

# Application of the King IV Report on Corporate Governance for South Africa 2016

1 July 2017

- Ethical culture
- Good performance
- Effective control
- Legitimacy

## SASOL INZALO PUBLIC (RF) LIMITED

Although the King IV Code is generally adopted on an “apply and explain” basis, paragraph 3.84 of the JSE Listing Requirements stipulates that issuers must comply with certain specific requirements concerning corporate governance. Due to Sasol Inzalo Public (RF) Limited (Sasol Inzalo/the Company) being listed under the asset backed securities sector of the JSE, JSE Listings Requirement 19.20(i) exempts Sasol Inzalo from a number of obligations, including the requirements of paragraph 3.84(a) and (c) - (j).

Sasol South Africa (Pty) Ltd (SSA), a wholly-owned subsidiary within the Sasol group (hereinafter referred to as Sasol), is the administration agent of Sasol Inzalo and provides most of Sasol Inzalo’s governance systems, processes, structures and services, including financial, internal audit, risk management, information technology support, legal compliance, and stakeholder management services.

Sasol applies all the principles of the King IV Code. A statement on Sasol’s application of the principles of the King IV Code is available on [www.sasol.com](http://www.sasol.com).

## Application of the King IV principles

### Leadership, ethics and corporate citizenship

#### Leadership

##### **Principle 1      The Board should lead ethically and effectively**

Sasol Inzalo's board of directors (the Board) exercises effective leadership, adhering to the duties of a director. The directors have the necessary competence and act ethically in discharging their responsibility to provide strategic direction and control of the Company as provided for in the Board charter and the Company's MOI<sup>1</sup>.

The Board charter outlines the policies and practices of the Board on matters such as directors' dealings in the securities of the Company and declarations of conflicts of interest. Directors adhere to Company's declarations of interest policy, which is based on the Companies Act<sup>2</sup> requirements. Sasol Inzalo's directors and relevant SSA employees providing support services to the Company (employees) are prohibited from dealing in Company securities during certain prescribed periods. The Company Secretary regularly informs directors and employees of the insider trading legislation and advises them of closed periods. A report on directors' dealings in Company's shares is tabled at each Board meeting and when necessary, it will be disclosed in terms of the applicable JSE listings requirements.

The Board is committed to managing the Company based on an ethical foundation, aligned to the objectives of the Company, taking into account its short- and long-term impact on the economy, society and its stakeholders as far as it relates to the Company's objectives.

#### Organisational ethics

##### **Principle 2      The Board should govern the ethics of the company in a way that supports the establishment of an ethical culture**

The Board adopted Sasol's approach pertaining to the management of ethics. Sasol Inzalo's Social and Ethics Committee has oversight of, and monitors, Sasol Inzalo's activities with regard to ethics, ensuring that it is aligned to the relevant principles of King IV and through the embedment of the Sasol's code of ethics supported by a comprehensive ethics programme which includes amongst other aspects, driving an approved ethics strategy, managing ethics risks, codes, policies and guidelines, ethics training (to advance ethics awareness and understanding), detection and resolution of ethical violations and management of an independent ethics reporting line.

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<sup>1</sup> Memorandum of incorporation

<sup>2</sup> Companies Act 71 of 2008

## Application of the King IV principles

### Responsible corporate citizenship

**Principle 3      The Board should ensure that the company is and is seen to be a responsible corporate citizen**

Through stakeholder engagement and collaboration, Sasol Inzalo has committed to understanding and being responsive to the interests and expectations of stakeholders and to partnering with them in finding lasting solutions to challenges.

The Board is cognisant of its duty to ensure that the Company is a responsible corporate citizen as far as reasonably possible, taking into consideration the objectives of the Company and assisting with achieving the social-economic and growth objectives of the country.

### Strategy, performance and reporting

#### Strategy and performance

**Principle 4      The Board should appreciate that the company's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process**

The Board manages the in a manner which is aligned with the purpose of the Company, the value drivers of its business and the legitimate expectations of its stakeholders and aimed at ensuring sustainability; and which takes into account the risks facing the Company.

#### Reporting

**Principle 5      The Board should ensure that reports issued by the company enable stakeholders to make informed assessments of the company's performance, and its short, medium and long-term prospects**

The Board, through the Audit Committee, ensures that the necessary controls are in place to verify and safeguard the integrity of the annual financial statements and reports; and any other disclosures. The Company complies with all required disclosures.

## Application of the King IV principles

### Governing structures and delegation

#### Primary role and responsibilities of the Board

##### **Principle 6      The Board should serve as the focal point and custodian of corporate governance in the company**

The Board has an approved charter which it reviews annually. The charter sets out its governance responsibilities, including the role, responsibilities, membership requirements and procedural conduct.

Furthermore, the Board is governed through its MOI and the governing agreement. The Board meets at least twice a year

The Board as well as any director or Committee may obtain independent, external professional advice at Sasol's expense concerning matters within the scope of their duties and the directors may request documentation from and set up meetings with management as and when required.

The Company's governance framework and corporate governance practices are disclosed in the Integrated Report.

#### Composition of the Board

##### **Principle 7      The Board should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively**

The Sasol Inzalo Nomination Committee annually reviews the skills and expertise of the Board and effects corrective action, when necessary, to ensure that the Board comprises suitably skilled and experienced members through the appointment of Board members and/or the acquisition of external expert advice. Currently, the Board and the Nomination Committee are comfortable that there is an adequate balance of skills and expertise at Board-level.

The capacity of each director is categorised as defined in the JSE listings requirements, also taking into consideration King IV and other factors as outlined in the Board charter. Currently the Board comprises independent non-executive directors. In terms of the Company's MOI, one-third of directors must retire at every AGM<sup>3</sup> and are eligible for re-election. When considering appointment or re-election of directors, the Board, gives consideration to the knowledge, skills and resources required for conducting the business as well as considering its size, diversity and demographics to ensure its effectiveness.

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<sup>3</sup> Annual General Meeting

## Application of the King IV principles

### Committees of the Board

#### **Principle 8      The Board should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties**

An Audit Committee, Social and Ethics Committee and Nominations Committee have been established. The Committees are appropriately constituted and members are appointed by the Board, with the exception of the Audit Committee whose members are nominated by the Board and elected by shareholders.

Formal terms of reference are established and approved for each Committee, which are reviewed annually. All Committees are empowered to obtain such external or other independent professional advice as they consider necessary to discharge their duties.

#### ***Audit Committee***

The Board has an Audit Committee comprising of independent directors only and its independence and effectiveness is reviewed on an annual basis. The Audit Committee is constituted as a statutory committee of the Company in respect of its statutory duties in terms of section 94(7) of the Companies Act and a committee of the Board in respect of all other duties assigned to it by the Board.

The Committee performs the functions as set out in the Companies Act. Adequate processes and structures have been implemented to assist the Committee in providing oversight and ensuring the integrity of financial reporting and internal control.

The Audit Committee consists of 4 independent, non-executive directors. The Chairman of the Board is not a member of the Committee. Members of the Committee are elected by shareholders. All Committee members are financially literate and have extensive Audit Committee experience.

#### ***Committee responsible for nomination of members of the Board***

The Board has delegated oversight of, amongst others, the following to the Nomination Committee (i) the process for nominating, electing and appointing members of the Board, (ii) succession planning of directors. All members of the Nomination Committee are non-executive independent directors and the Chairman of the Board is the Chairman of the Committee.

#### ***Committee responsible for social and ethics matters***

The Social and Ethics Committee is responsible to oversee and report on ethics, responsible corporate citizenship, and sustainable development and stakeholder relationships. It is also responsible to execute on the statutory duties set out in the Companies Act.

## Application of the King IV principles

### Evaluations of the performance of the Board governing body

**Principle 9**      **The Board should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness**

The performance of the Board, its committees and the individual directors are annually evaluated. The Chairman of the Board, assisted by the Company Secretary, leads the evaluation process. A self-assessment, by way of individual questionnaires was performed. No major concerns were raised by any director in respect of the functioning of the Board or any of its committees.

The Board specifically considers the number of other commitments of directors such as other directorships in order to determine whether each director has sufficient time to discharge his or her duties effectively and is free from conflicts that cannot be managed satisfactorily.

The performance of the Board, its Committees and the directors are disclosed in the integrated report. The role and responsibilities of the Board, its Committees, the Chairman and the directors are outlined in the Board charter which is available on the Company's website.

### Appointment and delegation to management

**Principle 10**      **The Board should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities**

The Company does not have employees. Sasol South Africa (Pty) Ltd (SSA), a wholly-owned subsidiary within the Sasol group (hereinafter referred to as Sasol), is the administration agent of Sasol Inzalo and provides most of Sasol Inzalo's governance systems, processes, structures and services, including financial, internal audit, risk management, information technology support, legal compliance, and stakeholder management services.

### Governance functional areas

#### Risk governance

**Principle 11**      **The Board should govern risk in a way that supports the company in setting and achieving its strategic objectives**

## Application of the King IV principles

The Board is ultimately accountable for risk. The control of identified risks is based on the comprehensive enterprise risk management programme of Sasol.

The Board, through Sasol's Risk and SHE function, receives assurance with regard to the effectiveness of the risk management process. Internal Audit undertakes an annual audit of the risk management process in Sasol.

The Audit Committee is an integral component of the risk management process in that it is within the Audit Committee's mandate to specifically have oversight on:

- financial reporting risks;
- internal financial controls;
- fraud risks as it relates to financial reporting; and
- IT risk as it relates to financial reporting.

## Technology and information governance

### **Principle 12 The Board should govern technology and information in a way that supports the company setting and achieving its strategic objectives**

The governance and control of IT is regulated within Sasol.

The information management function is accountable for the operational governance of information management (IM), which includes IT, in the Sasol group.

The IM strategy is aligned to business needs and sustainability objectives. The IM charter is being reviewed and best practice frameworks have been adopted, including Information Technology Infrastructure Library (ITIL) and ISO17799.

Assurance is provided that IT controls in place are effective, IT risks are addressed and the return on major IT investments, aligned to Sasol's strategy, is monitored.

External auditors and internal audit perform assessments as part of their audit of IM and IT related controls.

## Compliance governance

### **Principle 13 The Board should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the company being ethical and a good corporate citizen.**

Sasol policy requires all Group companies and their directors and employees to comply with all applicable laws.

## Application of the King IV principles

The Company must continuously comply with existing and emerging regulation impacting on the Company, and its responsibility to conduct business in accordance with the laws and regulations by which it is governed, is acknowledged. The company secretarial services and financial departments of Sasol are primarily responsible for ensuring compliance with the legal requirements and are supported and monitored by the internal audit as overseen by the Sasol Limited Audit Committee, the legal services and risk management functions of Sasol. The Sasol Limited Nomination and Governance Committee receives regular reports on compliance matters and the Combined Assurance and Disclosure Committee, a subcommittee of the Group Executive Committee, oversees the Group's legal compliance programme. To the extent that legal and regulatory matters have an impact on the financial statements, reports are presented to the Audit Committee.

Sasol has a compliance department headed by a suitably skilled and experienced Chief Compliance and Ethics Officer at Vice President level who reports directly to the Senior Vice President: Governance, Compliance and Ethics.

## Remuneration governance

**Principle 14**      **The Board should ensure that the company remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term**

Directors are remunerated by Sasol Limited and not by the Company. The Sasol Limited Group Executive Committee reviews the Sasol Inzalo directors' remuneration to ensure alignment with practices by other asset backed B-BBEE entities.

## Assurance

**Principle 15**      **The Board should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the company's external reports**

Sasol maintains a system of internal financial control that is designed to provide assurances on the maintenance of proper accounting records and the reliability of financial information used within the business and for publication. The system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

A combined assurance approach has been implemented that assists in addressing control over the key risks facing the Group. Such risks and their mitigating controls are identified and controlled by management, subject to Audit Committee oversight, within a risk framework determined by the Board, and the process is monitored and evaluated under the direction of internal audit. The traditional three lines of defence have also been expanded as recommended in King IV where appropriate.

Sasol Assurance Services is responsible for amongst others, assisting the Board and management in maintaining an effective internal control environment, ensuring the integration of assurance provided and monitoring the adequacy and effectiveness of combined assurance over Sasol's risk management process.

## Application of the King IV principles

### Stakeholder relationships

#### Stakeholders

**Principle 16** **In the execution of its governance role and responsibilities, the Board should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the company over time**

The Board is responsible for monitoring the Company's relationship with stakeholders and is assisted by the Social and Ethics Committee.

The Social and Ethics Committee has oversight of stakeholder engagement and management. Through regular reporting by the Social and Ethics Committee, the Board is equipped with the necessary information to enable it to take the legitimate interests and expectations of stakeholders into account in its decision-making.

Sasol's stakeholder engagement programmes facilitate the planning, coordination and execution of stakeholder engagement more effectively.

To ensure the company communicates with its shareholders and those stakeholders who lack access to electronic media, the Company publishes and reports on details of its corporate actions and performance (including its interim and final financial results) in the main South African daily newspapers. The Company also publishes its most recent financial and operational performance and provides recent historical information, including its annual reports, on its website. The Company invites all shareholders to attend its AGM and also facilitates participation by way of focussed proxy solicitation and electronic means.