# INTERIM RESULTS ANNOUNCEMENT

## MONDAY, 27 FEBRUARY 2017 AT 15H00

## JOHANNESBURG

## ANALYST CONFERENCE CALL

## SPEAKER NOTES

## SASOL CFO

## PAUL VICTOR

## SLIDE 10: TITLE SLIDE

Thank you Steve and Bongani, and good day ladies and gentlemen.

It is my pleasure to present our 2017 interim results to you today.

Our results are slightly above the mid-point of the earnings range provided in our recent trading statement.

## Slide 11: KEY MESSAGES

Strong business performances across our global value chain set the base for our resilient results, despite what has been a continuation of global market volatility and uncertainty.

The strength of the rand to levels below R13,80 to the US dollar since November 2016 negatively impacted our half year earnings and will continue to do so at its current levels.

Our continued focus on factors within our control resulted in another stellar cost performance with operational stability and high volumes throughput remaining key deliverables.

Our cost and cash savings initiatives have allowed us to protect the balance sheet and ensure sufficient liquidity headroom as we drive our value based growth strategy.

As mentioned by the JCEOs, we are increasing our focus on improving Sasol's capital allocation principles and processes as a catalyst to enhance higher total shareholder returns.

I will unpack this in greater detail later on in my presentation.

**Slide 12: CHALLENGING MACROECONOMIC ENVIRONMENT**

We have seen a steady and continued recovery in global oil and product prices, more especially during the second quarter of the 2017 financial year.

Oil prices have moved up to the mid $50 per barrel range, following the December OPEC decision to cut production. This will positively impact our second half results. Unfortunately, refining margins were down 32% and despite the recovery in margins since November, it still had a significant impact on our earnings.

The latest strength and volatility of the exchange rate had an adverse impact on our half year results and the continued strengthening of the Rand is a concern with regards to earnings performance during the second half of the financial year.

Financial risk mitigation strategies will enable us to continue to protect and strengthen the balance sheet in a strong rand environment.

The Sasol business remains highly sensitive to significant movement in the rand/US dollar exchange rate and oil prices. We estimate that a 10 cents change in the annual average rand/US dollar exchange rate will affect our profit from global operations by approximately R740 million, while a US$1 dollar change in the crude oil price, will have an impact of approximately R730 million.

Base chemical prices remained soft during the first half of the financial year, however we have seen a steady increase in demand with margins remaining resilient in certain key markets.

We expect the recent increase in oil prices to drive Base chemical prices higher.

Our Performance chemicals margins remained flat, and continue to demonstrate the resilience of this business segment. The PC basket price was pulled down by the lower ammonia price due to oversupply in global markets.

We are however encouraged by the recent upward trends in prices for our Chemicals AND Energy businesses and anticipate a better second half price / margin performance.

## Slide 13: GROUP PROFITABILITY

Overall, we delivered a strong operational performance across most of the value chain with higher production volumes being achieved in Secunda Synfuels and from our European assets.

Profit from operations of R13,7 billion was down 8%, largely as a result of the stronger closing exchange rate,
weaker product differentials and refining margins,
the impact of the prolonged mining strike,
and softer Base chemical prices.

This decrease was partially negated by the results delivered by our cost & cash reduction programmes and operational excellence initiatives.

Headline earnings per share decreased by 38% to R15,12 whilst earnings per share increased by 19% to R14,21

An interim dividend of R4.80 has been declared in line with our annual dividend cover of 2,2 to 2,8 times headline earnings per share. This equates to a 36% pay-out ratio.

Capital expenditure, dominated by spend on the LCCP, decreased to R30,2bn due to the strengthening exchange rate.

## SLIDE 14: OPERATING PROFIT | IMPACTED BY VOLATILE MACRO

I will now take you through the items impacting the change in operating profit compared to the previous reporting period.

The translation impact of the stronger closing rand/US dollar exchange rate at half year end contributed 15% to the reduction in operating profit.

Lower crude oil and product prices experienced during the first half adversely affected profit by a further 16%.

Operating profit was positively impacted by the following once-off items and period-end adjustments:

- A net R5 billion positive variance due to the partial impairment of our Canadian shale gas assets and the reversal of the Nigerian provision accounted for in the first half of FY16.

This was partly negated by a net R2 billion cost of once-off items accounted for in the first half of FY17. This cost consists of a :

- R1 billion impact of the mining strike on our business and
- an increase in the rehabilitation provision of R500 million,

Contributions from our cost and cash saving initiatives, positively impacted profit.

The continued focus on operational excellence and volume stability led to an overall 1% increase in the Group's sales volumes.

## SLIDE 15: CASH FIXED COSTS DOWN 1% IN REAL TERMS |

Our cost and cash containment programmes continue to deliver against stretched targets, which is underpinned by an entrenched culture of delivering high performance results and sustained value to our shareholders and stakeholders.

Normalised cash fixed costs were down 1% in real terms for the period despite the increased costs from the mining strike action in Secunda.

Our Business Performance Enhancement Programme and Response Plan targets have been exceeded, which resulted in the 2,7%reduction in our cash fixed cost base.

The mining strike increased fixed costs by 2,1%.

Restructuring costs and other once-off costs were 0,9% lower compared to prior period.

On a macro level, South African producer price inflation increased costs by 7,0%. The impact of the slightly weaker average exchange rate during the period had a rather muted impact on costs.

## SLIDE 16: RESPONSE PLAN AND BPEP

Delivery against our low oil price Response Plan is forecast to achieve the upper end of the R65 billion to R75 billion range.

The programme until now has delivered cash and cost savings totalling R54,9 billion.

We have therefore banked approximately 75% of our maximum target over the last 24 months and still have 18 months to go.

We have increased our savings target for FY17 to between R22 and R26 billion.

Turning to our BPEP programme,

Sustainable savings, during the period, amounted to R4,9 billion and we are now on track to deliver on our FY17 R5 billion savings target.

## SLIDE 17: MINING AND EPI OPERATING BUSINESS UNITS |

Now Focusing on our Operating Business Units:

Mining's operating profit decreased by 35% to R1,5 billion, mainly as a result of the increased costs associated with the 3 month strike at our mines in Secunda as well as improving operations stability at our Sigma mine.

Increased coal purchases, although at higher prices, ensured uninterrupted that supply to our downstream units.

We are refocusing our efforts to ensure that an increase in cost of this magnitude does not re-occur.

Stockpiles are in the process of being restored to ensure uninterrupted supply to Synfuels.

Our export coal business benefitted from higher international coal prices and as part of the financial risk mitigation strategy I referred to earlier, we have hedged our export coal prices for the remainder of the financial year at an average of $82 per ton.

Exploration and Production International recorded an operating profit of R204 million, through focused management interventions to return this business to sustained profitability.

Our Mozambican operations recorded a profit of R1,0 billion compared to R437 million in the prior year. The increase was mainly as a result of a 3% increase in production volumes and positive translation effects.

We continue to de-risk our Canadian assets and focused on completing already drilled wells.
We currently have no drilling activity and will only commence further drilling activities once we see a sustainable increase in gas prices.

The performance of our Gabon assets improved significantly, reducing their loss to R41 million as a result of several management interventions taken.

## SLIDE 18: CHEMICALS

The chemical businesses continue to provide resilience to the overall group's earnings in a low oil price environment, with a combined contribution of 47% to group profitability.

The average dollar basket price of base chemicals was 6% lower.

Average margins for Performance chemicals remained resilient across product lines despite global market volatility and depressed ammonia prices.

On a normalised basis, the PC operating profit increased by 9%.
This strong performance is largely as a result of resilient margins in our European organics business and increased US ethylene sales prices.

Our Eurasian operations reported another exceptional performance with a 5% improvement in production volumes following on from their record performance last year.
Normalised operating profit in Base Chemicals remained flat, despite the 6% lower product basket price.

Sales volumes were up 11%, following improved production stability and delivery of additional C3 volumes after the commissioning of the C3 expansion project.

The strong closing exchange rate had a significant impact on the business year on year resulting in negative translation effects of approximately R900 million.

As a result of the strong exchange rate, we are forecasting normalised operating profit for the full year to be between R4,5 and R5,5 billion.

## SLIDE 19: ENERGY SBU |

Our Energy business delivered a fair set of results, relative to the current macroeconomic environment, as evidenced by the 38% and 12% decline in petrol and diesel differentials.

Liquid fuels sales volumes from our Secunda operations were 2% lower following a decision by management to move more molecules towards our higher yielding chemical businesses.

The Southern Africa Energy portfolio was further impacted by a stronger closing rand/US dollar exchange rate. However, management's focus on factors within their control, resulted in a 2% reduction in nominal cash fixed costs.

Our ORYX GTL venture contributed R344 million to the Energy business. The plant achieved an average utilisation rate of 95% over the period and we are confident that at this trend we will be able to deliver an average utilisation of above 90% for the full year.

In Nigeria, the maintenance turnaround at the EGTL plant is expected to be completed in the first quarter of the 2017 calendar year followed by a planned ramp up towards design capacity and stable operation.

## SLIDE 20: CAPITAL ALLOCATION

We are increasing our focus to improve Sasol's capital allocation principles in pursuit of delivering maximum sustainable value for our shareholders and stakeholders.

Our aim is to drive a process that is disciplined in the way it is executed whilst being transparent so that internal and external stakeholders are clear as to how we allocate capital.

The two key overarching objectives are to firstly, protect and strengthen the balance sheet
and then to focus on value based capital allocation

Protecting our license to operate and ensuring the integrity and reliability of our assets is our first priority.

Following this we remain committed to a dividend payment of at least 2,8 HEPS cover or 36% payout ratio, provided we can maintain our investment grade credit rating.

Our next priority will be a trade-off between value levers which can derive the most value for our shareholders which include:

1. value based growth delivered from our portfolio of projects which may include merger and acquisitions transactions,
2. value returned to shareholders through targeted and increased dividend payout ratios, however still remaining within our 2,2 – 2,8 range,
3. and lastly value returned to shareholders through special dividends and/or focussed share buy-back programmes

Important to note that these levers will be competing equally for capital.

As we consider these trade-offs, we are guided by key Financial risk and return metrics such as our gearing and liquidity levels and the return on invested capital in making this decision with the ultimate objective to deliver maximum sustainable return to shareholders.

More details of this process will be shared during our Investor Strategy day later this year.

## SLIDE 21: CAPITAL SPEND FORECAST

Our actual capital expenditure for the period was R30,2 billion. This includes capital expenditure for LCCP amounting to R17,4 billion or US$1,2 billion.

Our 2017 capex estimate has decreased by R9 billion to R66 billion and our 2018 forecast remains at R60 billion, largely due to the impact of the stronger rand refinements to the LCCP spend profile.
I would just like to reiterate that the revised estimates do not impact the current cost and schedule delivery of the LCCP project.

We estimate the capital expenditure at LCCP to be approximately US$2,9 billion for FY17 and US$2,4bn for FY18.

We have based our forecast on a R14,15 to the dollar exchange rate for FY17 and R14,50 for FY18.

Further Rand strength will have a positive impact on these estimates as the bulk of our expenditure over the next two years is dollar based relating to the LCCP and the PSA in Mozambique.

I would like to remind you that the LCCP is a dollar based project funded by dollars generated by our offshore operations and dollar debt facilities. No ZAR funds will therefore be used to fund the LCCP.

While we continue the execution of these projects, our other projects such as the FT wax expansion project and our Gemini high density polyethylene joint venture with Ineos, only to name a few, are currently nearing the end of construction or will reach beneficial operations shortly.

These projects will add further value to earning & returns prior to the start-up of the LCCP.

## SLIDE 22: LIQUIDITY HEADROOM

The current market volatility & stage of execution of our growth program requires from us to pro-actively protect our balance sheet, and to ensure that we have sufficient liquidity available.

This will be achieved through :

continued contribution of our cash and cost savings programmes,

the sustained performance of our diversified global assets,

the implementation of several financial risk mitigation strategies, such as our oil and currency hedging programmes,

and putting facilities in place to ensure that we have sufficient liquidity headroom.

Since Q2 of financial 2017, the management team, guided by our current hedging policy, put hedges in place to mitigate the risks associated with the crude oil price and rand dollar exchange rate in addition to the coal swaps I referred to earlier.

We have entered into crude oil put options for a further 22,4 million barrels at an average net floor price of approximately $47/bbl.

This represents a 75% hedging cover ratio of our production for the six months ending June 2017.

Our current net debt to equity ratio, which increased to 25% - is towards the bottom end of our 25 to 35% guided range.

This provides us with additional headroom compared to our estimates.
We remain confident that we will not exceed our self-imposed gearing ceiling of 44% and will manage net debt to EBITDA to below 2 times.

Our credit ratings remain a critical focus area and we will strive to maintain them at the current investment grade levels.

We remain confident that the interventions already in place
will ensure that we navigate a volatile environment safely,
while continuing to deliver value to our shareholders by paying dividends in line with our current dividend policy.

## SLIDE 23: FY17 OUTLOOK

Even though we anticipate continued oil price and exchange rate volatility,
we expect a solid second half performance
leading to an overall strong business performance for the 2017 financial year.

However, I need to stress that a stronger rand, may negate some of the improved fundamental performances of the company during this period.

We expect our Mining business to return to full production with a strong focus on production costs.

We project South African liquid fuels sales volumes to be approximately 61 million barrels with ORYX GTL's utilisation rate averaging above 90%.

Base Chemicals sales volumes are expected to be between 4 and 6% higher with dollar product prices recovering.
We are confident that our Gemini project will reach mechanical completion by the middle of this calendar year.

Performance Chemical's sales volumes to be higher with margins remaining resilient.
We expect to see the full benefit of our wax expansion project in the 2019 financial year.

We expect cost and cash savings contributions to continue to track towards our revised targets.

We expect our balance sheet to reach gearing levels of between 30 to 35% and net debt to EBITDA to be below 2 times.

In closing,
we continue to drive operational and capital excellence
to ensure a strong Business performance

despite the volatile macroeconomic environment.

Maintaining our focus on the factors within our control
is a key imperative as we sharpen our focus on driving disciplined and transparent capital allocation in pursuit of delivering maximum sustainable value to our shareholders

On that note, I'll hand back to Steve who will open the floor for questions and answers section.