Empowering historically disadvantaged groups. In November 2000, we became party to an agreement with the government and the liquid fuels industry, the Charter for the South African Petroleum and Liquid Fuels Industry on Empowering Historically Disadvantaged South Africans in the Petroleum and Liquid Fuels Industry, (the Liquid Fuels Charter) which requires us, together with other companies in the industry, to allow and facilitate participation of historically disadvantaged South Africans in our liquid fuels business. See "Item 4.B Business Overview-Sasol Oil and Gas-Sasol Oil" and "—Empowerment of historically disadvantaged South Africans". The Liquid Fuels Charter requires us to ensure that historically disadvantaged South Africans hold at least 25% equity ownership of our liquid fuels business by the year 2010. We cannot assure you that these transactions will take place at fair market terms. In addition, it is not currently known what financing arrangements will ultimately be put in place to support these transactions, and we cannot assure you that we will not be required to participate in these arrangements or support them with our own credit or assets.

Furthermore, the Mining Charter, together with the recently published scorecard to facilitate the interpretation of our compliance with the Mining Charter, requires mining companies to ensure that historically disadvantaged South Africans hold at least 15% ownership of mining assets or equity in South Africa within 5 years and 26% ownership within 10 years from its signing. See "Item 4.B Business Overview-Sasol Mining" and "—Empowerment of Historically Disadvantaged South Africans". It also requires mining companies to assist historically disadvantaged South Africans in securing finance to fund their equity participation in an amount of R100 billion within the first five years after its signing; beyond the R100 billion commitment, the Mining Charter requires that participation of historically disadvantaged South Africans should be increased towards the 26% target, on a willing seller buyer basis, at fair market value and where the mining companies are not at risk.

Various principles of the Mining Charter may in the future be incorporated in regulations to be promulgated by the Minister of Minerals and Energy under the new Mineral and Petroleum Resources Development Act with respect to the South African mining industry. We will need to apply for conversion of our existing mining and prospecting rights under the Mineral and Petroleum Resources Development Act. When considering applications for the conversion of existing mining licenses under the Mineral and Petroleum Resources Development Act, the Minister of Minerals and Energy must take into account, among other factors, the applicant company's compliance with the Mining Charter. See "3.D Risk Factors—New mining legislation may have an adverse effect on our mineral rights" and "Item 4.B Business Overview—Regulation of Mining Activities in South Africa".

We are closely monitoring developments in connection with the Mining Charter and its application to our Company. In any case, we intend to undertake any appropriate action required to ensure conversion of our existing mining rights under the Mineral and Petroleum Resources Development Act. We may need to incur costs in connection with any potential restructuring that we may undertake as a result of compliance with the Mining Charter and relevant developments. See "3.D Risk Factors—Initiatives for the empowerment of historically disadvantaged South Africans and other related initiatives and legislation may have an adverse impact on our business, operating results, cash flows and financial condition."

Under the South African Employment Equity Act, we have an obligation to promote equal opportunity and fair treatment in employment by eliminating unfair discrimination and to implement affirmative action measures to address employment disadvantages experienced by designated groups in order to ensure the equitable representation in all occupational categories and levels in our work force. We

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will incur costs in implementing these processes, which we have not yet quantified. See "Item 6.D Employees".

The HIV/AIDS problems. HIV/AIDS and tuberculosis are the major healthcare challenges faced by our South African and other sub-Saharan operations. See "Item 6.D Employees".

We incur costs relating to the medical treatment and loss of infected personnel, as well as the related loss of productivity. We also incur costs relating to the recruitment and training of new personnel. As we are not allowed to run tests, we cannot verify the number of HIV infections and thus, we are not in a position to accurately quantify these costs. In addition, we have invested an initial sum of R4 million in implementing SHARP, our initiative to respond to the HIV/AIDS problem in an effective and sustainable way.

Competition by products originating from countries with low production costs

A significant part of our chemical production facilities is located in developed countries, including the United States and Europe. Economic and political conditions in these countries result in relatively high labor costs and, in some regions, inflexible labor markets, compared to others. Increasing competition from regions with lower labor costs and feedstock prices, for example the Middle East and China, exercises pressure on the competitiveness of our chemical products and, therefore, on our profit margins and may result in withdrawal of particular products or closure of facilities. We cannot assure you that increasing competition by products originating from countries with low production costs will not result in withdrawal of our products or closure of our facilities, which may have a material adverse effect on our business, operating results and cash flows.

Change of financial year end

Our financial year 2001 ended on 25 June 2001, while our financial years 2002 and 2003 ended on 30 June 2002 and 2003, respectively. As a result, financial year 2002 was longer than 2001 by five days, a difference which did not have a material effect on our results in 2002.

Critical Accounting Policies

The preparation of our financial statements to conform with US GAAP requires management to establish accounting policies and make estimates and assumptions that affect our reported amounts of assets and liabilities and reported results. Actual results may differ from these estimates. Certain of our accounting policies have been identified as critical accounting policies by considering which policies involve particularly complex or subjective decisions or assessments and these are discussed below. Such accounting policies include the methodology used to estimate the deferred tax position of the company, evaluate the impairment of long-lived assets, estimate our asset retirement obligations, estimate our employee benefit obligations and amortize our mining assets. The discussion below of these critical accounting policies should be read in conjunction with the statement of our Significant Accounting Policies set out in Note 2 of "Item 18—Financial Statements".

Secondary Taxation on Companies

In South Africa, we pay both income tax and Secondary Taxation on Companies (STC). STC is levied on companies at a rate of 12.5% of dividends distributed. However, in the case of companies liquidated after 1 April 1993, STC is only payable on undistributed earnings earned after 1 April 1993. The tax becomes due and payable on declaration of a dividend.

We provide deferred tax 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 generally accepted accounting principles. Sasol does not provide deferred taxes related to STC until a dividend has been declared. We believe that this is consistent with the accounting principle that disallows the accrual of dividend payments prior to dividend declaration.

We are aware that some non-Sasol companies with operations in South Africa record deferred taxes at the full distributed rate of 37.8%, the rate applied only if all earnings are distributed as dividends. 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 an increase in deferred tax liabilities of R3,762 million at 30 June 2003 (2002—R3,297 million; 2001—R2,437 million) resulting in a net deferred tax liability of R8,844 million at 30 June 2003 (2002—R8,386 million; 2001—R7,158 million). Income tax expense would increase by R465 million resulting in total net income (earnings attributable to shareholders) of R6,879 million for the year ended 30 June 2003 (2002—R860 million and R 8,574 million; 2001—R649 million and R6,303 million, respectively). The additional deferred tax liability would result in total shareholders' equity of R28,943 million at 30 June 2003 (2002—R27,647 million; 2001—R20,941 million). We expect that R1,877 million of undistributed earnings earned before 1 April 1993 of two dormant companies will be distributed without attracting STC of R209 million.

Impairment of long-lived assets

Property, plant and equipment and other non-current assets, including goodwill and other intangibles, are reviewed using economic valuations to calculate impairment losses whenever events or a change in circumstance indicate that the carrying amount may not be recoverable. In carrying out the economic valuations, an assessment is made of the future cash flows expected to be generated by the assets, taking into account current market conditions and the expected lives of the assets. The actual outcome can vary significantly from our forecasts, thereby affecting our assessment of future cash flows. Assets whose carrying values exceed their estimated recoverable amount, determined on an undiscounted basis, are written down to an amount determined using discounted net future cash flows expected to be generated by the asset. The expected future cash flows are discounted at a credit adjusted rate based on government bonds in South Africa as well as the inter-bank interest rate indices in the other geographic locations in which our assets are held.

Asset retirement obligations

We have significant obligations to remove plant and equipment and rehabilitate land in areas in which we conduct operations upon termination of such operations. Removal and restoration obligations are primarily associated with our mining and petrochemical operations around the world. The estimated fair value of dismantling and removing these facilities is accrued for as the obligation arises, if estimable, concurrent with the recognition of an increase in the related asset's carrying value. Estimating the future asset removal costs is complex and requires management to make estimates and judgments because most of the removal obligations will be fulfilled in the future and contracts and regulations often have vague descriptions of what constitutes removal. Further, management is required to determine the discount rate to be used in calculating the obligation based on the amount of the credit risk of the Group which varies depending on the underlying interest rate environment. Future asset removal costs are also influenced by changing removal technologies, political, environmental, safety, business relations and statutory considerations. The actual liability for rehabilitation costs can vary significantly from our estimate and, as a result, the liabilities that we report can vary significantly if our assessment of these costs changes.

Employee benefits

We provide for our obligations and expenses for pension and provident funds as they apply to both defined contribution and defined benefit schemes, as well as post-retirement healthcare liabilities. The amount provided is determined based on a number of assumptions and in consultation with an independent actuary. These assumptions are described in Note 23 to "Item 18—Financial Statements" and

include, among others, the discount rate, the expected long-term rate of return of pension plan assets, healthcare inflation costs and rates of increase in compensation costs. The nature of the assumptions is inherently long-term, and future experience may differ from these estimates. For example, a one percentage point increase in assumed healthcare cost trend rates would increase the total post-retirement benefit obligation by R378 million to R2,479 million at 30 June 2003.

The Group recognises the proportion of actual gains/(losses) on the pension fund valuation as income or expense if the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceed the greater of

- 10% of the present value of the defined benefit obligation at that date; and
- 10% of the fair value of any plan assets at that date.

(the 10% corridor rule) whereas in respect of post retirement medical aid valuation the Group accounting policy requires the immediate recognition net actuarial gains/(losses).

While management believes that the assumptions used are appropriate, significant changes in the assumptions may materially affect our pension and other post-retirement obligations and future expense.

Amortization of mining assets

We calculate amortization charges on mining assets using the units-of-production method, which is based on our proven and probable reserves, not exceeding the estimated useful lives of the mines. The lives of the mines are estimated by our geology department using interpretations of mineral reserves, as determined in accordance with Industry Guide 7 under the US Securities Act of 1933, as amended. The estimate of the total reserves of our mines could be materially different from the actual coal mined. The actual usage by the mines may be impacted by changes in the factors used in determining the economic value of our mineral reserves, such as the coal price and foreign currency exchange rates. Any change in management's estimate of the total expected future lives of the mines would impact the amortization charge recorded in our consolidated financial statements, as well as our estimated asset retirement obligations as measured on the incremental method.

OUR RESULTS OF OPERATIONS FOR THE YEARS ENDED 30 JUNE 2003 AND 30 JUNE 2002

The financial results below are stated under US GAAP.

Results of operations

Category	2003	2002	Change	Change
	(Rand in millions)			(%)
Turnover	63,769	55,667	8,102	15
Other operating income	603	1,221	(618)	(51)
Net foreign exchange (losses)/gains	(2,437)	620	(3,057)	(493)
Operating costs and expenses	(50,924)	(43,284)	(7,640)	18
Operating profit	**11,011**	**14,224**	**(3,213)**	**(23)**
Other expenses	(64)	(46)	(18)	(39)
Income before tax, earnings of equity accounted investees, minority interest	**10,947**	**14,178**	**(3,231)**	**(23)**
Income tax	(3,915)	(4,723)	808	17
Income after tax, but before earnings of equity accounted investees, minority interest	**7,032**	**9,455**	**(2,423)**	**(26)**
(Losses)/earnings of equity accounted investees	(47)	35	(82)	(234)
Minority interest	(170)	(56)	(114)	204
Earnings attributable to shareholders before cumulative effect of change in method of accounting	**6,815**	**9,434**	**(2,619)**	**(28)**
Change in method of accounting for asset retirement obligations, net of tax of R227 million	529	—	529	100
Earnings attributable to shareholders	**7,344**	**9,434**	**(2,090)**	**(22)**

Turnover

Turnover consists of the following categories:

Category	2003	2002	Change	Change
	(Rand in millions)			(%)
Sale of products	62,509	54,004	8,505	16
Services rendered	502	1,358	(856)	(63)
Commission and marketing income	758	305	453	149
Total turnover	**63,769**	**55,667**	**8,102**	**15**

Turnover for 2003 amounted to R63,769 million, an increase of R8,102 million or 15%, compared to R55,667 million for 2002.

The net increase of R8,102 million in turnover is mainly attributable to increases in the sale of products of R11,350 million which consists of increases in product prices of R4,182 million, increases in crude oil prices of R1,592 million and volumes of R5,576 million, mainly due to Schümann Sasol being consolidated under US GAAP for the first time in 2003, following the acquisition of the additional 33.3% with effect 1 July 2002. These increases were partly offset by the negative currency effect of R2,845 million arising due to the appreciation of the Rand. Additionally, services rendered decreased by R856 million and commissions and marketing income increased by R453 million.

The average Rand to US dollar exchange rate, as quoted by the Federal Reserve Bank of New York of R9.04 in 2003, was 11% stronger than the average of R10.20 in 2002. The average crude oil price, of US$27.83/bbl in 2003 was 20% higher than the average of US$23.24/bbl in 2002. Our average US dollar refining margins in 2003 remained approximately constant at the levels of 2002.

The basket of international prices for our key chemical products, including those for ammonia, polymers, ethylene, solvents, phenolics and waxes, increased by more than 2% during 2003. The impact of the higher oil and chemical prices was mitigated by the appreciation of the Rand against the US dollar.

Other operating income

Other operating income in 2003 amounted to R603 million, which represents a decrease of R618 million or 51%, compared to R1,221 million in 2002. This decrease is mainly attributable to the non-recurrence of the insurance proceeds of R541 million which were received in the 2002 year in connection with the Natref fire, which occurred in June 2001.

Net foreign exchange (losses)/gains

Net foreign exchange losses for 2003 amounted to R2,437 million which represents a decrease of R3,057 million compared to a gain of R620 million in 2002. The decrease is mainly attributable to the appreciation of the Rand against the US dollar.

Operating costs and expenses

Operating costs and expenses consists of the following categories:

Category	2003	2002	Change	Change
	(Rand in millions)			(%)
Cost of products sold	38,415	30,949	7,466	24
Cost of services rendered	475	569	(94)	(17)