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 22 to "Item 18—Financial Statements" and include, among others, the discount rate, the expected long-term rate of return on 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 accumulated post-retirement benefit obligation by R451 million in South Africa and by R41 million outside of South Africa as at 30 June 2005.

The group includes the amortization of unrecognized gains and losses on the pension fund valuation as a component of net pension cost for the year 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; or
- 10% of the fair value of any plan assets at that date

(the 10% corridor rule) whereas in respect of the post-retirement healthcare valuation the group accounting policy requires the immediate recognition of net actuarial gains and 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.

Fair value estimations of financial instruments

We base fair values of financial instruments on listed market prices, where available. If listed market prices are not available, fair value is determined based on other relevant factors, including dealers' price quotations and price quotations for similar instruments traded in different markets. Fair value for certain derivatives are based on pricing models that consider current market and contractual prices for the underlying financial instruments or commodities, as well as the time value and yield curve or fluctuation factors underlying the positions. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different pricing models or assumptions could produce different financial results. See "Item 11—Quantitative and Qualitative Disclosures about Market Risk".

Deferred tax

We apply significant judgment 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 recognized and deferred tax assets being considered based on the probability of our deferred tax assets being recoverable from future taxable income. We provide deferred tax at the tax rate applicable to undistributed earnings 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. To the extent that we believe that recovery is not likely, we establish a valuation allowance. A valuation allowance of R671 million (2004 : R414 million) has been established for certain deferred tax assets which we believe is not more likely than not be recovered. The carrying value of our net deferred tax assets assumes that we

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will be able to generate sufficient future taxable income in applicable tax jurisdictions, based on estimates and assumptions. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event that we were to determine that we would not be able to realize our deferred tax assets in the future, a valuation allowance may be required which would reduce income in the period that such determination was made.

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. 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. 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 recognized to the extent of the future reduction in STC.

Sasol does not provide deferred taxes at the tax rate applicable to distributed earnings. We believe that this is consistent with the accounting principle that allows the accrual of dividend payments after dividend declaration. 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 R5,029 million at 30 June 2005 (2004—R4,240 million; 2003—R3,762 million) resulting in a net deferred tax liability of R10,570 million at 30 June 2005 (2004—R8,910 million; 2003—R8,755 million). The STC charge included in our Income tax expense would increase by R789 million resulting in earnings attributable to shareholders of R8,998 million for the year ended 30 June 2005 (2004—R478 million and R4,880 million; 2003—R465 million and R6,879 million, respectively). The additional deferred tax liability would result in total shareholders' equity of R35,916 million at 30 June 2005 (2004—R29,429 million; 2003—R29,031 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.

Commitments and contingencies

Management's current estimated range of liabilities relating to certain pending litigation and arbitration proceedings is based on claims for which management can reasonably estimate the amount of loss. We have recorded the estimated liability where such amount can be determined and the minimum liability related to those claims where there is a range of loss, and no amount within the range is more probable than the others. As additional information becomes available, we will assess the potential liability related to our pending litigation and arbitration 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 5.E—Off-balance Sheet Arrangements".

OUR RESULTS OF OPERATIONS FOR 2005 AND 2004

The financial results below are stated under US GAAP.

Results of Operations

	2005	2004	Change	Change
	(Rand in millions)			%
Turnover	67,427	58,808	8,619	15
Other operating income	408	332	76	23
Net foreign exchange gains / (losses)	146	(1,266)	1,412	112
Operating costs and expenses	(53,048)	(49,135)	(3,913)	(8)
Operating profit	**14,933**	**8,739**	**6,194**	71
Net other expenses	(193)	(63)	(130)	(206)
Income before tax, earnings / (losses) of equity accounted investees and minority interest	**14,740**	**8,676**	**6,064**	70
Income tax	(5,157)	(3,177)	(1,980)	(62)
Income after tax, but before earnings / (losses) of equity accounted investees and minority interest	**9,583**	**5,499**	**4,084**	74
Earnings / (losses) of equity accounted investees	307	(49)	356	727
Minority interest	(103)	(92)	(11)	(12)
Earnings attributable to shareholders	**9,787**	**5,358**	**4,429**	83

Overview

Higher average annual international oil prices (dated Brent US$46.17/b for 2005 versus US$31.30/b in 2004) boosted operating profit. This benefit was partly offset by the adverse impact of the stronger rand during the year (average rate R6.21per US dollar for the 2005 year compared to R6.88 per US dollar in the 2004 year). The net adverse impact of currency effects manifested themselves across all of Sasol's businesses. The benefit of higher oil prices were, however, only realized in the energy and fuel-related businesses with adverse effects being experienced in the chemical businesses because of higher oil-derivative feedstock costs. However, our chemical businesses returned positive results due to significant increases in chemical prices. It is believed that the chemical prices realized during the 2005 year by Sasol Solvents reached unsustainable highs.

Turnover

Turnover consists of the following categories:

Category	2005	2004	Change	Change
	(Rand in millions)			%
Sale of products	66,507	57,973	8,534	15
Services rendered	543	517	26	5
Commission and marketing income	377	318	59	19
Total turnover	**67,427**	**58,808**	**8,619**	15

Turnover in the 2005 year, increased by R8,619 million (15%) from R58,808 to R67,427 million when compared to the previous year. The primary factors contributing to this increase were:

	2005 (Rand in millions)	%
Turnover as reported in 2004	58,808	
Exchange rates effects (negative)	(4,745)	(8)
Product prices increases	14,155	24
—crude oil	6,349	*11*
—other products (including chemicals)	7,806	*13*
Volumes decreases	(791)	(1)
Turnover as reported in 2005	**67,427**	

Other operating income

Other operating income in 2005 amounted to R408 million, which represents an increase of R76 million or 23%, compared to R332 million in 2004. Included in other operating income for the current year is the profit recognized of R33 million on the sale of part of our participation rights in the 2nd phase of the Qatar GTL project and insurance claims totaling R210 million.

Net foreign exchange gains / (losses)

Net foreign exchange gains for 2005 arising primarily on the translation of monetary assets and liabilities amounted to R146 million which resulted in an increase in operating profit of R1,412 million compared to the loss of R1,266 million in 2004. The profit recognized is due to the weakening of the rand / US dollar exchange rate towards the end of the year closing at R6.67 per US dollar at 30 June 2005 compared to the spot exchange rate at 30 June 2004 of R6.21 per US dollar and as at 30 June 2003 of R7.50 per US dollar. Additionally the average exchange rate for the 2005 financial year was R6.21 per US dollar compared to R6.88 per US dollar for 2004 and R9.03 per US dollar for 2003. The closing rate is used to translate all our monetary assets and liabilities denominated in a currency other than the rand at balance sheet date as a result a net profit was recognized on these translations.

Operating costs and expenses

Operating costs and expenses consists of the following categories:

Category	2005	2004	Change	Change
	(Rand in millions)			%
Cost of products sold	40,129	37,288	2,841	8
Cost of services rendered	530	502	28	6
Selling and distribution costs	4,913	4,837	76	2
Administrative expenses	3,868	3,605	263	7
Other operating expenses	3,608	2,903	705	24
Total operating costs and expenses	**53,048**	**49,135**	**3,913**	8

Total operating costs and expenses in 2005 amounted to R53,048 million, an increase of R3,913 million or 8%, compared to

R49,135 million in 2004. The variances in the operating costs are described in detail in each of the various reporting segments, included in the Segment Review below.

Cost of products sold. The cost of products sold in 2005 amounted to R40,129 million, an increase of R2,841 million or 8%, compared to R37,288 million in 2004. The increase is due to the increase in the crude oil price and other feedstock prices. Compared to sale of products, the cost of products sold was

60% in 2005 and 64% in 2004, this is mainly due to the effects of appreciation of the rand against the US dollar as well as the increase in crude oil and chemical prices.

Cost of services rendered. Cost of services rendered in 2005 amounted to R530 million, an increase of R28 million or 6%, compared to the R502 million in 2004. The increase is in line with the increase in the turnover for services rendered.

Selling and distribution costs. 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. Selling and distribution costs in 2005 amounted to R4,913 million, an increase of R76 million or 2%, compared to R4,837 million in 2004. Compared to sales of products, selling and distribution costs represented 7% in 2005 compared to 8% 2004. Costs increased due to inflation, this increase was partially negated by lower volumes sold during the current year.

Administrative expenses. These costs comprise expenditure of personnel and administrative functions, including accounting, information technology, human resources, legal and administration, as well as pension, post-retirement healthcare and Sasol Share Incentive Scheme costs. Administrative expenses in 2005 amounted to R3,868 million, an increase of R263 million or 7%, compared to R3,605 million in 2004. The increase in our administrative expenses during the current year is due to certain costs incurred to date on our transaction to form the liquid fuels joint venture Uhambo Oil, and our readiness project to ensure compliance with the Sarbanes-Oxley Act, Section 404. In addition increased activity at SSI and SPI resulted in significant increases in their administrative expenses.

Other operating expenses. Other operating expenses (including impairments) in 2005 amounted to R3,608 million, an increase of R705 million or 24%, compared to R2,903 million in 2004. This includes impairments of R262 million (2004 : R284 million), scrapping of assets of R290 million (2004 : Rnil) and the effects of the crude oil hedge of Sasol Synfuels amounting to R1.1 billion (2004 : R54 million). Details of the impairments, scrapping of assets and profit / (loss) on disposals are detailed in the Segment Review.

Included below are the impairments and scrapping of assets recognized:

	2005	2004
	(Rand in millions)	
Sasol Synfuels	(139)	—
—impairments	*(16)*	—
—scrapping of assets	*(123)*	—
Sasol LFB	(46)	—
—impairments	*(46)*	—
Sasol Olefins and Surfactants	190	(52)
—impairments	*(103)*	*(52)*
—scrapping of assets	*(87)*	—
Sasol Solvents	(164)	(42)
—impairments	*(84)*	*(42)*
—scrapping of assets	*(80)*	—
Other Businesses	(13)	(190)
—impairments	*(13)*	*(190)*
Total impairments and scrapping of assets	**552**	**284**

Operating profit

When compared to 2004 our turnover under US GAAP for 2005 increased by R8,619 million or 15%, and other operating income increased by R76 million or 23%. These increases were partly offset by an increase in operating costs and expenses of R3,913 million which reduced the net effect on operating profit. Additionally the group recognized a net foreign exchange profit of R146 million compared to the net foreign exchange losses of R1,266 incurred in 2004. This resulted in an increase in operating profit of R6,194 million or 71% from R8,739 million in 2004 to R14,933 million in 2005.

The main factors contributing to the increase in operating profit were:

	2005	
	(Rand in millions)	%
Operating profit as reported in 2004	8,739	
Exchange rates effects (negative)(1)	(1,386)	(16)
Product prices increases	8,274	95
—crude oil	*3,466*	*40*
—effect of the crude oil hedge	*(1,147)*	*(13)*
—other products (including chemicals)	*5,955*	*68*
Inflation on fixed costs	(529)	(6)
Net volume and productivity effects	(1,503)	(17)
Reassessment of useful lives(2)	1,547	18
Capital items(2)	(209)	(3)
Operating profit as reported in 2005	**14,933**	

(1) This arises primarily from the effects of the average US dollar exchange rate during the year on both turnover and operating expenses.

(2) During 2005 a reassessment of the useful lives of various items of property, plant and equipment was performed the effect on each business is discussed in detail in the Segment Review.

(3) Included in capital items is the impairment of long-lived assets and other capital items.

Net other expenses

Category	2005	2004	Change	Change

	(Rand in millions)			%
Dividends received	23	14	9	64
Interest received	116	183	(67)	(37)
Finance costs	(332)	(368)	36	10
—interest incurred	*(1,370)*	*(1,450)*	*80*	6
—interest capitalized	*1,038*	*1,082*	*(44)*	(4)
Gain arising from issuance of subsidiary's shares	—	108	(108)	(100)
Net other expenses	**(193)**	**(63)**	**(130)**	(206)

Interest income amounted to R116 million in 2005, a decrease of R67 million or 37%, compared to R183 million in 2004. This decrease is mainly attributable to translation differences on interest income from investments in foreign countries due to the appreciation of the rand against the US dollar, as well as lower average cash balances and declining interest rates.

Interest incurred in 2005 amounted to R1,370 million, a decrease of 6%, of which R1,038 million was capitalized, compared to interest incurred of R1,450 million in 2004, of which R1,082 million was capitalized. The decrease in interest incurred was mainly due to declining interest rates which was partially

offset as a result of increased net borrowings due to capital project requirements. However, the Eurobond raised during the current year in the European capital markets is at a favorable interest rate compared to our other external borrowings. Capitalized interest decreased due the lower interest incurred, offset by increased capital expenditure on property, plant and equipment in 2005.

In 2004 our shareholding in Naledi Petroleum (Pty) Limited was diluted through the issuing of shares to minority shareholders which resulted in a gain of R108 million being realized.

Taxation

Income tax expense in 2005 amounted to R5,157 million, an increase of R1,980 million or 62%, compared to R3,177 million in 2004. These amounts include a deferred tax expense of R833 million in 2005 compared to a deferred tax benefit of R299 million in 2004. The increase in taxation is broadly in line with the increase in net income before taxation. The effective tax rate was 35.1% in 2005 and 36.6% in 2004. The difference between the statutory tax rate of 30% and the effective tax rate results mainly from STC which is levied at a rate of 12.5%, differences in foreign tax rates, disallowed expenditure and the effect of changes in tax rates for 2005. The decrease in average effective tax rate is due to the increase in the average rate of earnings to dividend distributions ratio from 2.2 times to 2.9 times which reduces the effect of STC on the effective tax rate.

On 8 July 2005, the President of South Africa signed the Taxation Laws Amendment Act of 2005 with the effect that all of our South African registered companies will be assessed at a tax rate of 29% for the financial year ended 30 June 2005.

Had the income tax expense and deferred tax liability and asset been calculated at 29% for the 2005 year, the impact on our results would have been as follows:

	As reported	Pro-forma	Change
	30 June 2005 (Rand in millions, except earnings per share)		
Balance sheet			
Income tax payable	(686)	(574)	(112)
Net deferred tax liability	(5,541)	(5,380)	(161)
Income statement			
Income tax	(5,157)	(4,886)	(271)
Earnings of equity account investees	307	312	(5)
Minority interest	(103)	(107)	4
Earnings attributable to shareholders	9,787	10,059	(272)
Earnings per share			
Basic earnings per share (South African cents)	1,594	1,638	(44)
Diluted earnings per share (South African cents)	1,567	1,610	(43)

Earnings / (losses) of equity accounted investees

Earnings of equity accounted investees amounted to R307 million in 2005 compared to loss of equity accounted investees of R49 million in 2004. This profit comprises profits principally in our Sasol Polymers and Sasol Solvents businesses, offset by losses mainly from in our SSI business in 2005. The profits made are due to significant increases in chemical prices. The loss incurred by SSI, is due to increases in costs as a result of the increased activity at our GTL projects.

Minority interest

Minority interest in 2005 amounted to R103 million, compared to R92 million in 2004. The increase is mainly attributable to the increase in the profits earned from our Sasol LFB operations. This is due to the increase in the crude oil price which was partially off-set by the appreciation of the rand.

Earnings attributable to shareholders

As a result of the factors discussed above, earnings attributable to shareholders in 2005 was R9,787 million, an increase of R4,429 million or 83%, compared to R5,358 million in 2004.

OUR RESULTS OF OPERATIONS FOR 2004 AND 2003

The financial results below are stated under US GAAP.

Results of Operations

	2004	2003	Change	Change
	(Rand in millions)			%

Turnover	58,808	63,769	(4,961)	(8)
Other operating income	332	603	(271)	(45)
Net foreign exchange losses	(1,266)	(2,437)	1,171	48
Operating costs and expenses	(49,135)	(50,924)	1,789	4
Operating profit	**8,739**	**11,011**	**(2,272)**	(21)
Net other expenses	(63)	(64)	1	2
Income before tax, losses of equity accounted investees and minority interest	**8,676**	**10,947**	**(2,271)**	(21)
Income tax	(3,177)	(3,915)	738	19
Income after tax, but before losses of equity accounted investees and minority interest	**5,499**	**7,032**	**(1,533)**	(22)
Losses of equity accounted investees	(49)	(47)	(2)	(4)
Minority interest	(92)	(170)	78	46
Earnings attributable to shareholders before cumulative effect of change in method of accounting	**5,358**	**6,815**	**(1,457)**	(21)
Change in method of accounting for asset retirement obligations, net of tax of R227 million	–	529	(529)	(100)
Earnings attributable to shareholders	**5,358**	**7,344**	**(1,986)**	(27)

Turnover

Turnover consists of the following categories:

Category	2004	2003	Change	Change %
	(Rand in millions)			
Sale of products	57,973	62,509	(4,536)	(7)
Services rendered	517	502	15	3
Commission and marketing income	318	758	(440)	(58)
Total turnover	**58,808**	**63,769**	**(4,961)**	**(8)**

Turnover for 2004 amounted to R58,808 million, a decrease of R4,961 million or 8%, compared to R63,769 million for 2003.

The net decrease of R4,961 million in turnover is mainly attributable to decreases in the sale of products of R4,536 million. Increases in product prices of R433 million, increases in crude oil prices of R2,330 million and volumes of R3,864 million, were more than offset by the negative currency effect of R11,113 million arising due to the appreciation of the rand. Additionally, services rendered increased by R15 million and commissions and marketing income decreased by R440 million.

The average rand to US dollar exchange rate of R6.88 in 2004, was 24% stronger than the average of R9.03 in 2003. The average crude oil price, of US$31.36/b in 2004 was 13% higher than the average of US$27.83/b in 2003. Our average US dollar refining margins in 2004 remained constant at the levels of 2003.

Other operating income

Other operating income in 2004 amounted to R332 million, which represents a decrease of R271 million or 45%, compared to R603 million in 2003. Included in the 2003 other operating income was insurance claims of R541 million.

Net foreign exchange losses

Net foreign exchange losses for 2004 amounted to R1,266 million which represents a decrease of R1,171 million compared to a losses of R2,437 million in 2003. The losses are mainly attributable to the appreciation of the rand against the US dollar. However due to the fact that the rate of appreciation of the rand against the US dollar decreased significantly in the 2004 year the foreign exchange losses incurred decreased.

Operating costs and expenses

Operating costs and expenses consists of the following categories:

Category	2004	2003	Change	Change %
	(Rand in millions)			
Cost of products sold	37,288	38,415	(1,127)	(3)
Cost of services rendered	502	475	27	6
Selling and distribution costs	4,837	4,976	(139)	(3)
Administrative expenses	3,605	4,402	(797)	(18)
Other operating expenses	2,903	2,656	247	9
Total operating costs and expenses	**49,135**	**50,924**	**(1,789)**	(4)

Operating costs and expenses in 2004 amounted to R49,135 million, a decrease of R1,789 million or 4%, compared to R50,924 million in 2003.

Cost of products sold. The cost of products sold in 2004 amounted to R37,288 million, a decrease of R1,127 million or 3%, compared to R38,415 million in 2003. Compared to sales of products, the cost of products sold was 64% in 2004 and 61% in 2003, the increase is mainly due to the effects of the appreciation of the rand against the US dollar.

Cost of services rendered. Cost of services rendered in 2004 amounted to R502 million, an increase of R27 million or 6%, compared to the R475 million in 2003.

Selling and distribution costs. 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. Selling and distribution costs in 2004 amounted to R4,837 million, a decrease of R139 million or 3%, compared to R4,976 million in 2003. Compared to sales of products, selling and distribution costs represented 8% in both 2004 and 2003.

Administrative expenses. These costs comprise expenditure of personnel and administrative functions, including accounting, information technology, human resources, legal and administration, as well as pension, post-retirement healthcare