National Treasury
Republic of South Africa
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29 August 2022

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Dear Sir/Madam,

**RE: SASOL'S SUBMISSION ON THE 2022 DRAFT TAX BILLS**

## 1. Introduction

I would like to thank you for the opportunity to comment on the 2022 amendments to the Carbon Tax Act and other tax bill ("the Bills") amendments. Sasol's official response on the Bills is reflected in this correspondence, with the Annexures providing inter alia compelling analysis on the potential unintended consequence of the higher carbon tax rates, as well as the opportunity cost associated with it. I would like to reiterate that we are supportive of carbon pricing and view carbon taxes as a key part of a suite of policies and measures to achieve effective decarbonisation.

The country's transition, if leveraged appropriately, has opportunities in the low-carbon future that can contribute to delivering a more sustainable and thriving South Africa, without exacerbating the high levels of poverty, unemployment and inequality. It is Sasol's intention to remain a meaningful contributor to addressing the challenges we face in the country, both through our social investments

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and fundamentally transforming our operations. Regarding the latter, we see a clear path for Sasol to support the country by significantly reducing our greenhouse gas (GHG) emissions by as early as 2030 and simultaneously accelerating action to secure sustainable gas supply and orchestrate the green hydrogen economy.

The high-level impact of the carbon tax on Sasol is contained in the main body of this submission, with Annexure's detailing the following:

- Annexure 1: Major shareholders and financial performance;
- Annexure 2: Extract from ABSA's independent analysis of Sasol's carbon tax implications;
- Annexure 3: Sasol's detailed comments on the carbon tax act amendments.

We look forward to making further representations to you in this process and to the Standing Committee on Finance (SCOF), once tabled at Parliament.

## 2. Sasol's commitment to South Africa and leading the energy transition

Sasol is a significant asset to South Africa and is currently the only company that has in-country operational refineries. We are one of the country's largest taxpayers and employers, with nearly R2 billion invested in 2022 on skills development and socio-economic activities. Our contribution to Gross Domestic Product (GDP) is approximately 3,7% (based Sasol's direct, indirect and induced impacts determined for 2016). We enable the local production of fuels and chemicals, which are two important commodities that allow the country to benefit from revenue generation, job creation (supporting in excess of 50 000 jobs in Mpumalanga alone), community development, reliability of supply, products that avoid cross-border taxes and access to markets outside of South Africa.

Today our operations are largely dependent on the abundance of coal reserves in Secunda and it is because of this reliance that we are a significant source of GHG's for the country. However, presently coal is still a needed commodity, in demand even in Europe given current energy supply constraints while other energy sources are still expensive and with a rapidly increasing carbon tax in a short period of time, we could very well be rendering this coal resource stranded sooner than



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anticipated[1]. Given the importance of needing to abate the impacts of climate change, which will impact the African continent the hardest, more financing and support should be provided by the developed western countries to access gas resources, green hydrogen cost reductions and scaling up renewables in developing countries rather than encouraging coal.

Sasol's main sources of GHG emissions emanate from gasification and utility production in the form of electricity and steam. In response, Sasol has defined a clear roadmap and goal to reduce our scope 1 and 2 GHG emissions by 30% by 2030 and in doing so, contribute to South Africa achieving its Nationally Determined Contribution (NDC). Our 30% reduction is greater than the ~27% proportional requirement estimated for Sasol. Consequently, work by the Presidential Climate Commission reflects that with Sasol's GHG reduction target, South Africa would be able to achieve the lower end of the NDC[2], a key requirement for further financial support for low-carbon endeavours into the future. Our 2030 roadmap paves the way for Sasol to significantly transform its operations to achieve net zero emissions by 2050. This significant reduction in emissions will be achieved by transitioning our feedstock in a systematic manner to lower-carbon alternatives and repurposing our existing assets to produce green products, such as green hydrogen, green ammonia and green methanol.

Our transition is following a gradual approach to minimise social and economic impacts through implementing a mix of energy and process efficiencies, investing in renewables (1.2 GW demand via solar and wind into Secunda operations) and shifting to incremental natural gas as a transition feedstock up to 2030. Key components of our decarbonisation are gas in the medium-term and flexibility to use other biogenic feedstocks (such as biomass) and green hydrogen in the long-term, including pioneering feasibility studies for carbon capture and storage, aligned to the country's national priorities for a diversified energy mix suitable for compatibility with a Paris-aligned future and energy security.

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[1] Reuters 2022, this year alone South Africa sold ~800,000 tons of coal to Europe for their energy needs.
[2] PCC NDC documentation 2021, page 18 – available through the PCC.

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We are taking full accountability and responsibility to transition our business away from being fossil fuel dominant to using sustainable feedstocks to not only the benefit of our business, but the country as a whole.

We believe that our unique approach is critical for South Africa in that we are decarbonising to produce lower-carbon products that will still be affordable in the long-term and cash generative for the country. Sasol has taken a lead in shaping and orchestrating the development of South Africa's green hydrogen ecosystem, in particular focusing on the incubation of green hydrogen applications in critical areas such as fuel cell hydrogen mobility, reigniting the steel industry and creation of a global sustainable aviation hub at the OR Tambo International Airport. We are also leading prefeasibility studies on mega-projects such as the Boegoebaai Green Hydrogen project and other coastal projects, which will be executed with partners. Our teams are working closely with the Northern Cape and Gauteng governments to deliver on these catalytic projects to position South Africa as a leader in green hydrogen production. Of importance is that if Sasol is not successful in our green hydrogen endeavours, other regions and/or countries, such as Namibia or Morocco, will capture the opportunity with no upside for South Africa. The success of these projects will require funding, enabling policies and support from government.

We continue to provide gas for hard to abate industries, which enables a lower emissions profile for these sectors and more competitive products for international market placement. Sasol has commenced with a US$1 billion capital investment in Mozambique to be spent over three years to extend the gas plateau to 2028, thereby enabling sustainable supply of gas to South Africa. We are exploring opportunities for the gas market and are actively working with partners to develop Liquefied Natural Gas (LNG) terminals in Matola to address security of supply.

Our 2030 GHG reduction roadmap and transformation of our business model has commenced, supported by a committed capital expenditure of R15–25 billion, which was based on the 2019 Carbon Tax Act projections and assumptions, with step changes in the rate to align with national circumstances. Tangible progress has been made over the last 18 months but given the complexity of our operations, long lead times to order equipment and securing LNG imports and related

infrastructure, we will need at least 7 years to achieve a 30% reduction in emissions. This commitment is also only possible with a supportive policy environment.

### 3. Significant adverse impact on Sasol's viability

Based on the information reflected in the Bills and uncertainty of allowances, the proposed carbon tax rates have a significant adverse impact on our profitability, shareholder returns, cash flows and economic viability.

The rapid increase of the carbon tax rate over a four-year period between 2026 – 2030 is also at the same time where Sasol is lowering emissions by switching from coal to low carbon alternatives which are initially more expensive and investing between R15–25 billion[3] cumulatively by 2030 to reduce GHG emissions.

This situation becomes untenable because of the combined effect of a large carbon tax payment with our decarbonisation and maintenance costs, which directs the company to a potential turndown of our operations and closure of certain product lines. Accordingly, we will not have an opportunity to execute on our committed decarbonisation roadmap and our growth projects will have to be abandoned, resulting in a significant foregone opportunity for South Africa with substantial associated consequences. An acceleration of our emission reduction roadmap is also not possible because of feedstock changes and long lead-time modifications for our plant which are either not available or cost prohibitive earlier than planned.

### 3.1 Impact of proposed carbon tax on profitability and shareholder returns

The proposed carbon tax without extensive allowances will have a significant impact on the profitability of our business and consequent shareholder returns and investment case. Sasol's shareholders are predominantly South African institutions with approximately 70% ownership, with our two largest shareholders being the Public Investment Corporation (PIC) at 14.5% and the

[3] Sasol's per annum capital allocation expenditure is approximately R20–25 billion, including sustenance and capital project expenditure

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Industrial Development Corporation of South Africa (IDC) at 8.4% (see Annexure 1: Major Shareholders and financial performance as published as part of our 2022 Annual Financial Statements).

To illustrate the devastating impact that the carbon price could have on our business, it is worth considering a $20/t or $30/t carbon tax on our company in the context of record profitability reported in 2022. At these carbon tax rates (with no allowances), our liability would be around R20 billion and R30 billion respectively before our proposed reductions in GHGs. If we were to reduce our emissions by 30%, our carbon tax liability would still be prohibitively high at R14 billion in 2026 and R20 billion in 2030 (assuming no change in the exchange rate and that we could afford to still spend capital amounting to R15–25 billion cumulatively by 2030 on emission reduction projects).

As shown in our recently published financial results (Annexure 1), for the company as a whole (including international businesses), our earnings before tax was R55.5 billion, with direct tax payments of R13.9 billion and post-tax earnings of R41.6 billion. The impact of a potential carbon tax would thus wipe-out a significant proportion of our profits. Important to note that our:

- earnings before tax profits, for our total business, varied between R9.2 billion to R45.6 billion (excluding a R118 billion loss in 2018), with the proposed carbon tax rate and our resultant liability exceeding the total Group's pre-tax profits in 5 out of the last 10 years; and
- financial results and profitability are highly sensitive to oil prices, which are not within our control. Over the past 36 months, the average monthly oil price has ranged from US$19–123.6 per barrel of crude oil (bbl), which reflects the volatility under which we operate. Our primary focus is to operate a viable business (our breakeven oil price is US$55 bbl) that is able to withstand market shocks and price variability. Hence utilising oil price to determine resilience of our business would be misleading.

Our external auditors, PricewaterhouseCoopers, indicates the South African carbon tax as one of the key sources of uncertainty surrounding our future profitability when estimating the carrying value of our assets. Likewise, investment analysts that assess the future investment case of Sasol also

highlight the South African carbon tax as a significant risk to our profitability with some recent quotes indicated below:

*“Clarity from government on carbon taxes would help remove any overhang on valuations”*

Adrian Hammond, Standard Bank Securities, “Walking up from a bad coma”, 25 Aug 2022

*“Downside risks: Decline in oil price or contraction in downstream margins, stronger than expected ZAR, lower than expected cost-saving measures and higher than expected carbon taxes and capex”*

Sashank Lanka, Bank of America Securities, “Solid delivery in FY22, focus now on operations”, 23 Aug 2022

*"The risks associated with our investment thesis also include margins for global refining, marketing, and chemicals, as well as the regulatory / competitive environment across the wide range of markets in which Sasol operates. This includes in particular potential changes to the carbon tax in South Africa and the outcome of tax litigations in the country”*

Steven Friedman, UBS, “FY22 results broadly in line”, 23 August 2022

*“We see a material negative impact to Sasol's SA value chain economics that grows under higher LNG pricing scenarios (even after factoring in potential carbon tax savings)”*

Chris Nicholson, RMB/Morgan Stanley, “SA Gas update – still no easy solutions”, 16 Aug 2022

### 3.2 Impact of proposed tax on our cash flows and economic viability

Sasol is in no way indicating that the affordability of the tax should be the central premise for National Treasury to consider, but it certainly worth noting that the cash flow impact of the proposed carbon tax will likely lead to the premature closure of part or all of Sasol’s operations in South Africa. This will lead to severely reduced contributions to the economy (in the form of taxes, employment and social investments). Moreover, substantial direct and indirect job losses will be experienced in South Africa at a time when new jobs are need and which Sasol is in the midst of contributing too.

We have undertaken economic modelling to understand the impact of carbon tax on Sasol using free cash flow (FCF) as an indicator of economic viability under the current and proposed 2022

Budget Review tax assumptions, with allowances being gradually removed to 2030. We also excluded growth capital related to our committed feasibility studies and other projects in South Africa. Depending on the manner in which the allowances are removed, our financial tax liability ranges from as high as ~R20 billion per annum (in the event the basic allowance is removed by 2030 and decarbonisation takes place) to R8 billion per annum (in the event the basic allowance is extended beyond 2030 and decarbonisation takes place). In terms of the impact on our FCF, this ranges from an extreme scenario where Sasol may need to shut down parts of the business, to still being able to operate and decarbonise, to some extent, but still with a substantial carbon tax liability relative to today. This demonstrates the importance of the allowances and the speed at which the carbon tax rate is uplifted. This economic modelling is aligned with independent analysis, one of which has been included in Annexure 2. Sasol is happy to share the modelled results with the Tax Team of the National Treasury.

**4. Significant adverse impact on South Africa's economy**

We are concerned that an inappropriately timed and considered carbon tax rate increase would significantly impact the South African economy, especially given its current fragility amidst a global energy crisis and the potential risk of a global recession.

Sasol has a critical role to play in the green reindustrialisation of South Africa through its skills, assets and technology. The opportunity cost associated with the carbon tax is therefore that we cannot pursue growth and take significant capital investment decisions to reindustrialise the country if our current business is at risk of closing.

It is for this reason that we would like to make further representations to you and the SCOF on our comments, once tabled at Parliament. Further issues worth considering include:

**4.1 Deindustrialisation versus reindustrialisation**

In the event of a premature closure of Sasol's operations, there are various unintended consequences that the country would have to bear. The South African Petroleum Industry



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Association recently quantified the negative impact of closing the three Durban linked crude refineries as R33.5 billion reduction to GDP and 34 000 reduction in jobs[4]. When extrapolated to the closure of Secunda, GDP will decrease by a further R9.9 billion and 24 900 reduction in jobs[5]. These include pronounced job together with the opportunity cost of creating new economic sectors, a greater need to import more finished products which will affect the balance of payments and increase capital expenditure requirements to upgrade national infrastructure. The chemical and mining value chains will also require more raw materials and input feedstocks needing to be imported. These changes will rapidly impact the underlying structure of the economy without an ability for the economy to absorb and adapt to these changes.

### 4.2 Energy security concerns

Without a domestic refining sector, the country would need to import more product to meet domestic demand. This will convert South Africa from an in-country refining/producing operating model to an import operating model, which is likely to bring significant negative implications if not planned.[6] Historically the South African downstream oil supply landscape was well diversified consisting of various feedstock commodities (crude, coal and gas) and refining and processing technologies i.e. crude oil refining, gas-to-liquids (GTL) and coal-to-liquids (CTL).

Security of supply has recently been negatively impacted by the permanent closure and mothballing of two refineries (PetroSA GTL and Enref crude refinery), as well as the temporary closure of two further refineries (Astron Energy and Sapref crude refinery). Should the carbon tax rate be implemented and result in premature closure of the Sasol and Natref refineries, South Africa would lose its existing refining ability, effectively shifting the country from a dominant in-country refining operating model to an import dominant operating model. The supply infrastructure underpinning these two operating models are vastly different. If the import dominant operating model were to

[4] Reference: 2021 report, mandated by the South African Petroleum Industry Association (SAPIA), key economic indicators (GDP; GVA; Jobs; BOP; CAPEX; OPEX)
[5] Calculations are based on extrapolations of 2019 data
[6] Reference: 2021 report, mandated by the South African Petroleum Industry Association (SAPIA), key economic indicators (GDP; GVA; Jobs; BOP; CAPEX; OPEX)



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come into effect it is likely that severe capacity constraints at the Island View Precinct and the Multi Product Pipeline would be experienced. Further detail is highlighted below.

- **Fuel security of supply**: Security of supply in South Africa, Botswana, and Lesotho is currently enabled by a combination of local South African production and imports, coupled with storage and diversity in the supply chain. Security of supply for fuel for these countries has historically not been a problem given our current infrastructure endowment. Should the last remaining refineries shutdown because of the carbon tax rate hike resulting in negative refining margins, the country will need to fully import fuels, requiring significant capital investment, substantially reducing jobs, and exposing the country to a volatile liquid fuels market, potentially risking security of supply.
- **Durban port expansion:** Currently the port's liquid bulk berth utilisation is nearing maximum capacity. There are 9 liquid bulk berths that are shared between fuels, chemicals and edible oils. Should inland production of fuels and chemicals cease, these would need to be replaced by equivalent imports, necessitating substantial investment to upgrade capacity at both Durban and Richards Bay ports.
- **Pipeline expansion**: Similarly, should inland production cease, a significant investment to upgrade to the country's pipeline capacity would be needed to convey fuel products from Durban to other parts of the country.

Without significant capital-intensive upgrades, it is unlikely that this infrastructure would be able to efficiently accommodate the additional import volumes required to offset the closure of the remaining inland refineries. These capacity constraints will lead to inefficient supply chains, negatively impacting the 'cost to serve' customers and will ultimately be recovered from end customers in the form of increased sales prices. In addition, the closure of the inland refineries will further increase the country's security of supply risk by subjecting South African supply to a concentration risk resulting from an undiversified supply landscape, largely dependent on a single supply route.



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## 5. Trade-offs

Although there are strategic economy-wide implications related to Sasol not operating in South Africa, we also recognise that there are also valid arguments and recommendations from other sectors and stakeholders that National Treasury has to address in agreeing the final carbon tax construct. Some counter arguments that we have considered in formulating our recommendations:

- **Border tax adjustments:** It could be argued that border tax adjustments in the European Union (EU) necessitate a higher in country carbon tax to minimise exposure of specified exported products. In light of this, electricity, chemicals, aluminium, iron and steel, cement, fertilisers and hydrogen might fare better under a more stringent carbon tax regime, with benefits for the economy needing to be balanced with implications for Sasol. However, without the necessary border tax adjustments in place in South Africa, which we support irrespective of a carbon tax rate increase, the imposition of a stringent carbon tax on domestically produced goods places local producers at a competitive disadvantage relative to foreign producers. The implementation and extension of a carbon tax without the necessary border tax adjustment could result in "emissions leakage", which can be characterised as a competitiveness disadvantage faced by local producers and manufacturers (and could result in a shift in jobs and industrial production away from South Africa to jurisdictions with less ambitious or stringent regulation); this creates the potential for an overall increase in emissions globally from a shift in energy use and production to jurisdictions less focused on GHG reduction. Therefore, it is prudent to explore the unintended consequences arising in terms of both trade and emissions under a stringent carbon tax regime without border tax adjustments;

- **Balance of regulation, taxation and incentives:** we would encourage a broader consideration of regulation, taxes and incentives to achieve South Africa's climate change commitments. The taxation of carbon emissions is precariously difficult to enforce with significant issues in tracking the actual emissions, especially of smaller, unlisted companies. Although we support a taxation that is effectively used as a stick to enforce commitments to



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reduce emissions, we are concerned about the unintended consequences of inconsistent application across the economy (including the treatment of Eskom). In addition, as the country decarbonises, other countries are implementing incentives (e.g. product premiums in Germany and recently in the United States through the Inflation Reduction Act) and a suite of measures at scale to enable their transition. Similarly, South Africa must consider policies and measures that encourage the uptake of low carbon technologies and development of new green economic sectors and will become irrelevant if we do not adopt such practices. In other words, for South Africa to compete at a global level, similar measures should be adopted. The methodology of direct application of the carbon tax (with only soft earmarking of revenue) to accelerate decarbonisation or develop low carbon businesses must therefore be reviewed. This effectively calls for a recycling of carbon tax revenues towards decarbonisation;

- **Sasol has a large market footprint in the South African economy**, which could be perceived by other economic role players as having a very strong market position. Sasol through our strategy is focused on localisation through mechanism's related to renewable energy development and pioneering the green hydrogen economy through public-private and private-private partnerships. We have spent nearly R2 billion on corporate social investments and skills development in 2022. Against a backdrop of national unemployment at 33.9% and youth unemployment rate of 61.4% in the second quarter of 2022, investment in skills development amongst learners and students is crucial to ensuring South Africa's future and alleviating stubborn cycles of poverty and inequality. In 2022, Sasol directly employed more than 28,630 workers in South Africa. This does not account for employment supported via our backward linkages to sectors supplying business units via vast and complex value chains. This "knock-on" effect via procurement in the value chain is a significant share of Sasol's employment contribution. From the perspective of transformation, approximately R33.6 billion worth of Sasol's procurement spend was directed to black-owned businesses: a cornerstone of South Africa's transformation imperative. In 2022, Sasol paid R33.2 billion in employee wages and benefits, which is comparable to the ~5% of compensation of government employees across all functions and

economic classifications. Sasol's total wage bill was outstripped only by compensation of employees in the Department of Basic Education, in the Department of Health and in Police Services. Sasol's payment of wages and benefits was larger than for all other government functions. Given the importance of wages and earnings in inducing demand and stimulating economic activity, Sasol's compensation of direct employees is an important contribution to the country's level of GDP. This impact increases when the indirect and induced impact of earnings are taken into account;

- **A higher carbon tax aims to price for the true cost of production** by pricing in externalities. In doing so, companies are being directed to adopt more sustainable business practices and if they are not able to do so through natural market exclusion would be economically unviable. However, this holds true if timed appropriately and in sync with mitigation potential otherwise unintended consequences would result (e.g. loss of critical industry, imbalance towards imported products over localisation and job creation). This has been evidenced by our internal modelling corroborated by an external analyst that demonstrates that rather than transitioning faster, Sasol would be forced to shut down operations earlier than anticipated;

- **The proposed carbon tax affects the manufacturing segment of the value disproportionately** and will have unintended economic and environmental consequences. The premature shutdown of South African manufacturing infrastructure will in the short-term lead to the reduction of locally generated scope 1 and 2 emissions, but at the same time increase imported scope 3 carbon emissions. Furthermore, the impact of losing an in-country industrial and strategic asset has significant economic consequences. This should be contrasted with an alternative transition path that Sasol has committed to. This transition supports South African meeting its NDC commitment, whilst retaining the economic benefits associated with in-country refining. The short-term gain of local emission reduction must be weighed against the severe long-term economic consequences of stringent regulation within the South African context. Given that both approaches are likely to achieve net zero

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emissions by 2050, it seems prudent to adopt an approach with minimal economic fallout; and

- **The Paris Agreement** has set in motion the need for member UN countries to set progressively more stringent climate change targets spurred by a strong climate activist influence. In this regard, suppliers, customers, investors, financiers and society at large are demanding more sustainable processes and products, with some willing to pay premiums. These global trends are favouring accelerated decarbonisation, which is drawing lines between those that can keep up with the pace and those that cannot. Here again Sasol is fully cognisant of the need to decarbonise and is actively reducing emissions in alignment with the Paris Agreement, while still creating value shared value for the country.

## 6. Recommendations

Sasol recognises that our South African operations are significant emitters of GHG's and therefore must be regulated. We are in no way opposing regulation or a carbon tax, but rather suggesting that other viable regulatory options could be explored to benefit from an existing asset. We have five recommendations aimed at **timing, trajectory, allowances, incentives and alignment with budget**. Our recommendations and some possible mechanisms that could be explored, are listed below:

1. **Timing**: National Treasury to reconsider the proposed increased in carbon tax for the period between 2026 to 2030 (US$30), given the significant local and global uncertainties including inflationary pressure and recession risks due to the global energy crisis. We support a carbon pricing regime and recognise the need for a higher carbon tax than today but cannot see how the proposed US$30 tax can be absorbed by the economy or Sasol. The energy landscape has changed dramatically with several key trade partners reassessing their energy needs given security of supply and costs of energy. Pressure on global supply chains, especially relating to key equipment for the development of renewable energy

projects, is also significantly impacting South African companies that have committed to an energy transition and it is difficult to gauge at this stage when these pressures will abate.

2. **Carbon tax trajectory:** set a carbon trajectory that is appropriate and meaningful, with punitive taxes applied should a company breach such a path.
3. **Allowances:** a suite of policies including applicable allowances and offsets, should be incorporated together with a slower escalation of the carbon tax, in alignment with mitigation availability for hard to abate sectors such as ours that recognises the significant costs of transitioning and the current lack of techno-economic solutions. Retention of the basic and other allowances beyond 2030 should be considered, to allow for mitigation cost curves to reduce, thereby affording Sasol time to decarbonise and continue adding economic and social value to the country.
4. **Incentives** should be considered to support the delta between the cost of production (which will be higher in early years of development) and the market price to accelerate the development of lower-carbon industries (green hydrogen, green ammonia, green steel etc). Such incentives are common in other developed countries to promote the green economy in offsetting the impact of the consequent decline in carbon intensive industries. Such incentives (e.g. through tax breaks or straight incentives) could be funded through the recycling of carbon tax revenue generated to accelerate and promote decarbonisation.
5. **Alignment with the carbon budget**: clear communication of all aspects relating to the carbon tax into the future is required to undertake proper evaluation of its potential impact, including key components such as offsets, other allowances and carbon budget alignment. Given the significant investments that companies need to make to transform their operations, creating fiscal stability and predictability is critical. The parallel progression of carbon budgets through the Climate Change Bill adds significant uncertainty to roll-out of the proposed amended carbon taxes. Companies face uncertainty in respect of their carbon tax liability and/or potential penalties, that may apply for exceeding the allocated carbon budgets for the mandatory phase. The risk of escalating carbon prices and mandatory carbon budgets will be exacerbated should these instruments lack effective alignment and if out of sync with mitigation being available in this timeframe. We therefore reiterate our

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request for alignment on the timing of the proposed amendments to the Carbon Tax Act, to await clarity on the Climate Change Bill.

**7. Conclusion**

Sasol is supportive of carbon pricing and views carbon taxes as a key part of a suite of policies and measures to achieve effective decarbonisation. Our operations are complex and dependent on feedstock changes to decarbonise hard to abate emissions. It takes long lead-times to implement capital intensive projects and our cash flows are highly sensitive to external drivers like oil price, rand/dollar exchange rate and other costs. In the scenario of higher carbon tax rates, very little of this can be passed to customers because of the regulated price environment and global commodity price structures. Therefore, any percentage cut back in production would likely result in similar reductions in jobs and contributions to South Africa's income tax. These are serious considerations that have economy-wide impacts.

Sasol is, and intends to continue to be, a substantial contributor to the South African economy and its socio-economic development and will be a key player in supporting the country's transition. However, this ongoing role is contingent on us managing the risk and returns in the delivery of our transformation agenda and we are concerned that proposed amendments to the Carbon Tax Act significantly threatens the viability of Sasol and would have significant negative impact on South Africa's economy. Our detailed line-by-line commentary can be found in Annexure 3. Sasol is eager to advance constructive discussions with you to find mutually beneficial solutions to regulate our GHG emissions and positively contribute to the growth of South Africa's economy.

Kind regards,

**Hanré Rossouw**
**Executive Director and Chief Financial Officer**



Directors: SA Nkosi (Chairman) FR Grobler (President and Chief Executive Officer) MJ Cuambe (Mozambican) MBN Dube M Flöel (German) KC Harper (American) VD Kahla (Executive) GMB Kennealy NNA Matyumza MEK Nkeli HA Rossouw (Chief Financial Officer) S Subramoney S Westwell (British)

Group Company Secretary: M du Toit

# ANNEXURE 1: MAJOR SHAREHOLDERS AND FINANCIAL PERFORMANCE

## Major shareholders

Pursuant to Section 56(7) of the South African Companies Act, 2008, the following beneficial shareholdings equal to or exceeding 5% as at 30 June 2022 were disclosed or established from enquiries:

| Major categories of shareholders | Number of shares | % of total issued securities |
|---|---|---|
| Government Employees Pension Fund | **112 967 576** | **17,77** |
| Industrial Development Corporation of South Africa Limited | **53 266 887** | **8,38** |

Furthermore, the directors have ascertained that some of the shares registered in the names of nominee holders are managed by various fund managers and that, at 30 June 2022, the following fund managers were responsible for managing investments of 3% or more of the share capital of Sasol Limited.

| Fund Manager | Number of shares | % of total issued securities |
|---|---|---|
| PIC Equities | **92 309 402** | **14,52** |
| Industrial Development Corporation of South Africa Limited | **53 266 887** | **8,38** |
| M&G Investment Managers (Pty) Ltd | **33 235 030** | **5,23** |
| Allan Gray Investment Counsel | **30 236 852** | **4,76** |
| Black Rock Incorporated | **24 462 451** | **3,85** |
| Old Mutual Limited | **23 808 729** | **3,75** |
| Coronation Asset Management (Pty) Ltd | **22 756 214** | **3,58** |
| Ninety One SA (Pty) Ltd | **21 450 991** | **3,37** |
| The Vanguard Group Incorporated | **21 364 915** | **3,36** |

**Beneficial ownership by fund type**

2022
2021
2020
%
0 20 40 60 80 100
Unit trusts
Pension and provident
Government of South Africa
Sovereign wealth
Insurance companies
American Depository Receipt holders
Black Economic Empowerment transaction participants

**Beneficial ownership by geographic region**

2022
2021
2020
%
0 20 40 60 80 100
South Africa
Europe
North America
Other

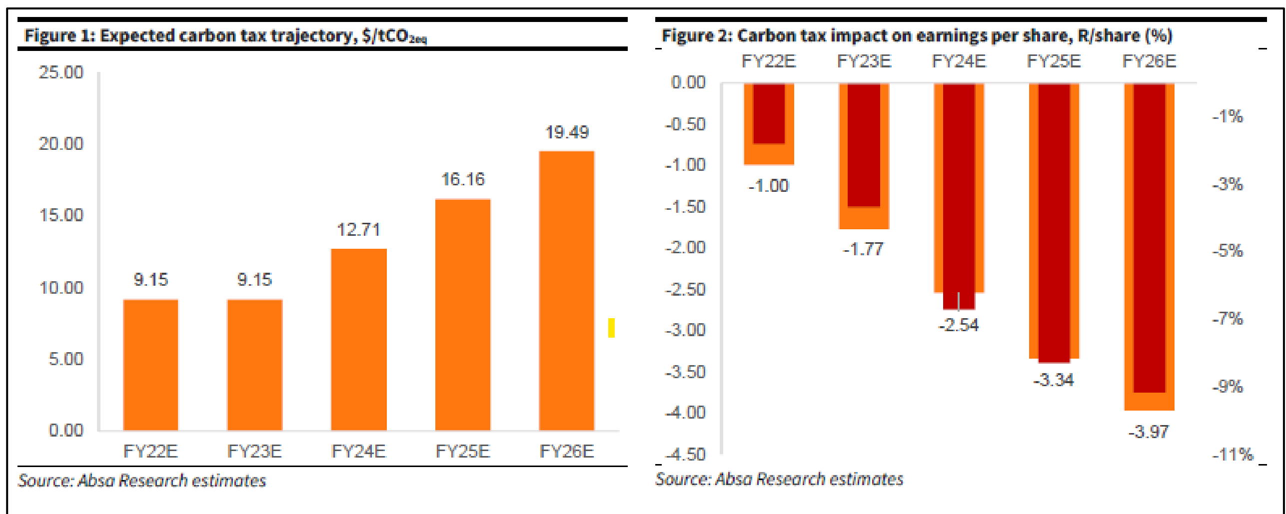
Sasol Limited Group

## Eleven year financial performance

| | % change 2022 vs 2021 | 2022 Rm | 2021 Rm | 2020 Rm | 2019 Rm | 2018 Rm | 2017 Rm | 2016 Rm | 2015 Rm | 2014 Rm | 2013 Rm | 2012 Rm |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Statement of financial position** | | | | | | | | | | | | |
| Property, plant and equipment | 12 | **221 308** | 198 021 | 227 645 | 361 313 | 332 818 | 289 507 | 259 065 | 197 799 | 162 769 | 140 854 | 118 326 |
| Right of use assets | (2) | **12 629** | 12 903 | 13 816 | – | – | – | – | – | – | – | – |
| Goodwill and other intangible assets | 23 | **3 051** | 2 482 | 2 800 | 3 357 | 2 687 | 2 361 | 2 680 | 2 293 | 2 526 | 1 992 | 1 730 |
| Other non-current assets | 19 | **50 304** | 42 173 | 52 305 | 27 283 | 22 473 | 19 117 | 20 836 | 16 829 | 17 598 | 17 257 | 16 357 |
| Current assets | 26 | **132 256** | 105 164 | 177 969 | 78 015 | 81 257 | 87 954 | 108 133 | 106 678 | 97 371 | 86 062 | 61 170 |
| **Total assets** | 16 | **419 548** | 360 743 | 474 535 | 469 968 | 439 235 | 398 939 | 390 714 | 323 599 | 280 264 | 246 165 | 197 583 |
| Total equity | 27 | **193 197** | 152 471 | 155 917 | 225 795 | 228 608 | 217 235 | 212 418 | 196 483 | 174 769 | 152 893 | 127 942 |
| Interest-bearing debt | (2) | **104 834** | 102 643 | 167 197 | 137 692 | 110 052 | 82 849 | 79 175 | 42 187 | 25 830 | 23 139 | 12 497 |
| Interest-free liabilities | (15) | **121 517** | 105 629 | 151 421 | 106 481 | 100 575 | 98 855 | 99 121 | 84 929 | 79 665 | 70 133 | 57 144 |
| **Total equity and liabilities** | 16 | **419 548** | 360 743 | 474 535 | 469 968 | 439 235 | 398 939 | 390 714 | 323 599 | 280 264 | 246 165 | 197 583 |
| **Income statement** | | | | | | | | | | | | |
| Turnover | 27 | **275 738** | 201 910 | 190 367 | 203 576 | 181 461 | 172 407 | 172 942 | 185 266 | 202 683 | 169 891 | 159 114 |
| Earnings before interest and tax (EBIT) | 73 | **61 417** | 16 619 | (111 926) | 9 697 | 17 749 | 31 705 | 24 239 | 46 549 | 45 818 | 40 845 | 36 710 |
| Net finance costs | – | **(5 876)** | (5 902) | (6 381) | (466) | (2 043) | (1 697) | (521) | (956) | (705) | (1 139) | (1 007) |
| Earnings before tax | 81 | **55 541** | 10 717 | (118 307) | 9 231 | 15 704 | 30 008 | 23 718 | 45 593 | 45 113 | 39 706 | 35 703 |
| Taxation | (99) | **(13 869)** | (185) | 26 390 | (3 157) | (5 558) | (8 495) | (8 691) | (14 431) | (14 696) | (12 595) | (11 501) |
| **Earnings for the year** | 75 | **41 672** | 10 532 | (91 917) | 6 074 | 10 146 | 21 513 | 15 027 | 31 162 | 30 417 | 27 111 | 24 202 |
| **Attributable to** | | | | | | | | | | | | |
| Owners of Sasol Limited | 77 | **38 956** | 9 032 | (91 754) | 4 298 | 8 729 | 20 374 | 13 225 | 29 716 | 29 580 | 26 274 | 23 580 |
| Non-controlling interests in subsidiaries | 45 | **2 716** | 1 500 | (163) | 1 776 | 1 417 | 1 139 | 1 802 | 1 446 | 837 | 837 | 622 |
| | 75 | **41 672** | 10 532 | (91 917) | 6 074 | 10 146 | 21 513 | 15 027 | 31 162 | 30 417 | 27 111 | 24 202 |

## ANNEXURE 2: EXTRACTS FROM: ABSA ANALYSIS OF SASOL'S "CARBON TAX – A NEW LINE IN THE SAND" GERHARD ENGELBRECHT, 24 FEBRUARY 2022

**Sasol's carbon tax could increase more than three-fold by 2026**: While allowances will remain, the increase in the tax rate will increase Sasol's carbon tax from around R900mn in FY22 to more than R3bn in FY26. The earnings impact of the carbon tax increases from around R1.00/share to R3.97/share in 2026. The total impact on earnings could be 9% by 2026. At the proposed carbon tax levels, we estimate a South African cash breakeven oil price of $44/bbl in FY26. However, if Sasol achieves the announced cost-saving targets, the cash break-even of the business would remain below $35/bbl over the medium term.




**Longer-term proposals are much more punitive, but implementation remains uncertain**

**Government proposes an escalation of carbon tax beyond FY26**. The Government budget proposal suggests that the carbon tax rate will increase from $20/tCO2e in 2026 to at least $30/tCO2e in 2030. It also proposes that the tax-free allowances will be gradually reduced from '1 January 2026 to 31 December 2030'. The proposal does not state at what rate or to what level these tax- free allowances will be reduced. A worst-case scenario is that the allowances will be phased out completely by 2030.



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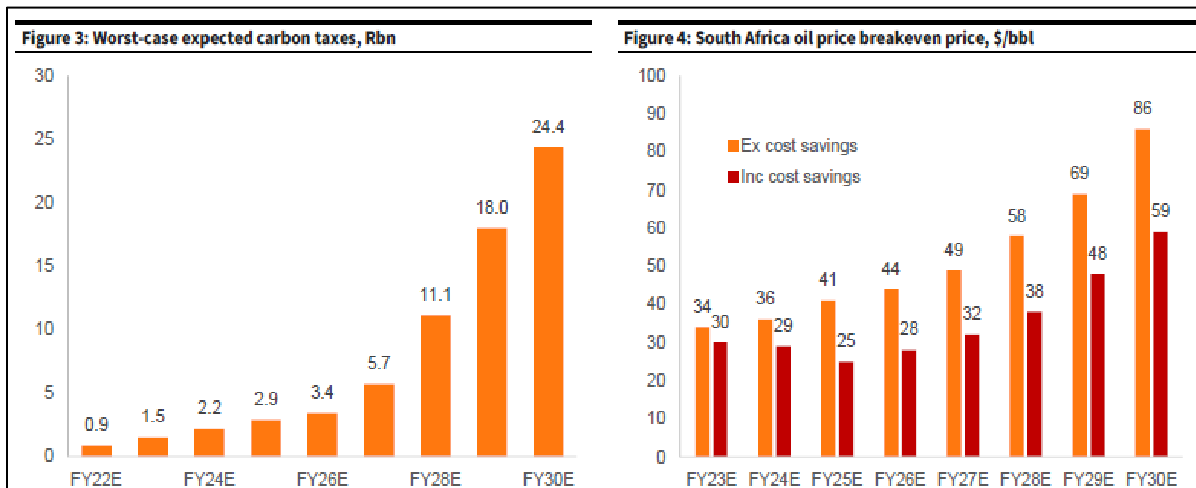
**Sasol's South African businesses could become cash negative in 2028:** Under a scenario where tax allowances are phased out completely, Sasol starts importing LNG to reduce emissions by 30% and cost savings are not achieved, we calculate that the South African businesses could become cash negative in 2030 if oil prices are below $86/bbl. At our assumption of a long-term real oil price of $60/bbl, the business becomes cash negative in 2028.

**Cost savings required:** If Sasol achieves its cost-saving targets, the South African business should remain cash positive until 2032 at our oil price assumptions, and we estimate the breakeven oil price would increase to $59/bbl in FY30.




## Carbon budgets create additional risk

The government will also introduce carbon budgets for the industry in 2023, and emissions that exceed the budget will be taxed at a punitive rate of R640/t. While Sasol has achieved its carbon budgets in recent years, it is not clear what the new budgets will be. Carbon budgets will also allow the government to target specific industries for higher taxes in future.

## ANNEXURE 3: SASOL'S DETAILED COMMENTS ON THE CARBON TAX ACT AMENDMENTS

| **Section 5 of the Carbon Tax Act, 2019** | **Comment** | **Recommendation** |
|---|---|---|
| Amendment of section 5 of Act 15 of 2019, as amended by section 10 of Act 22 of 2020 and section 6 of Act 19 of 2021 | The absence of information related to the allowances and the allocated carbon budget creates investment uncertainty that could discourage investment; particularly considering the long lead time required for many transition projects.<br><br>The cost of transition is high with extended payback periods, potentially resulting in industry choosing to pay the tax instead of transitioning, while slowly scaling operations back. The socio-economic impact thereof to the country is significant in terms of job losses, loss of income to fiscus from corporate and income tax to name a few. | Sasol proposes that National Treasury support business to transition and create an appropriate tax incentive framework (such as accelerated wear and tear allowance, 150% deduction on training, re-skilling and upskilling current work force for transition etc) with extension of the current carbon allowances as an interim measure. Additionally, Special Economic Zone status should be granted to encourage business to invest in designated areas enabling transition to low carbon economy sooner. |



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Group Company Secretary: M du Toit

| | | |
|---|---|---|
| | **Revenue recycling and incentives:** With an escalating carbon tax, revenue recycling measures should be incorporated to ensure the economic efficiency of the tax. Sasol recognises National Treasury's efforts to reduce the impact of the carbon tax in Phase 1, by extending the various recycling measures such as the energy efficiency tax incentive, the electricity price neutrality and the renewable energy premium. However, for Phase 2, additional soft-earmarking of carbon tax revenues for low-carbon sector growth is critically needed. It is often sited and has been practiced, that carbon taxes are most effective when combined with a suite of policies and measures to encourage behaviour change.<br><br>In South Africa the existing policy environment is limited with a few policies and measures currently in place to effectively incentivise the industry. Sasol is of the view that particularly in the climate change policy environment, industry needs incentives to achieve National Treasury's three objectives of attracting investment, generating an appropriate level of government revenue and meeting our climate change commitments. Incentives offered to industry today will benefit the country in the long term in the form of economic growth, job creation, downstream monetisation and localisation and most importantly will help to cushion the impact of a steeply escalating carbon tax. | Sasol requests National Treasury to investigate suitable incentives to support the carbon tax for Phase 2. |
| | **Border tax adjustments:** One visible signpost of the changing dynamic toward greater decarbonisation is the imminent European Union Carbon Border Adjustment Mechanism (CBAM). The CBAM has significant and widespread impacts | Sasol requests a balance to be struck between the quantum of the carbon tax and the ability for industry to sustain their operations while |

| | | |
|---|---|---|
| | extending to trade activities between South Africa and Europe. Further analysis is needed to understand the ramifications of a higher carbon tax in South Africa in response to the CBAM which could seriously impact the global competitiveness of South Africa's industries leading to the increased export of industrial jobs and import of products. We expect that there will be knock-on impacts for many corporates' financial sustainability and the country's growth and employment imperatives. For example, today some of Sasol's chemical products are exported to Europe. As a result, we are working hard to decarbonise our impacted value chains to reduce our exposure. However, a balance needs to be sought between affordability and mitigation potential in response to a significantly higher carbon tax. It is also common cause that other BRICS members are not in favour of CBAM due to the impact that it would have on their local economies. It is not clear from the draft bills and explanatory memorandums circulated if the carbon policies of SADC and BRICS members have been taken into account or to what extent the proposed carbon tax rates have been benchmarked against BRICS members. | transitioning. It is also necessary that carbon tax ambitions, more so after COVID, should be defined within the economic and social conditions of the country, as well as the resilience of individual companies. |
| | **Decreased competitiveness:** In the process of transitioning to a net zero economy, South Africa will still require critical products like cement, steel, aluminium, construction, chemicals and others. For many of these products, there are no affordable low-carbon substitutes currently. The pace at which the proposed carbon tax escalates and with no clarity on the phase-out of the allowances, places these products in a vulnerable position opposite imported products, especially from | Sasol requests that the carbon tax rate for 2026 and 2030 be reconsidered, with allowances retained. |

| | | |
|---|---|---|
| | countries with more lenient carbon pricing regimes and where there is no border protection against such imports. International firms / products will gain market share at the expense of local firms, while South African firms are not able to gain ground in other jurisdictions. This is not good for competition as it may lead to inferior products, lack of competition, choice and high prices.<br><br>Also, increasing the cost of these products produced in country could inadvertently create negative knock-on effects through the economy, making the overall transition more expensive thereby working against efforts to localise industry i.e. making local production far more expensive than imported products. Furthermore, in sectors where some of the costs associated with lower-carbon investments cannot be passed on to the consumer, consumer behaviour is unlikely to be impacted meaningfully which is a necessary requirement in the transition to net-zero. | |
| | **Implications for a just transition in the mining sector:** a significantly high carbon tax too soon will have implications on the use of coal which in turn could result in premature mining closures. We strongly believe that greater benefit can be derived from developing new value chains such as green hydrogen to enhance South Africa's trade revenue and provide social upliftment and as the tax is escalated opportunities exist for redeployment, reskilling and upskilling. Carbon tax ambitions need to consider economic and social outcomes of the country, as well as the resilience of individual companies. | Sasol requests a balance to be struck between the quantum of the carbon tax and the ability for industry to sustain their operations while transitioning. It is also necessary that carbon tax ambitions, more so after COVID, should be defined within the economic and social conditions of the country, as well as the resilience of individual companies. |

| | | |
|---|---|---|
| | **Electricity price pass-through:** The introduction of a significantly high carbon tax would compound the impact of the sharp rise in electricity costs the economy has been facing. Given the fact that the carbon tax will be a pass-through into the cost of electricity, it will inevitably become a further burden to the economy and increase the cost of living. The carbon tax will add to industry's financial burden at a time when renewable energy will not be at scale. More importantly the incidence of a carbon price falls on actors in the economy that can make little or no impact on the technology choices that need to be made to reduce GHG emissions.<br><br>The transition to net zero is associated with increased cost. Sasol notes that National Treasury has sought to address these concerns by extending the electricity price neutrality rebate for the first phase, but in the second phase this impact will be severe. In light of the current energy security and the high cost of living, mechanisms to cushion the impact from the electricity sector are needed. The electricity sector is transitioning and will be bound by the funding arrangements for the sector and is likely not to need a further incentive to transition. | Sasol requests that reconsideration be given for inclusion of the electricity sector in Phase 2 of the carbon tax. It is acknowledged that the electricity sector is the highest carbon emitting sector, but it is also the easiest to transition because of lower renewable energy prices. |
| **38.** (1) Section 5 of the Carbon Tax Act, 2019, is hereby amended— | | |
| *(a) by the substitution for subsection (2) of the following subsection:* | | |

| | | |
|---|---|---|
| "(2) The rate of tax specified in subsection (1) must be increased successively by the amount of: [equal to a percentage equal to the change in the November consumer price index as determined by Statistics South Africa that falls within the previous tax period compared with the November consumer price index that falls within the tax period, until 31 December 2022, plus two percentage points] | In reference to all points 2(a) – (e).<br>Using United States (US) Dollar ($) to escalate the carbon tax exposes companies and future projects to additional risks owing to the USD/ZAR exchange rate variation and volatility.<br><br>• The Rand/US$ exchange rate pair is generally regarded as one of the most volatile currency pairs in the world, which adds a significant amount of uncertainty around business and investment decisions.<br>• By formulating the proposed tax in US$ terms, the exchange rate risk is amplified as it becomes far more complex to plan for typically long lead time projects. This is further exacerbated by the fact that most financial institutions typically only forecast exchange rates up to a maximum of 2 years. This makes it difficult for a company to assess their carbon tax liability out to 2030.<br>• The additional concern is that ZAR is legal tender in South Africa and all tax legislation i.e. Corporate tax, VAT requires filing of tax returns, tax invoices, tax payments are made in ZAR so why now the ZAR escalation. To also now introduce a US$ escalation for carbon tax means that impairment assessments from an accounting perspective, which take into account various assumptions into the model, including cash flow forecasts, would not be accurate which would give rise to prior period errors. This creates too much of uncertainty for business. | Sasol requests that National Treasury provide a nominal rand exchange rate tax rate (even using a National Treasury forecast) to give companies more certainty or simply utilise a ZAR tax rate.<br><br>Sasol requests National Treasury to reconsider the carbon tax rate escalation and ensure allowances are retained for longer. |
| (a) US$1/tCO2e rand equivalent using the average exchange rate as defined in section 1 of the Income Tax Act, 1962 (Act No.58 of 1962), until 31 December 2023; | | |
| (b) US$2/tCO2e rand equivalent using the average exchange rate as defined in section 1 of the Income Tax Act, 1962 (Act No.58 of 1962), until 31 December 2024; and | | |
| (c) US$3/tCO2e rand equivalent using the | | |

| | | |
|---|---|---|
| average exchange rate as defined in section 1 of the Income Tax Act, 1962 (Act No.58 of 1962), until 31 December 2025.”. | • The steep escalation in the carbon tax rate in a short period of time will be extremely penalising for companies, especially emerging from severe constraints during Covid-19 restrictions, resulting in a potential shut down of operations prematurely or rendering them economically unviable. | |
| | | |
| *(b) by the addition after subsection (2) of the following subsection:* | | |
| “(2A) The rate of tax specified in subsection (1) must be increased to the amount of US$20/tCO2e rand equivalent using the average exchange rate as defined in section 1 of the Income Tax Act, 1962 (Act No.58 of 1962) from 1 January 2026.”. | | |
| | | |
| *(c) by the addition after subsection (2A) of the following subsection:* | | |
| “(2B) The rate of tax specified in subsection (1) must be successively increased by the amount of US$2.50/tCO2e rand | | |

| | | |
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| equivalent using the average exchange rate as defined in section 1 of the Income Tax Act, 1962 (Act No.58 of 1962) from 1 January 2027 until 31 December 2029.". | | |
| *(d) by the addition after subsection (2B) of the following subsection:*<br>"(2C) The rate of tax specified in subsection (1) must be increased to the amount of US$30/tCO2e rand equivalent using the average exchange rate as defined in section 1 of the Income Tax Act, 1962 (Act No.58 of 1962) from 1 January 2030.". | US$30/t carbon tax is extremely onerous for South African business resulting in many unintended consequences.<br><br>We could inadvertently:<br>• **Threatening the security of supply of liquid fuels and negatively impacting the balance of payments**: a significantly higher carbon tax too soon will force a shut-down of the last two remaining refineries (Sasol and Natref); negatively impacting the security of liquid fuels supply for the country and also impacting the chemicals value chain in the country. A US$30 carbon tax by 2030 severely penalises Sasol and results in premature closure of our Secunda operations, before decarbonisation is attempted.<br><br>• **Decrease competitiveness**: In the process of transitioning to a zero-carbon economy South African will still require critical products like cement, steel, aluminum, construction, chemicals and others. For many of these products, there are no low carbon substitutes currently. The pace at which the proposed carbon tax escalates and with little to no certainty on | Sasol requests that National Treasury incorporate these material negative unintended consequences into the decision-making for the final carbon tax rate. We believe it is prudent and in the best interest of the country to de-escalate the carbon tax rate increase in line with affordability, growth of new carbon sectors and the ability to reduce emissions. Furthermore, at the very least, the retention of the allowances for longer would be an opportunity to assist in mitigating the potential impact.<br><br>In addition to considering a shallower carbon tax rate escalation, introduce a carbon border adjustment tax similar to Europe to level the playing for imports and protect local businesses |

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|---|---|---|
| | various allowances, places these products in a vulnerable position opposite imported product, especially from countries with a more lenient regimes and where there is no border protection against such imports.<br><br>• **Indirectly contribute to global emissions:** By choosing to rapidly negatively impact and/or possibly close down the South African industry and rather import product, we are inadvertently allowing other countries the space to emit $CO_2$ and grow their economies to the detriment of the South African economy.<br><br>• **Drop in share price and company returns to shareholders**: Lower profits means less funds to invest and lower dividends, which combined with a poor outlook for high emitting companies means that these companies could struggle to generate and attract the required capital to invest to transition their businesses. Timing and perception could lead to sudden market devaluation.<br><br>• **Increase the cost of the South Africa transition and working against localisation**: Currently, many South African companies produce products that are critical to achieving net zero transitions in certain sectors. These include, among others, cement, steel, aluminium, fuel and chemicals. Increasing the price of these products | |

| | | |
|---|---|---|
| | could inadvertently create negative knock-on effects through the economy making the overall transition more expensive and also working against efforts to localise industry i.e. making local production far more expensive that imported products. Furthermore, in sectors where some of the costs associated with lower-carbon investments cannot be passed on to the consumer, consumer behaviour is unlikely to be impacted meaningfully which is a necessary requirement in the transition to net-zero.<br><br>• **Limit ability to reinvest:** Lower market capitalisation and lower profits mean less capital to reinvest to transform business along the proposed trajectory and timeline. It also implies less capital availability for a just energy transition, involving capacity building, skills transition and retraining. Also, the focus on localisation activities like building new local supply chains would receive limited focus. | |
| *(e) by the substitution for subsection (3) of the following subsection:* | | |
| "(3) The rate of tax must be increased after 31 December [2022] <u>2030</u> by the amount [equal to a percentage equal to the change in the November | The steep escalation in the carbon tax rate in a short period of time will be extremely penalising for companies, especially emerging from severe constraints during Covid-19 restrictions, resulting in a potential shut down of operations prematurely or rendering them economically unviable. | Sasol requests National Treasury to reconsider the carbon tax rate escalation and ensure allowances are retained for longer. |

| | | |
|---|---|---|
| consumer price index as determined by Statistics South Africa that falls within the previous tax period compared with the November consumer price index that falls within the tax period prior to the previous tax year.] <u>announced by the Minister in the national annual budget contemplated in section 27(1) of the Public Finance Management, 1999, (Act No. 1 of 1999).”.</u> | | |
| (2) Subsection (1) comes into operation on 1 January 2023. | | |
| Amendment of section 6 of Act 15 of 2019, as amended by section 93 of Act 34 of 2019, section 77 of Act 23 of 2020 and section 63 of Act 20 of 2021 | | |
| **39.** (1) Section 6 of Carbon Tax Act, 2019, is hereby amended— | | |
| | | |
| *(a) by the substitution in subsection (2) for the words* | | |

| | | |
|---|---|---|
| *preceding paragraph (a) of the following words:* | | |
| "(2) The amount of tax payable by a taxpayer in respect of the generation of electricity from fossil fuels conducting activities under the IPCC codes 1A1 for energy industries and 1A2 for manufacturing industries and construction in respect of a tax period must be calculated in accordance with the formula:": | | Sasol welcomes this change as the ambiguity in the act has been addressed and all entities that fall under this category would qualify for the rebate. |
| *(b) by the substitution in subsection (2) for paragraph (c) of the following paragraph:* | | |
| "(c) **'B'** represents an amount equal to the quantity of renewable electricity (kWh) purchased under a power purchase agreement multiplied by the renewable energy premium determined by the Minister by notice in | Many renewable power agreements will only come effective in the next two to three years as a result of time to construct. This results in a very limited time period for company to benefit from renewable purchases at a premium. Time period should be increased to 2030 to allow for better funding planning. | Sasol supports the extension of this rebate and welcomes the extension to 2025; however, we request that the premium be extended to 2030 as many power purchasing agreements will only come on-line by 2030. |

| | | |
|---|---|---|
| the Gazette in respect of a tax period, until 31 December **[2022]** 2025; and”; | | |
| *(c) by the substitution in subsection (2) for paragraph (d) of the following paragraph:* | | |
| “(d) **‘C’** represents an amount equal to the environmental levy contemplated in respect of electricity generated in the Republic in Section B of Part 3 of Schedule 1 to the Customs and Excise Act, 1964 (Act No. 91 of 1964), paid in respect of a tax year, until 31 December **[2022]** 2025.”. | | Sasol supports the extension of the electricity levy and welcomes the extension to 2025. |
| *(d) by the substitution in subsection (4) of the following subsection:* | | |
| “(4) For the purposes of this section, **“sequestrate”** means— | | |
| (a) the process storing a greenhouse gas in forestry plantations and harvested wood products within the operational | | No comment |

| | | |
|---|---|---|
| control of the taxpayer in respect of fuel combustion emissions declared in terms of IPCC code 1A2d for pulp, paper and print in terms of section 4(1); or | | |
| (b) the process of storing a greenhouse gas in forestry plantations and harvested wood products within the operational control of the taxpayer in respect of fuel combustion emissions declared in terms of IPCC code 1A2d for pulp, paper and print or increasing the carbon content of a carbon reservoir other than the atmosphere in respect of fuel combustions emissions declared in terms of section 4(2)(a).”. | | We support inclusion of sequestration but request the sequestration deduction be updated to include sequestration activities carried out by companies in any sector on land within that company’s control. This would be distinct from offsetting and would incorporate just transition initiatives that companies are undertaking as part of their decarbonisation activities. For example, Sasol is undertaking agricultural activities on previous mining land within our control that would qualify for this rebate.<br><br>Over time geological sequestration will need to be considered within the carbon tax. |
| *(2) Paragraphs (a), (b) and (c) of subsection (1) comes into operation on 1 January 2023,* | | |

| | | |
|---|---|---|
| *(3) Paragraph (d) of subsection (1) is deemed to have come into operation on 1 January 2022.* | | Further clarity is required to why this date is 1 January 2022, as this refers to a sub-clause related to the US$30, which is only proposed and being consulted. Sasol requests a review of this line item. |
| ***Other tax law amendment issues*** | | |
| *Income Tax Act, 1962: Amendment of Section 64M Any amount of dividends tax that is refundable under s64M(1) or s64M(1A) must be refunded by the regulated intermediary within a period of one year after the submission by the beneficial owner of the declaration of exemption or the declaration that the dividend is subject to a reduced rate of tax as well as the written undertaking referred to in Section 64M(1)(c); or the claim for a rebate of foreign taxes on dividends referred to in s 64M(1A).* | In terms of Section 64E(5), where any amount is denominated in any currency other than the currency of the Republic, the amount must be translated to the currency of the Republic by applying the spot rate applicable at the time that the dividend is paid. | There would have been a change in translation rates from the date the dividends tax was withheld to the date it is refunded. It is proposed that a subsection be added in the Act providing guidance on the rate that should be used on the date the dividends tax is refunded. |

## FORWARD LOOKING STATEMENTS DISCLAIMER

Sasol may, in this document, make certain statements that relate to analyses and other information which are based on forecasts of future results (related to the future rather than past events and facts) and estimates of amounts not yet determinable. These statements may also relate to our future prospects, expectations, developments, analysis of potentially applicable regulations (national and regional) and business strategies specifically related to climate change, sustainability, ESG matters and GHGs. Examples of such forward-looking statements include, but are not limited to, statements regarding our climate change strategy generally, “Future Sasol”, our energy efficiency improvement target, our three-pillar emission-reduction framework, our absolute GHG emission-reduction target, our development of sustainability within our Sasol Energy and Sasol Chemicals Businesses; **carbon pricing estimates, estimated and potential carbon tax exposure and our estimated carbon tax liability**. Words such as “aim”, “estimate”, “believe”, “anticipate”, “expect”, “intend”, “seek”, “will”, “plan”, “could”, “may”, “endeavour”, “target”, “forecast”, “committed”, “project” and similar expressions are intended to identify such forward-looking statements, but are not the exclusive means of identifying such statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific and there are risks that the predictions, calculations, forecasts, projections and other forward-looking statements will not be achieved. Therefore, you should not place undue reliance on any forward-looking statements. If one or more of these risks materialise, or should underlying assumptions prove incorrect, our actual results may differ materially from those anticipated. You should understand that a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, changing regulatory requirements (**including regulation related to carbon taxes and carbon pricing**), technology advances, interpretations and definitions of renewable energy and/or renewable energy sources, economic and political environments relating to climate change, sustainability, severe weather, **estimated and potential carbon tax impacts**, ESG and/or GHGs in the countries in which Sasol operates; potential liability of the Sasol’s operations under existing or future environmental regulations, including international climate change related agreements regarding GHGs calculations, reduction methods, and/or offsets and the nascent and continued development of our decarbonisation journey, including the metrics and assumptions used by management in the preparation of this report. These factors and others are discussed more fully under the heading “Risk Factors” in our most recent annual report on Form 20-F filed on or about 20 September 2021 and in other filings we make with the SEC. The list of factors discussed therein is not exhaustive; when relying on forward-looking statements to make investment decisions, you should carefully consider both these factors and other uncertainties and events. Forward-looking statements apply only as of the date on which they are made and we do not undertake any obligation to update or revise any of them, whether as a result of new information, future events or otherwise.



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