

## **Group Assignment for ACC101**



### **Overview of Sasol Ltd.**

**22.11.2002**

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## 1.0 Introduction

Sasol Ltd. Group is a South African group of companies which operates in all continents. The main business of the Group is the production (from coal and crude oil) and marketing of liquid fuels, pipeline gas, waxes, detergent range alcohols, solvents, petrochemicals, plastics, fertilizers and mining explosives, and the mining and marketing of coal.

Sasol also supports and sponsors lots of activities for helping African people to overcome difficulties that they are facing.

Company registration number is: 1979/003231/06

Business address and registered office: 1 Sturdee Avenue, Rosebank, 2196 Republic of South Africa.

Financial year starts on the 1<sup>st</sup> July.

Following the results of the annual report Sasol earnings were 35% higher than they were achieved in the previous financial year and earning per share increased by 38%.

## 2.0 Assets of the company

As Sasol Ltd. is the holding company for a group of companies comprised of diversified fuel, chemical and related manufacturing and marketing operations, complemented by interests in technology development, oil and gas exploration and production, would have enormous amount of current and fixed assets. (see Appendix 1)

### 2.1 Fixed Assets

One of the determining factors investors would look at is how Sasol is managing its assets comparing to its liabilities. According to the financial data, Sasol Ltd. has been increasing its Fixed Assets such as property, plant and equipment for the last 5 years. The areas in which the company operates requires heavy investments to sustain the development of each business unit.

	1997	1998	1999	2000	2001	2002
Property, plant, equipment	13,163	14,981	16,048	18,798	28,035	36,667
Non-current assets	598	645	908	1,846	2,298	3,661
Current assets	7,231	7,893	7,300	9,021	19,742	23,529
Total Assets	20,992	23,519	24,256	29,665	50,075	63,857

*(Figures given in millions)*

It is noticeable that the amount of Fixed Assets contributes most towards the Total Assets. Compounding growth in Fixed Assets is 22.7% and 24.9% in Total Assets.

## 2.2 Current Assets

Sasol's Liabilities were as well as Assets growing steadily. The table below will show how quickly they were rising for the same period of 5 years.

	1997	1998	1999	2000	2001	2002
Shareholders equity	11,778	13,025	15,131	17,715	22,217	30,070
Convertible debentures	1,028	1,028	1,028	-	-	-
Interest-bearing debt	1,146	2,145	1,123	777	8,454	10,612
Interest-free liabilities	7,040	7,321	6,974	11,173	19,404	23,175
Total liabilities	20,992	23,519	24,256	29,665	50,075	63,857

The 5 year compound growth in the Total Shareholder's Equity is 20.6% and 24.9% growth in the Total equity and liabilities. It is worth noticing that the 5 year compound percentage growth in Total assets is the same as in Total liabilities. This demonstrates the ability of the company to generate earnings on a steady base, and also the ability to leverage the development taking the debt to equity ratio to 2.1x in 2002 compared to the 1998 figure of 1.8x.

## 3.0 Creditors

Types of long-term loans:

The Sasol borrowing powers are limited by its Articles of Allocation to twice the sum of the stated capital and reserves.

Sasol has two main types of long-term loans, secured and unsecured.

Secured loans are secured by foreign plant, equipment and inventories. They are also repayable at different times for example, some of the loans have to be repaid by July and August 2004, others would have to be repaid in semi-annual instalments, and others would have to be repaid in equal monthly instalments. Basically the main difference between secured and unsecured long-term loans is that secured loans are repayable in semi-annual instalments, whereas unsecured loans are repayable in 5 equal annual amounts. Sasol has 14 secured long-term loans, which are repayable in the different time. The total amount of secured long-term loans, which Sasol would have to repay, is: (the amount is for the end of 30 June 2002) £5664 millions.

On the other hand unsecured long-term loans have 9 different creditors. The total amount, which Sasol would have to pay, is £322 millions.

There is also a difference between secured and unsecured long-term loans. There are different interest rates. Every creditor in secured loans has its own interest rate, whereas not every unsecured creditor has interest rate. This difference of rates is caused by the different risk associated with the loans in case of default of the company on the payments.

## 4.0 Capital and Reserves

Sasol has investments and shares. It also has investments in shares, which have £258 millions.

For the financial year-end 30 June 2002 shares in issue were cost £666,9 millions, which have been increased from the year 2001 where shares in issue were cost £665 millions. (The information about shares values from 1998 to 2002 is available at [www.sasol.com/annualreports](http://www.sasol.com/annualreports) ). The number of shares, which were repurchased, is £57,9 millions and the weighted average shares in issue cost the company £612,5 millions.

This company has limited liabilities and that means that Sasol cannot take capital from the public it can only take it from the shareholders and/or the owners of the company. That makes a big problem for Sasol because now it owns its creditors twice the amount of what it has been started from. (see Appendix 1,2)

## 5.0 Financial Overview

Sales increased by 49% to R61,6 billion (13% to USD 6,1 billion). Foreign and export sales amounted to 56% of total sales, resulting in a strategic objective that these should exceed 50% by 2005 being achieved three years ahead of schedule.

Oil prices were relatively stable for the first few months of the financial year but dropped after the terrorist attacks in America and only partly recovered in the first quarter of 2002, also because the lower economic growth in place has a lower demand for oil products. On average, they were significantly lower than in the previous financial year.

Although commodity chemical prices recovered early in 2002 after weakening considerably during the second half of 2001, they nevertheless were on average substantially below those of the previous financial year.

Operating profit increased by 38% to R14,9 billion (4% to USD1,5 billion). About 60% of the rand increase arose from the net benefit of a weaker exchange rate offset by lower oil and commodity chemical prices. The balance was realized from management initiatives and, more specifically, from synergies gained through acquisitions and productivity improvements.

During the year, international oil prices were about USD 23,24 per barrel and were 18% below those of the previous financial year. Similarly, commodity chemical prices in US dollars across the Group's range of products were approximately 20% lower.

These positive results were achieved, despite negative pricing environment and the uncertainty in the markets, because of the following key factors:

- The weakening of the rand: US dollar exchange rate by 32% from an average of R7,65 in the previous financial year to R10,13.
- Capacity increases in various plants and the resulting beneficial impact on sales volumes.
- Cost reductions, productivity gains and conversion efficiency improvements across the Group.
- The contribution of Sasol Chemie (previously Condea) for a full year, and its pleasing performance.
- The ability of those businesses trading internationally to influence well-established customer relationships and distribution channels in difficult markets.

Productivity improvement and renewal programs progressed through the year as focus on continuous improvement heightened and meaningful contribution to profits in various businesses was achieved. Simultaneously, ongoing safety and environmental management initiatives showed pleasing results.

Net working capital at year-end was slightly higher than anticipated because of higher inventories at Sasol Chemie and the need to build up stocks in advance of the Natref shutdown.

Following the acquisition of Sasol Chemie on 1 March 2001, and the pleasing progress made with its integration into Sasol, it was announced last year that Sasol was again alert to acquisition opportunities. Given the strong financial position of the company we believe it still had the financial flexibility to allow the company to take advantages of opportunities that will arise in its various businesses.

A long-term objective to acquire full ownership of Schümann Sasol International AG materialized during the year and this global wax business was incorporated as a wholly-owned subsidiary of Sasol with effect from 1 January 2002.

The Group's share buyback program continued taking proper cognizance of Sasol's gearing and expected cash flow requirements. The average price paid for all shares bought to date was R59,27.

Net financing costs increased from R276 million to R635 million primarily because of higher capital expenditure and the annualized impact of Sasol Chemie, partially offset by higher cash flow from operations. Financing cost cover at year-end exceeded 17 times.

**6.0 Dividend Policies:** Earnings attributable to shareholders divided by dividends paid. (see Appendix 4)

An interim dividend of 140 cents per share (2000 – 83 cents per share) was paid on 26 April 2001. A final dividend in respect of the year ended 25 June 2001 of 180 cents per share (2000 – 137 cents per share) was declared on 3 September 2001. The payout ratio for the distribution of the dividend is approximately 33% of earnings. Dividends for the year increased by 100 cents per share. The average dividend cover over the last five years is 2,9 times. Dividends payable are recognised as a liability in the period in which they are declared.

Total dividend declared for the year of 450 cents represents a 3,4 times dividend cover and an increase of 41% over the total dividend of 320 cents of the previous financial year. The cover applied is within the targeted range of 2,5 to 3,5. Average dividend cover applied over the last 10 years approximates 3,0.

#### Interim dividend

- SA cents per share 200 c
- last date to trade cum dividend 5 April 2002
  - paid 15 April 2002

#### Final dividend

- SA cents per share 250 c
- date declared 6 September 2002
- last date to trade cum dividend 4 October 2002
- payable 14 October 2002

Dividend cover Attributable earnings adjusted for secondary tax on the final dividend declared, divided by the sum of the interim dividend paid and final dividend declared net income before tax.

#### Report of the independent auditors

We have audited the annual financial statements of Sasol Limited set out on pages 81 to 140 for the year ended 30 June 2002. These financial statements are the responsibility of the directors. Audit of accounts, the annual financial statements fairly present, in all material respects, the financial position of the Group and Company at 30 June 2002, and the results of its operations and cash flows for the year then ended, are in accordance with International Financial Reporting Standards and in the manner required by the South African Companies Act. KPMG Inc. Registered Accountants and Auditors Chartered Accountants (SA) Johannesburg 6 September 2002

## **7.0 Audit opinion**

In our opinion, the annual financial statements fairly present, in all material respects, the financial position of the Group and Company at 30 June 2002, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the South African Companies Act.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

## **8.0 Conclusion**

Since the event on the 11<sup>th</sup> of September, which had shaken all businesses over the last year, the prices for oil and commodity chemical have improved and have been showing an upward trend. The company has continued to invest in its areas of operations, and is still targeting growth. Sasol still has the financial flexibility to take advantages of opportunities in the markets. The company is surely in a position of expanding, but we believe there are numerous opportunities to invest in companies which have more focused activities. We believe that it would be better to target chemical companies if one wants to invest in the chemical industries such as Dow Chemical, Basf, Sabic, while we believe it would be more beneficial to invest in oil companies such as Shell, Bp, TotalFinaElf. Each of these companies invests in their own core businesses, while we feel Sasol is probably too diversified and cannot be as effective in managing the investments required.

## 9.1 Appendix 1

## Balance Sheet

at 30 June

2001 USDm	2002 USDm		Note	2002 Rm	2001 Rm.
		<b>ASSETS</b>			
3 497	3 570	Property, plant and equipment	1	36 667	28 035
(65)	(51)	Goodwill and negative goodwill	2	(518)	(523)
134	180	Intangible assets	3	1 852	1 071
105	79	Investments	4	813	845
111	146	Long-term receivables	5	1 505	894
1	1	Long-term financial assets	6	9	11
3 783	3 925	<b>Non-current assets</b>		40 328	30 333
899	878	Inventories	7	9 013	7 210
1 257	1 024	Trade and other receivables	8	10 515	10 079
2	23	Short-term financial assets	9	232	19
304	367	Cash	10	3 769	2 434
2 462	2 292	<b>Current assets</b>		23 529	19 742
6 245	6 217	<b>Total assets</b>		63 857	50 075
		<b>EQUITY AND LIABILITIES</b>			
2 772	2 928	<b>Total shareholders' equity</b>		30 070	22 217
13	25	<b>Minority interest</b>		262	107
620	529	Long-term loans	11	5 427	4 970
542	552	Long-term provisions	12	5 670	4 345
—	6	Long-term deferred income	13	65	—
584	531	Deferred tax	14	5 444	4 689
1 746	1 618	<b>Non-current liabilities</b>		16 606	14 004
434	338	Short-term loans	15	3 474	3 479
1	35	Short-term financial liabilities	16	360	6
214	213	Short-term provisions	17	2 189	1 715
275	233	Tax payable		2 398	2 206
782	654	Trade and other payables	18	6 724	6 277
8	173	Bank overdraft		1 774	64
1 714	1 646	<b>Current liabilities</b>		16 919	13 747
6 245	6 217	<b>Total equity and liabilities</b>		63 857	50 075



## 9.2 Appendix 2

## Financial Review

	Compound growth* %	2002 USDm	2002 Rm	2001 Rm	2000 Rm	1999 Rm	1998 Rm	1997 Rm
<b>Balance sheet</b>								
Property, plant and equipment	22,7	3 570	36 667	28 035	18 798	16 048	14 981	13 163
Non-current assets		355	3 661	2 298	1 846	908	645	598
Current assets		2 292	23 529	19 742	9 021	7 300	7 893	7 231
<b>Total assets</b>	<b>24,9</b>	<b>6 217</b>	<b>63 857</b>	<b>50 075</b>	<b>29 665</b>	<b>24 256</b>	<b>23 519</b>	<b>20 992</b>
<b>Equity and liabilities</b>								
Total shareholders' equity	20,6	2 928	30 070	22 217	17 715	15 131	13 025	11 778
Convertible debentures		—	—	—	—	1 028	1 028	1 028
Interest-bearing liabilities		1 033	10 612	8 454	777	1 123	2 145	1 146
Interest-free liabilities		2 256	23 175	19 404	11 173	6 974	7 321	7 040
<b>Total equity and liabilities</b>	<b>24,9</b>	<b>6 217</b>	<b>63 857</b>	<b>50 075</b>	<b>29 665</b>	<b>24 256</b>	<b>23 519</b>	<b>20 992</b>
<b>Income statement</b>								
Sales	31,2	6 078	61 578	41 289	25 762	19 180	16 666	15 810
Operating profit	30,7	1 470	14 895	10 773	6 292	3 701	3 121	3 900
Income from associates		3	31	11	6	—	—	—
Financial (charges)/income		(62)	(633)	(265)	(189)	75	165	331
Income before taxation	27,6	1 411	14 293	10 519	6 109	3 776	3 286	4 231
Taxation		(471)	(4 769)	(3 467)	(1 994)	(1 203)	(1 225)	(1 592)
Income after taxation	29,3	940	9 524	7 052	4 115	2 573	2 061	2 639
Minority interest		(3)	(28)	(27)	(19)	(32)	(28)	(33)
Equalisation reserve transfer		—	—	—	—	—	100	—
<b>Attributable earnings</b>	<b>29,5</b>	<b>937</b>	<b>9 496</b>	<b>7 025</b>	<b>4 096</b>	<b>2 541</b>	<b>2 133</b>	<b>2 606</b>
<b>Cash flow statement</b>								
Cash from operations	31,5	††	19 157	14 507	8 793	5 063	4 301	4 869
Investment income		††	247	253	204	384	269	445
Decrease/(increase) in working capital		††	300	(425)	(1 010)	(895)	(318)	(414)
Cash generated by operating activities	32,1	††	19 704	14 335	7 987	4 552	4 252	4 900
Finance costs paid		††	(863)	(509)	(387)	(309)	(104)	(114)
Tax paid		††	(4 749)	(2 972)	(1 267)	(1 105)	(1 211)	(998)
Cash available from operating activities	30,1	††	14 092	10 854	6 333	3 138	2 937	3 788
Dividends and debenture interest paid		††	(2 325)	(1 655)	(1 114)	(980)	(978)	(901)
Cash retained from operating activities	32,4	††	11 767	9 199	5 219	2 158	1 959	2 887
Additions to property, plant and equipment		††	(7 945)	(3 657)	(1 817)	(2 348)	(2 927)	(2 617)
Additions to intangible assets		††	(797)	(438)	(354)	—	—	—
Acquisition of businesses		††	(565)	(8 350)	(2 827)	(346)	(148)	—
Other movements		††	963	(291)	242	8	130	(101)
<b>Decrease/(increase) in funding requirements</b>		††	<b>3 423</b>	<b>(3 537)</b>	<b>463</b>	<b>(528)</b>	<b>(986)</b>	<b>169</b>

†The financial results of the Group have, from the beginning of the 2000 financial year, been prepared in accordance with International Financial Reporting Standards. Figures prior to 2000 have not been restated to comply with International Financial Reporting Standards.

\*Five-year compound growth percentage per annum (based on rand figures).

†† USD information not presented.

## 9.3 Appendix 3

## Shareholders Information

### Shareholders' diary

Financial year end 30 June 2002

Annual general meeting 29 November 2002

### Dividends

#### Interim dividend

– SA cents per share 200 c  
– last date to trade cum dividend 5 April 2002  
– paid 15 April 2002

#### Final dividend

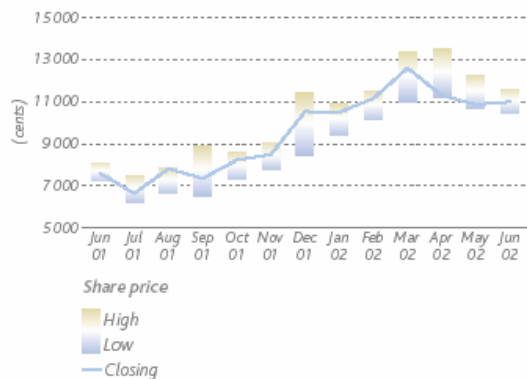
– SA cents per share 250 c  
– date declared 6 September 2002  
– last date to trade cum dividend 4 October 2002  
– payable 14 October 2002

### Statistics

		2002	2001	2000	1999	1998
Number of shareholders		7 944	11 273	13 245	15 018	14 577
Shares in issue*	– million	666,9	665,0†	606,8	606,1	605,1
Shares repurchased	– million	57,9	47,1	27,8	—	—
Net shares in issue**	– million	609,0	617,9	579,0	606,1	605,1
Debentures in issue	– million	—	—	56,4	56,4	56,4
Weighted average shares in issue**	– million	612,5	627,3	604,4	605,8	605,0
Shares traded‡	– million	377,5	317,7	265,6	292,2	217,5
Traded to issued	– %	56,6	47,8	43,8	48,2	35,9
Market price per share						
year end	– SA cents	11 000	7 600	4 665	4 190	3 480
	– US cents*	1 040	938	669	681	613
high	– SA cents	13 520	8 100	5 500	4 400	6 650
	– US cents*	1 200	999	875	738	1 419
low	– SA cents	6 250	4 320	3 400	2 040	2 825
	– US cents*	795	597	550	350	550
Number of share transactions		166 933	88 599	56 740	48 946	44 562
Value of share transactions	– R million	35 997	19 073	12 001	6 835	6 865
	– USD million	3 553	2 494	1 911	1 128	1 408
Average value per share transaction	– rand	215 637	215 273	211 509	139 644	154 055
	– USD	21 284	28 149	33 680	23 046	31 596

\*Before share buyback programme †Includes conversion of 56,4 million debentures into shares with effect from 26 June 2000 \*\*After share buyback programme

‡Includes share buyback programme \*As quoted on NASDAQ (American Depositary Receipts)



## 9.4 Appendix 4

## Income Statement

for the year ended 30 June

2001 USDm	2002 USDm		Note	2002 Rm	2001 Rm
5 399	6 078	<b>Sales</b>	19	61 578	41 289
(3 363)	(3 621)	Cost of sales		(36 688)	(25 720)
2 036	2 457	<b>Gross profit</b>		24 890	15 569
(265)	(422)	Marketing and distribution expenditure		(4 273)	(2 024)
(339)	(407)	Administrative expenditure		(4 125)	(2 596)
(49)	(213)	Other operating expenditure		(2 153)	(375)
26	55	Translation gains	20	556	199
1 409	1 470	<b>Operating profit</b>	21	14 895	10 773
31	23	Dividends and interest received	22	230	244
1	3	Income from associates	23	31	11
(66)	(85)	Finance costs	24	(863)	(509)
1 375	1 411	<b>Net income before tax</b>		14 293	10 519
(454)	(471)	Taxation	25	(4 769)	(3 467)
921	940	<b>Net income after tax</b>		9 524	7 052
(4)	(3)	Minority interest		(28)	(27)
917	937	<b>Attributable earnings</b>		9 496	7 025
93	(4)	Headline earnings adjustments	26	(41)	727
1 010	933	<b>Headline earnings</b>		9 455	7 752
		<b>Basic earnings per share (cents)</b>	26		
146	153	– attributable earnings basis		1 550	1 120
161	152	– headline earnings basis		1 544	1 236
		<b>Diluted earnings per share (cents)</b>	26		
144	150	– attributable earnings basis		1 519	1 107
159	149	– headline earnings basis		1 513	1 221
		<b>Dividends per share (cents)</b>			
17	20	– interim		200	140
22	24	– final*		250	180
		*Declared subsequent to 30 June 2002 and has been presented for information purposes only. No provision regarding this final dividend has been recognised.			

## 10.0 Bibliography

1. [www.ft.com](http://www.ft.com)
2. [www.sasol.com](http://www.sasol.com)