



Ethics at All Cost

Adrian Zaccaria
April 30, 2009

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Good morning. It's a pleasure to be here today to present a perspective on what I believe to be one of the most critical issues facing our industry and indeed our country today: The alarming increase in unethical behavior at all levels of business.

I don't profess to be an expert on the subject of ethics and compliance. It is a subject in which you—the professionals—are much more well-versed. My comments on ethics are based on almost 40 years of international construction experience with Bechtel, working in some of the most difficult areas of the globe in one of the world's most competitive businesses.

Before I move into the subject of my presentation, I'd like to give you a brief description of Bechtel to provide some context for my discussion of ethics.

Bechtel Today



A vibrant
company
working
worldwide

Projects in nearly 50 nations. Major offices in:

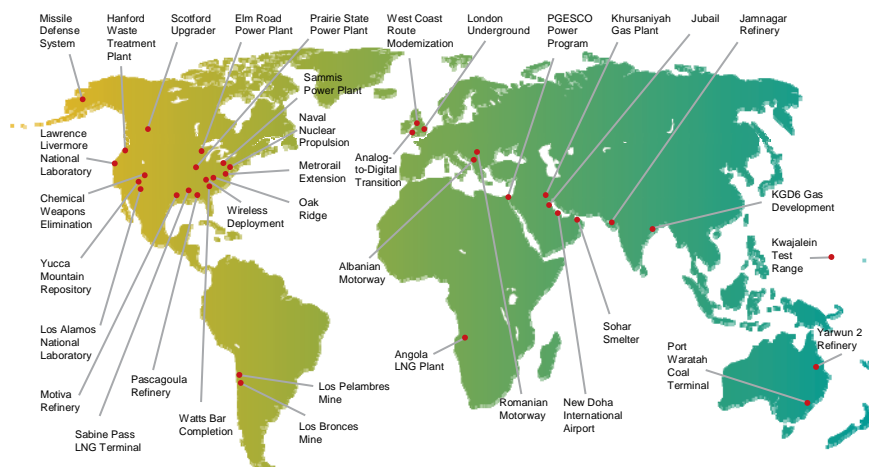
- Brisbane
- Calgary
- Frederick, Md
- Houston
- London
- Montreal
- New Delhi
- San Francisco
- Santiago
- Shanghai
- Taipei

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We're the largest privately held engineering, construction, and project management company in the United States and one of the largest in the world. We have offices around the globe and build megaprojects on all continents with the exception of Antarctica. Our projects are often valued in the billions of dollars and constructed over several years—when a Bechtel project is at its peak of construction it may be spending \$2 to 3 million a day in labor, materials, and subcontractor services.

Project Highlights

As of March 2009



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Our portfolio encompasses energy, transportation, communications, mining, oil and gas, and government services, and our clients are major multinational companies as well as many governments. Our signature projects include the Hoover Dam, Channel Tunnel, High Speed 1 rail line in the UK, Tacoma Narrows Bridge, Bay Area Rapid Transit (BART) system, and the Hong Kong airport.

So, that's our company in a nutshell—hopefully it helps set the context for our discussion on ethics.

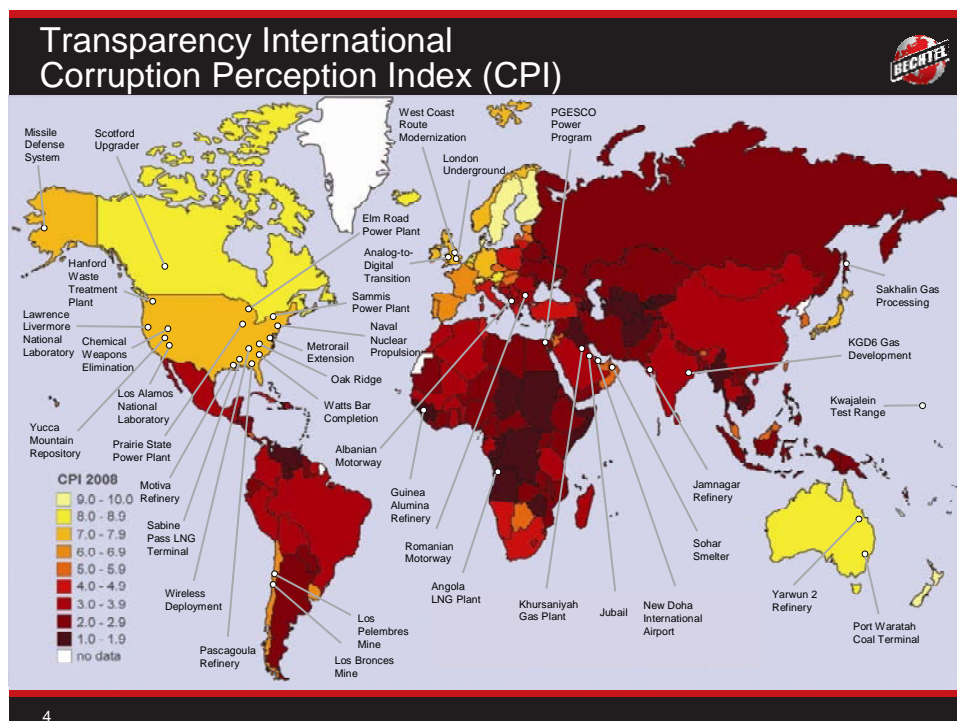
Bechtel is a values-driven company that focuses on safety, quality, sustainability, and ethics. We address every aspect of ethics from compliance with laws through to the specific set of professional behaviors and values we expect our employees to abide by.

Although the subject of ethics is very broad, I'd like to structure my talk around the most common issues we face in our construction industry—the challenge of avoiding corruption and ensuring transactional transparency in all aspects of major capital projects. In other words, ethical and compliant operations.

A question I am frequently asked is, “How does a company like yours operate in some of the most corrupt places in the world, particularly in an industry perceived to be plagued by corruption?”

The answer obviously is “Very carefully.” However, when it comes to corruption the answer is also very simple...it is always “No”.

As I mentioned, our projects are all large and we often execute them in areas where compliance with ethical standards is inconsistent at best. That's the most polite way of saying it.



You can see on this map that we have substantial business activities in what are considered some of the most corrupt countries of the world. In addition, a 2008 report completed by Transparency International indicated that in a survey of 22 countries, construction in the public works sector was the most corrupt of 19 industry sectors. And you don't have to look very hard to find admissions of corruption by major contractors and equipment vendors who have paid literally hundreds of millions of dollars to secure contract awards.

The Headlines

The Washington Post

**Company Accused Of Contract Fraud
to Pay GSA \$128 Million**

**Contractor sentenced to over 5 years
in 9/11 fraud**

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I have been involved in this industry for over 40 years and in this time I have been faced with my fair share of ethical issues—from bribery to threats to information security. Some are blatant, some more inconspicuous. Some with public agencies, others with private companies.

My experience has revealed to me two undeniable facts: First, ethical behavior is not without cost. Second, any cost associated with ensuring ethical behavior is the best investment a company can ever make.

It is naive to believe that we are not affected by ethical violations or corruption of any sort. However, Bechtel has a well-known zero-tolerance policy when it comes to unethical behavior. It starts at the top. I have never once had a doubt about what Riley Bechtel or any other executive in our company would say about any situation when it comes to ethics—it is absolutely black and white.

Our commitment to ensuring compliance, even if it means that we will not be awarded a project, contributes significantly to our reputation—thus the title I selected for this talk: “Ethics at All Cost.”

You may ask: Does it cost us real money? Absolutely...in the short term. We've refused to participate in or lost a significant amount of work because of our no-options, no-alternative, and no-excuses approach to the issue.

As you've heard, the projects we build are large and complex. It is not unusual for us to spend millions of dollars simply to develop a proposal and make a bid. We do this with the expectation and assurance that the playing field will be level at every stage of the bid process. Sometimes it turns out the playing field is not level. When that happens, we take our team off the field.

Going after a job is serious and expensive. The angst of possibly losing a bid is proportionate to our cost of bidding and the size of the job. This creates one of the most dangerous situations in our business: when our people interpret an assignment as a "must win."

One of the first actions I took when I became president and COO was to attempt to eliminate the terminology of "must win" from our vocabulary. The very words imply you must do whatever it takes to win the job; you must win at any cost. If you perceive yourself to be in such a position, you are vulnerable to making some very bad decisions.

Under the best of circumstances, your people may be tempted to reduce your price to the point where the work simply cannot be performed and you experience serious losses. Under the worst of circumstances, your people may become so desperate that they are tempted to break the law or agree to things that will have other negative consequences.

No business objective is worth that risk.

We constantly assess the risk of corruption as we explore opportunities around the globe. We won't work at all in some countries, despite great opportunities that play to our strengths.

Once I heard someone ask "What's the environment there regarding corruption?" The response was, "Excellent." And at that time bribery was tax-deductible in some countries!

Corruption doesn't end at the bid stage, it can occur at any phase of the execution of a project. Virtually every major contract or purchase order transaction can be at risk unless appropriate training and checks and balances are in place. The risks break down into three areas: local procurement practices; the well-known hazards of dealing with government officials; and perhaps the most insidious issue—attempts by the client to direct the work and direct who benefits from the work.

The first two have layers of laws and regulations, as well as established internal checks and balances to help manage them. Managing the third risk—an aggressive owner trying to control our work—requires more, much more.

In the years I've been with Bechtel, I've seen many violations and I will give you just a few examples. I've changed the names and locations to protect the guilty.

Some situations are blatant. Being called to a contract signing ceremony, when, prior to the signing, I was told that my company must pay \$20 million to the leader of the country. The ceremony ended abruptly when I turned around and walked out. It's been two years now and that contract is still not signed and will never be signed—at least by us.

We work hard to maximize and expand local content on our jobs, including engineering and craft training. We are proud of our record. It is good business and contributes to sustainable development. But when it is outside the realm of reasonable, comparative costs, it's not only a business mistake—it can be the disguise for corruption.

On occasion an owner will press us for more and more local content even when the local vendors' prices are significantly higher than those of outside vendors. If we bring this to the attention of the owner and the answer is "Don't worry, we'll pay for it," we now have red flag. It's a signal that some of the payments to local vendors may be kick backs to the owner's people. These vendors are subcontracted to us—we select them. So even though the owner is willing to pay us for these exorbitant costs, we could end up paying with our reputation. Others could pay as well: taxpayers or the owner's customers and shareholders.

One client suggested a local warehouse for storing materials. The warehouse was convenient to the site and we leased about 10 percent of the space. When the first invoice arrived, we were billed for the whole space. Ultimately, it's the client who pays the bill so we let him know we would protect his interest and pay only for what we were using. As it turns out, one of the client's executives threatened to have us fired because he was expecting a kickback from the warehouse owner! I still remember the day I was told, "Son, let me tell you how things work around here."

On another project we were bidding, the owner selected another company. We knew the owner's decision was not based on technical merit—there was no question we could perform a quality job. So the decision had to be on price, and we assumed the winner submitted the lowest bid. We later found out the project was awarded to the highest bidder. This perplexed me until I found out that each of that company's subcontractors was assigned a dollar amount—ranging from \$1 to \$5 million—and a specific government minister to pay. That company has since made overtures to Bechtel to pursue joint-venture projects—that is a joint venture we will never take.

In another case, a minister of energy told me that his predecessor quote, "got a lot from you and others," I told him I didn't know what he meant. His chin dropped and he said, "My counterparts sent me condolences when they found out I was working with Bechtel." Within six months of that conversation the minister was in jail.

Another troubling incident—but I have to admit a little amusing—was when the leader of a country in which we were working began thanking me profusely for the beautiful shotguns I gave him. I was a bit confused and said, "Excuse me, your highness?" He repeated his thanks. Before I could tell him I didn't know what he was talking about, I heard his aide frantically whispering the name of another company—one of our competitors.

Those are a few examples that come to mind.

I don't want to leave the impression that corruption is the only ethical challenge we face or that ethics is just a third-world problem. In fact, there are some places in the U.S. where for decades we didn't chase work. And the issue is not just corruption. It is a much broader issue, that of ethical behavior. And we see far too many examples where the standards of ethical conduct are far from being met.



The New York Times

At Siemens, Bribery Was Just a Line Item
Enron Chiefs Guilty of Fraud and Conspiracy
U.S. Extends Its Inquiry of Offshore Tax

TIME

**More Insider Trading
Charges?**

Corruption: Feeling the Heat

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Today, faith in America's business leaders—in the companies that fuel our economic engine—has been shaken to the core. It seems that every day newspaper headlines show another example of unethical behavior that has led to this lack of confidence.

There are some reasons, but no excuses for the behavior that has led to this loss of confidence in business leaders.

In my opinion, company managers often face totally unreasonable expectations for financial performance while at the same time they are under tremendous pressure from their clients to increase quality, at lower costs in the face of stiff competition. Any advantage that can be developed is applied to fulfilling these unrealistic expectations, and unfortunately this makes managers and executives more susceptible to cutting ethical corners.

However, despite the challenges that face business executives today, as I see it, the key driver pushing individuals and companies to unethical and illegal behavior is simple greed.

Just a few years ago, we were shocked when the CEO of Tyco spent \$1 million of corporate funds to help pay for his wife's birthday party. Even harder for us to understand was how a company like Enron could be driven to bankruptcy. Certainly corporate boards, institutional investors, and other senior managers failed to exercise their ethical responsibilities.

I think what is new—and frightening—is that greed has become institutionalized in whole sectors of our economy. A few years ago we could not understand how a few boards of directors allowed their companies' management to raid their treasuries. Today, we are trying to comprehend how banks, institutional investors and insurance companies could buy and sell financial instruments that few experts even understood and carry them as an asset on their books.

Institutionalized greed has spawned a “growth-at-any-cost” mentality, even if the growth is fiction.

The Market



**Dow Hits 6-Year Low**
IMF: Global Writedowns
May Reach \$4.1 trln

FINANCIAL TIMES
Wall Street falls despite strong earnings
US consumer spending and home sales collapse
Markets all fall down

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Confidence in our economy will not be restored until we return to treating ethical behavior as a business imperative, not an impediment to growth. All of us here know that ethical behavior, compliance with laws and regulations, and simply doing the right thing in all of our business practices are essential to our companies' success.

Cynics don't believe this, and let's be honest: unethical conduct sometimes pays off for a while. Although the day of reckoning may be delayed, unethical behavior truly is a capital offense—it kills companies.

So how do we avoid ethical pitfalls?



Basic Elements

Written code of conduct critical

Strong Ethics and Compliance organization

Established Ethics and Compliance programs

Internal/external checks and balances

Expressing values in a written code of conduct—one that is understood by every employee in a company—is an important step, of course. So, too, is a well-developed ethics and compliance program, one that is supported by management and that provides ongoing training. Legislation and aggressive regulation also are required.

Institutional checks and balances are needed at every level of the business and at every stage of work processes. In our business this includes the bid process, relationships with clients, procurement, our vetting and selection of subcontractors, training at all levels of the project's execution team and detailed financial reporting and accountability.

However, these steps are not enough to ensure ethical conduct.

The Rules



Foreign Corrupt Practices Act (FCPA)
OECD Convention
Corruption of Foreign Officials Act (Canada)
United Nations Convention Against Corruption
OAS Inter-American Convention Against Corruption
Council of Europe Criminal Law Convention on Corruption

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As ethics and compliance officers, your role in guiding corporate conduct is vital. This is especially true in the area of compliance, where the rules become more complicated every day; the line between ethical and unethical conduct can be blurred; and where doing the right thing is not so clear. A strong ethics and compliance organization is critical, but not sufficient, to ensure ethical compliance

Codes, policies, clear written direction, sound governance, institutional controls and a focused compliance program are also all important; but they are not sufficient, either. Enron had a 65-page manual defining ethics, but clearly the failure of Enron's executive leadership to behave in an ethical manner led to the demise of that company.

Ultimately, it's our behavior that defines our corporate culture. Every day, we all make decisions that either meet a high standard of integrity or do not. At these moments, individual behavior is most influenced by the behavior of our leaders. A leader who makes tough, visible, ethical decisions is both the best evidence that a company's culture embraces and demands ethical conduct, and the best driver of ethical behavior.

Lessons Learned



Ethics is critical to business success

Ethics is black and white

Watch for “code”

Recognize scoundrels

There are no excuses

Growth at any cost is very risky

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This morning I've shared a few of my own experiences with Bechtel. Let me talk about the some of the lessons I've learned.

Fundamentally, I have learned that business success and ethical conduct go hand in hand. Bechtel's reputation is its most valuable asset. I know that sounds like a cliché, but our future is our next project; and if customers don't trust us, they don't hire us. It's as simple as that.

I've learned that when you are asked—directly or indirectly—to violate your code of conduct, you must shut the conversation down immediately. The moment it becomes apparent that you are being asked to do something that just doesn't feel right, is the moment to say “no.” Your response to such an overture must be unambiguous. If it is not, you are signaling that you are susceptible, if not open, to unethical dealings.

More often than not, the other party talks in a kind of code. There is a subtlety and nuance in the words, but you are expected to understand exactly what is being said. Rather than meeting the issue head-on, you might be tempted to respond in kind, to use your own subtlety and nuance to say “no.” In fact, by speaking in code—by using the language of the other party—you've just said “yes.”

Sometimes there truly is an honest ambiguity in business discussions. The simplest way to make sure you are on the same page is to say, “I'm not sure I understand.” If the answer is, “I think you do,” walk away.

I've learned that you don't have to outsmart a scoundrel; you just have to recognize one. And when you do, you leave.

I've learned that a slavish devotion to growth at any cost is the surest path to unethical behavior. No matter what a company does, if it measures its success only by growth, it is setting itself up for a fall.

In this regard, I know that most of you work for publicly traded companies. Frankly, to be fair, I think public companies are often subject to unrealistic and irrational expectations for profit and financial performance. As ethics and compliance officers, you have a huge task in an environment where there is so much pressure for growth.

Finally, I've learned that the cost of ethical behavior pales in comparison to the value of your reputation.

So how do we improve and maximize ethical compliance in all of our companies?

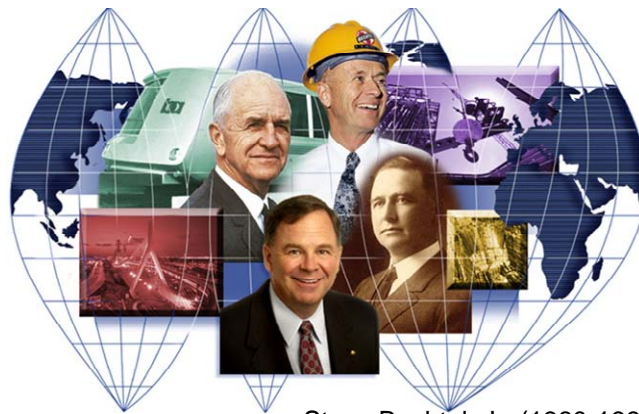
Simply put, we must make every employee knowledgeable, committed, and then fearless when it comes to ethical behavior. That must be our culture.

The culture of our company starts with the Bechtel family—they set the tone.

Four Generations Strong



Uninterrupted family leadership provides stability, continuity



Steve Bechtel, Jr. (1960-1990)
Stephen Bechtel, Sr. (1933-1960) Warren A. Bechtel (1898-1933)
Riley Bechtel (1990-Present)

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It began 111 years ago when a handshake meant you could trust someone's word more than a contract.

I strongly believe that companies have an obligation to teach and influence every new generation of employees. At Bechtel it starts on day one. When new employees walk in the door, one of the first things they do is sign an ethics statement.



ACKNOWLEDGEMENT

(Bechtel Policy 102)

I acknowledge that:

1. I have been furnished a copy of Bechtel Policy 102 and Bechtel's *Business Ethics*.
2. I have read Policy 102 and Bechtel's *Business Ethics*.
3. I understand the policy and Bechtel's *Business Ethics* and agree to comply with them.

Print Name/Signature

Employee

Date

Employees receive basic ethics training, compliance training for the legal risk areas they are likely to encounter in their jobs, and scenario-based training led by their managers.

Our objective is for all employees to develop the confidence that they can hold their peers, their supervisors, and even the company president accountable to Bechtel's code of conduct. This takes a little time.

In Bechtel, our safety culture is a great example of how strong leadership can drive the values of an organization.

Safety – The Top Priority



Our philosophy: zero accidents

- More than 50 projects achieved at least 1 million safe work hours in 2008
- Most projects completed the year without a lost-time accident
- A safety record far better than the average for U.S. industry

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Simply put, if we tolerate unsafe behavior, people die. This issue is so important that our employees not only have permission—they have the responsibility—to stop work if they see anyone engaged in unsafe behavior.

Part of our business portfolio is lump-sum jobs, which are exactly what they sound like—we promise a project that meets the customer's expectations of quality and is delivered on a date certain at a fixed price. A missed deadline can cost millions of dollars. Yet an apprentice laborer can stop work on a jobsite if he or she sees anyone working unsafely.

You don't get to that point in the culture of a company without leadership from the very top.

Ethics - Critical Success Factors



Written Policies and Established Program
Strong Ethics and Compliance Organization
Training
Leadership
Leadership
Leadership

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So in closing I would like to summarize that while established policies, a strong ethics and compliance organization and training are all key, it is fundamentally leadership that will make a company perform ethically or not.

Leadership is key to the development of a company's value system and leaders must drive those values throughout the company—from top to bottom. This applies to ethics. A true test of when the culture of ethical behavior is fully established is when any employee can hold the leadership accountable. In Bechtel, we see this phenomenon every day in the area of safety, but it can be found in any business.

The same leadership approach must be brought to ethics and compliance throughout the business world. It's easy and understandable to express outrage when we read about fund managers stealing billions of dollars. But we have to get to the point where we are equally as outraged when we see anyone in our own company acting unethically. And we have to have confidence that when we express that outrage, we'll be thanked.

Thank you for inviting me today, and thank you for the work that you do.