



**Briefing on  
remuneration:**

**Sasol Limited**

**JUST SHARE**

**November 2020**



## SASOL REMUNERATION BRIEFING

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### Annual General Meeting, 20 November 2020

#### Summary

Just Share will vote **against the re-appointment of all of the non-executive directors (NEDs)** who are up for re-election at the 2020 annual general meeting (AGM): Colin Beggs, Nomgando Matyumza, Moses Mkhize, Mpho Nkeli and Stephen Westwell.

All five of the NEDs up for re-election have served on the board for all three of the years in which the board has **refused to table shareholder-proposed resolutions on climate risk**.

Mr Beggs, Ms Matyumza, Mr Mkhize and Mr Westwell all served on the Sasol board during the period that the multi-billion-dollar **Lake Charles Chemical Project (LCCP)** was being considered and / or approved. In the absence of any firm indication to the contrary,<sup>1</sup> these directors should share responsibility for the significant delays and increased costs associated with the LCCP.

Just Share will also vote **against the re-appointment of Colin Beggs, Nomgando Matyumza, Stephen Westwell and Trix Kennealy to the audit committee**.

Mr Beggs, who has served on the Sasol board for 11 years, cannot be described as independent.

Ms Kennealy and Ms Matyumza are also members of the Standard Bank Group board and audit committee. Standard Bank's unexplained about-turn on the tabling of climate risk-related shareholder resolutions in 2020 is indicative of a conflict of interest on the part of the directors who sit on the boards of both companies.

Just Share will vote **against the remuneration policy and remuneration implementation report**. Just Share opposes the remuneration policy, primarily on the grounds that it does not incentivise senior executives to urgently tackle the looming crisis represented by climate change. In other words, it fails to properly link remuneration to meaningful climate action.

Just Share will vote **against the remuneration payable to NEDs**, on the grounds that this represents excessive reward for part-time commitments, in particular in light of Sasol's current financial position and its failure to adequately manage climate risk.

Just Share also urges the board to:

- **Release the full report into the circumstances surrounding the LCCP failure.** Shareholders need access to this report to be able to determine the full extent of the governance failures that led to the situation. The report will also enable shareholders to determine whether the board has implemented the necessary measures to ensure that a similar situation will not recur.
- **Commission a review of Sasol's relationship with Fluor Corporation**, dating back to 2010, given recent announcements about former Sasol CEO David Constable taking over

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<sup>1</sup>The full disclosure of the review commissioned by the board into the circumstances surrounding the LCCP failure could assist with this.



as CEO at Fluor (where he worked before he joined Sasol), which is Sasol's main contractor at Lake Charles.

- Provide shareholders with **details of the implementation of its 'clawback and malus' policy** in the context of excessively generous remuneration rewards (to executive and non-executive directors) despite the near-collapse of the company.

## Remuneration history

In 2011, when building on the LCCP started, Sasol had operating margins of 21%, return on equity of 19.6%, negligible gearing and a market capitalisation of R239 billion. The company had yet to come under any sustained pressure related to its significant climate impacts.

In 2020, gearing has peaked at a crippling 114.5%, with debt levels up to a R189.7 billion (almost all of which is in US dollars); there has been R112 billion in asset write downs and a full year loss of R91.3 billion; no dividend payments have been made, and the independent auditor's report notes that a *"material uncertainty exists that may cast significant doubt on the Group's and Company's ability to continue as a going concern"*.

During the nine years in which this remarkable collapse took place, various teams of executive directors (four teams, five CEOs) received staggeringly high remuneration. In addition, over this period, the company's NEDs, responsible for risk oversight, were paid R222.5 million. In 2011, the payments to NEDs totalled R11.8 million (for 10-12 NEDs, due to resignations). In 2020, this amount is R39.7 million (for 12 NEDs).

The sharpest spike in remuneration occurred after 2016. These fees were therefore being increased at a time when shareholder interests were becoming increasingly threatened. Although it was not until 2018 that the extent of the misalignment between remuneration and shareholder interests became apparent, this inability to gauge crucial aspects of the group's position until far too late is, in itself, evidence of the board's weakness.

The remuneration figures for 2020 include an annualised R6 million for the chairman; R4.3 million for the lead independent director; over R3 million each for five directors; and over R2 million for four directors. The 2020 Annual Financial Statements (AFS) provide in a footnote that *"members of the Board agreed to a voluntary reduction of fees effective Q4 2020 of at least 20% for a period of eight months"*. This is presumably linked to Covid-19, but the reason for the voluntary reduction is not specified.

For years, Sasol has justified these high fees by stating that: *"Non-executive directors are appointed to the board based on their ability to contribute competence, insight and experience appropriate to assisting the group to set and achieve its objectives. Consequently, fees are set at levels to attract and retain the calibre of director necessary to contribute to a highly effective board."*

Sasol's 2020 Notice of AGM states that ***"the Board's diversity and skills ensure that Sasol is steered to deliver growth to all our stakeholders. The careful selection of individual directors, to ensure the most appropriate combination of expertise and experience, underpins the effectiveness of the Board in fulfilling its role"***.

This might have seemed a reasonable statement in 2011, but in 2020, it is extraordinarily tone-deaf. Sasol's directors, executive and non-executive, have been paid on the assumption that they would deliver excellence. When they have failed to do so, they have been paid more.



This year, remuneration committee chair Mpho Nkeli warns that, in the new year, “*all of us will need to reset our expectations and look at reward-related matters in a different way*”.

She goes on to state that there will be no fee increases for the financial year 2021. However, that is only technically accurate. In reality, when the new and extremely generous ‘allowances’ for travel to board meetings come into effect in 2021, they will generate additional hundreds of thousands of Rands for each NED.

On the basis of these allowances, which were approved in 2018, and assuming four board meetings a year, each director will receive at least R312 000. (The allowance is over and above the cost of flights and accommodation - which will be paid for by Sasol, and in addition to the existing generous NED fees.)

- The lowest allowance, paid to any director who travels on international flights for less than 10 hours, will be R76 800 per board meeting.
- If a director has to travel between 10 and 15 hours, the allowance per board meeting will be R153 600.
- If he or she has to travel more than 15 hours to each of the four board meetings, the director’s allowance will be R230 400 per board meeting.

Sasol’s operations are scattered across the globe, which means that at least a few board meetings will be held outside Southern Africa each year. In addition, a number of directors are resident outside Africa. **So, it is reasonable to assume that the average allowance for each NED from this generous perk alone will be in the region of R624 000 a year.**

Nevertheless, and in yet another bizarrely tone-deaf pronouncement, the committee wishes to assure shareholders that it is alert to the dangers of pay inequality: “*The committee has approved a methodology to track internal pay equity. Tracking pay ratios together with our commitment to ensuring at least a living wage to our employees, as well as many of our other human resources policies, form part of our commitment to social justice.*”

There is no doubt that, right now, Sasol does need competent, insightful and experienced directors who are sensitive to the significant social and environmental challenges facing the company, and who are willing to take ownership of a strategy that meaningfully addresses these challenges. However, the past nine years have demonstrated that paying top-level fees does not guarantee top-level performance.

## **The role of incentives**

The remuneration committee must accept some responsibility for the LCCP crisis. As committee chair Mpho Nkeli said as recently as 2019, “*the committee is tasked by the board to independently approve and oversee the implementation of a remuneration policy that will encourage the achievement of the group’s key strategic objectives and grow stakeholder value sustainably.*”

This did not reflect new thinking by the board or the committee. In 2014 and in 2016, then remuneration committee chairman Henk Dijkgraaf expressed the same view of the committee’s function. And in 2011, Dijkgraaf told shareholders in the annual remuneration report that, “*the committee is confident that the remuneration policy aligns top management interests with shareholders by promoting and measuring performance that drives long-term growth and sustained shareholder value*”.



These commendable sentiments, however, have not been reflected in the incentive structure set out in the group's remuneration policy for the past nine years. Increases in headline earnings, share price performance, cost savings and production volume increases dominated the short- and long-term incentives. While useful indicators, these metrics should not have played such a dominant role. They were particularly inappropriate for ensuring sustainable shareholder value in the context of a company highly exposed to climate risks and embedded in a foreign project involving massive capital expenditure.

It was only as a result of pressure from shareholders in 2018, more than five years after the board agreed to the multi-billion-dollar investment in the LCCP, that 'project delivery' metrics were introduced to short-term incentives, and only in 2017 that return on invested capital (ROIC) was included in long-term incentives.

In 2017, Dijkgraaf informed shareholders that the committee had requested an independent review on the relationship between executive pay and organisational performance. He provided no details of the review, but said that, following the review, the committee was "*comfortable there is a strong alignment*". The 2020 AFS assert that "**executive remuneration has a strong relationship with shareholders' interests.**"

## Environment and climate

Since at least 2012, Sasol has made much of its purported concern for the environment.

The **2012 Chairman's statement** asserted that "***we also seek to play active leadership roles in multi-lateral efforts to deal with global environmental risks such as climate change and water scarcity***", and that "*as business leaders we have to concede that business can sometimes be slow in recognising the needs of society. **Instead of taking a defensive position, we would do well to acknowledge that reasonable social activism can create opportunities for business***" (our emphasis).

But the continued absence of meaningful environment-related metrics in any of the company's incentives is a more accurate indication of the board's true level of commitment to these issues, reflected in Sasol's poor progress in living up to these high ideals.

For years, Sasol appears to have considered that an 'energy-efficiency' metric for its short-term incentives was sufficient indication of its commitment to improving environmental impacts. Increasing production volumes was considered far more important in terms of incentivising executives and management, with no recognition of the severely negative impact on the environment of these increases, particularly when it comes to greenhouse gas (GHG) emissions.

Even as recently as 2019, with shareholder pressure mounting in the face of widespread global investor opposition to its massive GHG emissions, the Sasol remuneration committee held out, refusing to include a metric for climate action as a remuneration incentive. It did so while simultaneously claiming, on page 1 of its 2019 Annual Integrated Report that, as part of its values, "*we ensure that safety, health and environment is a top priority*".

In 2020, the remuneration committee finally relented, but for unexplained reasons, said it would not be able to include environmental targets until 2021, when the company plans to publish a climate change roadmap which will "*inform the inclusion of more environmental targets*".



CEO Fleetwood Grobler, at a media conference on 11 November 2020, remarked that climate change is a central strategic concern for Sasol, reiterating the assertion in the company's 2020 AFS that Sasol is "*positioning for a sustainable future – creating a Future Sasol that is resilient and delivers cleaner energy and chemical products to society*". However, Grobler advised against the quick abandonment of the group's foundational business model.

Instead of setting GHG emission reduction targets and a strategy consistent with the goals of the Paris Agreement, or even agreeing to table a shareholder-proposed climate resolution, Sasol has now undertaken to allow shareholders to have a non-binding advisory vote on its climate plans at its **2021** AGM. If at least 25% of shareholders do not approve of these plans, Sasol indicates that its board will commit to consultation.

Despite stating that it supports the Paris Agreement, the company's emission reduction target ("at least" 10% off a 2017 baseline by 2030):

- is not aligned with the goals of the Paris Agreement;
- is only applicable to South African operations;
- does not address Scope 3 emissions; and
- is not linked strongly enough to executive remuneration to incentivise its achievement.

Sasol's refusal to table shareholder resolutions is not supported by the South African Companies Act or Constitution. Its new position – to allow a non-binding advisory vote on its climate plans at its 2021 AGM, is not at all satisfactory:

- It is not clear on what basis, if any, Sasol is legally entitled to make this a non-binding vote. The only non-binding advisory shareholder votes provided for in South African law are those in terms of the JSE Listings Requirements, on remuneration policies and remuneration implementation reports.
- The wording of such a resolution will be determined by Sasol, rather than by shareholders who have proposed wording that is meaningful to them.
- The vote is non-binding – unlike an ordinary resolution.
- Even if at least 25% of the votes are against Sasol's plans, all it undertakes to do is provide for more consultation.

## Conclusion

**Just as Sasol paid insufficient attention to warning signs at its LCCP project, it has failed to take sufficiently seriously the mounting existential threat posed by climate change.** And without incentivising its executives to ensure meaningful GHG reductions, the company's numerous statements of support for the Paris Agreement, and plans to conduct ongoing consultations with stakeholders, amount to nothing more than delay tactics.

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**End**