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.

Inventory

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value, based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

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.

Deferred taxation assets

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. To the extent that we believe that recovery is not likely, we establish a valuation allowance. 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. 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.

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 only allows the accrual of dividend payments after 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 R4,240 million at 30 June 2004 (2003—R3,762 million; 2002—R3,297 million) resulting in a net deferred tax liability of R8,910 million at 30 June 2004 (2003—R8,755 million; 2002—R8,386 million). Income tax expense would increase by R478 million resulting in total net income (earnings attributable to shareholders) of R4,880 million for the year ended 30 June 2004 (2003—R465 million and R6,879 million; 2002—R860 million and R8,574 million, respectively). The additional deferred tax liability would result in total shareholders' equity of R29,429 million at 30 June 2004 (2003—R29,031 million; 2002—R27,647 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.

OUR RESULTS OF OPERATIONS FOR THE YEARS ENDED 30 JUNE 2004 AND 30 JUNE 2003

The financial results below are stated under US GAAP.

Results of Operations

Category	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, 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, 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)**

Overview

Profits were again adversely affected by the stronger Rand against the US dollar and margin pressures in a challenging international trading environment. From an operational perspective, most of Sasol's businesses performed satisfactorily despite these conditions by advancing productivity, quality and cost-reduction initiatives. Higher average international oil prices and the benefit of cost reductions and productivity improvements partly offset the impact of the stronger Rand.

Accordingly, turnover decreased by 8% from R63,769 million to R58,808 million. In line with expectations, profit was down year-on-year. Operating profit decreased by 21% from R11,011 million to R8,739 million, while attributable earnings dropped by 27% from R7,344 million to R5,358 million.

The overriding impact on our results was the strength of the Rand, which was, on average 24% stronger against the US dollar compared to the previous year.

This impact was exacerbated by the unusually high energy and feedstock prices at our international operations and notably in Europe and the United States of America. In general, most of our chemical businesses endured severe margin pressures, with our global Sasol Olefins and Surfactants business suffering the most. The overall effect of the Rand's appreciation reduced operating profit by approximately R6 billion.

The average price of the dated Brent crude oil, increased by 12% from US$27.83/bbl to US$31.30/bbl compared to last year and partly offset the adverse impact described above. Several geopolitical factors drove oil prices upwards, including low petroleum inventories, robust Asian demand, unreliable Iraqi supplies, record US gasoline demand, the weaker US dollar and the escalation of political conflict in the Middle East.

International refining margins also displayed significant improvements since mid-2003. The improved refining margins—the highest since 2000—were mainly supported by the US strong gasoline premiums and high natural gas prices, which supported residual fuel values.

We have undergone a two-year cycle in adverse conditions. This has motivated our businesses to operate their assets to full capacity and try to eradicate superfluous costs. Where we have direct control over costs and opportunities to improve our businesses, we have in general performed well, as the highlights indicate:

- The group reduced its annual cost base by about R890 million, by cost reduction initiatives on the fixed cost structure, with most of this reduction expected to be sustainable;

- Sasol Mining achieved a further increase in in-section machine productivity, which brings its increase in machine productivity to 110% since commencing business renewal in 1998;

- Sasol Synfuels increased production by more than 5% off a large base; and

- Sasol Olefins and Surfactants reduced its nominal fixed costs by a further 3%, having reduced them by 5% in the previous year.

Several underperforming smaller businesses, as well as those businesses that no longer have the desired strategic fit, have been closed down or disposed of, or are in the process of being disposed. Sasol Nitro has focused its explosives activities in South Africa by disposing of its interests in Australia and North America. We have also sold Sasol Servo in Netherlands and have withdrawn from non-core elements of Sasol Wax.

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, as quoted by the Federal Reserve Bank of New York 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/bbl in 2004 was 13% higher than the average of US$27.83/bbl 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.

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 loss of R2,437 million in 2003. The decrease is mainly attributable to the continuing appreciation of the Rand against the US dollar over the two years, which was less severe in 2004.

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.

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 and Sasol Share Incentive Scheme costs. Administrative expenses in 2004 amounted to R3,605 million, a decrease of R797 million or 18%, compared to R4,402 million in 2003.

Other operating expenses. Other operating expenses (including impairments) in 2004 amounted to R2,903 million, an increase of R247 million or 9%, compared to R2,656 million in 2003. Other operating expenses excluding impairments amounted to R2,619 million in 2004, a decrease of R21 million, compared to R2,598 million in 2003. This decrease generally arose from cost savings initiated and implemented in previous years. Impairment of property, plant and equipment, intangible assets and investments for 2004 amounted to R284 million, compared to R58 million in 2003.