Just Share

Just Share responds to Sasol's recent statements on its approach to climate change

Sasol Limited has recently paid to publish a letter in several local media outlets. The letter, from Sasol's CEO Fleetwood Grobler, is addressed to "stakeholders" and titled "Balancing People, Planet, Profit on our pathway to Net Zero".

The letter states that: "Some views about Sasol's approach have, regrettably, been inaccurate. It is therefore important that we set the record straight". Although Sasol has on several recent occasions stated that Just Share's analysis of its climate disclosures is "inaccurate" and "misleading", its sponsored letter does not deal with the concerns raised by Just Share, including:

- Sasol's admission in its 2023 climate disclosures that "external factors … threaten to hinder the delivery we are aiming to achieve by 2030";
- The unexplained removal from its 2023 disclosures of a target to procure 40% renewable energy for its Energy Business by 2026; and
- The fact that achieving its 2030 targets requires a significant acceleration in the pace of greenhouse gas emission reductions compared to what Sasol has been able to achieve over the last 19 years, and this in circumstances where emissions increased in 2023, and are set to further increase in 2024.

Background

On 2 November 2023, Just Share published a briefing assessing Sasol's 2023 climate disclosures. Although Sasol's sponsored open letter does not reference Just Share's briefing, its two previous media releases, claiming that Just Share's briefing is "inaccurate" and "misleading", as well as other statements to the press, make clear that the so-called inaccuracies it intends to correct include the content of Just Share's briefing.

Sasol also publicly criticised Old Mutual Investment Group (OMIG), one of its biggest shareholders, for pre-declaring its intention to vote against Sasol's 2023 "say on climate" resolution. Sasol stated that OMIG "appears to have placed significant reliance on the Just Share report without proper consideration and/or recognition of any of Sasol's recent disclosures and assertions made in response, which point to factual inaccuracies contained in Just Share's report".

Ninety One has also pre-declared its intention to vote against Sasol's climate change resolution. Although Ninety One's concerns are similar to those of Just Share and OMIG, Sasol has not alleged that Ninety One placed improper reliance on Just Share's briefing in making its decision not to support Sasol's climate plans.

In none of its public statements, however, has Sasol demonstrated why Just Share's briefing is "misleading and inaccurate", nor has it "corrected" any of the facts set out in our briefing. The briefing is based entirely on Sasol's own disclosures, and is an accurate reflection of what Sasol has reported, bolstered where appropriate by reasonable conclusions based on Sasol's disclosures.

In this statement, we address the aspects of our briefing which appear, based on Sasol’s responses, to have caused it the most concern, and demonstrate Sasol’s failure to provide evidence that these are not accurate.

For the reasons set out below and in our briefing, and in the absence of any credible basis for Sasol’s accusation that our briefing is either inaccurate or misleading, Just Share reiterates its voting recommendations for Sasol’s yet-to-be rescheduled Annual General Meeting (AGM), i.e.:

- That shareholders **vote against Sasol’s “say on climate” resolution**. Instead of continuing to endorse Sasol’s inadequate approach, responsible shareholders should demand clearer short- and medium- term targets and milestones, detailed action plans, and meaningful accountability mechanisms for executives and board members. This is essential to enable them to regularly assess: whether Sasol’s ambition is feasible, whether it is making adequate progress, and the likelihood of Sasol meeting its longer-term emission reduction objectives; and
- That shareholders vote against the re-election of non-executive director **Muriel Dube**. Sasol does not have a board committee dedicated to overseeing the company’s management of climate risk, but it reports that the Safety, Social and Ethics Committee (SSEC) “is appointed to provide integrated strategic direction on sustainability, safety, social and ethics matters, including Sasol’s climate change response”. Considering Sasol’s multiple failures on this front, Ms Dube, as chair of the SSEC, should not be reappointed.

Can Sasol meet its 2030 targets?

Sasol’s primary objection to Just Share’s briefing appears to be that we indicated that Sasol had acknowledged, for the first time since it set its 2030 targets in 2021, that it may not meet these targets. This was based on statements made in Sasol’s 2023 reporting suite, including by CEO Fleetwood Grobler in his opening statement to Sasol’s 2023 climate change report. These included the following (our emphasis):

- “factors over which we have minimal or no control **threaten to hinder the delivery we are aiming to achieve by 2030**” (page 10, climate change report), and
- “several headwinds due to unfavourable macroeconomic conditions and internal challenges” are “resulting in **an emerging gap to targets** and needs to be managed to achieve competitive returns” (page 16, integrated report).

In response, Sasol indicated that it was misleading for Just Share to report that Sasol’s disclosure of various risk factors amounts to “Sasol conceding to not meeting targets”.

Just Share did not state that Sasol had conceded that it would not meet targets: we said that it had conceded that it **might** not be able to meet them.

It is encouraging that Sasol has now reaffirmed its commitment to meeting its 2030 targets. This presumably means that it no longer regards the achievement of its 2030 targets as being contingent on the success of Sasol's pending air quality-related appeal to the Minister of Forestry, Fisheries and the Environment, as previously stated in its 2023 climate change report (page 17).

Sasol has appealed against the national air quality officer's decision to reject its application for leniency in relation to toxic sulphur dioxide emissions at its 17 coal boilers at Secunda.

Is Sasol making meaningful emission reduction progress?

In his open letter, Grobler says that, for Sasol, "Reducing our emissions is also not a recent imperative. From 2004, Sasol's GHG emissions reduced by more than 12 million tons CO_2e, notwithstanding growing our global operations footprint in the United States". In one of a series of fact sheets recently uploaded to its website, Sasol states that, "Since 2017, emission reductions have primarily been driven by energy efficiency improvements, however, lower production and operational instabilities have also contributed to the reductions".

In an opinion piece published in the *Financial Mail*, Just Share's executive director demonstrated that, based on the emission figures in Sasol's annual reports since 2005, Sasol has achieved emission reductions of about 11%, or 0.6% a year, over 18 years (from 72,5 Mt in 2005 to 64,4 Mt in 2023).

In our briefing, we pointed out that:

- Sasol reports that its production levels are expected to increase in 2024, "due to enhanced focus on our foundation business, which will likely result in a higher emissions profile for Secunda" (page 6, climate change report); and
- although Sasol reports that it has "due to production variances and mitigation", achieved a 5% GHG reduction from its 2017 combined Sasol Energy and Chemicals baseline (pages 3, 6 and 7, climate change report), and a 4% reduction from Sasol Energy alone (page 6, climate change report), these emissions have:
    - increased since last year; and
    - are expected to increase in the coming years (pages 6 and 8, climate change report).

In its open letter, Sasol does not dispute that its emissions increased over the past year, nor that they will increase in 2024.

2005 was the year in which Sasol, according to its 2005 reports, "finalised a group target of achieving at least a 10% reduction in greenhouse gas emissions per ton of product, on the 2005 baseline, by July 2015". However, in his open letter, Grobler included a graph which depicts emissions from 2004. The 2004 emissions are described as "Total Group CO_2e emissions based on that year's operational entities which differs to today's business".

Using the figures Sasol provides in this graph, when those 2004 emissions are compared to 2023 combined Sasol Energy and Chemicals emissions, Sasol has achieved a 14,3 Mt reduction since 2004. A significant contribution to that emission reduction (4,3 Mt according to Sasol's fact sheet on historical emissions) was the conversion of the Sasolburg operations from coal to gas feedstock in 2004, which is presumably why Sasol uses the 2004 figure rather than the 2005 figure which corresponds with the setting of its “group target”. By Sasol’s own admission, a similar conversion from coal to gas feedstock at Secunda is unlikely unless Sasol makes another major gas discovery.

In any event, Sasol’s graph demonstrates that, to achieve its 2030 target, it must reduce emissions by 16,2 Mt, i.e., it must achieve greater emission reductions in the next seven years than it has in the preceding 19 years. This in circumstances where Sasol’s emissions increased last year and are set to increase again at least in 2024.

Does Sasol have short-term targets?

In his open letter, Grobler states that “Sasol also committed to short term targets, which are clearly outlined in all our Climate Change reports.”

As in previous years, our briefing pointed out that Sasol’s decarbonisation plan lacks short-term decarbonisation goals against which management can be held accountable. Short-term decarbonisation targets should be set for 2025.

Sasol responded that its commitment to short-term targets includes a 5% emission reduction by 2026 for its Energy business, and that it has already achieved approximately a 4% reduction relative to 2017. Its media release did not mention that this reduction was partially due to “lower production and operational instabilities”; that emissions increased since last year; and that emissions are expected to increase further.

Sasol has also committed to integrate 600 MW of renewable energy (RE) in its Energy business (Sasol’s share of this is 200 MW; Air Liquide’s 400 MW) by 2025 but, as stated in our briefing, it appears to be allowing itself extra time for this integration – with projects to be operational from “end-2025 onwards.”

The only other short-term target Sasol has previously referenced is to integrate 40% RE into its Energy business and to purchase 100% renewable energy for its Chemicals business by 2026. As indicated below, the former target was removed from its 2023 reports. Sasol has provided no explanation for this deletion.

Progress on renewable energy integration

Just Share’s briefing pointed out that, for the last two years (in its 2021 and 2022 reporting suites), Sasol’s decarbonisation roadmap has included commitments:

- to integrate 600 MW of RE in its Energy business (Sasol’s share of this is 200 MW; Air Liquide’s 400 MW) by 2025;
- to procure 40% RE for its Energy business (with Air Liquide, Sasol has committed to procure 1200 MW of RE at Secunda by 2030, with 800 MW allocated to Sasol, and the

other 400 MW to Air Liquide) and 100% purchased RE for its Chemicals business by 2026; and
- to procure 80% RE for its Energy business (this also relates to the 1200 MW-by-2030 commitment with Air Liquide) by 2030.

The briefing pointed out that the commitment to procure 40% renewables by 2026 had been removed from Sasol's targets, without any explanation. Sasol has yet to provide one.

On the commitment to integrate 600 MW of RE by 2025, we stated in the briefing that Sasol appeared to be allowing itself extra time for this integration – with projects to be operational from "end-2025 onwards."

In addition to the 69 MW Msenge Emoyeni wind project in the Eastern Cape (associated with the green hydrogen pilot project in Sasolburg), Sasol indicated in its 2023 reporting suite that it had signed power purchase agreements (PPAs) for three onshore wind projects totalling 360 MW and two solar photo-voltaic projects totalling 218 MW wheeling electricity to Secunda.

As indicated in the briefing, Sasol told Just Share at its October 2023 climate change roundtable that Sasol is on track to close the majority of the RE projects by the end of 2023 or early in 2024; that construction of each would take between 18 and 24 months; and that most would come online towards the end of 2025 – depending on how quickly financial close could be achieved.

In response, although Sasol did not address the deletion of the 40%-by-2026 RE procurement target in its 2023 reports, it stated that it had exceeded its 2026 RE target.

In its fact sheet accompanying the 29 November letter from the CEO, Sasol clarified that:

- one 3.3 MW solar plant is in operation in Sasolburg;
- construction has started on the 69 MW Msenge green hydrogen pilot wind project;
- the 97.5 MW Damlaagte solar farm (to be constructed in the Free State to deliver electricity to Secunda via Eskom's grid) has reached financial close;
- Sasol has signed PPAs for more than 600 MWs of RE at Secunda;
- it has received budget quotes for grid connection from Eskom for more than 200 MW of these 600+ MW; and
- no other projects have reached financial close or started construction – it is expected that the 600+ MW projects will "come online from 2024 to 2026".

In other words, it appears that most of the projects will indeed come online later than the 2025 commitment. Nevertheless, it is good to have confirmation that these projects are progressing.

Sasol's media release also argued that its RE commitments are linked to its executive remuneration incentives. It failed to address what our briefing had pointed out - that instead of holding management accountable for its **failure** to achieve the RE target, by not awarding the incentive, Sasol's Remuneration Committee blamed external factors and postponed the performance assessment.

Re-election of Muriel Dube

In its 13 November press release responding to OMIG's pre-declaration, Sasol stated:

> "We also believe it is incorrect to assert that one independent non-executive director, by virtue of chairing a committee that supports the Board in overseeing the company's focus on its decarbonisation pathway, is, by that fact alone, ultimately accountable for climate change. The Sasol Board in its entirety is accountable for climate change as a material matter affecting the Company".

While the board "in its entirety" might be accountable for climate change, voting against the board in its entirety is not an option for shareholders as only some directors are up for re-election. Voting against directors who have responsibility for particular areas of a business is a recognised and acceptable exercise of ownership rights.

The Principles for Responsible Investment's (PRI's) *A Practical Guide to Active Ownership in Listed Equity* points out that "a fundamental ownership right is the ability of shareholders to vote at shareholder meetings and to elect and remove directors from the board".

The PRI's document *Making Voting Count: How principle-based voting on shareholder resolutions can contribute to clear, effective and accountable stewardship,* provides that:

> "Binding votes on election of directors can change a board's composition and thus drive strategic change; whereas non-binding votes on shareholder resolutions, which are more prevalent in certain markets, lie closer to engagement. It is important to note that engagement and the use of binding and non-binding votes can be as impactful and effective as one another; however, binding votes are the most forceful form of driving change for listed equity holders".

Conclusion

In the absence of any credible basis for Sasol's accusation that our briefing is "misleading" or "inaccurate", Just Share reiterates its voting recommendations for Sasol's yet-to-be rescheduled AGM i.e.:

- that shareholders vote against Sasol's "Say on Climate" resolution; and
- that shareholders vote against the re-election of non-executive director Muriel Dube.

End