sasol's chemical businesses endured currency impacts and lower margins, but some divisions lifted profits

Sasol Olefins & Surfactants

- ***Depressed global economy and increased feedstock costs impact severely on turnover and profit.***
- ***Alkylates business unit bears brunt of margin pressure.***
- ***New Secunda alcohols plant running to expectation.***
- ***Inorganic Specialities business unit lifts performance.***
- ***Productivity-improvement initiatives are reducing costs.***

Depressed conditions constrain Olefins & Surfactants *Sasol Olefins & Surfactants achieved global turnover of R19 833 million (2 2 107 million; US$2 196 million), which was 2% higher than the R19 383 million (2 2 135 million; US$1 913 million) of the previous year. Turnover was affected by lower selling prices and volumes achieved in depressed world markets.*

Operating profit was under significant pressure due to margin compression caused by lower product prices and higher feedstock costs. Earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to 2 157 million and an operating loss of 2 1 million was incurred. In rand terms, EBITDA amounted to R1 469 million (US$162 million) and an operating loss of R5 million (US$1 million) was incurred.

The higher feedstock costs were due to higher oil and energy prices around the world. This resulted in higher ethane costs in the USA, higher kerosene and benzene costs in the USA and Italy, and higher feedstock costs in South Africa.

Alkylates bears brunt of the squeeze
The Alkylates business unit experienced the brunt of the margin pressure. This was due not only to high feedstock costs with kerosene, benzene and natural gas being at an all-time high, but also due to linear alkylbenzene (LAB) product prices coming under downward pressure due to existing surplus capacity, and market reaction to an expected future global surplus as new capacity is brought on line in Asia over the next few years. In addition, a depressed world economy and changing detergent trends have led to a decline in LAB demand.

Significant efforts are being made to improve the efficiency of our Italian and US alkylate facilities. Our low capacity utilisation led to a decision towards year-end to idle the LAB facility at Porto Torres in Italy and to a 30% reduction in the workforce of the LAB plant at Baltimore in the USA.

Alcohols holds up better *The Alcohols business unit also performed worse than in the previous financial year, but not to the same extent as Alkylates. Margin pressure in this business unit was due to higher feedstock prices.*

The operation of the new C_{12}-C_{15} alcohols plant at Secunda was stabilised and product qualification at customers progressed smoothly. This adds yet another type of alcohol to Sasol's already world-leading portfolio of alcohol products.

Surfactants' margin pressure countered by lower costs *The Surfactants business unit matched the performance of the previous year despite difficult trading conditions arising from the global economic slowdown. The pressure on margins was countered by achieving further cost reductions.*

We acquired full ownership of two surfactant facilities by buying the shares held by our joint-venture partners. These are the facilities near Nanjing in China and close to Bratislava in Slovakia.

Monomers hampered by lacklustre hexene demand *The ethylene part of the Monomers business unit performed worse than in the previous financial year due to two hurricanes disrupting operations at Lake Charles in the USA in October 2002 as well as higher ethane and natural gas costs. This effect was partially reduced by higher ethylene pricing.*

The comonomer part of the Monomers business unit, with plants at Secunda, performed significantly worse. This was due primarily to the rand's strengthening and the lower demand for 1-hexene comonomer.

Inorganic specialities shine *The Inorganic Specialities business unit performed better than in the previous year. This was mainly due to consistent demand and lower aluminium metal feedstock costs.*

Commitment to efficiency continues
Our plants worldwide ran well. The efforts to unlock synergy, the NetGain project (a process to reduce total cost of ownership) and other initiatives launched after the acquisition of the former Condea chemical operations were sustained in order to improve efficiency and reduce costs.

Due to the extreme pressure on profitability, additional initiatives were launched to optimise costs and efficiency. The nominal cash cost was reduced by 5% from the previous year with a further 4% nominal