

Greater Houston Business Ethics Roundtable

Ethics and Compliance Challenges In Emerging Markets

May 10, 2007

Who Is Alcoa?

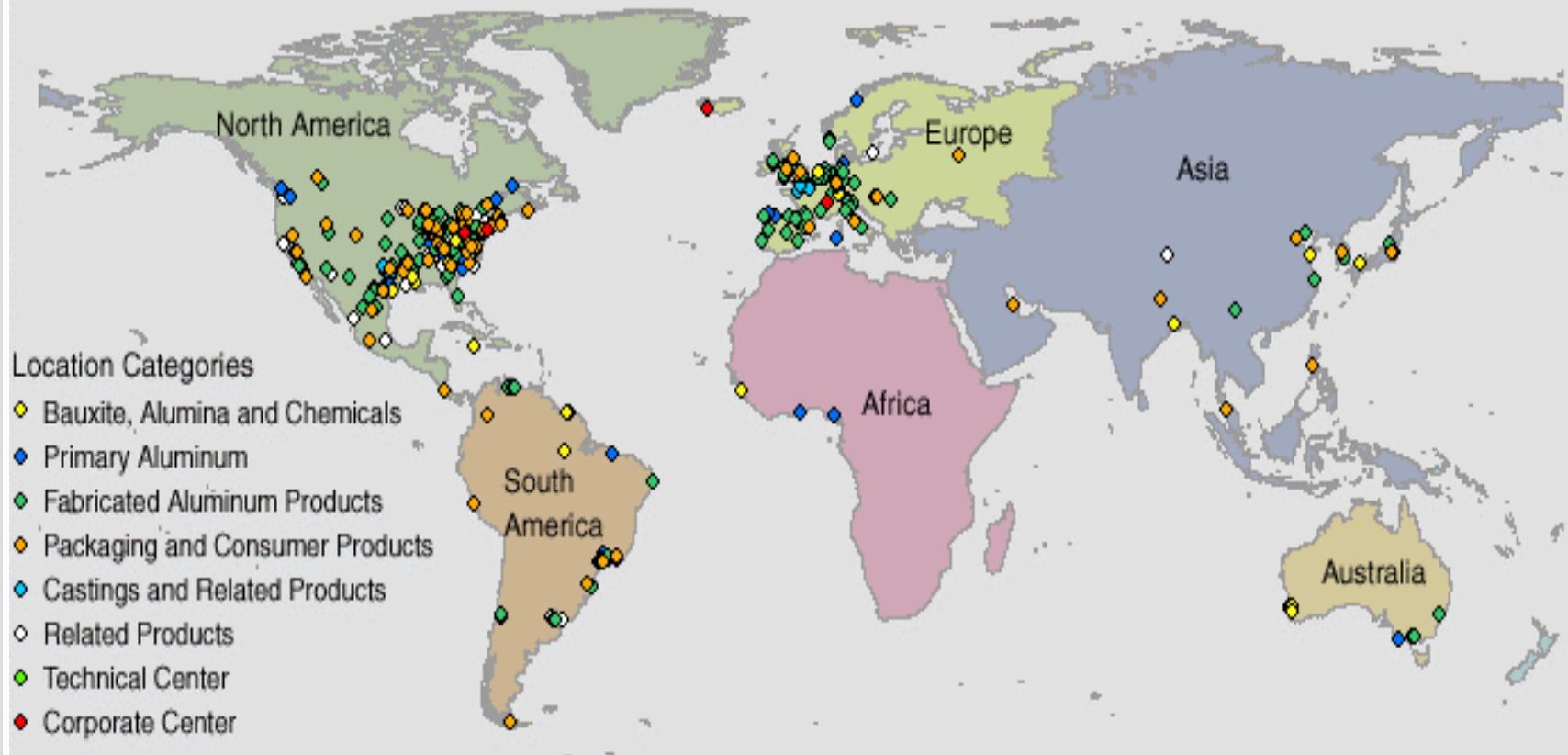


DO WHAT'S RIGHT!

Alcoa, A Global Company

	<u>2006</u>	<u>1996</u>
. \$Rev	30.4B	12.5B
# Locations	470	230
# Countries	47	28
# Employees	129k	72k

Worldwide Operating Locations



Values and Behaviors



- Alcoa's values provide the common framework for our decisions, actions and behaviors. They are our universal language - transcending culture and geography.
- Living our values requires us to meet the highest standards of corporate behavior in all aspects of business - in all regions of the world.



Alcoa Values



- Integrity
- Profitability
- People
- Accountability
- Excellence
- Customer
- Environment
Health &
Safety

Adhering to Alcoa Values is the price of admission to work for Alcoa



What is Business Ethics?



What is a “values-based” Ethics program:

- Ethics is about doing what you should do because it is right based on commonly held values.
- Ethics goes beyond what your are required to do.
- Ethics defines how Alcoa and its employees want to be perceived by others.
- Ethics recognizes that it is impossible to have written rules covering every situation that might arise.

“Many issues associated with corporate governance lie outside the legal arena and have an ethical rather than legal nature”– Russian Corporate Governance Code

Alcoa Guide to Ethics and Business Conduct



Do WHAT'S RIGHT!

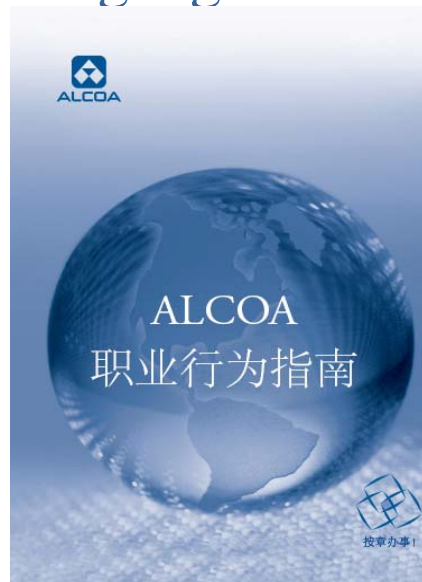
- Originally written in 1993
- Revised in 2002, 2006
- Values Based
- Translated into 26 Languages

Covers Conduct Involving:

- Fellow Employees
- Business Partners
- Company Assets
- Communities



Portuguese



Chinese



Russian



6.1.1 Scope

The Code of Conduct should comprise the relations between Directors, owners, employees, suppliers, and other stakeholders. Directors and officers should not exercise their authority for their own benefit or for the benefit of third parties.

The Code of Conduct should mainly cover the following subjects:

- | | |
|---|---|
| <input checked="" type="checkbox"/> Law abidance and tax payments | <input checked="" type="checkbox"/> Occupational safety |
| <input checked="" type="checkbox"/> Questionable payments/receipts | <input checked="" type="checkbox"/> Community relations |
| <input checked="" type="checkbox"/> Conflicts of interest | <input checked="" type="checkbox"/> Political activities |
| <input checked="" type="checkbox"/> Privileged information | <input checked="" type="checkbox"/> Substance abuse |
| <input checked="" type="checkbox"/> Gift receiving | <input checked="" type="checkbox"/> The right to privacy |
| <input checked="" type="checkbox"/> Discrimination at the workplace | <input checked="" type="checkbox"/> Nepotism |
| <input checked="" type="checkbox"/> Donations | <input checked="" type="checkbox"/> Adult or child labor exploitation |
| <input checked="" type="checkbox"/> The environment | <input checked="" type="checkbox"/> Company share-trading policies |
| <input checked="" type="checkbox"/> Moral or sexual harassment | <input checked="" type="checkbox"/> Lawsuits and arbitration |
| <input checked="" type="checkbox"/> Loans between related parties | <input checked="" type="checkbox"/> Fraud prevention and treatment |

- Covered in Alcoa Guide to Business Conduct

Ethics and Compliance Web-Based Training



DO WHAT'S RIGHT!

Target Audience – Management Employees (BCS Participants)

Integrity Interactive - Microsoft Internet Explorer provided by NA Policy 08-12-05

ALCOA Business Ethics and Corporate Compliance Training Do WHAT'S RIGHT!

Doing Business With Integrity



Alain J.P. Belda
Chairman and CEO

Alcoa is a Values-driven company. No matter how hard we compete in our businesses, we must never cross the line of ethical and legal business conduct.

While these courses discuss primarily U.S. law and examples, similar laws exist in other regions where Alcoa does business. Following the US laws will generally also be consistent with the laws of other regions. If you have questions in this regard, please contact your Alcoa Business Unit counsel.

[Logoff](#)

We all need the right knowledge to meet these high standards. This site is designed to give you the tools you need to do the right thing - and seek guidance from [Legal and Global Compliance Contacts](#) when you have any questions or concerns.

Welcome,
Franklin Feder!

1. Take This Course:
Click below to start the course.

✓ **Course Complete**
[The Dangers of Cover-Ups](#)

2. Optional Courses:
Click below for a list of optional courses.

[Optional Courses](#)

Transcript: [Click here](#) to see a list of all courses you've completed.

start | Internet Explorer | 8:27 AM

Ethics and Compliance Communication



Currently Published Articles:

- *“Bringing Ethics Alive and Online”*
- *“Receiving Gifts: A Conflict of Interest”*
- *“You Work With Confidential Information”*
- *“Harassment in the Workplace”*
- *“Ethics and Compliance Line”*
- *“Copyright Protection Is Up To You”*
- *“Speak Up for Your Company”*
- *“Our Product Quality Records – Handle with Care”*
- *“Protecting Alcoa Assets”*



What is Culture?



Culture: The system of shared beliefs, values, customs, behaviors, and artifacts that the members of society use to cope with their world and with one another, and that are transmitted from generation to generation through learning.

Culture: is a collective mental programming of people in an environment that determines attitude and behavior. The programming is difficult to change and is crystallized in the institutions people build together. (adapted from Hofstede)

Lesson learned:

Learn about the culture of the host country and leverage it to reduce resistance to the acceptance of your corporate values and ethical principles.



Russia



Cultural Tendencies:

- Expect and accept power inequalities
- See themselves as members of a network/group
- Concern for the well-being of others
- Prefer clear direction – avoid ambiguities



China



Cultural tendencies:

- Expect and accept power and wealth inequalities
- Respect old age (why I am accepted so well!!)
- Requires long time to be accepted – if ever
- Highly competitive – assertive
- Tolerate uncertainties – prefer fewer rules
- Value tradition – overcome barriers with time not short term solutions
- Must protect one's face at all costs



Brazil



Cultural tendencies:

- Expect and accept power and wealth inequalities
- Value family/group allegiances – loyalty is paramount
- Prefer strong control environment – focus on eliminating uncertainties – embrace controlled change
- Less competition – more concern for others
- Future focused – support strong work ethic – long term rewards expected from current efforts



Common Ethical Issues in International Setting:



- Corruption (My focus today)
- Employment Practices
- Human Rights Issues
- Environmental Regulations
- Gift Giving/Receiving

Alcoa's Russian Presence



Locations - Moscow, Samara, Bela Kalitva, Lyubuchany

Employees – 13,000

Operating Segments – Flat rolled products, closures, casting, extrusions, and forgings.

Stats – 588 acres of property, 11.0 million sq. feet under roof, largest forging and extrusion presses in the world

And Growing!!



By the Numbers: Alcoa in Brazil



- 8 production facilities
- 5,900+ direct jobs
- 301,000 metric tons of primary aluminum produced
- US\$1.0 billion in annual revenues
- US\$211 million in annual exports
- US\$66 million in capital expenditures
- US\$859,000 in community investments



Alcoa in China



- 7 production facilities
- 8 administrative and sales offices,
including the headquarters for Alcoa Asia
- 3,000 direct jobs
- 1,500 indirect jobs
- 83,000 metric tons of product produced annually
- US\$1.0 billion in annual revenues
- US\$227,500 in 2004 community investments



Alcoa – New and Existing Expansions

<u>Country</u>	<u>Country Rank</u> (Out of 163 Countries)
Iceland	1 (1 = Least Corrupt)
United States	20
Trinidad/Tobago	59
Jamaica	61
Brazil	70
China	70
India	70
Russia	121
Guinea	160

Corruption, what are we facing?



Center for Public Integrity – 2005

Russian businesses pay more than US\$39.5 b in bribes to bureaucrats nationwide .

Total corruption in Russia in 2004 amounted to \$639.0 b (Estimated to be as great as their total revenue base)

The following are some areas requiring bribes to obtain desired results:

- grades in school
- passports/drivers licenses
- automobile registration
- cease investigating an auto accident
- getting someone out of prison



Question of the Day!



Given the fact that:

1. Alcoa requires strict adherence to our Values, business conduct policies, and operating principles; and
2. We are expanding in emerging areas of the world with high corruption indices;

The question becomes:

How do we cope with the ethical challenges of operating in countries with high corruption?



Not the right approach for dealing with bribery and corruption!



Compliance First



Don't be fooled into thinking that bribery and other payoff schemes are "OK" because everyone does it and it is an accepted practice.

Russia, Brazil and other so called corrupt countries have governance laws that make corruption and bribery a criminal offense and they can and will use those laws to demonstrate their intent when they want to make a point.



Recent Anti-Corruption Emphasis



“In 2007 [Russia] will continue a full-scale offensive against corruption. Russia will become a full fledged member of GRECO (the Council of Europe’s Group of States against Corruption).

Duma’s spring seesion will see the introduction of new bills that will begin the Russian legislation’s implementation of anti-corruption standards.

Under the new legislation no one will be *untouchable*, what ever posts they occupy.”



Legal Compliance is a Must but - -



Laws do not and cannot govern all conduct

- Compliance cannot respond to all the day to day concerns of managers and employees.
- Just because an activity is legal doesn't mean it is ethical.

“First, the law establishes and should establish only general mandatory rules. It cannot regulate, and should not have as its purpose to regulate in detail all matters of corporate operations.” Russian Corporate Governance Code - 2002



Alcoa's Business Conduct Policy



No receipt or payment of value shall be made by anyone in the Company with the intent or understanding that any part is to be used:

- For any unlawful purpose, or
- For any purpose other than as described in the documentation which supports the transaction.



Russian Civil and Criminal Codes



- Civil Code prohibits gifts to officials with a value exceeding 5 minimal wages.
- Criminal liability is imposed on officials who accept bribes (money, securities, other property, etc.) for their actions or omissions, if within their authority or if they can promote such actions or omissions due to their official position.

Alcoa Anti-Corruption Policy



DO WHAT'S RIGHT!

New policy that updates and clarifies Alcoa's position on corruptly offering, authorizing, or making payments to foreign officials, foreign political parties or their officials, or candidates for public office for the purpose of obtaining or retaining business for or with, or directing business to, any company.

Anti-bribery is not new to Alcoa. Our Values have always firmly rejected bribery of all kinds. The new policy clarifies the anti-bribery provisions of our values



Anti - Corruption Laws in Russia



Under the Criminal Code of the Russian Federation the following actions are considered illegal:

- attempted corruption;
- extortion;
- offering a bribe (i.e., active corruption);
- receiving a bribe (i.e. passive corruption);
- bribing a foreign official while in domestic territory;
- money laundering;

Anti - Corruption Laws in Brazil



Money Laundering

Lei nº 9.613, de 3 de março de 1998 –

Dispõe sobre os crimes de "lavagem" ou ocultação de bens, direitos e valores; a prevenção de utilização do sistema financeiro para os ilícitos previstos nesta Lei; cria o Conselho de Controle de Atividades Financeiras - COAF, e dá outras providências

LAW No. 9613, OF MARCH 3, 1998

This law addresses the crimes of money laundering or concealment of assets, rights, and valuables, the measures designed to prevent the misuse of the financial system for illicit actions as described in this law, creates the Council for Financial Activities Control (COAF), and addresses other matters.



What Can a Company Do?



- First – Act within the laws that govern our businesses – whether they be local or international;
- Second – Work with the respective government officials to ensure laws are enforced;
- Third – Create awareness in our employees of Alcoa’s values, business conduct policies, explain how to use our Guide to Business Conduct, encourage employees to report suspected violations and to ask for advice if they are unsure of the laws or policies.



Leverage Your Position!



We plan to spend \$230M in expansion on top of the initial \$300M in plant acquisition.

With this expansion we will be:

- exporting more products thus creating more positive currency inflow to Russia;
- generating additional employment, therefore more wage taxes, corporate income taxes;
- greater community involvement (health care, education, arts, . . .

If you are approached for bribes from government officials use these facts in discussions with higher level officials.



Actions Taken to Mitigate Risk:



1. Train employees in Alcoa Values/policies
2. Become involved in the community
3. Train employees in Alcoa Values/policies
4. Carrot and Stick approach – reward and discipline
5. Train employees in Alcoa Values/policies
6. Focus on CSR – Enforce EHS Requirements
7. Train employees in Alcoa Values/policies



Always Remember



I often hear of global cultural and legal differences – but do you know of any place that has laws that ban integrity, personal accountability or treating people with dignity?

Do What's Right!

