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# Follow-up briefing to the Portfolio Committee on Trade and Industry on beneficiation

24 October 2014



A new era for Sasol

# Presentation overview

- Our understanding of beneficiation
- Polymer business briefing
- Conclusion



Sasol forecourt, Secunda



Lake Charles, Louisiana



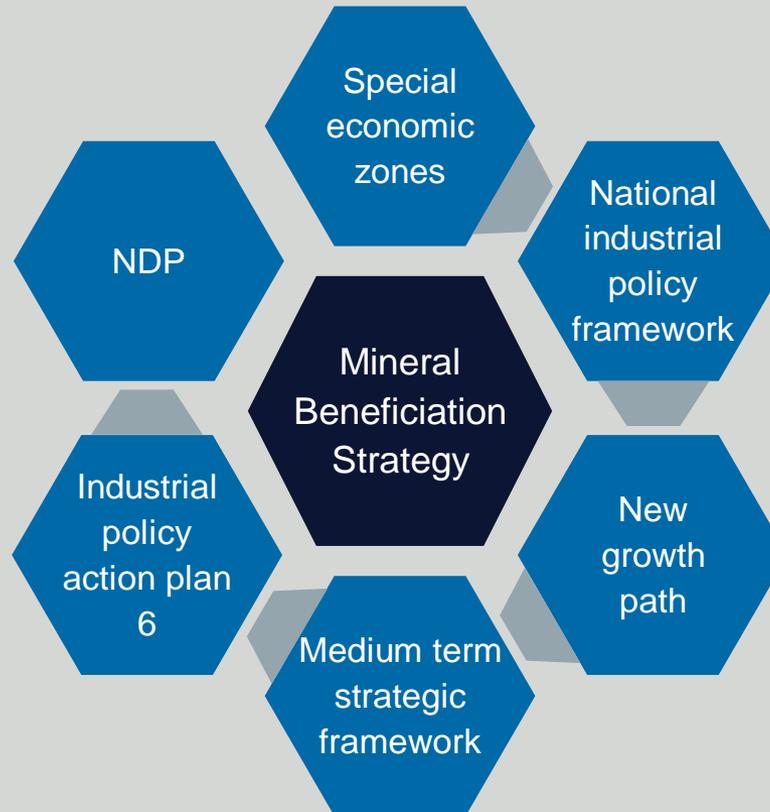
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# Our understanding of beneficiation



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# Beneficiation is central to SA policy development



Common to all policy instruments is the principle of “adding value to raw materials from extraction through to the sale of finished products to consumers”

# The “value adding” principle is reflected in the IPAP 6 drivers in order to further industrialisation based on beneficiation

## Some key drivers and interventions

### IPAP6 drivers and interventions

1. Labour absorbing manufacturing

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2. Technology acquisition and innovation

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3. Shale gas prospects to be confirmed

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4. Intra-regional trade in Southern Africa

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5. Beneficiation of mineral resources and driving opportunities that improve balance of payments



### Sasol contribution and future plans

In excess of 29 000 people directly employed in SA – our 2050 strategy will see us continuing to do so

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Global leader in GTL and CTL with a strong intellectual property portfolio (490 registered patent families)

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Sasol’s international shale gas technical experience to be shared to benefit of SA inc

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Investing across the region, particularly in Mozambique

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Applying technology innovation to beneficiate low value feedstock

# Facilitating the competitive advantage means going back to basics

- Access to affordable and available utilities such as:
  - Electricity
  - Water
- Cost competitive logistics infrastructure such as:
  - Rail
  - Ports
- Enabling regulatory framework
- Decreased labour disruptions
- Access to increased skill base



# In FY14 we contributed R1,4 billion to socio-economic development

- Includes Sasol Ikusasa, bursaries, learnerships and artisan training programmes:
  - R901 million spent on our employees
  - R186 million invested in our communities in Secunda and Sasolburg
  - R 47 million representing our bursary (one of the largest in South Africa) focusing on primarily on developing talent in science, technology and engineering disciplines
  - R311 million for corporate social responsibility initiatives
- Currently we have 577 undergraduate and postgraduate bursars



Sasol Convenience Centre



Sasol Secunda



Gas-to-power plant, Sasolburg



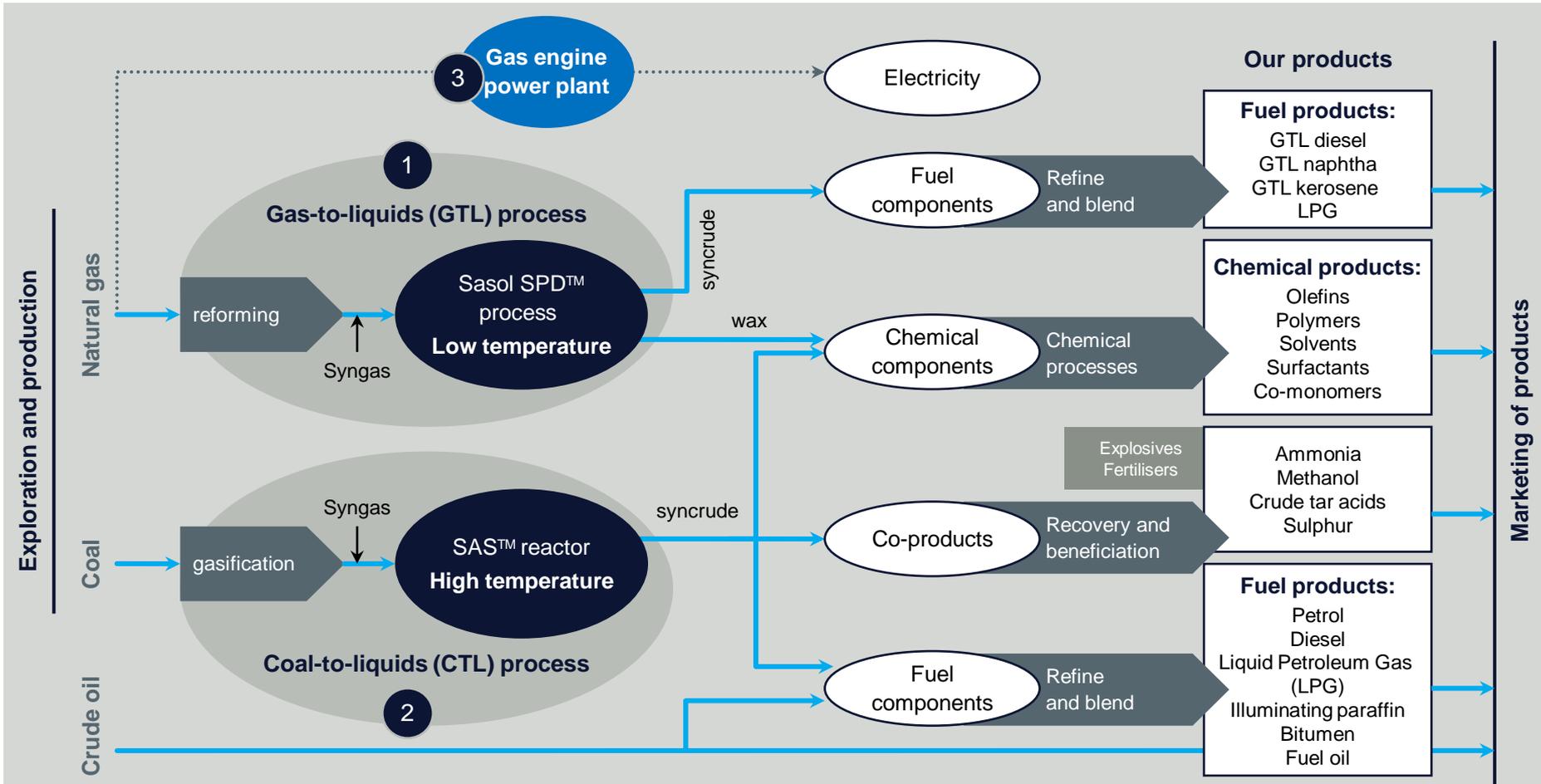
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# Polymer business briefing



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# Innovative technology and an integrated value chain – delivering real value through beneficiation



**1** A proprietary version of Sasol's low temperature Fischer-Tropsch (FT) process using an advanced cobalt catalyst, converts synthesis gas into waxes and related petrochemical streams for producing and marketing waxes and diesel.

**2** The proprietary Sasol Advanced Synthol™ Reactor (SAS) at the heart of the high temperature version of Sasol's FT process used at Secunda, produces a synthetic form of crude oil and chemical feedstock.

**3** Lower-carbon electricity allows us to cumulatively generate up to 69% of our total internal electricity requirements in South Africa.

# Specific characteristics of the polymer market

**Polymers are versatile products that are used in many industries**

e.g. Packaging, construction, housewares, carpeting, medical, automotive and carpets

**Growth driven by consumption of different end-products**

Polymers typically make up a small proportion of end-products they are used in (e.g. bottle cap, food packaging). Each of these is driven by its own growth and competitive dynamics

**Polymer properties improvements**

Polymers' physical properties have improved significantly, resulting in less material being used in applications (e.g. since 80s, mass polymer reduced by 50% in some applications)

**Polymers can be transported at low cost**

Polymers are packaged in 25kg bags and can be transported between countries at comparatively low cost in containers (e.g. cost of shipping from SA to China is less than \$15/t)

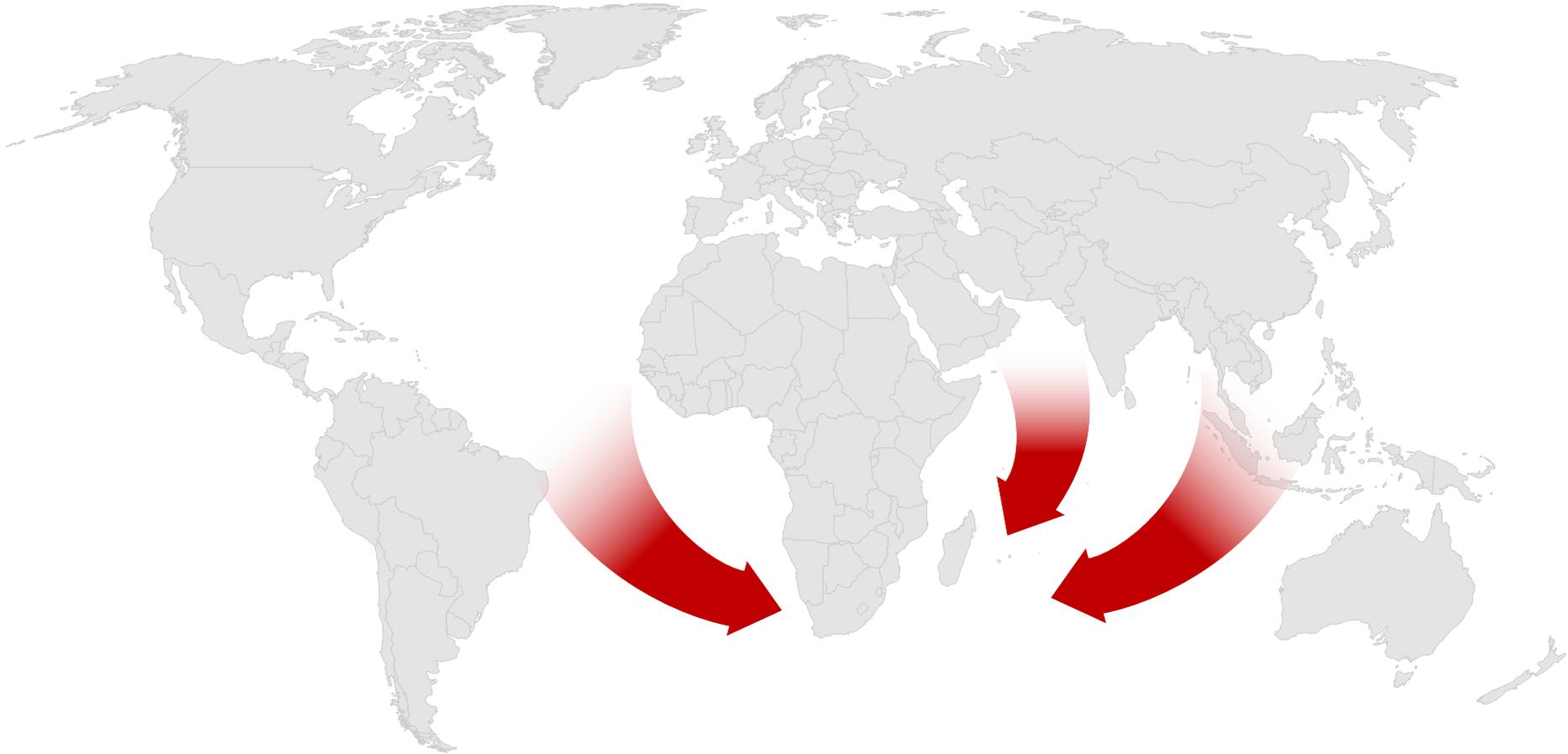
# South African polymer market pricing history



- Prior to 1996, polymer prices were set through a reference pricing mechanism
- 1996 South Africa became a signatory to the WTO (Uruguay Round) which resulted in polymer importers having free access to the South African converters, subject to a 10% (FOB) import tariff.
- The polymer industry restructured to deal with the lower prices. Feedstream ethylene was diverted from the fuel pool to produce PVC and PE at a lower cost base.
- Feedstock propylene was previously (1990) diverted from the fuel pool to produce polypropylene
- The fuel alternative value of the feedstreams is the measure against which polymer manufacture is measured.
- South Africa abolished all import tariffs on all polymers 2009

Polymer pricing was now set by converters choosing the most competitive offer

# Competition comes mostly from East Asia and Middle East



Joining the WTO has resulted in direct competition for polymer sales to South African converters, resulting in an effective reduction in prices

# Sasol polymers offers the following rebates to support the industry



## The Customer Export Incentive Programme (“CEIP”)

Provides a rebate to customers that export converted products

## Import replacement support

Provides support to market sectors that face severe competition from imported converted goods

## Market development support

Provides support to customers that develop specific markets

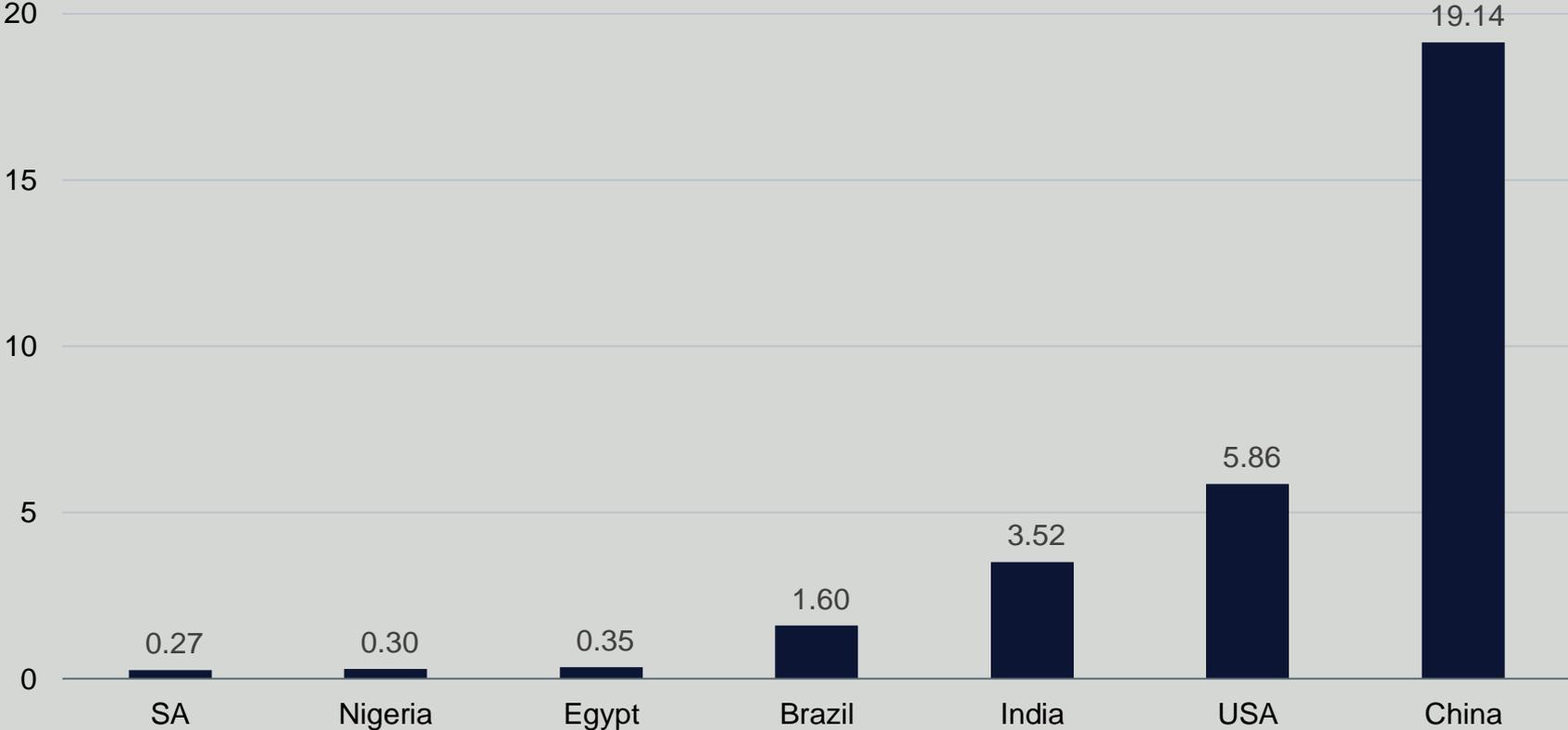
## Product development support

Provides support to customers that develop new products

# The South African is polypropylene sales are small by comparison to other regional markets, e.g. only 1,5% of the Chinese sales



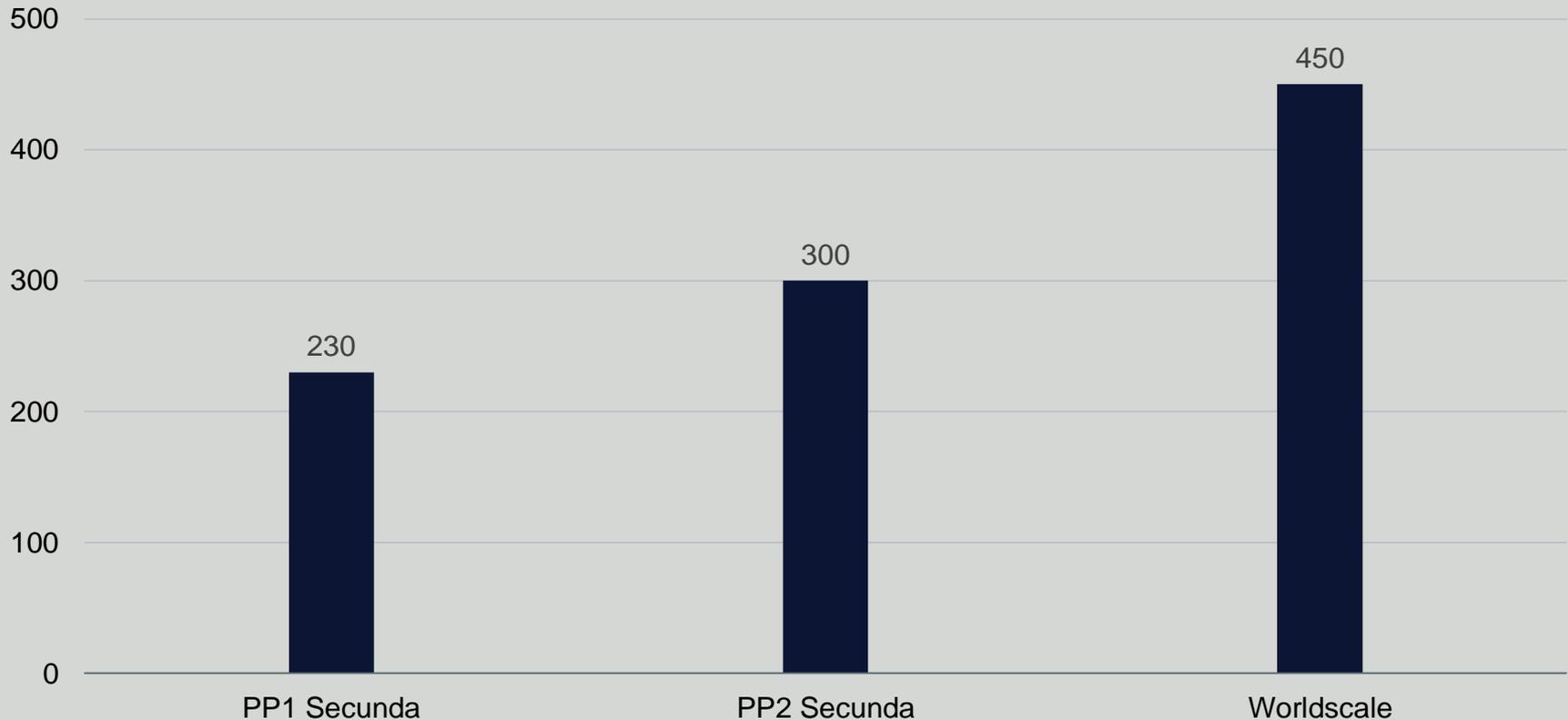
PP consumption, million tons per annum



Source: ATEC database

# Technology development still leading to larger plants. New polypropylene plants are twice the size of volumes supplied to South African converters

Worldscale PP plant capacities have increased 50% in 10 years



# Factors that influence the overall competitiveness of the value chain of polymer to end consumer

- Transport costs
  - Domestic freight and port costs
- Infrastructure
  - Availability of electricity
- Labour
  - Skilled and stable labour
- Administered prices
  - Rise in electricity prices
- Material prices (polymers, steel, etc)
  - Internationally competitive prices with appropriate duty protection

**The long term viability of the value chain depends on both the upstream and downstream being sustainably profitable, to attract ongoing investments**



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# Conclusion



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# Conclusion

- Polymer prices in South Africa are set by the most competitive offer to the converter
- The competitiveness of the polymer value chain depends on a number factors, not just price
- The long term sustainability of the South African polymer conversion value chain requires economically profitable polymer production and conversion sectors

**For South Africa to realise our comparative advantage (natural resources) we need to increase our competitiveness (e.g. infrastructure, skills and prices)**



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**Thank you**

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