



ArcelorMittal

King IV Assessment 2019

KING IV ASSESSMENT – 2019

The approach of ‘apply or explain’ of King III is replaced with ‘apply and explain’. The application of all the principles is required and companies will be required to explain the practices that have been implemented to give effect to each principle.

PRINCIPLE	STATUS	APPLICATION TO PRINCIPLE
<p>Principle 1 – leadership</p> <p>The board should set the tone and lead ethically and effectively.</p>	Applied	<p>In terms of the board charter, the board of directors (board) discharges its role and responsibilities with due regard to the values which support its name and while applying, and continuing to improve and implement, the recommended governance principles contained in King IV™*. The board charter was reviewed by the board on 24 October 2019.</p> <p>While the company faces substantial environmental-compliance challenges, the board is mindful of its responsibilities in this regard and is confident that everything within the company’s ability is being done to address these challenges.</p> <p>The board leads ethically and effectively, ensuring that it always acts in good faith and in the best in interest of the company. The board’s values are underpinned by the principles of integrity, competence, responsibility, accountability, fairness and transparency.</p> <p>The board has delegated its authority to four board committees, namely the audit and risk committee (ARC), the human resources, remuneration and nominations committee (HRN); the transformation, social and ethics committee (TSEC) and the safety, health and environment committee (SHE) (committees). The brief mandates, composition and attendance at committee meetings is set out in the 2019 integrated report (IR). The board reviewed the terms of reference for all the committees in 2019.</p> <p>Based on the board effectiveness review conducted in November 2019, the performance assessment tested, inter alia, whether the board exercised leadership, enterprise, integrity and judgement in directing ArcelorMittal South Africa’s business. The board was found to remain effective despite operating under challenging circumstances. The board committees were found to be effective and critical support structures of the board.</p>
<p>Principle 2 – organisation values, ethics and culture</p> <p>The board should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.</p>	Applied	<p>The board, with the assistance of the TSEC together with the ARC, oversees the management of ethics and monitors the company’s activities to ensure they are in line with the code of business conduct.</p> <p>The ARC reviews and monitors the implemented controls concerning the code of business conduct and ethical standards as defined by the TSEC on an annual basis. The ARC further reviews the significant cases of employee conflicts of interest, misconduct or fraud, or any other unethical activity by employees of the company on a quarterly basis.</p> <p>The TSEC reviews strategies by the company to enable employees and outside whistleblowers (including customers and suppliers) to report in confidence their concerns about possible improprieties (including fraud, corrupt practices and non-compliance with laws and regulations) that may have a direct or indirect effect on the company, including adherence to compliance. There are regular reports on the implementation of the code of business conduct policy and the effectiveness of measures and policies that have been put in place. This includes the reporting of ethical transgressions and how they are addressed, and information of trends regarding ethics and culture.</p>
<p>Principle 3 – responsible corporate citizenship</p> <p>The board should ensure that ArcelorMittal South Africa is and is seen to be a responsible corporate citizen.</p>	Applied	<p>The board ensures that ArcelorMittal South Africa is and is seen to be a responsible corporate citizen.</p> <p>The board has delegated to the TSEC the responsibility for monitoring and reporting of social, ethical, transformational and sustainability practices that are consistent with good corporate citizenship.</p> <p>ArcelorMittal South Africa has various initiatives and programmes to ensure that the board promotes, protects the environment and maintains the health and safety of all employees, suppliers and customers. Further details are provided in the 2019 IR.</p>

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<p>Principle 4 – strategy, implementation, performance</p> <p>The board should appreciate that the organisation’s core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.</p>	Applied	<p>The board approved the strategy and business plans for the ArcelorMittal South Africa Group (group) and monitored the implementation by receiving regular reports from management. The board, assisted by the ARC, reviewed the key risks and opportunities impacting on the achievement of its strategic objectives and approved the short, medium and long-term strategy as formulated and developed by management. Details of the 10 key risks, as well as a risk governance report, are set out in the IR.</p> <p>The board contributes to and approves the mission, vision and strategy of the company. The board satisfies itself that the strategy and business plans do not give rise to risks that have not been thoroughly assessed by management and consider sustainability as a business opportunity that guides strategy formulation.</p> <p>The group’s strategy is consistent with integrated thinking, which links different capitals and ensures sustainable outcomes. The board sets out an annual strategy session, in which the board deliberates on the group’s strategy, assesses the risks and opportunities, considers progress on implementation of the strategy and ensures that it is in line with group values and ensures long-term success and sustainability of the group. The board approved policies and operational plans to give effect to strategy – including key performance measures and targets.</p> <p>The value creation process is set out in the IR as well as the company’s performance against its strategic objectives. The process followed by the board during the 2019 challenging environment is set out on pages 54 and 55 of the IR.</p>
<p>Principle 5 – reports and disclosure</p> <p>The board should ensure that reports and other disclosures enable stakeholders to make an informed assessment of the performance of the organisation and its ability to create value in a sustainable manner.</p>	Applied	<p>The board is involved in communication to ArcelorMittal South Africa’s stakeholders regarding significant issues that could affect the group, while striving to abide by all disclosure requirements.</p> <p>The ARC assists the board in reviewing and ensuring that the IR and the annual financial statements (AFS) are prepared in line with the Companies Act, IFRS, the reporting principles contained in King IV and the JSE Listings Requirements.</p> <p>The board ensures the integrity of the IR on an annual basis. The full AFS and IR are made available on https://arcelormittalsa.com and provide comprehensive insight into the financial position and performance of the company for the year under review.</p>
<p>Principle 6 – role of the board</p> <p>The board should serve as the focal point and custodian of corporate governance in the organisation.</p>	Applied	<p>The board has overall responsibility for corporate governance across the group and further information is set out in the IR.</p> <p>The board has adopted a board charter that ensures its roles, responsibilities and accountability are documented and adhered to, and which includes responsibilities relating to corporate governance. The board is supported by various board committees which have delegated responsibility to assist it to fulfil certain specific functions. The board committees report to the board at every board meeting.</p>
<p>Principle 7 – composition of the board</p> <p>The board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.</p>	Applied	<p>The board consists of 12 members, 10 of whom are non-executive directors, of whom a majority are independent non-executive directors. The positions of the chief executive officer (CEO) and board chairman are held separately, indicating a clear balance of power and authority at board level.</p> <p>The board is assisted by the HRN, which considers on an annual basis, the composition, balance of skills, experience, race and gender diversity, independence, and knowledge of the board members in order to determine their effectiveness to discharge their duties as board members.</p> <p>The board has adopted a race and diversity board policy to ensure diversity, including that of backgrounds, experience, skills, geography, race, age, and gender and ensuring that this diversity is also reflected in its composition. The race and diversity board policy will be updated to include the latest requirements of the JSE.</p> <p>Details of directorships, skills, experience of the directors is set out in the IR. Directors sign appointment letters confirming their agreement to the required time commitments, roles and responsibilities. All directors sign a directors’ declaration confirming their interests and their professional positions held.</p> <p>As the chairman is an independent director, the appointment of a lead independent director is not required.</p> <p>The HRN work plan includes the requirement to recommend a succession plan for board members, including the board chairman, on an annual basis.</p>

PRINCIPLE	STATUS	APPLICATION TO PRINCIPLE
<p>Principle 8 – committees of the board</p> <p>The board should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.</p>	Applied	<p>The board has delegated certain functions to its committees, in compliance with relevant legislation, regulation and best practice. The brief mandates, composition and attendance at meetings is set out in the IR. The terms of reference for all committees are reviewed annually. In determining the composition of committees, the board considers the skills and experience of its members, applicable regulations, and the committee mandate.</p> <p>Besides the TSEC, each committee comprises an independent non-executive chairman and independent non-executive directors. Executive directors and senior management are invited to attend meetings. Board members are able to attend committee meetings as an observer but do not participate without the chairman's consent, do not have a vote and are not entitled to fees unless otherwise agreed.</p>
<p>Principle 9 – evaluations of the performance of the board</p> <p>The board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.</p>	Applied	<p>The HRN oversees the evaluation of the board on an annual basis. Formal assessments of the effectiveness of the board, board committees, chairman, directors and group company secretary were conducted in November 2019.</p> <p>The assessments are confidential and cover a variety of subjects. The outcomes are discussed by the board and the concerns or gaps are appropriately addressed and managed. Improvements were noted as follows:</p> <ul style="list-style-type: none"> • Interaction outside board meetings, such as informal dinners, are now regular and effective • The available time during meetings has improved significantly and is now adequate • The prioritisation of risk has been successful with good risk management practices implemented.
<p>Principle 10 – appointment and delegation to management</p> <p>The board should ensure that the appointment of, and delegation to, management contributes to role clarity and the effective exercise of authority and responsibilities.</p>	Applied	<p>ArcelorMittal South Africa has a delegation of authority framework (DOA) which sets out authority thresholds for the delegation of powers to the CEO and management. In accordance with the DOA, the CEO has a clearly defined mandate and is accountable for the day-to-day activities of the business. Although the board has empowered management, certain matters are reserved for the approval of the board. In addition, the DOA is reviewed on a regular basis to ensure that it is effective and appropriate to changing circumstances. The HRN and chairman of the board assist the board in determining performance objectives of the CEO and assessing his performance against those objectives.</p>
<p>Principle 11 – risk governance</p> <p>The board should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.</p>	Applied	<p>The board, supported by ARC, is ultimately responsible for the governance of risk. The ARC approved a treasury and financial risk policy as well as a tax risk management framework in October 2019 and recommended these for board approval.</p> <p>The ARC and the board review the risk management process and maturity of the company, the effectiveness of risk management activities, the key risks facing the company and management's responses to address these key risks.</p> <p>The ARC keeps the board up to date on progress of these plans. The day-to-day responsibility for management of the risk management plan rests with the group risk and insurance manager, who reports to and attends all ARC meetings.</p> <p>Measures taken to mitigate the top strategic risks are set out in detail in the IR. In July 2019, the board held a risk workshop facilitated by AM Group to better understand the methods used to assess risks and the mitigation/management thereof.</p> <p>The board will consider the need to receive periodic independent assurance on the effectiveness of risk management in 2020.</p>
<p>Principle 12 – technology and information governance</p> <p>The board should govern technology and information in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.</p>	Applied	<p>The board, supported by ARC, is responsible for information and technology governance in accordance with King IV. The ARC oversees the implementation of IT governance mechanisms, IT frameworks, policies, procedures and standards to ensure the effectiveness and efficiency of the group's information systems. The group information officer reports to and attends all ARC meetings.</p> <p>The activities on IT governance are reported quarterly to the ARC for oversight and monitoring by the board.</p> <p>The ARC ensures that IT risks are adequately addressed through its risk management, monitoring and assurance processes. Management tabled reports to illustrate to the ARC ArcelorMittal South Africa's overall exposure to IT risks from a strategic and business perspective, including areas of the business that are most dependent on IT for effective and continual operations.</p>

PRINCIPLE	STATUS	APPLICATION TO PRINCIPLE
<p>Principle 13 – compliance governance</p> <p>The board should ensure governing compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.</p>	Applied	<p>The board is responsible for the group’s compliance with applicable laws. The board has delegated the responsibility for implementing compliance to management. The ARC, in monitoring compliance, assists the board. Detailed progress on the compliance framework is tabled at every board and ARC. The general counsel reports to and attends all ARC and board meetings.</p> <p>The TSEC assists the board with ensuring responsible business practices within the group and monitors the group’s activities with applicable laws.</p>
<p>Principle 14 – remuneration governance</p> <p>The board should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.</p>	Applied	<p>The board, supported by the HRN ensures that ArcelorMittal South Africa remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term. The remuneration report and remuneration policy, set out in the IR, have been designed to give effect to the group’s strategic objectives and is disclosed by means of a background statement, overview of the main provisions of the remuneration policy as well as the implementation report of all remuneration awarded to individual members of the board and executive management.</p>
<p>Principle 15 – assurance</p> <p>The board should ensure that assurance services and functions enable an effective control environment and that these support the integrity of information for internal decision-making and of the organisation’s external reports.</p>	Applied	<p>The board has delegated to the ARC oversight of, inter alia, effectiveness of the company’s assurance services with focus on combined assurance including external audit, internal audit, and the finance function, as well as the integrity of the IR and the AFS.</p> <p>The ARC ensure that the combined assurance provided by the internal and external assurance providers and management are sufficient to satisfy the ARC that significant risk areas within ArcelorMittal South Africa have been adequately addressed and suitable controls exist to mitigate and reduce these risks, on an annual basis.</p> <p>The group has implemented a combined risk assurance model, which is coordinated and managed by internal audit. The ARC oversees combined assurance at group and subsidiary levels and approves the internal audit plan.</p> <p>Internal audit follows a risk-based approach and provides written assessment of the effectiveness of the systems of internal controls and risk management to the ARC on a quarterly basis.</p>
<p>Principle 16 – stakeholder relationships</p> <p>In the execution of its governance role and responsibilities, the board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.</p>	Applied	<p>Establishing and maintaining effective stakeholder relationships are not only essential to sustain the growth of the company but also an essential component of sound governance.</p> <p>The board encourages proactive engagement with shareholders, including engagement at the Annual General Meeting (AGM). All directors are present at the AGM to respond to shareholder queries on how the board executed its governance duties. The designated partner of Deloitte and Touche also attends the AGM.</p> <p>Further to this, in 2019 the board reviewed and approved a strategic stakeholder engagement matrix to guide engagement with key stakeholders. The organisation, through the chairman and management team, had numerous significant engagements with stakeholders during 2019 in light of the important developments regarding the company. This includes engagements with government at national, provincial and local level, regulatory bodies like the Competition Commission and International Trade Administration Commission, shareholders, labour, environmental groups, customers, investors, educational institutions, suppliers, communities and local businesses.</p>



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