseas was controlled by Prodomos Mavridis, a top execu-

By David Crawford in Vaduz, Liechtenstein, and Mike Estel in Athens, Greece

tive in Greece with Siemens AG, the German engineering giant. Millions of euros were pouring into the account from another offshore firm controlled by a different Siemens executive based at the company's Munich headquarters.

The bank auditors in the tiny Alpine nation, on the lookout for possible terrorist-financing transactions, had instead stumbled upon one of the largest corporate bribery cases in recent history. Today, prosecutors in the U.S. and around the world are pursuing allegations that Siemens bribed customers to win big infrastructure contracts.

Increased post-9/11 scrutiny is making it tougher for companies to camouflage payments through countries such as Switzerland and Liechtenstein, which have rolled back banking-secrecy laws. Authorities in the two nations played a quiet but central role in uncovering wrongdoing at Siemens.

In October, German prosecutors fined Siemens €201 million (\$291.3 million) after tracing €12 million in bribes to Nigeria, Russia and Libya. Siemens said last month it has identified €1.3 billion in suspicious transactions worldwide between 2000 and 2006.

The scandal became public when German police raided Siemens offices in November 2006. But confidential bank and court documents reviewed by The Wall Street Journal and interviews with law-enforcement officials show how the raid followed more than three years of work in untangling Siemens's money transfers.

The timeline, along with earlier evidence, suggests top Siemens executives knew about allegations of wrongdoing at least two years before they acknowledged illicit transactions.

Siemens declined to comment in detail for this article. The company said it is cooperating fully with authorities and is eager to get to the bottom of any wrongdoing.

Mr. Mavridis, who was head of Siemens's telecom-equipment sales in Greece, left the company in April 2006. He is being investigated in at least three European countries, including Greece. As the Journal reported in January, a former Siemens executive, Michael Kutschenreuter, has told German prosecutors he heard from the head of Siemens's Greek unit that the company bribed public-sector officials to win a contract for the 2004 Olympics in Athens and paid off political parties ahead of parliamentary elections the same year.

A lawyer for Mr. Mavridis said his client did nothing wrong. Mr. Mavridis hasn't been charged with any crime. A lawyer for Mr. Kutschenreuter declined to comment.

Liechtenstein was one of 15 countries blacklisted in 2000 by the Group of Seven industrialized nations for "noncooperation" in the prevention of money laundering. LGT Group, which is Liechtenstein's biggest bank and is owned by the principality's ruling family, was raided the same year as part of a criminal probe into cross-border bank transactions. In 2001, after Liechtenstein bolstered its surveillance, the country was removed from the G-7's blacklist.

In the spring of 2003, according to people familiar with the matter, compliance officials at LGT zeroed in on a flurry of transactions between Martha Overseas, a Panama-based com-

pany controlled by Mr. Mavridis, and Eagle Invest & Finance SA, a company based in the British Virgin Islands and controlled by a Siemens executive in Germany, Reinhard Siekaczek. They noticed that €1 million was paid into a Liechtenstein account before being withdrawn the same day and that half a dozen transactions involving €5 million ricocheted through related accounts over a three-week period.

Auditors at LGT grew suspicious because the payments were characterized as commissions paid by Siemens to the two executives, according to people familiar with the case. The auditors wondered why Siemens would pay commissions to senior salaried employees and why the funds would be directed through offshore accounts with no ostensible ties to Siemens.

In November 2004, shortly after LGT filed a suspicious-transactions report to local authorities,

formed of the suspicious transactions a few days later. But it would be many months before the public learned of the suspicions.

Prosecutors in Bern, Switzerland, raided the offices of Intercom Telecommunications Systems AG, a Swiss subsidiary of Siemens, in March 2006. They uncovered further details of dubious invoices tied to Mr. Mavridis, and he was questioned in March and June.

Siemens began liquidating Intercom in late May. That heightened Swiss prosecutors' suspicions. They didn't see an economic reason for closing the company, according to a person familiar with the investigation.

In April 2006, Mr. Mavridis left Siemens after the company agreed to pay him €300,000 in severance, according to a person familiar with the matter. On Nov. 14, one day before its German offices were raided by police, Siemens filed a civil

lawsuit against Mr. Mavridis in Greece, claiming ownership of €8 million that he held in a personal bank account in Athens. Mr. Mavridis handed over €7.8 million to the company in January of this year. His lawyer says Mr. Mavridis never disputed that the money belonged to Siemens.

Mr. Siekaczek, the former Siemens manager in Germany who controlled accounts that had funneled money to Mr. Mavridis, was arrested Nov. 15, 2006. Mr. Siekaczek told prosecutors that he knew of bribery schemes earlier this decade in more than a dozen countries stretching from Brazil to Egypt. He said the Greek unit enjoyed wide latitude in nearby countries such as Cyprus, Bulgaria and parts of the former Yugoslavia. Mr. Mavridis handled bribe payments in some of those countries, according to Mr. Siekaczek.

Mr. Siekaczek, a longtime executive in the telecom-equipment unit, was indicted in Germany in September on embezzlement charges. Mr. Siekaczek's lawyer declined to discuss specifics of the case but said his client is cooperating with prosecutors.

Mr. Kutschenreuter, the former chief financial officer of Siemens's telecom-equipment unit, was also detained in late 2006 but later released. He told German prosecutors that Michael Christoforakos, the head of Siemens's Greek unit, had informed him about the bribes to win an Olympic infrastructure contract and gain favor with Greek political parties. Other Siemens executives also have said they were aware of bribes in Greece earlier this decade, according to transcripts of the executives' interviews with German prosecutors.

Earlier this month, Mr. Christoforakos stepped down as chief executive of Siemens's Greek unit. Before his departure, Siemens declined to make him available for an interview, and he couldn't be reached independently. Mr. Christoforakos recently began cooperating with outside investigators hired by Siemens after he balked earlier this summer, said a Siemens board member.

Liechtenstein prosecutors transferred their money-laundering probe involving Siemens's telecom unit to counterparts in Germany and Switzerland earlier this year, but they continue to chase a money-laundering case involving a Siemens power unit. German prosecutors say they won't pursue further penalties against Siemens over the now-dismantled telecom unit but are continuing investigations of individuals and may look into other business units.

Swiss investigators have frozen about €200 million in bank accounts they believe are tied to Siemens. More than half the frozen funds haven't been claimed by anyone, after several named beneficiaries denied ownership. In an internal document earlier this year, Siemens said it was trying to reclaim nearly €36 million frozen in Switzerland.

Swiss prosecutors say Siemens will have to wait. Said one Swiss investigator, "We can't allow the money to disappear in another slush fund."

## The Domino Effect

How the bribery scandal at Siemens evolved

**Spring 2003:** Liechtenstein bank LGT spots unusual transactions tied to Prodomos Mavridis, a Siemens executive in Greece, and Reinhard Siekaczek, a Siemens executive in Germany.

**Late 2004:** LGT files money-laundering report to Liechtenstein authorities. Liechtenstein freezes €7.6 million in funds tied to Siemens executives; alerts authorities in Switzerland and Germany, as well as Siemens.

**December 2005:** Germany's Dresdner Bank sends Siemens a money-laundering report detailing suspicious transactions involving Mr. Mavridis.

**Nov. 15, 2006:** More than 200 German police raid Siemens's offices across Germany and arrest several current and former employees.

**Fall 2007:** German court fines Siemens €201 million for bribes paid earlier this decade; Siemens says it has now flagged €1.3 billion in suspicious transactions globally.

**Dec. 17, 2007:** Siemens says that Michael Christoforakos, the long-time chief executive of the Greek unit, has left the company.



Siemens's Greek headquarters in Athens

Liechtenstein blocked €7.6 million in funds that appeared to originate with Siemens. The authorities alerted their Swiss and German counterparts, as well as Siemens. The chief compliance officer at Siemens reported the Liechtenstein case to the company's audit committee in January 2005, according to a court document and a Siemens board member. By that point, senior managers already knew of suspected illicit activity, according to testimony from former Siemens officials.

Robert Wallner, a prosecutor in the Liechtenstein capital of Vaduz, said he asked to interview a member of Siemens's management board in late 2004 but was turned down. Siemens also suggested that he drop the investigation because the company wasn't materially injured by the transactions, according to Mr. Wallner.

In March 2005, Swiss prosecutors opened their own investigation after Germany's Dresdner Bank AG submitted a money-laundering report highlighting a longer string of suspicious payments that flowed through Switzerland and were tied to Siemens's Mr. Mavridis. In August, Switzerland froze about €25.5 million that appeared to have been funneled into Mr. Mavridis's accounts from Siemens.

In December 2005, Dresdner told Siemens about dozens of transfers to Mr. Mavridis between 2001 and August 2005 totaling €37 million. Money flowed into his accounts from banks and small firms in Switzerland, Italy, London, Hong Kong and Dubai, among other places. The money also moved out of the accounts to offshore firms with names like Ursula Marketing Corp. and Prince Pacific Ltd. Around the same time, German prosecutors, spurred by Switzerland and Liechtenstein, opened their own investigation.

The next month, Albrecht Schäfer, then the chief compliance officer at Siemens, forwarded the Dresdner report to Heinz-Joachim Neubürger, then the company's chief financial officer, according to an internal Siemens document. The company's audit committee was in-

## In Brief—

## Market-Savvy Cadres Rise In Shanghai Administration

Shanghai, emerging from a corruption scandal that claimed the city's communist boss, announced the appointment of a stock market expert and a business boss as vice mayors. Tu Guangshao, chairman of China's stock market, and Ai Baojun, chief executive of China's biggest steel producer, Shanghai Baosteel Group, were appointed vice mayors of Shanghai, according to the Xinhua news agency. China's new leadership is starting to include businessmen and lawyers, succeeding a generation composed mostly of engineers.

—Associate

## Official Says Thaksin Faces Arrest on Return to Thailand

Deposed Thai Prime Minister Thaksin Shinawatra will be arrested if he returns to Thailand, even if his supporters form a government following their victory last Sunday's general election, an official from the Thai Attorney General's office said. Mr. Thaksin and members of his family face an array of corruption-related charges from his six years in power. He was overthrown in a bloodless military coup in September 2006 and lived abroad since then, but said Tuesday he may return. The 58-year-old politician, who owns the Manchester City soccer club, has been living mostly in London since his ouster 15 months ago. He has denied all allegations against him.

## U.K. Housing Slowdown Pauses

The British housing market continues to slow as the volume of new mortgage lending hit a 28-month low in November. The British Bankers Association said new mortgage lending rose £4.28 billion or about \$8.5 billion, down from £4.782 billion in October. The Bank of England said it was the lowest monthly increase in new mortgage lending since a £4.5 billion increase in July 2005. Applications for new mortgages were also weak. The association said 44,811 new mortgages were approved, up slightly from October's 44,321 new approvals but well below the 79,367 seen last November.

## Kabul Expels Two Diplomats

Afghanistan expelled two senior diplomats after accusing them of holding unauthorized meetings with Taliban officials in Afghanistan's volatile south, officials said. One of the diplomats worked for the United Nations Assistance Mission in Afghanistan and the other was the head of the European Union mission. The diplomats' expulsion may make so-called Western nations and international organizations wary of making overtures to militants in an effort to end the insurgency. U.S. Ambassador William Miller called the issue a "misunderstanding" from apparent lack of coordination with the Afghan government.

—Associate

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FRANCK MULLER  
GENEVE

## Tycoon Exits Georgia's Presidential Race

By MARC CHAMPION

A business tycoon's withdrawal from the race for the Georgian presidency shows the growing risk that early elections could fail to put the Caucasus nation back on a path to

♦ **The News:** Tycoon Badri Patarkatsishvili has withdrawn from next week's presidential election in Georgia.

♦ **The Trigger:** His campaign manager was taped offering

senior journalists resigned from the Imedi television station he co-owns with Rupert Murdoch's News Corp. The government closed Imedi during November's crackdown, but under political pressure allowed it to reopen earlier this month

sipated as most Georgian remain poor, despite changes to the economy government has driven. The country has yet to elect a president at the ballot box. With Imedi closed, candidates had



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CORPORATE NEWS

Siemens Pays Record Fine in Probe

\$800 Million Settlement Will End U.S. Bribery Case for German Conglomerate

By David Crawford and Mike Esterl

A record \$800 million in fines for bribery allegations levied against Siemens AG on Monday could have been much higher if the German engineering and industrial conglomerate hadn't taken steps to cooperate with prosecutors, officials and lawyers say.

When the government investigation became known in late 2006, Siemens quickly turned to New York law firm Debevoise & Plimpton LLP. The move highlights a widespread practice in the U.S., where prosecutors encourage companies to hire private-sector investigators and then share the information with authorities.

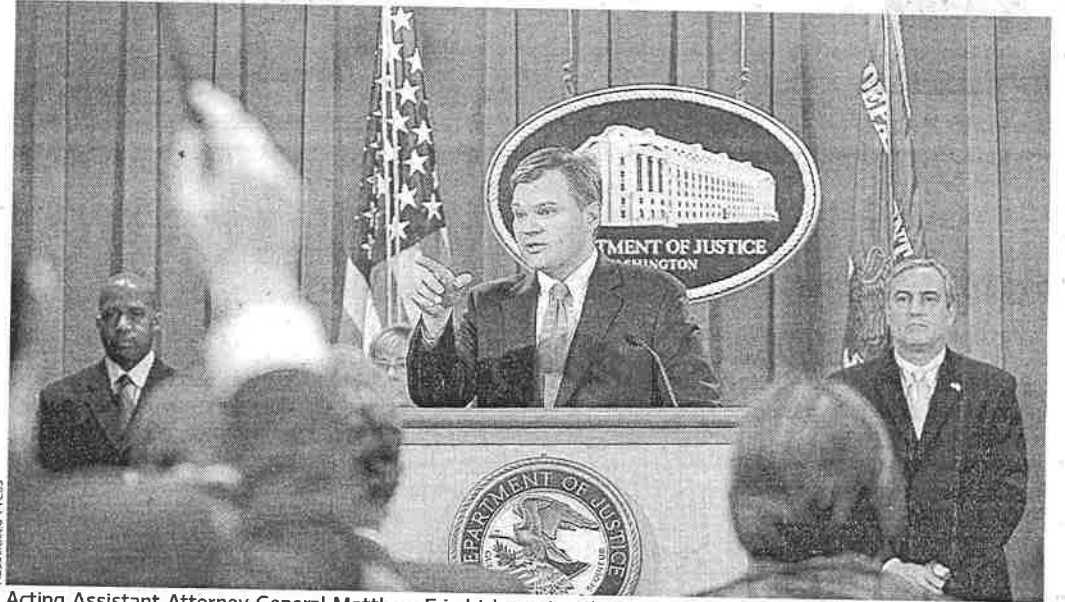
In return, companies can expect more lenient fines and sanctions.

In a Friday court filing, the Justice Department said it could have sought as much as \$2.7 billion in criminal damages from Siemens. In arguing for a lesser fine, it cited the "extraordinary" steps taken by Siemens to cooperate with authorities and to beef up its compliance procedures.

The filing said Debevoise's "frequent and extensive reports" to U.S. authorities helped the Justice Department's own investigation "enormously." Authorities add the probes could have lasted much longer and the fines could have been more than twice as high.

Siemens said it paid more than \$850 million in fees and expenses to Debevoise and the accounting firm Deloitte & Touche. Debevoise employed about 100 lawyers and more than 100 support staff to direct the investigation. Deloitte used about 1,300 forensic accountants and support staff, Siemens added.

A Washington, D.C., federal



Acting Assistant Attorney General Matthew Friedrich, center, discussed the Siemens plea agreement Monday.

court on Monday ratified the settlement, in which Siemens agreed to pay separate fines of \$450 million and \$350 million to end litigation claims by the Justice Department and Securities and Exchange Commission, respectively. It was by far the largest penalty ever imposed under the U.S. Foreign Corrupt Practices Act.

In addition, Europe's largest engineering company by revenue said it would pay an additional €395 million (\$528 million) in Germany to settle criminal investigations there. The fines are in addition to a €201-million fine levied by a Munich court last year in connection with allegations the company paid more than \$1 billion in bribes to gain contracts over a decade.

As part of Monday's settlement, Munich-based Siemens didn't have to admit to the bribery allegations, allowing it to keep bidding for U.S. public-sector projects. Instead, it admitted to having had inadequate con-

trols and keeping improper accounts.

Despite the high cost of hiring private investigators, a company that does so "can reach a resolution much faster and with less disruption," said Peter Clark, a Washington-based partner at the law firm Cadwalader, Wickersham & Taft LLP and former Justice Department official.

Some prosecutors investigating the bribery allegations against Siemens in Europe were less enthusiastic about the U.S. practice of using law firms as in-house investigators.

"An independent law firm is hired to minimize damage to a firm," said Cuno Tarfusser, a prosecutor in Bolzano, Italy, suggesting there was a potential for conflict of interest. Mr. Tarfusser has been investigating Siemens for several years on suspicion of corruption.

When a prosecutor's access to evidence comes from a private law firm, "the optic isn't very clear," added Gerhard

Jarosch, a spokesman for prosecutors in Vienna.

Prosecutors in Germany warmed to the idea, after initially balking at cooperating with Debevoise. The relationship with the New York law firm was "pleasant and good," said Hildegard Bäuml-Hösl, a Munich-based prosecutor who investigated Siemens.

More than 10 countries are investigating alleged corruption at Siemens. The company has said it could face further fines or sanctions outside the U.S. and Germany but that if it does, it doesn't expect them to be as large.

Although German prosecutors have wrapped up legal proceedings against Siemens, they continue to investigate the role of individuals for possible bribery after three former company managers received suspended court sentences earlier this year. Munich prosecutors are working off a list of about 300 suspects, including former management-board members.

Middelhoff Says Arcandor Is on Track

By Cecile Rohwedder

As he prepares to leave the helm of German retail travel group Arcandor AG, Thomas Middelhoff said he put the company on the right track, even as it reported a loss for its fiscal year and a sales decline.

Mr. Middelhoff, one of Europe's most prominent corporate leaders, said in an interview Monday that when he took over "in 2004, Arcandor was a few days away from bankruptcy. Now, two of its three businesses are doing well."

Its Thomas Cook travel division and Primondo home shopping unit are both doing well, he said. Only its German department-store chain Karstadt is still a cause for concern within Arcandor, Mr. Middelhoff said.

Mr. Middelhoff's pending departure from Arcandor, which was announced earlier this month and takes effect on Feb. 28, marks the second time he is leaving a top-level corporate job in Europe. A former chief executive of media group Bertelsmann AG, Mr. Middelhoff is well known in



Arcandor CEO Thomas Middelhoff expects retailers to consolidate.

American corporate and financial circles for his high-profile deals and bold promises. Deutsche Telekom's chief financial officer, Karl-Gerhard Eick, has been named to succeed him.

After his departure, Mr. Middelhoff said he would continue to advise Arcandor's biggest shareholder, German bank Sal. Oppenheim jr. & Cie., about the company. The 55-year-old said he

would also re-enter the investment and private-equity business but declined to specify how. Between leaving Bertelsmann and joining Arcandor, Mr. Middelhoff worked for Investcorp, an alternative assets manager listed in London and Bahrain.

Mr. Middelhoff said, in a rare admission, that he had made a mistake at Arcandor: keeping top management at Karstadt in place even after he realized that executives were spending money on marketing and discounts rather than cutting costs. When the problem became apparent in the fall of 2007, he said, Arcandor was in talks with British department-store operator Debenhams PLC about merging the two businesses, and he decided against a boardroom shuffle. The merger never went through.

"We should have changed horses," he said. He put in new management and launched an efficiency program in August.

Mr. Middelhoff said the public wrongly associated Arcandor mostly with Karstadt, although Thomas Cook now accounts for 60% of the group's sales and 90%

of its operating profit. It is Europe's second-biggest tourism company after TUI Travel. Until Mr. Middelhoff changed the group name to Arcandor, its name was a composite of its long-standing retail units, KarstadtQuelle.

As the global economic downturn hurts retailers, Mr. Middelhoff said he expected consolidation among German and other European department stores, with Karstadt playing an important role in the shrunken market.

On Monday, Arcandor reported results. In its fiscal year ended Sept. 30, Arcandor posted a net loss of €745.7 million (\$997.3 million), which the company blamed on expenses such as restructuring costs. Arcandor switched its fiscal year so the prior period was only nine months long. In that period, Arcandor reported a net profit of €26.5 million.

In the latest fiscal year, sales fell slightly to €19.8 billion on a pro-forma basis, from €20 billion the year before.

Arcandor shares fell 3.9% to €2.45 Monday on the Frankfurt stock exchange.

Recession Nips at Heels of 'Cheap-Chic' H&M

By Ola Kinnander

STOCKHOLM—Fashion retailer Hennes & Mauritz AB, which for months has said its low-price profile is helping it keep—and even win over—increasingly cost-conscious con-

sumer demand.

Inditex appeared to buck the weakening trend for European retailers by last Thursday posting higher profit and sales for the first nine months of its fiscal year and saying it plans to main-

tain growth next year. Still, Inditex's third-quarter net profit was virtually unchanged from a year earlier, edging up to €437 million (\$584.4 million) from €432 million.

—Dominic Chopping contributed to this article

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THE WALL STREET JOURNAL.

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## Siemens Settles With World Bank on Bribes

Company Will Pay \$100 Million to Help Combat Corruption and Forgo Bidding on Contracts for Two Years

BY VANESSA FUHRMANS

Siemens AG reached a settlement with the World Bank over bribery allegations, agreeing to pay \$100 million to help anticorruption efforts and to forgo bidding on any of the development bank's projects for two years.

The agreement marks the latest step in Siemens's quest to rehabilitate its image in the wake of a bribery scandal that forced several of its top executives to resign.

The agreement with the World Bank also follows much larger settlements with U.S. and German regulators.

Investigators have alleged that the German engineering conglomerate spent more than \$1 billion in recent years bribing government officials in at least 10 countries to win contracts on

projects ranging from supplying power and medical equipment to building refineries.

The World Bank's investigation focused specifically on an urban-transport project the bank financed in Moscow.

The bank tries to root out fraud and corruption in projects it helps finance, and it has penalized more than 350 companies and individuals in the past decade by permanently or temporarily banning them from receiving future World Bank contracts.

The Siemens agreement is the first to involve a financial settlement, a World Bank spokesman said.

Under the terms of the accord, the company pledged to pay \$100 million over the next 15 years to combat corruption through training and education,

### Paid Off

The World Bank investigation focused on a Moscow project, but Siemens has faced scrutiny in other countries. A sampling of SEC allegations

Country	Project	Amount, in millions	Date
Russia	Medical devices	\$55	2000-'07
Argentina	Identity cards project	40	1998-'04
China	High-voltage transmission lines	25	2002-'03
China	Metro trains	22	2002-'07
Israel	Power plants	20	2002-'05

Source: U.S. Securities and Exchange Commission

help governments recover assets stolen by corrupt leaders and strengthen efforts to crack down on corrupt practices, the bank said.

Siemens also voluntarily agreed to shut itself out of World Bank contract bids until the end of 2010. It said it would

also withdraw any bids that weren't accepted as of January 2009.

Siemens said it has generated roughly \$160 million in annual revenue in recent years from World Bank-financed projects.

As part of the settlement, Sie-

mens's Russian unit faces a ban of up to four years from project contracts there. The company also agreed to provide information on any other cases of wrongdoing.

But the comprehensive settlement means the company won't face any additional World Bank sanctions involving subsidiaries in other countries.

"That's a significant benefit for us," said Peter Solmssen, Siemens's general counsel and a management-board member.

Though Siemens still faces investigations in several other countries, the World Bank agreement is a major milestone in resolving the bribery scandal.

In December, the company agreed to pay \$800 million in fines—the largest penalty ever imposed under the U.S. Foreign Corrupt Practices Act—to end

litigation claims by the U.S. Justice Department and the Securities and Exchange Commission.

It has also agreed to pay €596 million, or \$839.4 million, to German authorities, including a €201 million fine levied by a Munich court in 2007.

Despite the record settlements, Siemens has managed to avoid much larger sanctions by cooperating with various officials.

A Justice Department filing in December said the agency would have sought much larger fines had it not been for the "extraordinary steps" taken by Siemens to cooperate with authorities and beef up its compliance procedures.

And Mr. Solmssen said it was Siemens that brought the specifics of the Russian case to the World Bank's attention in 2007.

## States Plot New Path to Tax Online Retailers

BY GEOFFREY A. FOWLER  
AND ERICA ALINI

Amazon.com Inc. and other e-commerce companies are winning some skirmishes against cash-strapped states that want to force them to collect sales taxes, but their victories may be short-lived.

Several states are contemplating new laws or revisions to existing law that could eventually force online retailers to pony up. North Carolina, for instance, has a two-pronged approach to going after online retailers. If its current efforts to tax online sales fall through, the state's revenue secretary plans to interpret existing laws to require companies that have marketing affiliates collect sales taxes.

State Sen. David Hoyle on Thursday called the effort "a fairness issue." Collecting sales taxes from out-of-state sellers could bring between \$150 million and \$200 million annually in additional tax revenue, he said. Mr. Hoyle said current law allows the state to force online retailers retroactive sales taxes.

Texas is also investigating whether Amazon has a presence in the state through a subsidiary that handles distribution. If so, Amazon could be forced to collect future taxes, and potentially pay tax on past sales.

E-commerce companies said they continue to believe they are not required to collect such taxes. "We don't want to shoulder the unconstitutional burden of collection in states where we lack a physical presence," said Patty Smith, a spokeswoman for Seattle-based Amazon. She said the company is "in compliance with all Texas laws governing sales tax collections."

Overstock.com Inc. President Jonathan Johnson said the new efforts will be unsuccessful. "The state legislatures don't have the ability to change what the Supreme Court has said," he said. "We will sue any state that tries to unconstitutionally at-



Online retailers have rebuffed efforts to tax their sales in some states. Amazon.com employees in Kentucky prepare Kindle shipments last month.

added.

An effort by some states and retailers to streamline sales tax laws eventually could be used to force e-commerce companies to collect tax in 20 states. Congress has considered bills that would allow states that meet certain uniformity and simplification standards in their tax systems to demand that out-of-state sellers collect sales taxes.

These new battle lines are being drawn just as the dust settles on the latest confrontations. Over the past month, lawmakers in New York, Rhode Island, North Carolina and Hawaii passed legislation that would force e-commerce companies to collect sales tax if they have in-state online-marketing affiliates, people who get a commission from sales via their Web sites or blogs. The states argue that those affiliates amount to sales agents with a physical

presence, advertising channels.

To avoid getting caught by the new laws, Amazon, Overstock, Blue Nile Inc. and others dropped or threatened to drop affiliates in some states.

In response, some states backed down on their plans. On Wednesday, Hawaii governor Linda Lingle vetoed her state's e-commerce tax bill, saying it would have negative consequences for local businesses. Gov. Arnold Schwarzenegger of California, which has contemplated similar legislation, also promised Wednesday that he would veto any such proposals.

There are about 200,000 affiliate marketers in the U.S., tied to about \$14 billion in annual revenue either directly or through supporting businesses, according to trade group Performance Marketing Alliance. Affiliates range from large coupon-collect-

ing sites to a 56-year-old Lydia Walshin in Gloucester, Rhode Island, who runs a cooking blog called the Perfect Pantry. Ms. Walshin's site includes links to cookbooks sold on Amazon and other sites, for which she gets a sales commission of as much as \$1,000 per year.

"Those pennies really add up as an overall strategy to monetize my blog," said Ms. Walshin. Now that Amazon has ended its business with her, she said she's looking for other revenue streams.

Dropping affiliates doesn't cause significant financial damage to e-commerce companies. Forrester Research analyst Sucharita Mulpuru estimates affiliates drive between 8% and 20% of the sales for e-commerce sites. But many of those buyers would find their way to online retailers anyway.

Many traditional retailers

sales tax gives e-commerce companies an unfair price advantage. Some legislators agree. "I find it disheartening that small businesses have to collect sales taxes and big companies like Amazon and Overstock do not," said Rhode Island state Rep. Steven Costantino.

The idea to use affiliates as a way to force e-commerce companies to collect sales tax came from former New York Gov. Eliot Spitzer, who included it in his 2008/2009 budget. Overstock responded at the time by pulling out of its affiliate business in New York. Amazon kept its affiliate business there, but joined Overstock in challenging the law in court. They lost the case, but are currently appealing it.

The threat of retailers terminating in-state affiliates helped convince states including Maryland, Minnesota and Tennessee to abandon proposals for new on-

## Justice Probes Antitrust Issues In Google Deal With Publishers

BY JESSICA E. VASCCELLARO  
JEFFREY A. TRACHTENBERG

The U.S. Justice Department said it is investigating a settlement between Google Inc. and authors and publishers, saying that antitrust issues raised by the deal warrant scrutiny by the agency.

Deputy Assistant Attorney General William Cavanaugh disclosed the investigation in a letter to U.S. District Court Judge Denny Chin, who is scheduled to review the settlement. Mr. Cavanaugh wrote that the Justice Department hasn't yet reached any conclusions on "what impact this settlement may have on competition."

Judge Chin said the court will maintain an October hearing date and invited regulators to present views in writing by Sept. 18 or to appear in person during the hearing.

Google spokesman Gabriel Stricker on Thursday reiterated the company's previous statement that it had been contacted by the DOJ and several state attorneys general about the settlement and said it remains confident in the settlement.

"It's important to note that this agreement is nonexclusive and if approved by the court stands to expand access to millions of books in the U.S."

Samuel Miller, an antitrust lawyer at Sidley Austin LLP who isn't involved in the case, said the Justice Department's move "makes it public and clear to the court that there may be some competitive issues with this settlement." He added that the move is likely to "make the judge take a harder look at the settlement."

The agreement, which was struck to resolve a copyright lawsuit between Google, authors and publishers, gives Google copyright licenses over millions of digital books it has scanned



# Siemens set for overhaul under Kaeser

GENERAL INDUSTRIALS

News analysis

**New chief is expected to scrap some divisions and tighten focus to halt the slide in profitability, writes Chris Bryant**

Following the acrimonious toppling of his predecessor amid a spate of profit warnings, Siemens' new executive Joe Kaeser called for a period of calm, insisting the company did not need to reinvent itself.

Mr Kaeser has since kept his cards close to his chest and investors had begun to think that a long-awaited strategy update in Berlin tomorrow might be a disappointment.

But the German engineering conglomerate's offer to acquire Alstom's power generation business and its talks to buy assets from Rolls-Royce suggest Mr Kaeser may be open to bold changes after all.

"We believe it is unlikely that the new CEO can afford a 'non event'," says Andreas Willi at JPMorgan.

Mr Kaeser is determined to arrest a slide in profitability against rivals GE and ABB which have been more active in making acquisitions. He also wants to position the company for growth and to cope with the paradigm shifts sweeping Siemens' markets - for example, in big data, software and the industrial internet of things.

Analysts expect Mr Kaeser to overhaul Siemens organisational structure by scrapping the energy, healthcare, industry and infrastructure silos and consolidating the number of business divisions. He is also thought likely to tighten the sprawling conglomerate's focus on areas where it has a competitive advantage, having remarked in the past that Siemens derives 80 per cent of its profit from four divisions.

The calm but purposeful Bavarian, who shed his trademark moustache before becoming chief, should not be underestimated. After more than three decades at Siemens, few have a deeper understanding of the company's strengths and vulnerabilities.

As financial officer he sold Siemens' automotive supplier business, exited its remaining stake in telecoms equipment maker NSN, sold an IT solutions business to Atos Origin and spun off the Osram lighting division. "Joe Kaeser has a record of being quite radical in disposing of non-core assets," notes

Ben Uglow at Morgan Stanley. Although Siemens may lose out to GE in its pursuit of Alstom, the effort will not have been in vain. Mr Kaeser's trip to Paris won Siemens four weeks to comb through Alstom's data room - giving it valuable insights.

Mr Kaeser is not expected to publish a laundry list of disposals tomorrow as this kind of approach has backfired for Siemens in the past because potential buyers were put off.

Still, he is expected to outline more clearly a strategy first hinted at last August when he said Siemens' future lay along the "electrification chain".

Investors are likely to have a better idea where Siemens will seek to make acquisitions and which parts of its portfolio are no longer a good fit with the electrification theme. Siemens' profitable core lies in energy and industrial productivity - from efficient gas turbines and smart grids to industrial automation equipment.

A spin-off of Siemens' healthcare unit - which had €14bn in revenues last year - has, therefore, long been mooted by analysts who say it would

A spin-off of the healthcare unit has long been mooted by analysts who say it would be worth more as a standalone business

be worth more as a standalone business. Alternatively Siemens could keep the medical imaging and clinical products business but sell or spin off the diagnostics unit which requires significant investment, analysts say.

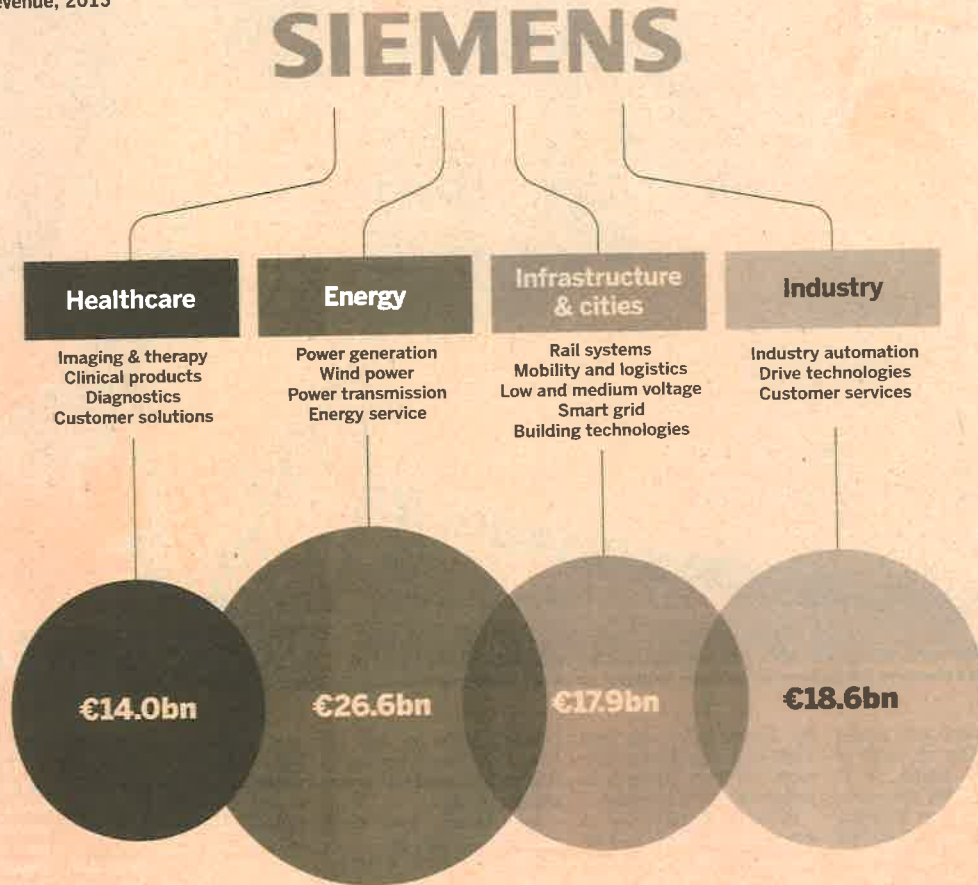
However, healthcare is one of Siemens' most profitable divisions and its cash-generation is a source of stability. Mr Kaeser has hinted, therefore, that a change is unlikely in the short term. "If there's a long-term change in the business model which we could anticipate, we would obviously go see what that means for Siemens. But at this point in time, I like what I see," he said in January.

Given Siemens' willingness to part with its rail division as part of a proposed asset sap with Alstom, the long-term future of this division can also be considered in doubt. The unit has been a headache because of problems delivering high-speed trains on time.

It also faces competition from Asian rivals. "We believe that Siemens is open to a partnership solution that

Asset allocation

Revenue, 2013



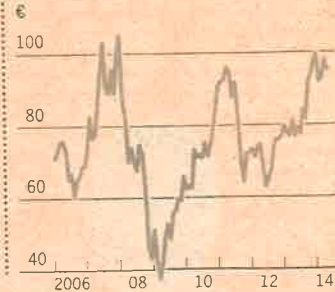
Potential smaller disposals\*

	Revenues (€bn)	Estimated enterprise value, 2014** (€bn)
Rolling stock	3.5	1.4
Metals for engineering	1.2	0.4
Postal automation/baggage	1.0	0.6
Hearing aids	0.7	1.9
Traffic systems	0.3	0

Operating profits

Division	Ebitda margins (%)	Industry average
Healthcare	15 to 20	19.8
Industry	11 to 17	11.6
Energy	10 to 15	9.9
Infrastructure and cities	8 to 12	3.7

Share price



\* Not confirmed by Siemens \*\* Based on midpoint of high and low range Sources: company; Morgan Stanley; Thomson Reuters Datastream FT graphic

would allow industry capacity to be rationalised," says Mr Uglow.

Mr Kaeser has abandoned his predecessor Peter Löscher's target to lift revenues to €100bn from €76bn last year as this encouraged managers to go for growth over profitability. But, there is still room for Siemens to be more aggressive in acquisitions.

Siemens' 0.3 net debt/ebitda ratio - a measurement of leverage - was below its 0.5-1 targeted range at the end of December when it had €8.9bn in net cash and equivalents. Divestments would increase capacity for acquisitions still further. Siemens is, therefore, expected to target portfolio gaps.

For example, Siemens is a leader in automation for discrete industrial production but wants to strengthen its footprint in process industries such as oil and gas, mining and paper.

The talks to acquire Rolls-Royce's power generation assets - which could be finalised by tomorrow - were in part sparked by the trend towards decentralised power generation, which requires smaller turbines that Siemens does not have.

Mr Kaeser is also facing pressure to renew the focus on cost-control and productivity. Japanese competitors, particularly in healthcare, are benefiting from a weaker yen and Siemens' German labour costs are rising.

Siemens last year abandoned a target to achieve a 12 per cent operating margin by 2014 and is targeting a margin of between 9.5 per cent and 10.5 per cent this year. It is nearing the end of a €6bn cost-savings programme launched by Mr Löscher that will entail some 15,000 job cuts in total.

Mr Kaeser must retain the co-operation of Siemens' powerful labour representatives. Nevertheless, the demise of its four-sector structure, if confirmed, could result in the scrapping of duplicate administrative functions.

After the departure of two female executives Mr Kaeser will also be challenged to explain a glaring issue in the seven-strong board, which is again all German, white and male.

Although Mr Kaeser will tomorrow signal a departure with some aspects of the Löscher era, his predecessor's famous criticism that Siemens is "too white, German and male" cannot be cast aside so easily.

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