

## President and Chief Executive Officer's review



David E Constable, President and Chief Executive Officer

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# REPOSITIONING SASOL FOR A NEW ERA

## Dear stakeholder

At Sasol, we first started to consciously approach our business in an integrated manner in 2000.

Over time, and notwithstanding our solid operational and financial achievements, the way we structured our business activities and drove independent bottom line accountabilities, created complexities that slowed us down, and diverted our attention from important external dynamics. It became clear that we needed to organise ourselves for greater effectiveness. This meant reducing bureaucracy and simplifying our complex subsidiary and governance structures to facilitate more effective and efficient decision-making.

## Changing the face of Sasol

The necessity for change, first identified at the end of 2011, arose out of the management team's commitment to sustain our performance over the long term, while ensuring a united Sasol approach.

Through the implementation of our group-wide change programme:

- In 2012, we started to reposition the organisation by driving a single set of priorities across the group, with safe, stable and efficient operations at the core.
- In 2013, to ensure greater focus across the organisation, we prioritised our project portfolio, which included the clear articulation of our near- to medium-term strategy, centred on two key regions – Southern Africa and North America.
- In parallel, from 2012 to 2014, we restructured the group and introduced changes to our top and senior management layers and corporate structures, and cemented our longer term strategic direction.

These changes culminated in the roll out of our new operating model on 1 July 2014 when we implemented our revised structures and processes.

Three years later, and with the benefits of our extensive change programme gaining traction, we have come a long way in driving a refined corporate strategy, and in ensuring that we work together as a united team.

## Approaching investment decisions holistically

Part of our integrated thinking process requires that we approach all business decisions in a holistic fashion. This requires focused alignment and co-ordination on both

financial and non-financial factors. Here, we apply integrated investment criteria, which closely align to the six capitals.

When evaluating the pros and cons of any investment decision, we carefully consider whether we have, or can competitively access, the required:

- long-term feedstocks and natural resources;
- human resources with the requisite capabilities;
- technologies – whether proprietary or off-the-shelf;
- market and stakeholder support – which includes those who enable our licence to operate;
- facilities and infrastructure; and
- financial resources.

By adopting a fully integrated approach, and having clear line of sight, we are best-placed to make informed decisions. Through improved decision-making and governance frameworks, we can drive the big picture. In the world of integrated reporting, this allows us to tell the full Sasol story – including both financial and non-financial progress and performance.

## Addressing our material sustainability focus areas

Today, our Sasol colleagues place the group's best interests at the forefront of our considerations. By focusing on growing shareholder value sustainably, we also benefit our wider stakeholder groupings.

Given the complex nature of our business, and based on the views and interests of our stakeholders, we continue to identify the material sustainability focus areas we need to address to ensure that we create sustainable value. These issues have remained largely unchanged and are the primary focus of this report:

- ensuring the safety, health and wellbeing of our people;
- investing in our people;
- responding to environmental challenges;
- delivering social value;
- driving enterprise and supplier development; and
- providing safe, essential and quality products.

Sustainability is no longer just about doing business responsibly – it is also about identifying key social and sustainability challenges, and finding ways to work with others to resolve them.

Over the past three years, we have been working with a wide range of our stakeholders to ensure that we address our material sustainability focus areas.

### **Ensuring the safety, health and wellbeing of our people**

Safety is a top priority and core value at Sasol. We strive to ensure safe operations that protect people and communities. Our ambition is to be an industry leader in safety.

To this end, in 2014, we formalised our One Sasol SHE Excellence approach, which will ensure that, through co-ordination and understanding our top global safety risks, we will be better equipped to ensure zero harm. Our ORYX GTL joint venture in Qatar continues to be a star performer both from an operational and safety performance perspective. In September 2014, we recognised our flagship gas-to-liquids facility for their outstanding safety track record – three years without a recordable incident.

With the implementation of our new operating model in July, our team identified a discrepancy in the recordable case rate-related exposure hours for our 2012 and 2013 fiscal years. Here, certain contractor hours at our Sasolburg hub needed to be restated. As a result, the group's lost work day case rate and recordable case rate had to be adjusted. Although our safety statistics needed to be restated, we are encouraged by the fact that the company-wide move to the new operating model managed to flush out any anomalies and inconsistencies.

Armed with accurate data, we are mindful that our ambition to be an industry safety leader also requires the commitment and support of our business partners outside of the Sasol group – including our contractors, customers, and neighbours. To ensure that we meet this aspiration, in 2013, we stepped up our focus on process safety and product transportation safety.

Despite our heightened safety focus, it deeply saddens me that five of our colleagues were fatally injured in operations and transport-related incidents this past financial year. Our thoughts and best wishes are with the families, friends and colleagues of Alex Mofokeng, Chris Pretorius, Tselane Mamaila, Stefaans Moloi and Billy van Dyk.

With safety, a crucial imperative for our company, our focus on occupational health and employee wellbeing has also been enhanced. By adopting an integrated approach to

health and wellness, we are also able to positively influence the safety of our team members. To ensure that we tackle areas of concern head-on, we have improved our health management processes, monitoring and record-keeping.

### **Investing in our people**

Our ability to effectively pursue the various opportunities we have available to us requires that we continually enhance our business performance and overall effectiveness.

After a detailed diagnostic, and to achieve our strategic objectives, at the start of this past financial year, we officially launched a comprehensive business performance enhancement programme, which cuts across the entire organisation.

Our leadership structures are now complete, and have resulted in voluntary retrenchments and early retirements amongst the most senior layers of the organisation. The restructuring process will be concluded in our 2015 financial year. At this stage, we do not expect any forced retrenchments of our monthly salaried personnel.

The catalyst for our reorganisation was the development and introduction of our new operating model, which is organised along an integrated value chain. The consolidation and right-sizing of our corporate and legal structures were a crucial building block of our group-wide restructuring, particularly in South Africa.

Notwithstanding our organisational changes, we know that by attracting and selecting the right people, and providing opportunities for development, we will secure our long-term success as a transformative employer of choice.

Earlier this year, we ranked number one in our sector and top ten nationwide in the 2014 Top Employers' Award. This accolade pays tribute to the fact that we are creating a caring, inspiring and engaging working environment, which promotes diversity and equal opportunities for all employees.

Importantly, we recognise our colleagues who go the extra mile, through a substantially overhauled performance management and remuneration system, which rewards our people on the basis of their performance, giving equal emphasis to delivery and behaviour.



In addition, our strong, trust-based relationships with our Group Partnership Forum and our unions have enabled frank and constructive dialogue, which allows us to resolve concerns before they become unworkable. We believe that by involving our people and their appropriate representatives, we can achieve mutually beneficial solutions.

### Responding to environmental challenges

At a time when available natural resources are becoming increasingly difficult to develop, we fully recognise that accessing new energy sources depends on our capacity to explore and develop reserves without adversely affecting people and the environment.

In the past decade, we have ensured that our business activities are more effective and energy efficient, and that our feedstock choices continue to reduce our greenhouse gas emissions.

We believe that as a monetiser of natural gas, we can play an important role in addressing the climate change challenge. Natural gas is an attractive energy carrier and a fuel for the future – abundant, price competitive, and the cleanest, fossil-based energy source.

In tandem, our external water conservation partnership, in Sasolburg, South Africa, continued to yield excellent results. In the past year, 4,76 million cubic metres of water, with an economic value of approximately R26 million, has been saved. Over the last two years, a total of 114 000 households and 94 schools have been visited to repair multiple leaks. Limiting these leaks has resulted in water conservation improvements equating to the equivalent use of 16 000 households, or 22% of our Sasolburg facility's annual raw water needs.

In 2014, we intensified efforts to improve energy efficiency management and operating practices. As a result, the utility energy intensity index for Sasol South Africa improved by a further 3%, up from the 6% improvement achieved in 2013. These improvements enabled our overall South African process operations' energy cost increases to be curbed below the energy inflation rate.

Compliance with environmental norms and standards is integral to how we manage our operations. We strive to comply fully with all regulations, at all times, and where new regulations are being considered, we actively participate in the processes to develop them, while preparing for those that are likely to be enforced. Here, a case in point is the

stricter emissions standards being introduced as part of South Africa's air quality legislative framework, which comes into effect in April 2015.

The new standards present an opportunity for all industries to improve on their environmental performance, including Sasol. Ensuring improved ambient air quality for the communities in which we live and work is a fundamental right we embrace.

Over the past decade, we invested approximately R20 billion in a range of environmental programmes to ensure we sustainably manage and improve on our key safety, health and environmental risks. This proactive investment approach has ensured that the majority of our processes will comply with the new emissions standards.

There are, however, proposed standards that apply to certain of our processes at our existing facilities, which Sasol will be unable to comply with, either within the stipulated timeframes or within the specified emission limits. Where we can comply, but we need more time to implement the identified solutions, we have submitted applications to the Department of Environmental Affairs to request an extension of the compliance timeframes.

For eight of the sub-categories of the new emission standards, compliance is not possible for Sasol, as the technologies to do so are either incompatible with our coal-to-liquids process or do not yet exist. We are therefore proposing alternative emission limits for these specific standards.

In parallel, we are actively researching technology solutions to enable us to address our constraints, while ensuring that we enhance air quality sustainably. Despite the challenges, we remain committed to working with government to explore all options, and find solutions, to aid our full compliance with the new emission standards.

### Delivering social value

We contribute locally through the taxes and other contributions we make to governments, the personnel we employ and develop, the goods and services we procure from local enterprises, and the social investments made directly in our host communities. In South Africa, in particular, our operations have a substantial economic impact on the communities in which we operate.

In repositioning Sasol for a new era, a key feature of our licence to operate is the broader contribution we make to society.



In our home-base of South Africa, we are an active partner with government, driving socio-economic transformation and nation-building. Here, our corporate strategies in the region are strongly aligned with the country's National Development Plan, focusing on basic education and skills development, infrastructure expansion, and security of energy and petrochemical supply. These focus areas all contribute to job creation and economic development.

Our South African capital expenditure this past financial year was R22 billion, which equates to 57% of our group spend. For the last three years, we invested R60 billion locally on capital investments, and remain the single largest private company investor.

Through our large-scale investments in the country, we continue to create construction jobs for tens of thousands of semi-skilled and unskilled artisans and workers. At our Secunda and Sasolburg sites alone, in 2014, we created 12 500 construction jobs, and 29 000 shutdown employment opportunities.

We remain the largest corporate taxpayer in South Africa, contributing R36 billion in direct and indirect taxes to the fiscus this past financial year, and R95 billion in the last three years.

In parallel, Sasol is investing hundreds of millions of rand in bursaries, skills development initiatives, artisan learnerships and continuing tertiary education. Through targeted interventions, our global investment in skills and socio-economic development was more than R1,4 billion this past year, and over R3 billion for the last three years.

We recognise that in most countries where we have business activities, our projects are often long term. Through our ongoing investments in South Africa and abroad, we aim to create and maximise shared value for the benefit of both our shareholders and the countries and communities in which we operate.

### **Driving enterprise and supplier development**

In 2013, we formally included enterprise and supplier development as a material sustainability focus area, as procuring goods and services from the communities and regions we operate in, is an effective way of generating local content and contributing to economic development. It has a direct impact on the local economy, creates jobs, and builds and enhances local capacity and capabilities.

During our 2014 financial year, our South African preferential procurement was R33,4 billion and represented 86,8% of our total measured procurement spend of R38,45 billion. We have significantly improved our procurement from emerging medium enterprises, qualifying small enterprises and black and women-owned entities.

### **Providing safe, essential and quality products**

Over the years, we have strengthened our commitment to product stewardship by aligning our approach with the mechanisms established by the international chemical industry, including the Responsible Care Global Charter and the International Councils of Chemical Association Global Product Strategy.

We take a risk-based, scientific and life-cycle orientated approach to managing our products. This is undertaken in partnership with our suppliers, customers and other stakeholders in the product value chain, including road haulers.

In interfacing with our customers, whether they are other businesses or individual consumers, we continue to maintain positive relationships. This past financial year, we launched our key account management programme to drive enhanced product delivery and, in some instances, collaborated on advancing product quality.

### **Conclusion**

Being a responsible and sustainable organisation is paramount to Sasol. In practice, this means we prioritise safety, and always promote ways to improve the environmental and social impacts of our activities, ensuring our presence results in positive benefits for our stakeholders.

We believe business, as a collective, has a critical role to play in meeting the challenges of a changing world – mitigating environmental risks, preserving natural resources, and enhancing economic development and opportunity. Sasol's determination to ensure that our growth is undertaken in a responsible and sustainable manner is reflected in the nature of the commitments and activities described throughout this report.

We recognise that for Sasol to grow, we need to invest in the health, wellbeing and continuing development of people and their communities, and we need to strengthen relationships grounded in trust and respect.

The 2015 fiscal year marks the beginning of a new era for Sasol – as a repositioned, restructured and focused organisation. It also signifies a time of ramped up stakeholder collaboration and solutions.



**David E Constable**

President and Chief Executive Officer

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