

Code of Conduct internal control system CSM nv

January 1, 2005

CSM operates an internal control system designed to keep CSM group headed towards achievement of its goals and mission and minimize surprises along the way. Internal control enables the various levels of management in the group to control the risks associated with the operating activities, to deal with rapidly changing economic and competitive conditions, shifting customer demands and priorities, and restructuring for future growth.

The internal control system, which is intertwined with the operating activities and should be seen as part of the management process, is aimed at the following aspects:

- reliability of information;
- monitoring the effectiveness and efficiency of business operations;
- safeguarding assets;
- ensuring compliance with legislation and regulations.

CSM has emphasized the relevance of internal control for the group by establishing a framework which provides guidance on how the internal control system should be designed. (see attachment)

Operational management is responsible for the design and operating effectiveness of the internal control system in place at the companies they manage. Such internal control system should conform to this framework.

Design, existence and operating effectiveness of the internal control system of the group are periodically examined by CSM's Corporate Internal Audit Services (or internal audit department). The findings are reported to the Audit Committee and Board of Management.



Framework Internal Control Structure¹

January 1, 2005

PREFACE

Introduction

This framework encompasses an overview of the internal control structure designed to keep CSM group headed towards achievement of its profitability goals and mission and minimize surprises along the way. Internal control enables the various levels of management in the group to deal with rapidly changing economic and competitive conditions, shifting customer demands and priorities, and restructuring for future growth.

The quality of the design and operating effectiveness of the group's internal control structure should be such as to provide reasonable assurance that

- business operations are both effective and efficient;
- assets are safeguarded;
- legislation and regulations are complied with;
- information is reliable.

The internal control structure, which is intertwined with the operating activities, is most effective when it is built into a company's infrastructure. Internal control is not merely appended to the operating activities and should not be seen as a necessary burden, but as part of the management process.

Internal control is affected by what people in a company say and do, and by their attitude. Casting the internal control system in a body of regulations, standards, policy and procedure manuals and forms can be helpful, but are not the ultimate solution for exercising control over business operations.

By establishing this framework for the CSM group's internal control structure, CSM's Board of Management wishes to emphasize the relevance of internal control for the group. Furthermore, such a framework provides guidance on how the internal control structure could be designed, bearing in mind that managing and controlling business operations are people's business.

1 The philosophy behind this framework is based on the 'Internal Control – Integrated Framework' report issued in September 1992 by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

For some business processes and/or aspects of the operating activities, however, specific requirements, guidelines and/or recommendations have been published internally. They are the business processes and aspects with a relatively high-risk profile, and special attention is therefore of the utmost importance if these business operations are to be adequately controlled.

Operational management is responsible for the design and operating effectiveness of the internal control system in place at the companies they manage. Such internal control system should conform to this framework. Operational management is free to implement additional internal control requirements based on their assessment of the risk involved in the business processes of the companies they manage.

The aim of this framework is to bring about a common understanding of CSM's internal control structure within the CSM group.

Application to small companies

While every group company should embrace this framework it should be noted that the manner in which small companies implement the recommendations might differ from that of larger companies. In the case of small companies, the visibility of top management and its direct involvement in the operating effectiveness of the internal control structure will require a less formal approach than with medium-sized and larger companies. In addition, smaller companies are usually more centralized and have fewer levels of authority, which simplifies effective communication on a continuous basis.

INTERNAL CONTROL STRUCTURE

General

The management process is made up of ten interrelated components; the adequacy of one may affect the adequacy of the others, and ultimately the adequacy of the operating performance of the management process as a whole.

Five components of the management process make up the internal control structure. These are:

Activities	Recognizable as internal control components
01. Setting mission, entity level objectives and value statements.	
02. Strategic planning in order to achieve mission and entity level objectives.	
03. Structuring the organization and establishing control environment factors.	control environment
04. Setting business process and activity level objectives, followed by risk assessment in order to enable management.	risk assessment
05. To control the risks (risk management).	
06. Establishing budgets, standards and guidelines in order to carry out management's directives.	
07. Conducting control activities to provide assurance on the effectiveness of the business operations.	control activities
08. Structuring information and communication in order to enable people to carry out their duties and assume their responsibilities.	information and communication
09. Monitoring the design and operating effectiveness of the internal control structure on an ongoing basis to enable management.	monitoring
10. To establish and perform corrective action in order to maintain an adequate level of internal control and keep the CSM group on course.	

To determine whether an internal control structure is effective or not implies subjective judgment resulting from an assessment of whether the five components are in place and functioning effectively. Although all five components must be in place, it does not mean that each component functions identically. Controls can serve a variety of purposes. Controls in one component may be beneficial to controls that might be present in another component. In addition, controls can differ as to the extent to which they address a particular risk, so that complementary controls, each with limited effect, can together be satisfactory.

Control environment

The control environment sets the tone in an organization, influencing the control consciousness of its people. It is the foundation for all components of internal control, providing discipline and structure.

An organization's control environment factors include:

- the integrity, ethical values and competence of its people;
- management's philosophy and operating style;
- the organization and delegation of authority and responsibilities, and the organization and development of its people;
- the attention and direction provided by management.

The culture of integrity and ethical behavior within a company largely determines the effectiveness of a control environment. Such a culture will not materialize merely by implementing guidelines. Written codes of conduct and other policies on acceptable business practice, conflicts of interest or expected standards of ethical and moral behavior can, however, make a contribution to this cultural environment.

Critical for this culture is the attitude and behavior of management, which should be consistent and in conformity with the message of integrity and ethical behavior as communicated through the company.

Management's philosophy and operating style too significantly affect the control environment of a company. Signs such as regularly entering into high-risk transactions, extreme conservativeness in accepting risks, excessive turnover of management and supervisory personnel, interaction between senior management and operating management, appropriate safeguarding of valuable assets and the attitude to the reliability of financial reporting are key factors for evaluating the control environment.

Risk assessment

The core component is risk assessment, being the identification and analysis of the risks that might disrupt business operations.

Doing business means taking risks. All group companies, regardless of size, structure or nature, encounter risks at all levels within their organizations. Risks affect each company's

ability to survive, successfully compete within its industry, maintain its financial strength and positive public image, and maintain the overall quality of its products, services and people. There is no practical way to reduce risks to the absolute minimum. Management must determine how much risk is to be prudently accepted, and how to strive to maintain risk within these levels.

Objective setting is a precondition to risk assessment. Objectives must be set before management can identify the risks to which these objectives are exposed and take the necessary action to manage these risks (risk management process). At the company level, objectives derive from the company's mission, taking into account the value statements.

Based on this, the more specific objectives are set for the various business processes and activities that can be identified within the company.

A company's risk assessment process should identify and consider the implications of relevant risks, at both the company and the business process and activity levels. The process should consider external and internal factors that could affect achievement of the objectives, such as the company's strengths (key success factors) and weaknesses, and opportunities and threats. The risks should be analyzed so as to provide a basis for managing them.

Three levels of risks can be identified:

- extraneous disasters, linked to the location of the company and the circumstances under which the company operates;
- strategic, being risks for the company as a whole linked to the chosen strategy to accomplish the mission of the company;
- functional, being risks related to business processes divided into operational risks (effectiveness and efficiency of business operations), financial risks (reliability of information) and compliance risks (compliance with legislation and regulations).

After the risks have been identified, they should be analyzed, including:

- estimating the significance of the risks;
- assessing the likelihood (or frequency) of the risks occurring;
- considering how the risks should be managed.

Control activities

Control activities are the policies and procedures (internal and external) that help to provide assurance that management's directives are carried out in order to control the effectiveness of business operations. Control activities occur throughout the organization, at all levels and in all positions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties.

A myriad of control activities performed in companies every day serve to enforce adherence to established action plans, and keep companies on track towards accomplishing their objectives.

Control activities can be preventive and detective, the method used being either manual or computerized. A further distinction concerns specified control objectives and performance by personnel at various levels in the organization.

Control activities usually involve two elements: a policy establishing what should be done and procedures to implement the policy. Regardless of whether a policy is in writing or not, it should be implemented thoughtfully, conscientiously and consistently. A procedure will not be useful if it is performed mechanically without a sharp continuing focus on the conditions at which the policy is directed. Additionally, it is essential that conditions identified as a result of the procedures performed should be investigated and followed by appropriate corrective action.

Policies and procedures reflect the minimum requirements for the internal control structure of business processes, they establish the daily work routines to be applied and are aimed at the way management should control the reliability of the business processes for which they are responsible.

The basis for policies and procedures is the identification and analysis of the operational, financial and compliance risks related to the business processes considering the mission, strategy and objectives of the company and business processes.

Information and Communication

Information and communication together form the link between the components of the management process, including internal control, making it possible to direct and control the business operations.

Information must be identified, captured and communicated in a form and timeframe that enable people to carry out their duties and responsibilities. Information is needed at all levels of the company to run the business, and accomplish the company's objectives. Information does not only deal with internally generated data, but also with data about external events, activities and conditions necessary for business decision-making.

Information can be formal or informal. The quality of information affects management's ability to make appropriate decisions in managing and controlling the company's activities. Information should be:

- appropriate; does the content comply with the information needs;
- timely; is the information available when required;
- current; is the latest information available;
- accurate; are the data correct;
- accessible; is information obtainable and readable by the personnel involved.

Effective communication must also be in place, flowing down, across and up in the organization. All personnel must be aware of their own role in the internal control structure, as well as how individual activities relate to the work of others. Means must be in place to communicate effectively with all relevant external stakeholders.

Monitoring

To maintain an adequate internal control structure, management should monitor the design and operating effectiveness on an ongoing basis during the daily operations. It includes regular management and supervisory activities, and other actions personnel take in performing their duties.

Deficiencies in the design and operating effectiveness of the internal control structure are directly reported upstream, including the (follow-up on) corrective action to be taken. Deficiencies represent perceived, potential or real shortcomings.

Through this monitoring activity, management will be aware of the changes, which take place continuously in the external and internal control environments of the company, the circumstances under which the company operates, and the relevant risks, which might disrupt business operations.

To assist CSM's Board of Management in controlling the business operations of the group, separate evaluations focusing on the operating effectiveness of the group's internal control structure will be carried out by CSM's Corporate Internal Audit Services Department and the external auditors. The scope and frequency of these separate evaluations will depend primarily on an assessment of the risks of the group, and the effectiveness of the ongoing monitoring activities.