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Deferred tax

We apply significant judgement in determining our provision for income taxes and our deferred tax assets and liabilities. Temporary differences arise between the carrying values of assets and liabilities for accounting purposes and the amounts used for tax purposes. These temporary differences result in tax liabilities being recognised and deferred tax assets being considered based on the probability of our deferred tax assets being recoverable from future taxable income. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the deferred tax asset can be realised. We provide deferred tax using enacted or substantively enacted tax rates at the reporting date on all temporary differences arising between the carrying values of assets and liabilities for accounting purposes and the amounts used for tax purposes unless there is a temporary difference that is specifically excluded in accordance with IFRS. The carrying value of our net deferred tax assets assumes that we will be able to generate sufficient future taxable income in applicable tax jurisdictions, based on estimates and assumptions.

Secondary Taxation on Companies

In South Africa, we pay both income tax and Secondary Taxation on Companies (STC). STC is levied on companies currently at a rate of 10% (2008—10%) of dividends distributed. The Minister of Finance in his budget speech delivered during February 2008 announced that STC would be replaced by a dividend withholding tax imposed on shareholders. The effective date for the introduction of the new dividend tax is expected to be during the second half of the 2010 calendar year, in order to afford the Minister of Finance time to finalise the renegotiation of appropriate double taxation conventions to permit the imposition of such a tax on foreign shareholders. In the case of liquidations, STC is only payable on undistributed earnings earned after 1 April 1993. The tax becomes due and payable on declaration of a dividend. When dividends are received in the current year that can be offset against future dividend payments to reduce the STC liability, a deferred tax asset is recognised to the extent of the future reduction in STC payable.

We do not provide for deferred tax at the tax rate applicable to distributed earnings. We believe that this is consistent with the accounting principle that does not allow the accrual of dividend payments if a dividend is declared after year end. If we were to provide for deferred taxes on the potential STC arising on our undistributed earnings, should these be declared as dividends, there would be the following effects on our reported results:

Statement of financial position	**2009**	**2008**
	(Rand in millions)	
Net deferred tax liability as reported	**7 984**	6 993
Increase in the deferred tax liability	**9 205**	8 672
Net deferred tax liability based on the tax rate applicable to distributed earnings	**17 189**	15 665
Shareholders' equity as reported	**83 835**	76 474
Decrease in shareholders' equity	**(9 205)**	(8 672)
Shareholders' equity after the effect of providing for deferred tax using the tax rate applicable to distributed earnings	**74 630**	67 802

Income statement	2009	2008	2007
	(Rand in millions)		
Income tax as reported	**(10 480)**	(10 129)	(8 153)
Increase in income tax	**(533)**	(2 148)	(202)
Income tax after providing for deferred tax at the rate applicable to distributed earnings	**(11 013)**	(12 277)	(8 355)
Earnings attributable to shareholders as reported	**13 648**	22 417	17 030
Decrease in earnings attributable to shareholders	**(533)**	(2 148)	(202)
Earnings attributable to shareholders after providing for deferred tax at the rate applicable to distributed earnings	**13 115**	20 269	16 828

We expect that R1 885 million of undistributed earnings earned before 1 April 1993 of two dormant companies will be distributed without attracting STC of R170 million.

Commitments and contingencies

Management's current estimated range of liabilities relating to certain pending liabilities for claims, litigation, competition matters, tax matters and environmental remediation is based on management's judgement and estimates of the amount of loss. The actual costs may vary significantly from estimates for a variety of reasons. A liability is recognised for these types of contingencies if management determines that the loss is both probable and estimable. We have recorded the estimated liability where such amount can be determined. As additional information becomes available, we will assess the potential liability related to our pending litigation proceedings and revise our estimates. Such revisions in our estimates of the potential liability could materially impact our results of operation and financial position. See "Item 4.B—Business overview—Legal proceeding and other contingencies" and "Item 5.E—Off-balance sheet arrangements".

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OUR RESULTS OF OPERATIONS

The financial results for the years ended 30 June 2009, 2008 and 2007 below are stated in accordance with IFRS as issued by the IASB.

Results of operations

	2009	2008	Change 2009/2008	Change 2009/2008	2007	Change 2008/2007	Change 2008/2007
	(Rand in millions)			(%)	(Rand in millions)		(%)
Turnover	**137 836**	129 943	7 893	6	98 127	31 816	32
Cost of sales and services rendered	**(88 508)**	(74 634)	(13 874)	(19)	(59 997)	(14 637)	(24)
Gross profit	**49 328**	55 309	(5 981)	(11)	38 130	17 179	45
Other operating income	**1 021**	635	386	61	639	(4)	—
Other operating expenditure	**(25 683)**	(22 128)	(3 555)	(16)	(13 148)	(8 980)	(68)
Operating profit	**24 666**	33 816	(9 150)	(27)	25 621	8 195	32
Net other (expenses)/income	**(471)**	(159)	(312)	196	82	(241)	(293)
Profit before tax	**24 195**	33 657	(9 462)	(28)	25 703	7 954	31
Income tax	**(10 480)**	(10 129)	(351)	(3)	(8 153)	(1 976)	(24)
Profit	**13 715**	23 528	(9 813)	(42)	17 550	5 978	34
Attributable to							
Shareholders	**13 648**	22 417	(8 769)	(39)	17 030	5 387	32
Non-controlling interest	**67**	1 111	(1 044)	(94)	520	591	114
	13 715	23 528	(9 813)	(42)	17 550	5 978	34

Overview

The effect of lower average international oil prices (dated Brent US$68,14/b for 2009 compared to US$95,51/b for 2008 and US$63,95/b in 2007) negatively impacted operating profit for the year, however, the higher oil prices in the earlier years boosted operating profits. The lower oil prices mostly affected the energy and fuel-related businesses as well as the group's chemical businesses, which were adversely impacted by a decrease in demand for chemical products. The impact of lower oil prices and chemical prices was partially offset by a weaker rand during 2009 (average rate R9,04 per US dollar for 2009 compared to R7,30 per US dollar for 2008 and R7,20 per US dollar 2007). In addition, the 2009 operating profit was negatively impacted by once-off charges including R3 947 million (2008 and 2007—Nil) relating to competition related fines, Sasol Inzalo share-based payment expenses of R3 202 million (2008—R1 434 million and 2007—Nil) and the effects of remeasurement items of R1 469 million (2008—R698 million and 2007—R1 140 million credit).

Turnover

Turnover consists of the following categories:

	2009	2008	Change 2009/2008	Change 2009/2008	2007	Change 2008/2007	Change 2008/2007
	(Rand in millions)			(%)	(Rand in millions)		(%)
Sale of products	**136 482**	128 492	7 990	6	96 785	31 707	33
Services rendered	**777**	889	(112)	(13)	918	(29)	(3)
Commission and marketing income	**577**	562	15	3	424	138	33
Turnover	**137 836**	129 943	7 893	6	98 127	31 816	32

The primary factors contributing to these increases were:

	Change 2009/2008 (Rand in millions)	%	Change 2008/2007 (Rand in millions)	%
Turnover, 2008 and 2007 respectively	**129 943**		98 127	
Exchange rate effects	**13 711**	11	4 417	4
Product prices	**(5 871)**	(5)	25 732	26
—crude oil	***(3 203)***	(3)	*8 321*	8
—other products (including chemicals)	***(2 668)***	(2)	*17 411*	18
Net volume increases	**75**	—	2 029	2
Once off impacts	**(22)**	—	(362)	—
Turnover, 2009 and 2008 respectively	**137 836**		129 943	

Cost of sales and services rendered

Cost of sales of products. The cost of sales in 2009 amounted to R87 995 million, an increase of R13 835 million, or 19%, compared to R74 160 million in 2008 which increased by 25% from R59 434 million in 2007. The increase in 2009 compared to 2008 was mainly due to the weakening of the average rand/US dollar exchange rate and the inclusion of full year results for Arya Sasol Polymers and the Oryx GTL plant. Included in cost of sales in 2009 is an amount of R965 million (2008—R105 million and 2007—R71 million) in respect of the write-down of inventories to net realisable value. The increase in 2008 compared to 2007 is due to the increase in the crude oil price and other feedstock prices. Compared to turnover from the sale of products, cost of sales of products was 64% in 2009, 58% in 2008 and 61% in 2007.

Cost of services rendered. Cost of services rendered amounted to R513 million in 2009, an increase of R39 million, or 8%, compared to R474 million in 2008 which decreased by 16% from R563 million in 2007. The increase in 2009 is in line with turnover from services rendered. The decrease in 2008 compared to 2007 was mainly due to the higher refinery margins attained by Natref which resulted in an increase in the turnover from services rendered. Compared to turnover from services rendered, the cost of services rendered was 66% in 2009, 53% in 2008 and 61% in 2007.

Other operating income

Other operating income in 2009 amounted to R1 021 million, which represents an increase of R386 million or 61%, compared to R635 million in 2008. Included in operating income for the 2009 year is a gain on hedging activities realised by Sasol Financing on foreign exchange contracts of R187 million, insurance proceeds of R111 million and R182 million in respect of deferred income received related to emission rights.

Other operating income in 2008 amounted to R635 million, which represents a decrease of R4 million, or 0,6%, compared to R639 million in 2007. Included in operating income for the 2008 year is a gain on hedging activities realised by Sasol Financing on foreign exchange contracts of R128 million, bad debts recovered of R9 million and R133 million in respect of deferred income received related to emission rights.

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Other operating expenditure

Other operating expenditure consists of the following categories:

	2009	2008	Change 2009/2008	Change 2009/2008	2007	Change 2008/2007	Change 2008/2007
	(Rand in millions)			(%)	(Rand in millions)		(%)
Translation (losses)/gains	**(166)**	300	(466)	155	(232)	532	229
Marketing and distribution expenditure	**(7 583)**	(6 931)	(652)	9	(5 818)	(1 113)	19
Administrative expenditure	**(9 050)**	(6 697)	(2 353)	35	(6 094)	(603)	10
Other expenses	**(8 884)**	(8 800)	(84)	1	(1 004)	(7 796)	776
Other operating expenditure	**(25 683)**	(22 128)	(3 555)	16	(13 148)	(8 980)	68

The variances in operating costs and expenses are described in detail in each of the various reporting segments, included in the Segment overview below.

Translation (losses)/gains. Translation losses arising primarily from the translation of monetary assets and liabilities amounted to R166 million in 2009. The loss recognised is due to the strengthening of the rand/US dollar exchange rate towards the end of the year closing at R7,73 at 30 June 2009 compared to the closing rate at 30 June 2008 of R7,83 per US dollar. The closing rate is used to translate to rand all our monetary assets and liabilities denominated in a currency other than the rand at the reporting date and as a result a net loss was recognised on these translations in 2009. In 2008, foreign exchange gains of R300 million were recognised due to the weakening of the rand/US dollar exchange rate towards the end of the year closing at R7,83 at 30 June 2008 compared to the closing rate at 30 June 2007 of R7,04 per US dollar. A net foreign exchange loss of R232 million was recognised in 2007.

Marketing and distribution expenditure. These costs comprise marketing and distribution of products as well as advertising, salaries and expenses of marketing personnel, freight, railage and customs and excise duty. Marketing and distribution costs in 2009 amounted to R7 583 million, R6 931 million in 2008 and R5 818 million in 2007. Compared to sales of products, marketing and distribution costs represented 6% in 2009 compared to 5% in 2008 and 6% in 2007. The variation in these costs has been contained to inflationary levels during the years under review.

Administrative expenditure. These costs comprise expenditure of personnel and administrative functions, including accounting, information technology, human resources, legal and administration, pension and post-retirement healthcare benefits. Administrative expenses in 2009 amounted to R9 050 million, an increase of R2 353 million, or 35%, compared to R6 697 million in 2008 which increased by 10% from R6 094 million in 2007. The increase in 2009 is mainly related to higher corporate costs due to inflation, weakening of the rand against the US dollar and increased costs associated with the establishing and advancing of various growth initiatives at SPI and SSI.

Other expenses. Other expenses in 2009 amounted to R8 884 million, an increase of R84 million, compared to R8 800 million in 2008 which increased by R7 796 million from R1 004 million in 2007. This amount includes impairments of R458 million (2008—R821 million and 2007—R208 million), scrapping of assets of R234 million (2008—R107 million and 2007—R204 million) and net profit on the disposal of property, plant and equipment of R9 million (2008—R91 million and 2007—R53 million). There were no reversals of impairments in 2009 (2008—R381 million and 2007—R Nil). Other expenses also includes the effects of our crude oil hedging activities amounting to a net gain of R4 603 million (2008—a loss of R2 201 million and 2007—a gain of R181 million) and share-based payment expenses of R3 325 million (2008—R1 782 million and 2007—R190 million). In addition, a loss of R770 million (2008—profit of R349 million and 2007—profit of R696 million) was realised on the disposal of businesses and R3 947 million (2008 and 2007—Nil) in respect of competition related fines. Further, impairments of R198 million (2008—R60 million and 2007—R46 million) were raised in respect of trade receivables during the year resulting from the effects of the global economic downturn. In 2007, we recorded the reversal of a portion of the fair value write-down of disposal group held for sale of R803 million due to the termination of the Sasol O&S divestiture process. Details of the impairments, scrapping of assets and (loss)/profit on disposals are detailed in the "Segment overview".

The effects of remeasurement items[1] recognised for the year ended 30 June are set out below:

	2009	2008	2007
	(Rand in millions)		
South African Energy Cluster			
Sasol Mining	**3**	*7*	*13*
—scrapping of assets	***5***	*8*	*16*
—profit on disposal of property, plant and equipment	***(2)***	*(1)*	*(3)*
Sasol Gas	**4**	*104*	*(370)*
—impairments	**—**	*104*	*—*
—scrapping of assets	***4***	*—*	*1*
—profit on disposal of business	**—**	*—*	*(371)*
Sasol Synfuels	**137**	*25*	*64*
—scrapping of assets	***138***	*27*	*72*
—profit on disposal of property, plant and equipment	***(1)***	*(2)*	*(8)*
Sasol Oil	**(3)**	*(20)*	*2*
—impairments	**—**	*11*	*10*
—scrapping of assets	***3***	*—*	*13*
—profit on disposal of property, plant and equipment	***(6)***	*(31)*	*(21)*
International Energy Cluster			
Synfuels International	**777**	*396*	*—*
—impairments	**—**	*362*	*—*
—scrapping of assets	***5***	*—*	*—*
—loss on disposal of property, plant and equipment	***1***	*—*	*—*
—loss on disposal of business (EGTL)	***771***	*—*	*—*
—loss on repurchase of participation right in GTL project	**—**	*34*	*—*
Petroleum International	**17**	*(27)*	*—*
—loss/(profit) on disposal of property, plant and equipment	***1***	*(27)*	*—*
—Write off of unsuccessful exploration wells	***16***	*—*	*—*
Chemical Cluster			
Sasol Polymers	**(1)**	*(12)*	*9*
—scrapping of assets	***4***	*—*	*5*
—profit on disposal of property, plant and equipment	***(5)***	*(12)*	*(3)*
—loss on disposal of business	**—**	*—*	*7*
Sasol Solvents	**158**	*104*	*146*
—impairments	***96***	*269*	*57*
—reversal of impairment of property, plant and equipment	**—**	*(191)*	*—*
—scrapping of assets	***62***	*38*	*89*
—profit on disposal of property, plant and equipment	**—**	*(12)*	*—*