

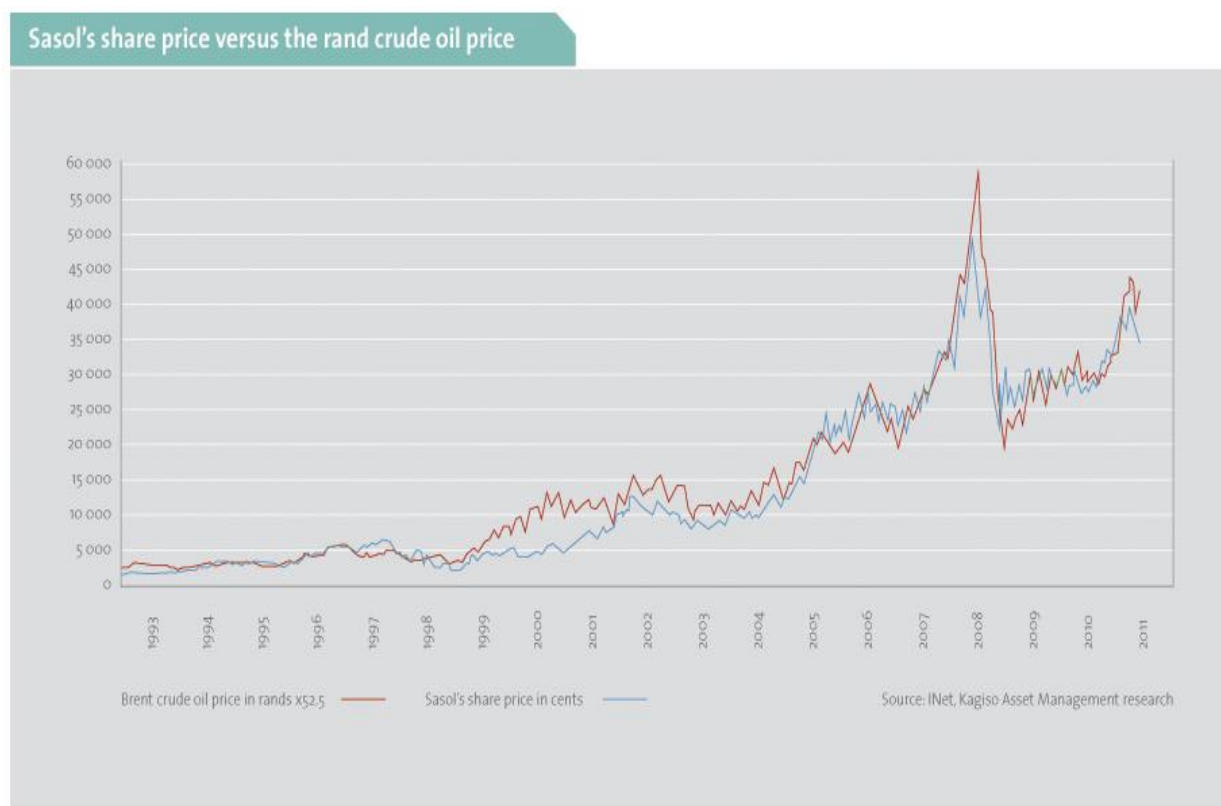
Sasol: more than just an oil company - Kagiso Asset Management Head of Research Abdul Davids

The volatile oil price is the topic of many dinner table conversations, as domestic petrol prices trend back to the high levels of 2008.

The consensus view is that an investment in Sasol is somewhat of a hedge against higher oil prices, with dividends from Sasol compensating investors for the pain they feel at the pump.

Sasol and the oil price

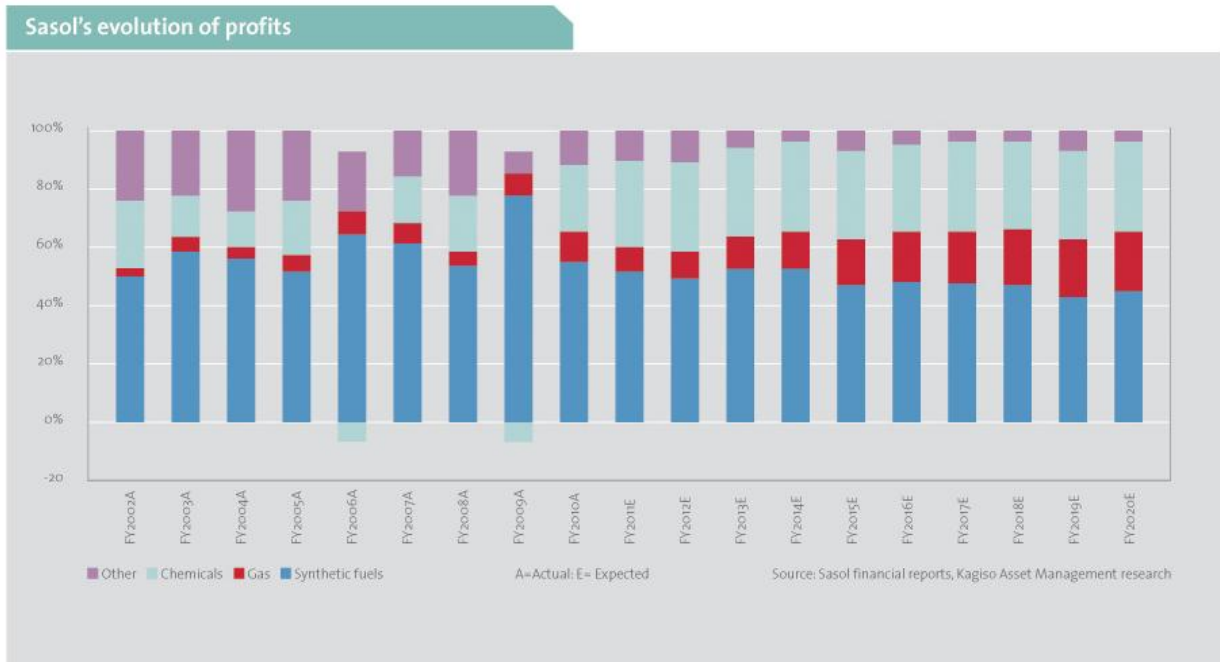
Historically, the correlation between Sasol's share price and the rand oil price was clear and easily depicted (see graph below). What is noticeable is the high correlation between Sasol and the oil price when oil prices are trending down or fairly stable. However, when oil prices spike to above perceived sustainable levels (as happened in July 2008 and in early 2011), the relationship breaks down.



Therefore, it appears that the correlation is higher at stable or gradually rising oil prices, with Sasol not enjoying any upside in share price at perceived oil price peaks. However, the fundamentals of Sasol appear better than this relationship suggests: we would argue that given Sasol's mix of businesses and recent acquisitions in the shale gas field, Sasol should trade at a premium to its historic ratio of the rand oil price.

Synfuels - the cash cow

Sasol's coal to liquid synthetic fuel (synfuel) process has historically been the bedrock of the business with returns from this division effectively funding Sasol's downstream expansion and internationalisation strategy. A glance at Sasol's evolution in profitability illustrates this fact (see chart below).



In financial years 2006 and 2009, Sasol's chemicals business made losses, resulting in a negative contribution to operating profit. The chart above illustrates Sasol's historic operating profit mix between 2002 and 2010 and our forecasts until 2020. The synfuels business contributed about 90% of Sasol's profits in 2009, arguably one of Sasol's most challenging financial periods, following the global economic crisis and the sharp decline in world oil prices from their 2008 peak. The synfuels division's contribution to Sasol's profits is forecast to decline to around 45% of operating profits by 2020, mainly due to higher expected profit growth from the chemicals and gas businesses.

Sasol's chemicals business

The 2010 financial year saw a significant improvement in the chemicals business' profit contribution from losses in 2009 to around 23% of operating profits. The big blemish on Sasol's internationalisation strategy was its ill-timed acquisition of the Condea olefins and surfactants (O&S) business in 2001 for R8.3 billion. This transaction was value destructive and contributed to very depressed chemical profits for Sasol between 2003 and 2006, prompting the company to consider disposing of this business in 2007.

Restructuring for profitability

Sasol's inability to secure a reasonable price for the O&S business compelled the company to abandon its disposal plans and rather focus on restructuring the business to improve profitability.

Over the last 18 months, Sasol has made significant strides in restoring the chemicals business to its rightful level of profitability. The turnaround strategy for the chemicals business focused on fixed and variable cost reduction, improving operating margins and the disposal of underperforming assets. Seven plants, with a total production capacity in

excess of half a million tons per annum in Italy and the US, were shut down and headcount was reduced by approximately 320.

These restructuring efforts bore fruit in 2010, when the O&S business achieved its highest operating margins ever and also contributed 10% of Sasol's total operating profits in that year. However, the market is yet to recognise and ascribe value to the company for this turnaround.

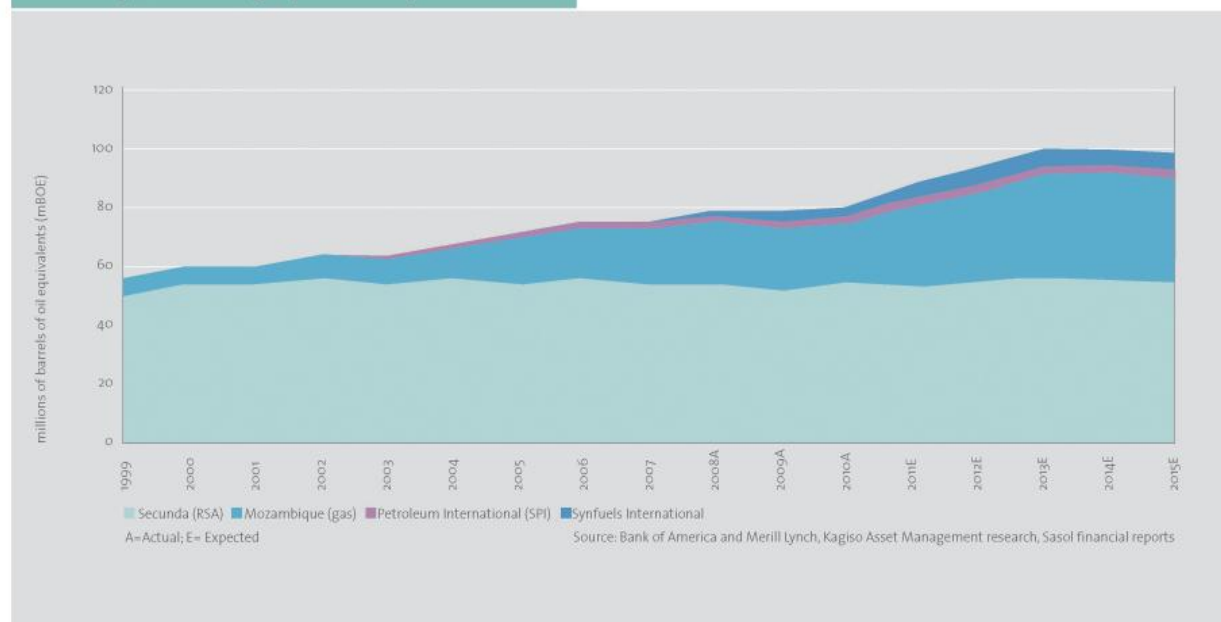
Gas and gas to liquids

Sasol's proprietary coal to liquids process, called Fischer-Tropsch, has been a key value driver and enabled the group to successfully produce fuel for the retail market as well as to produce the various chemical products that are a by-product of this process. Despite the abundance of coal reserves in South Africa and Sasol's extensive access to these reserves, the company nevertheless developed a gas to liquids process that uses natural gas as a feedstock rather than coal.

This technology has been successfully deployed at PetroSA's gas to liquids facility in Mossel Bay in South Africa and the Oryx plant in Qatar. Sasol is now arguably embarking on the most exciting chapter in its history. Following the emergence of shale gas as a significant source of natural gas supply to North America, the company has made inspired shale gas acquisitions in Canada and is boldly forging ahead with its plans to establish a gas to liquids plant in North America.

The graph below depicts Sasol's historic and forecast production profile over the next five years. In 2010, Sasol's South African plants produced around 67% of the group's millions of barrels of oil equivalents (mBOE). With very little growth expected over the next few years, this contribution is expected to decline to around 55% in 2015. Sasol's Mozambique gas operation is expected to grow its current contribution of around 20% to 36% by 2015, with the international operations (Oryx in Qatar and the recently acquired Farrel Creek in Canada) also increasing their contribution by 2015. However, we expect significant increases in production from the Canadian assets post 2015 as the newer gas fields attain full production.

Sasol's liquid fuel and gas production profile



In conclusion

The recent appointment of David Constable, a Canadian national, as the new CEO of Sasol, together with Sasol's recent investor conferences in North America is testimony to the company's strategy to internationalise the business and leverage off its proprietary technology on a global scale. Ultimately, we believe that investors will recognise these "hidden assets" and re-rate the company to beyond its current status as a proxy for the rand oil price.

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