KHANYISA

Dear Sasol Khanyisa Public shareholders,

The COVID-19 pandemic and the subsequent fall in oil prices have caused significant volatility for the chemicals and energy sector, including Sasol and Sasol Khanyisa Public (RF) Limited. To respond to the impact of this unprecedented market volatility on Sasol, a comprehensive response strategy was announced by Sasol Limited President and CEO Fleetwood Grobler on Tuesday, 17 March 2020 to stabilise the company, protect our balance sheet and preserve the interests of all our stakeholders. We encourage you to please see the full statement outlining our response here https://sasolir313.hosted.inetbfa.com/news/story/4e57da9e-9909-4e0e-a104-e3a0421ab521 that was sent to the market targeting Sasol Limited ordinary (SOL) and Sasol Limited BEE ordinary (SOLBE1) shareholders.

Collectively, this plan is designed to generate at least R105 billion* by 30 June 2021. This value is expected to reshape Sasol's balance sheet and provide the platform to deliver a globally competitive business. Fortunately, we have worked hard to make sure that the Sasol Group has sufficient liquidity (availability of cash) for the next 18 months, which is currently at about R43,75 billion*. Even at current oil price levels and with an oil hedging programme in place, Sasol is expected to be within our financial covenants with the banks at 30 June 2020.

In summary, Sasol's comprehensive response focuses on self-help management actions, stepped up asset disposals and partnering and a potential equity raise. Our self-help measures, which are steps within our own control, focus on conserving cash. By running the business in a more cash-efficient manner, we can generate an extra R35 billion* by 30 June 2021. The two remaining measures to help raise the balance of the targeted R105 billion*, entail:

- An accelerated, broader asset disposal programme which will deliver proceeds significantly ahead of the R35 billion* currently targeted.
- Potentially raising up to an extra R35 billion* from our shareholders, known as a rights issue, to further strengthen our financial position. The precise sum we need to raise will depend on the progress we make with the self-help measures and the asset disposals.

The Sasol Khanyisa Public (RF) Limited Board of Directors recently declared a dividend of R0,43 per share (R0,34 per share after dividend withholding tax). The decision was based on the dividend declared by Sasol South Africa Limited (SSA), which is the underlying investment of Sasol Khanyisa Public (RF) Limited, and houses Sasol's Chemicals and Synfuels' Energy businesses.

Although 97,5% of the dividends received from SSA has been used to pay back the loan to Sasol Limited, the cash flow generated by SSA from which the dividends are declared, was not sufficient to cover the interest accrued to date on the Sasol Khanyisa Public (RF) Limited loan. As a result, this has led to an increase in the loan from R8,3 billion to R8,8 billion as at 31 December 2019, after taking into account the interest accrued and repayments made to date.

SSA's cash flow has reduced because of the decrease in the rand per barrel price of Brent crude oil and the significant decrease in prices of the chemicals and energy products that SSA sells. Sasol does not set these prices, as they are determined by the oil and chemicals markets.

Here are salient features of SSA's financial performance:

Salient features of SSA for the six months ended 31 December 2019

Company value

R195 billion

(the Company valuation is performed once a year at 30 June)

Turnover

R46,3 billion

Capital expenditure

R7,8 billion

Dividends

FY19 interim	R3,3 billion
FY19 final	R2,2 billion
FY20 interim	R5 billion

* Rand/USD exchange rate assumed - R17,50

Earnings before interest and taxation (EBIT)

R9,3 billion
HY19

HY20
R6,2 billion

mainly due to:

Lower commodity chemicals sales prices

Chemicals

736	1 570
US$/t	US$/t
▼ 15%	▼ 14%
Base chemicals	Performance chemicals

Increased coal feedstock costs and R540 million carbon emissions cost

Lower crude oil prices

Brent crude oil

63
US$/bbl
▼ 12%

Unfavourable average exchange rates

Exchange rate

14,70
R/IS$
▲ 4%

The COVID-19 pandemic has caused widespread and far-reaching disruption across much of the world, including South Africa, which is unprecedented. With the duration and extent of the pandemic uncertain, the economic impact is unknown. The subsequent fallout in the oil markets triggered by leading oil producers has exacerbated these circumstances.

Given Sasol Limited's financial circumstances and constrained balance sheet, as a result of the peak capital expenditure at the Lake Charles Chemical Project (LCCP), the impact of this fallout on Sasol has been dramatic.

Although Sasol cannot control these important external factors, Sasol is confident that the response plan recently announced will preserve the interests of all our stakeholders, including our Sasol Khanyisa shareholders, while protecting and strengthening our financial position.

Sasol Khanyisa remains an integral part of Sasol's business, as we seek to honour our commitment in driving transformation in the ownership patterns of South African companies by previously disadvantaged groups.

As always, please contact Link Market Services 0800 800 010 for information on shareholding, as well as to update any details that may have changed.

Please stay safe.

Mr M Solomon
Senior Vice President:
Office of the Chief Executive Officer
Sasol Limited

31 March 2020

GLOSSARY / FACT SHEET

- **Asset disposal** – Asset disposal is the removal of a long-term asset e.g. an OME or a business unit such as explosives, from Sasol's accounting records and ownership, usually through a sale to another company. Often, when an asset is chosen for disposal it is due to it being identified as being better operated by another company. Assets disposed of support Sasol's balance sheet through the money received from any sale being re-invested into Sasol.
- **Asset integrity** – Asset integrity is the term for an asset's capacity to run effectively, while also protecting the wellbeing of all personnel and equipment it interacts with.
- **Balance sheet** – A financial statement that reports a company's assets, liabilities (such as debts) and shareholders' equity at a specific point in time. It is similar in nature to an individual's monthly bank statement.
- **Business optimisation** – The process of measuring how well a business is performing and then finding ways to improve it if needed to be more competitive or profitable.
- **Capital structure** – The capital structure is the combination of debt (e.g. loans from banks) and equity (the value of the shares issued by the company) that are used together to provide Sasol with the finance to run its overall operations and invest in future growth.
- **Cash flow** – Cash flow is the net amount of cash and cash-equivalents being transferred into and out of a business. A company's ability to create value for shareholders is determined by its ability to generate positive cash flows.
- **Covenant** – In order for Sasol to borrow money from lenders, conditions are often made by them that Sasol must not break, which are called covenants. For example, Sasol must not take out further loans from other lenders that go above a certain value.
- **COVID-19** – Coronavirus disease (COVID-19) is an infectious disease caused by a new virus that had not been previously identified in humans. The virus causes respiratory illness (like the flu) with symptoms such as a cough, fever and in more severe cases, pneumonia.
- **Cost competitiveness** – A product or service that Sasol produces is cost competitive when it is cheap compared to other similar quality products, or services produced by competitors. When a product is not cost competitive, it becomes more difficult for Sasol to sell it.
- **Credit rating agency** – When lenders wish to lend money to Sasol, they go to a credit rating agency to understand how credit worthy Sasol is. A credit rating agency holds information about how well Sasol has repaid previous loans, as well as assesses Sasol's ability to be able to repay new loans. With this information the lender will decide if it has a good chance of the money being repaid by Sasol and how much to charge Sasol for a loan. A good credit rating often means Sasol is given a lower interest rate on a loan.
- **Default** – Failure to meet obligations as they fall due for payment e.g. missing a loan repayment. If further payments are missed a lender could ask for its money back.
- **Downgrade** – This happens when a lender or a credit reference agency decides the prospects for Sasol are not as good as they once were and is likely to lead to an increase in the cost for Sasol borrowing money. In turn, this can make Sasol's products more expensive and less competitive and can mean Sasol makes less profits.
- **EBITDA** – Earnings Before Interest, Taxes, Depreciation and Amortisation, which is a measure of a company's overall financial performance.
- **Forward-looking statements** – These are statements made by companies in order for investors to understand what management believes are reasonable assumptions for the future. However, these statements are subject to risk and uncertainty and are predictions only.
- **Gearing** – The relationship, or ratio, of a company's debt – all the money it owes to equity. Gearing shows the extent to which a firm's operations are funded by lenders versus shareholders.
- **High cash yielding assets** – These are assets which generate a strong commercial return, usually in terms of profit and in areas of competitive advantage, as compared to other assets which may produce lower profits.
- **Inventory** – Inventory is the term for the amount of finished goods Sasol has available for sale e.g. chemicals and the amount of raw materials owned and available to produce goods available for sale.

- **Lending groups** – These are groups of financial institutions who pool their resources to meet a loan requirement from Sasol.
- **Leverage** – An investment strategy of using borrowed money to increase the potential return on an investment.
- **Liquidity position** – This refers to how easily assets can be converted into cash. Assets like stocks and bonds are very liquid since they can be converted to cash within days. However, large assets such as property, factories and equipment are not as easily converted to cash as they take much longer to sell.
- **Macroeconomics** – This is the study of the performance, structure and decision-making in an economy – such as South Africa's economy or China's economy, by financial commentators such as banks and academics.
- **Net debt** – Net debt is a metric used to determine how well a company can pay all of its debts if they were due immediately. The speed at which a company can pay debt is dependent upon which assets can be sold for cash quickly and this is known as being liquid.
- **Oil hedging strategy** – Oil hedging is used to reduce or eliminate a company's exposure to fluctuating oil prices. It is a contract entered into with a financial institution allowing a company to fix or cap an oil price at a certain level or period of time entered into with a supplier of oil.
- **Organic deleveraging** – The process of being able to reduce the level of Sasol's debt rapidly by only selling Sasol's own assets and not requiring finance from other sources such as loans.
- **Profitability** – A profit is what is left from the price Sasol generates from selling a product or service after it pays all the expenses directly related its creation, such as manufacturing and energy costs and employee salaries.
- **Receivables** – Receivables, also referred to as accounts receivable, are debts owed to a company by its customers for goods or services that have been delivered or used, but not yet paid for.
- **Rights issue** – Companies most commonly use a rights issue as a way to raise additional capital. A company may need extra capital to meet its current or unexpected financial obligations. Companies typically use rights issues to pay down debt by selling new shares. A rights issue is an offer by a company to its shareholders to purchase more shares in the company in proportion to its existing shareholding. It can be renounceable, which means the shareholder can also sell these rights.
- **Self-help measures** – These are measures taken by Sasol which are within its own control in order to help meet financial obligations. These include conserving cash – which means running the business in a more efficient manner, that can generate cash in the long term. However, for any energy company, this never means compromising the safety of operations or the integrity of assets.
- **Shareholders** – The owners of the shares in a business.
- **Shareholder value** – Shareholder value is the value delivered to the equity owners – the owners of the shares in the business – due to management's ability to increase sales, earnings, and cash flows.
- **Underwritten** – Underwriting is the process through which an individual or institution takes on financial risk for a fee. For example, an insurance company will underwrite the policy which is designed to pay out in the event of the claim in return for a monthly fee or a bank will underwrite a loan in return for a fee known as the interest rate it charges on the loan.
- **Value chain** – A value chain is a business model that describes the full range of activities needed to create a product or service and bring it to market where customers can buy it. For companies that produce goods, a value chain comprises of the steps that involve bringing a product from conception to distribution, and everything in between – such as sourcing and buying the raw materials, manufacturing functions and marketing activities.
- **Value proposition** – A value proposition is the promise of the value or benefit the customer expects to receive from a Sasol product or service.
- **Working capital** – Working capital is the difference between a company's total current assets such as cash, accounts receivable (customers' unpaid bills Sasol is awaiting payment for) and inventories of raw materials and finished products and services, compared to Sasol's current liabilities such as the bills it must pay, also known as accounts payable.

Sources: Investopedia, Global Risk Management, Cambridge Dictionary, World Health Organisation, Simplicable, Oil & Gas IQ