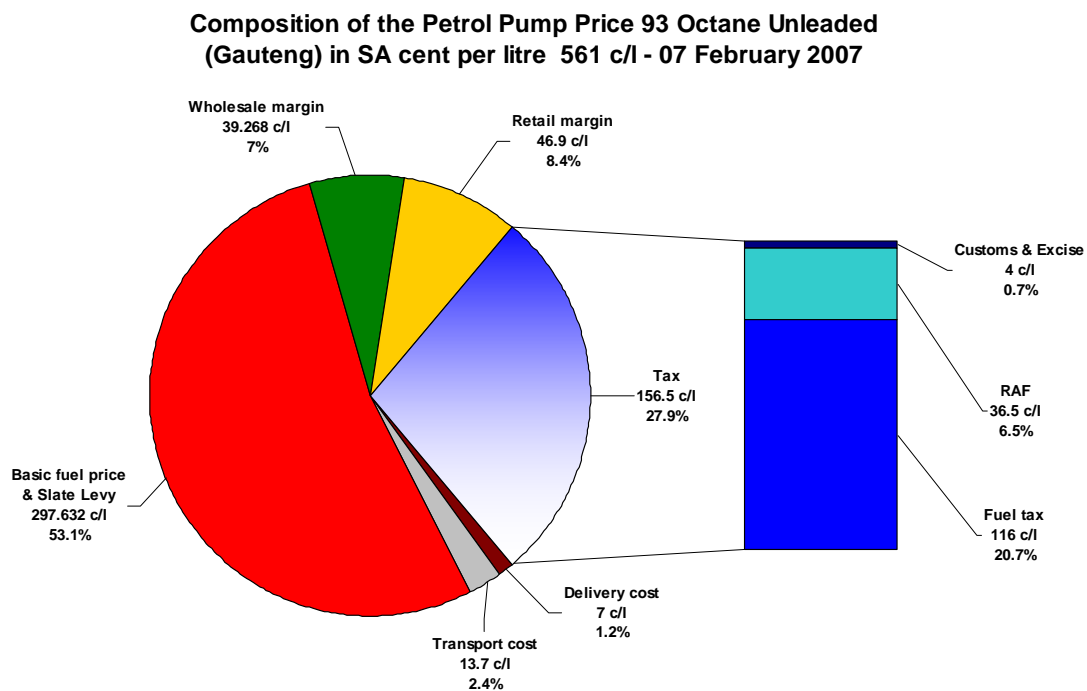


How fuel prices are calculated in South Africa

The petrol retail price is regulated by government, and changed every month on the first Wednesday of the month. The calculation of the new price is done by Central Energy Fund (CEF) on behalf of the Department of Minerals and Energy (DME).

The petrol pump price is composed of a number of price elements and these can be divided into international- and domestic elements. The international element, or Basic Fuel price (BFP), is based on what it would cost a South African importer to buy petrol from an international refinery and to transport the product onto South African shores.



Note – Diesel Retail price not regulated, retail margin estimated to be similar to regulated retail margin on petrol.
RAF= Road Accident Fund

Now for some more detailed explanation of the terminology used above in the graph.

1. Basic Fuel Price (BFP)

The In Bond Landed Cost (IBLC) was first introduced in the 1950s with the establishment of the first refinery in South Africa, and was previously revised in 1995, when a market spot price component was introduced. In a constantly changing world, the use of refinery gate prices posted by international refiners (known as postings) has become somewhat anachronistic in world trade as these no longer track international market prices consistently. This has resulted in the IBLC losing credibility as a reasonable proxy for international fuel prices.

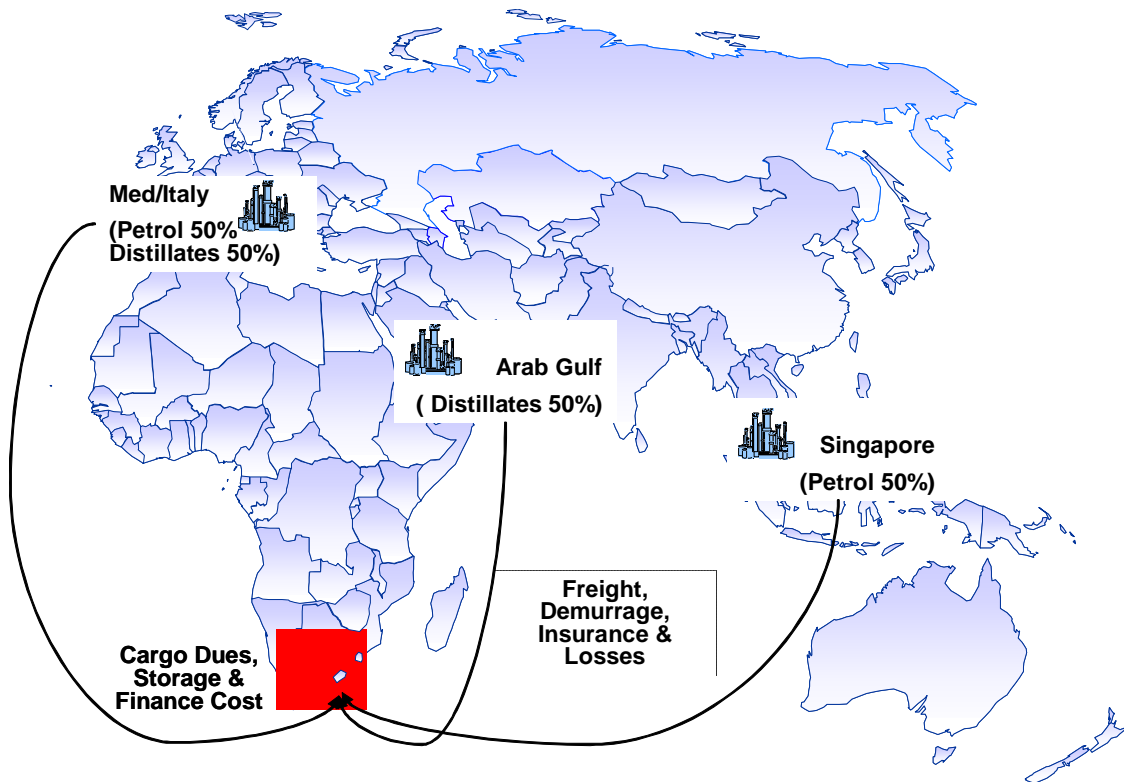
The Basic Fuel Price (BFP) formula replaced the IBLC formula on 2 April 2003.

This formula was negotiated in a positive spirit, with government and industry – African Minerals and Energy Forum (AMEF) and the South African Petroleum Industry Association (SAPIA) – agreeing on the new pricing formula, maintaining an import parity price structure.

The BFP formula reflects the realistic cost of importing a litre of product from international refineries with products of a similar quality compared to local South African specifications on a sustainable basis.

The BFP formula changes on the first Wednesday of every month based on the average daily international price movements and exchange rate fluctuations based on the “3-working day optimisation” mechanism. This means that the number of days between the first Wednesday of each month when fuel prices are adjusted and the last working day in which fuel price data is collected to determine price changes, will be restricted to 3 working days prior to the price change. For example, when fuel price was adjusted on 7 June 2006, the period used was from 26 April 2006 to 1 June 2006.

BFP is based on international market prices of petroleum products, reflecting the cost of what the actual import of product to South Africa would cost.



Components include:

International petroleum market spot prices

The largest component of the basic fuels price is the price that one would be paying on international markets when physically importing product to South Africa. The FOB (Free on ship's board) product prices from different locations in the world, based on international product availability and product quality, are used. The petrol FOB price is calculated as 50% of the Mediterranean spot price for Premium unleaded petrol and 50% of the Singapore spot price for 95 Octane unleaded petrol. For the FOB price of Diesel, the BFP formula use spot prices

calculated as 50% of the Mediterranean price for Gas oil and 50% of the Arab Gulf price for Gas oil, plus the quoted spot price market premiums applicable.

Freight cost to bring product to South African ports

The freight component of the BFP reflects the cost of voyages from Augusta (in the Mediterranean), Singapore and Mina-al-Ahmadi (in the Arab Gulf), in 50:50 combinations as appropriate to the international markets used in the FOB calculations of the products concerned. Tariffs as published by the World Scale Association for transporting refined products via medium-range vessels to a weighted average for South African coastal ports, plus demurrage for an average 35 000 ton vessel for 3 days, adjusted with the Average Freight Rate Assessment (AFRA) of the London Tanker Brokers Panel, plus a market premium for transporting fuels to South Africa.

Insurance costs

Calculated as 0.15% of the product FOB and freight costs, to cover insurance cost, as well as other costs such as letters of credit, surveyors' and agents' fees, and laboratory costs.

Ocean loss allowance

In international petroleum products trading, shipping and insurance, a loss of 0.3% for products has been accepted as a normal leakage/clingage and evaporation loss. Simply put, this means that the "normal" loss is not insurable and has to be accepted by the buyer. The buyer therefore has a financial loss of 0.3% of FOB, Insurance and Freight costs.

Cargo Dues

The BFP calculates Cargo Due charges in terms of the ruling National Ports Authority of South Africa "contract" tariffs for "petroleum products".

Coastal Storage

This element allows recovering of the costs realistically incurred in a substantial import scenario, related to costs of the handling facilities at coastal terminals providing storage.

Stock Financing Cost

The BFP includes a charge for the financing of 25 day's coastal stock of an importer, at an interest rate of 2 percentage points below the ruling prime rate of the Standard Bank of South Africa.

The BFP as determined above is converted to SA cents per litre by applying the applicable SA Rand/US Dollar exchange rate (four banks selling rates at eleven o' clock averaged over the pricing period before the price change), and a constant litre per gallon factor of 3.8038 for petrol.

2. Domestic Elements

To arrive at the final pump price in the different pricing zones (magisterial district zones) certain domestic transport costs, government imposts, taxes and levies and retail and wholesale margins needs to be added to the international price.

a. Transport costs (Zone differential)

Keeping in mind the import principle used, this element recovers the cost of transporting petroleum products from the nearest coastal harbour (Durban, Port Elizabeth, East London, Mossel Bay or Cape Town) to the inland depot serving the area or zone. Transport to the different pricing zones are determined by using the most economical mode of transport i.e. pipelines (C zones), road (B zones) or rail (A zones). This is the only element which values differ per pricing zone, and is the reason why the petrol price is not the same for the whole country.

b. Delivery costs (Service differential)

This element compensates marketers for actual depot related costs (storage and handling) and distribution costs from the depot to the end user at service stations. The value is calculated on actual historical costs of the previous year, averaged over the country and industry.

c. Wholesale (Marketing) margin

Money paid to the oil company through whose branded pump the product is sold, to compensate for marketing activities. This margin is controlled by the government, allowing for changes based on the oil companies' return on their marketing assets.

The formula used to determine the wholesale margin is based on the results of a cost/financial investigation by a chartered accountant firm into the profitability of the wholesale marketers. The level of the margin is calculated on an industry basis and is aimed at granting marketers a return of 15% on depreciated book values of assets, with allowance for additional depreciation, but before tax and payment of interest.

d. Retail margin

The retail margin is fixed by DME and is determined on the basis of actual costs incurred by the service station operator in distributing petrol. Account is taken of all proportionate driveway related costs such as rental, interest, labour, overheads and profit. The way in which the margin is determined creates an incentive to dealers to strive towards greater efficiency, to beat the average and to realise a net profit proportionate to their efficiency.

e. Equalisation Fund levy

The statutory fund levy is a fixed monetary levy, and the fund is regulated by ministerial directives issued by the Minister of Mineral and Energy Affairs in concurrence with the Minister of Finance, as laid down by the Central Energy Fund Act, No 38 of 1977 as amended. In terms of Ministerial Directives the Fund is principally utilised to smooth out fluctuations in the price of liquid fuels through slate payments; to afford synfuel producers tariff protection and to finance the crude oil "premium (price differential applicable to SA oil purchases during the late 1970's).

f. Fuel tax

Tax levied by Government annually adjusted by the Minister of Finance effective from the price change in April of each year, announced in the Minister of Finance in his annual budget speech.

g. Customs & Excise levy

A duty collected in terms of the Customs Union agreement.

h. Road Accident Fund (RAF)

The Road Accident Fund receives a fixed value which is used to compensate third party victims in motor accidents.

i. Slate levy

A levy paid by the motorists recovering money "owed" to the oil companies, due to the time delay in the adjustment of the petrol pump price.

You may now have a number of questions including:

Who sets and controls the fuel price?

The petrol retail price is regulated by government, and changed every month on the first Wednesday of the month. The calculation of the new price is done by Central Energy Fund (CEF) on behalf of the Department of Minerals and Energy (DME).

As the BFP is used by the government as the transfer price between refining and marketing in the price build-up for petrol retail price control, South African refineries are price-takers. Neither the local refineries nor the government has any control over changes in this element, as it is based on international petrol prices. It also means that South African refineries have to compete with very large and efficient international refineries, based in Singapore, the Mediterranean and the Arabian Gulf.

Margin and transport element changes are based on actual cost incurred by the South African industry and are calculated according to specific formula ensuring efficiency in operations. These changes have to be approved by the Minister of Minerals and Energy before it is allowed into the price.

What drives international petrol prices?

Essentially, prices are driven by supply and demand for petrol in a particular market. Additionally crude oil prices have a major effect on the petrol prices. A crude oil refinery's biggest input cost is crude oil. In order for a refinery to make a profit, the price for the product manufactured from crude oil has to be higher than that of the crude oil price. When crude oil prices increase – as they have over the past number of months – the petrol price must increase so that crude oil refineries are able to cover their own costs.

While the above scenario is relevant to Natref, a joint venture between Sasol and Total that refines crude oil into liquid fuels, crude oil prices do not influence Sasol Synfuels because their input cost is that of coal. The capital cost of Sasol Synfuels is however, much higher than that of a conventional crude oil refinery.

Because both crude oil and international petrol prices are dollar-based, any weakening of the SA rand / US dollar exchange rate will also increase the domestic petrol price.

What effect does the petrol price have on Sasol's business?

Depending on the increase in the petrol price relative to crude oil, the impact of the higher petrol price on Natref could be negative, neutral or positive. For Sasol Synfuels a rise will always be positive and a decline negative.

Why are the Sasol branded fuel not cheaper, being a local company producing fuel from coal?

Sasol Synfuels produce about 30% of the country's fuel from coal, the rest on the petrol are produced in conventional crude refineries – having to import crude oil and refine it into petrol. Sasol Synfuels produced petrol, are also subjected to petrol retail price control as stipulated in the Petroleum Products Act, and we therefore cannot sell it at a price different to the regulated retail price. This petrol price regulation means that the petrol pump price at all service stations in a pricing area must be the same, and no discounting is allowed.