SASOL'S SUBMISSION TO THE STANDING COMMITTEE ON FINANCE (SCOF) ON THE CARBON TAX RATE PROPOSALS

14 September 2022

Purpose

Innovating for a better world

What you will hear today

On track to reduce GHG emissions by 30% by 2030 in support of the Paris Agreement

Proposed **carbon tax** (without allowances) renders Sasol unviable by 2029

Proposed carbon tax rate needs to achieve a **balance between People, Planet and Profit imperatives**

Trajectory of increase to be reviewed to be in sync with mitigation availability

Allowances, incentives and soft revenue earmarking required as part of a **suite of enabling polices** and measures

OUR

AMBITION

GROW SHARED VALUE WHILE ACCELERATING OUR TRANSITION

2. off 2017 base

Sasol is a strong contributor to the South African economy

- Sasol is South Africa's leading chemicals and energy organisation with a global presence. We are purpose-driven and resolute in our transition to being a sustainable entity while creating shared value for all our stakeholders.

Turnover
R276 billion

Total assets
R420 billion

Market capitalisation
R234 billion

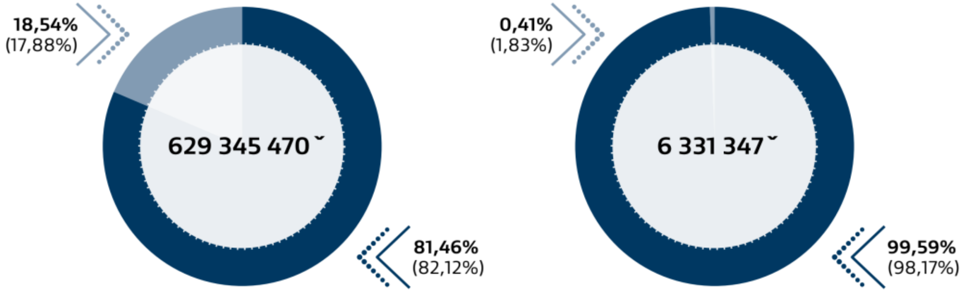
Reinvested to grow and sustain operations
R50 billion

Significant contributor to South Africa's GDP

Shareholders

Sasol ordinary shares

Sasol BEE ordinary shares



■ Public
■ Non-public (PIC and IDC)
ˇ Number of shares

Listed on the Johannesburg Stock Exchange (JSE) and the New York Stock Exchange (NYSE)

Value shared*

R16,2 billion in direct taxes

R33 billion in wages and benefits

R743,3 million on social investment initiatives

R1,2 billion in research and development

R1,2 billion on skills development

Our Net Zero emissions ambition by 2050 and interim targets are in support of the Paris Agreement goals

28 630 employees

Located in 22 countries and market products across 118 countries

Approved R15-25 billion to decarbonise by 30% by 2030 which supports achievement of the lower end of the NDC. In parallel we are investing in low carbon growth projects such as Boegoebaai and others in the Northern Cape to add further value to the South African economy

*for Financial Year 2022

Sasol is committed to decarbonisation and a low-carbon future

Renewables

- Committed to 1 200 MW renewable power by 2030
- Power Purchasing Agreement close to being concluded for >600MW for introduction into our facilities by 2025
- >5 projects awaiting regulatory approval for solar and wind

Transition gas

- Mozambique gas supply plateau extended to 2028
- Adjacent exploration acreage
- Creating optionality for gas supply to lower costs
- Mozambican Production Sharing Agreement progressing
- Pursing 40 – 60 PJ additional LNG from 2026

Low carbon enablers

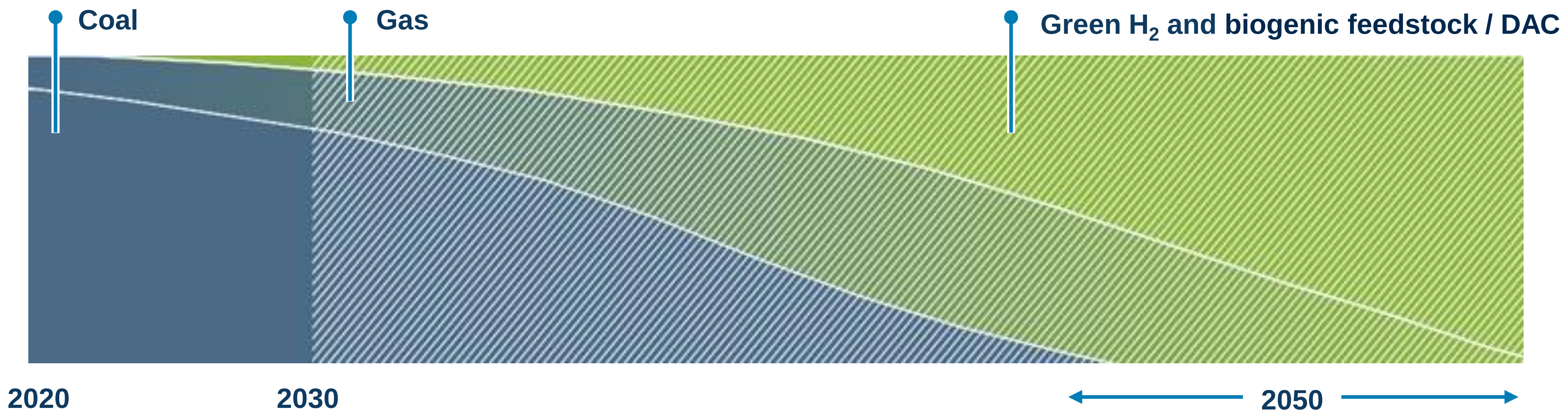
- Green H_2 from Sasolburg facility available from 2023
- Natref green hybrid refinery concept being developed
- Secunda Sustainable Aviation Fuel production being advanced
- Fine coal solution technology ready to facilitate boiler shutdown

Just Transition

- A just transition roadmap is under development under the auspices of the Just Transition Office
- Leveraging existing initiatives and low carbon sector development for job creation and economic development
- Advancing development of an ecosystem of partners to achieve economies of scale for decarbonisation and sustainable development

Significant progress made in 2022 to advance our 30% GHG reduction target by 2030

Transitioning to more sustainable feedstock



Range of possibilities for feedstock mix by 2050 with CDRs to neutralise residual and hard to abate emissions

KEY SIGNPOSTS

Technology and renewables cost changes	Regulation changes	Macro-trends	Customer sentiment

The proposed carbon tax rate has a severe impact on the viability of our South African value chain

- Carbon tax of $20-30/t would result in **further tax liability of R20-30bn** before our proposed GHG transition
  - Profits before tax for our total business, varied from R9.2 billion to R55.5 billion over the last 10 years*
  - Proposed TLAB carbon tax rate would exceed the total Group's pre-tax profits in 5 out of the last 10 years
- 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 (see back-up slide).
- Our analysis is echoed by independent market analysts:

"Sasol's South African businesses could become cash negative in 2028"

ABSA: "CARBON TAX – A NEW LINE IN THE SAND", 24 FEBRUARY 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..."

UBS, "FY22 results broadly in line", 23 August 2022

"Clarity from government on carbon taxes would help remove any overhang on valuations"

STANDARD BANK, "Walking up from a bad coma", 25 Aug 2022

Proposed carbon tax rates significantly erodes free cash flow to the point where cash flow turns negative, and turndown of operations is probable. Even with significant emission reductions, Sasol's tax liability will still be untenable

Note: * excluding an exceptional R118 billion loss in 2018

Recommendations

Sasol is **supportive of carbon pricing and that our operations must be regulated;** we are however **not able to afford the proposed carbon tax rate increase (without allowances) and decarbonise our operations**. This incentivises turndown of Secunda and Sasolburg operations. We recommend the following to SCOF:

- **Timing:** reconsider the steepness of the proposed carbon tax rate increase for the period 2026 to 2030 (US$30) to avoid unintended consequences, given the significant local and global uncertainties;
- **Carbon tax trajectory:** set a carbon trajectory that is appropriate and meaningful, with punitive taxes applied should a company breach such a path;
- **Retention of allowances:** retain the allowances to mitigate the impact of a rapidly increasing carbon tax to enable a just and equitable transition and allow mitigation cost curves to reduce;
- **Incentives:** encourage the adoption of a suite of incentives to accelerate decarbonisation and growth of low carbon sectors, similar to the Inflation Reduction Act in the United States and Fit for 55 policy package supporting the European Union member countries. In addition, as the carbon tax rate increases consider soft earmarking of carbon tax revenue; and
- **Alignment with the carbon budget:** 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 request for the timing of the proposed amendments to the Carbon Tax Act to await clarity on the Climate Change Bill.

Adopting a more prudent approach to increasing the carbon tax rate will still incentivise achievement of the country's Paris Agreement commitments and enable a just transition

Closing remarks

- The carbon tax as proposed (without allowances) accelerates Sasol to an unsustainable business within 5–7 years.
- Our commitment to decarbonisation requires capital investments of over R15-25 billion and will be negatively impacted by the carbon tax if implemented as is.
- Sasol has the only operational refineries in the country and represents a large proportion of near future fuel security in the country.
- We submit that if the current dispensation is implemented as proposed with no allowances, the repercussions are negative for Sasol, for industry and the broader economy.
- Sasol is committed to a just transition and aims to be a leader in shaping the green hydrogen economy for South Africa.

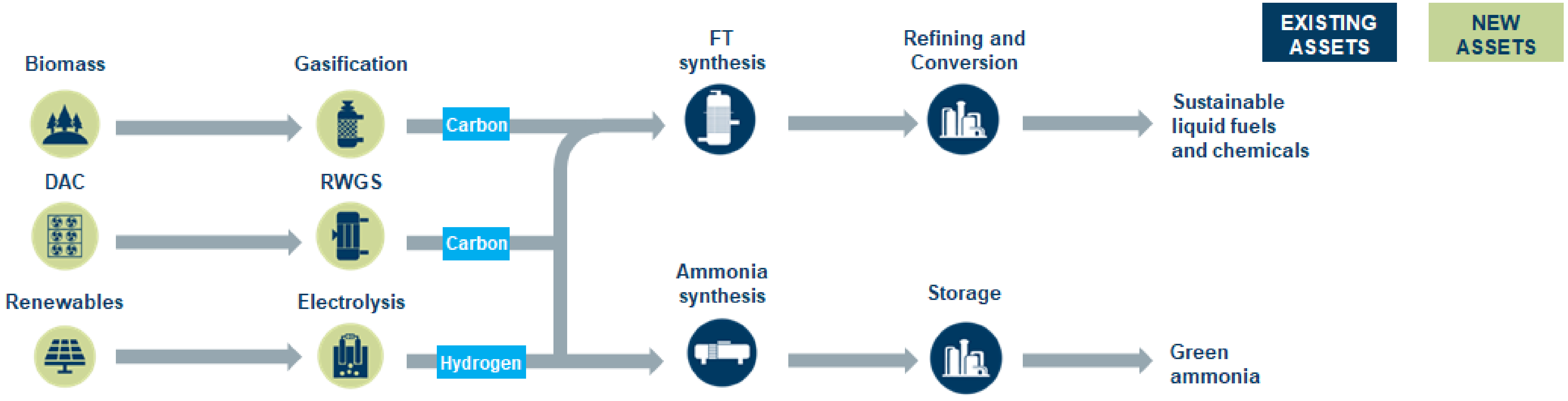
Our just transition is a shared value proposition comprising an inclusive transformation of our business, people and society. Through you Chairperson, Sasol would be available to brief the Committee on our just transition plans

Thank you

Back-up

The Secunda of tomorrow will look different to the Secunda of today

LEVERAGING EXISTING ASSETS TO TRANSFORM QUICKER AND MORE COST EFFECTIVELY COMPARED TO COMPETITORS



STEPWISE APPROACH TOWARDS SHIFTING OF OUR PRODUCT SLATE

- **2023** — SASOLBURG: 60 MW green H_2
- **2025** — SAF PROJECT: ~1% sustainable products; 200 MW green H_2
- **2030** — 10% GREEN H_2: ~6% sustainable products; ~2 % sustainable carbon
- **2040+** — 40% GREEN H_2: >25% sustainable products; ~5 - 10% sustainable carbon
- 100% GREEN H_2: 100% sustainable products; 100% carbon from DAC

Our vision envisages zero scope 1 and 2 emissions with a new low carbon compatible product slate with an orderly transition spanning to 2050. This requires time for requisite technologies to come down cost curves

RWGS: reverse water gas shift DAC: direct air capture

The rapid increase in the proposed carbon tax rates has significant socio-economic impacts and hinders Sasol's ability to decarbonise

Phasing in of carbon tax

1st phase, 2019-2023

- Focus scope 1 emissions
- Initial rate 120 - 137 ZAR/ tCO_2e
- Rate increases annually by inflation plus 2% until end of 2022 and then escalate by inflation
- Allowances, range from 75-90% for Sasol
- **Carbon tax liability equated to R320 million for 2019 and R579 million after offsets and electricity levies which allowed Sasol to allocate capital to decarbonisation, with minimal social and economic disruption to 2030**

2nd phase, 2023-2030

- Rate increases annually by inflation

New proposals

1st phase, extended to 2025

- 144 ZAR/ tCO_2e effective Jan 2022, reaching \$20 USD by 2025; allowances remain in place
- **In 2026 Sasol's FCF is projected to be significantly lower using the \$20 USD carbon tax rate. This erodes available capital for decarbonisation and will require a reprioritisation of our roadmap levers which are difficult to accelerate due to long lead times to execute**

2nd phase

- Carbon tax at US\$30 and no allowances by 2030
- **Sasol's FCF is negative using the US\$30 carbon rate. This brings into question the value-add of investments required to decarbonise existing operations – likely result is to choose a turndown pathway**

Potential impact on the economy from premature turndown of Sasol

Severely reduced socio-economic contribution: broadly assumed that any percentage cut back in Sasol's production would result in similar reductions in jobs and contributions to the national income tax. For complete operational shut down this yields a loss of ~R9.9 billion in GDP contribution and ~24 900 jobs

Energy security concerns: Secunda and Natref are the only remaining in-country refineries, closure would convert South Africa into an import dominant model exposing the country to security of supply risk

Balance of payments: the knock-on effect from importing more product is an increase in the country's balance of payment deficit, causing inflationary pressures

Loss of ability to yield quick-to-market green hydrogen derived products: a decarbonised Sasol complex is a greater asset to South Africa than an operation that slowly closes. It holds the ability holds the ability to relatively quickly and price competitively produce green products (e.g., SAF, green chemicals, etc.) that can favourably position South Africa in future supply chains while sustaining and creating socio-economic benefits

Our carbon tax liability cannot be passed through to customers due to regulated prices and global commodity price structures. Sasol is not able to afford both decarbonisation and the proposed carbon tax rates