

SASOL
reaching new frontiers



18 February 2008
Securities and Exchange Commission
100 F Street, NE
Washington, DC
20549-1090
UNITED STATES OF AMERICA

Dear Sir/Madam

SASOL LIMITED SUBMISSION ON CONCEPT RELEASE, FILE NUMBER S7-29-07

In response to your request for comments on the *Concept Release on Possible Revisions to the Disclosure Requirements relating to Oil and Gas Reserves* (File Number S7-29-07) attached please find the comment letter prepared by Sasol Limited (Sasol).

We thank you for the opportunity to provide comments on this document. We have, in addition to our responses to the questions raised, also included other comments on aspects not specifically dealt with in the questions.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

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SASOL LIMITED SUBMISSION ON CONCEPT RELEASE FILE NO S7-29-07

SASOL COMMENTS

In our response to each of the questions raised by the Commission we respond to each of the specific questions in order with bulleted replies, possibly supplemented by some following elaboration.

After our response to the detailed questions we provide some general comments.

In making our response we use the nomenclature of the recently issued Society of Petroleum Engineers Petroleum Resources Management System (PRMS) unless otherwise stated. In particular it is important to note the distinction, critical to the approach in PRMS, between resource classes (degree of commercial maturity) and resource categories (degree of uncertainty).

Where current SEC terminology is employed we indicate this by enclosing the text within double quotation marks.

SPECIFIC COMMENTS

Question 1

Should we replace our rules-based current oil and gas reserves disclosure requirements, which identify in specific terms which disclosures are required and which are prohibited, with a principles-based rule? If yes, what primary disclosure principles should the Commission consider? If the Commission were to adopt a principles-based reserves disclosure framework, how could it affect disclosure quality, consistency and comparability?

Response

- Yes
- The primary disclosure principle should be that the volumes reported have been estimated by applying good oil and gas field practice, as represented by PRMS.
- Replacing a rules-based system with a principles-based one will improve disclosure quality. It will allow companies to report volumes which are rendered developable by new technologies without having to wait for the SEC to approve booking of such volumes. Reporting will therefore more accurately represent the business.

Question 2

Should the Commission consider allowing companies to disclose reserves other than proved reserves in filings with the SEC? If we were to allow companies to include reserves other than proved reserves, what reserves disclosure should we consider? Should we specify categories of reserves? If so, how should we define those categories?



SASOL LIMITED SUBMISSION ON CONCEPT RELEASE FILE NO S7-29-07

Response

- Yes
- All classes and categories of resources should be reportable, but not mandatory. A subset of PRMS classes and categories should be mandatory, 1P Reserves would be an obvious starting point to maintain some continuity with "Proved Reserves".
- SEC would need to give guidelines for the mandatory subset. It would also be useful to define a number of commercial classes of resources.
- SEC should use the PRMS framework and provide guidelines for its application when calculating volumes to be filed with SEC.

Allowing a company to report only a small fraction of its resource base increases the incentive for misrepresentation. If a full spectrum of classes and categories of reserves and resources can be reported then there will be less incentive for companies to force volumes into "Proved Reserves". Also the outdated rules presently enforced by SEC do a disservice to investors, giving them a distorted picture of the status of a company. Arguably a company with all of its hydrocarbon volumes as "Proved Reserves" is less worthy of investment than one with a good spread across reserves and resources. Company value analysis will be improved with this greater level of detail since it will give analysts a clearer view of the company's prospects going forward.

Question 3

Should the Commission adopt all or part of the Society of Petroleum Engineers – Petroleum Resources Management System? If so, what portions should we consider adopting? Are there other classification frameworks the Commission should consider? If the Commission were to adopt a different classification framework, how should the Commission respond if that framework is later changed?

Response

- Yes
- All of PRMS.
- PRMS was the product of extensive study, including comparison of a number of reporting frameworks used in the major oil and gas producing countries. It is therefore a consolidation of best practice and no broader consideration is necessary.
- SEC should commit to keep up to date with PRMS. It should take an active role in the SPE's Oil and Gas Reserves Committee.

After adopting the framework of PRMS SEC should consider defining interpretation guidelines to be used for classification of projects. SEC should adopt changes to PRMS as they are issued but keep the classification criteria equally up to date. The categorisation of uncertainty is less important and rather subjective, again allowing companies to report 1P, 2P and 3P will give more balanced reporting. It will also allow investors to assess risk. The SPE classifications are well accepted internationally and should introduce greater uniformity in reporting.

Question 4

Should we consider revising the current definition of proved reserves, proved developed reserves and proved undeveloped reserves? If so, how? Is there a way to revise the definition or the elements of the definition, to accommodate future technological innovations?



SASOL LIMITED SUBMISSION ON CONCEPT RELEASE FILE NO S7-29-07

Response

- A wholesale change is required.
- See Response to Question 2.
- The system should be principles-based which will therefore not be restrictive of new technology.

An appropriate principles-based system will also be geography-blind which is an important requirement of a new system and a major deficiency of the current regime.

Question 5

Should we specify the tests companies must undertake to estimate reserves? If so, what tests should we require? Should we specify the data companies must produce to support reserves conclusions? If so, what data should we require? Should we specify the process a company must follow to assess that data in estimating its reserves?

Response

- No
- N/A
- No
- N/A
- No

Proper estimation of reserves and resources is a complex intellectual exercise. Specification of rules to be followed will only detract from the quality of the end result. Companies should be obliged to explain the reasons for major changes in the volume reported in any class/category combination to guard against misreporting. The classification criteria issued by SEC as suggested in Response to Question 3 should eliminate the greatest scope for misreporting and permit comparison between companies.

Question 6

Should we reconsider the concept of reasonable certainty? If we were to replace it, what should we replace it with? How could that affect disclosure quality? Should we consider requiring companies to make certain assumptions? Should we prohibit others?

Response

- Yes
- A company should be able to report a range of resource categories if it so wishes. But it should be required to state the definitions and calculation approach that it uses.
- It will improve disclosure quality by more accurately reflecting the business.
- No. Requiring certain assumptions could only be detrimental to the quality of an estimate of resource volume.
- No. Any proscription will potentially reduce the quality of an estimate in the same way that requiring other assumptions would.

A maximum of three resource categories should be reportable, ranging from 'more likely than not', 'as likely as not' and 'less likely than not'. Any company reporting one or two of the categories must be required to report the more certain categories.



SASOL LIMITED SUBMISSION ON CONCEPT RELEASE FILE NO S7-29-07

Question 7

Should we reconsider the concept of certainty with regard to proved undeveloped reserves?
Should we allow companies to indefinitely classify undeveloped reserves as proved?

Response

- Yes
- Use of PRMS will render this question irrelevant. Provided SEC defines it as such (see Response to Question 3) the Reserves class will only be valid for volumes for which a development plan has already been approved by all the necessary bodies, the project timescale will mean that the reserves will be produced in a commercially reasonable time.

This question is superseded by Response to Question 2 and other responses above. PRMS will eliminate the possibility of indefinite classification of undeveloped reserves as proved because they would be allowed only as resources until complete approvals had been obtained. Once approved, the project timescale will mean that indefinite reporting as “proved undeveloped reserves” will not be tenable.

Question 8

Should we reconsider the concept of economic producibility? If we were to replace it, what should we replace it with? How could that affect disclosure quality? Should we consider requiring companies to make certain assumptions? Should we prohibit others?

Response

- Yes
- No replacement required. Prohibiting classification as reserves until all approvals are in place will mean that only once company management, partners and authorities are satisfied that the volumes are commercially producible, using all means at their disposal, will the volumes be reportable as reserves.
- It will improve disclosure quality by more accurately reflecting the business.
- No. Requiring certain assumptions could only be detrimental to the quality of an estimate of resource volume.
- No. Any proscription will potentially reduce the quality of an estimate in the same way that requiring other assumptions would.

A flow test should not be mandatory. If all parties are prepared to authorise development in the absence of a flow test it will be for good reasons. It is also becoming more common for flow tests to be avoided for environmental reasons, SEC should encourage this. Furthermore a high-rate short flow test could be more misleading than a well-designed programme of wireline tests. Commercial producibility relies on different variables and companies need greater freedom to specify their own producibility criteria.

Question 9

Should we reconsider the concept of existing operating conditions? If we were to replace it, what should we replace it with? How could that affect disclosure quality? Should we consider requiring companies to make certain assumptions? Should we prohibit others?



SASOL LIMITED SUBMISSION ON CONCEPT RELEASE FILE NO S7-29-07

Response

- Yes
- No replacement required. Prohibiting classification as reserves until all approvals are in place will mean that only once company management, partners and authorities are satisfied that the volumes to be produced can be sold for a fair price will the volumes be reportable as reserves.
- It will improve disclosure quality by more accurately reflecting the business.
- No. Requiring certain assumptions could only be detrimental to the quality of an estimate of resource volume.
- No. Any proscription will potentially reduce the quality of an estimate in the same way that requiring other assumptions would.

Companies should be required to state assumptions and guarantee that they are consistently applied. Major transfers from resources to reserves resulting from project approvals will require explanation by the company (see Response to Question 5) and expose the reasoning to scrutiny.

Question 10

Should we reconsider requiring companies to use a sale price in estimating reserves? If so, how should we establish the price framework? Should we require or allow companies to use an average price instead of a fixed price or a futures price instead of a spot price? Should we allow companies to determine the price framework? How would allowing companies to use different prices affect disclosure quality and consistency? Regardless of the pricing method that is used, should we allow or require companies to present a sensitivity analysis that would quantify the effect of price changes on the level of proved reserves?

Response

- No
- None required, see next response.
- Companies should be able to use their own forecast for benchmark prices, which in practice may be one issued by a major global consulting company, but it should be stated in the disclosure. SEC could consider issuing its own price forecasts for use in reporting.
- Yes
- It will improve disclosure quality by more accurately reflecting the business.
- There would be some merit in this proposal. The use of the term “proved reserves” in the proposal would need to be modified given previous responses. SEC could issue its own range of price forecasts.

Reserves need to be commercial so a price must exist in order to sanction a development project. Companies need to state the approach followed. Using end of financial year pricing does not necessarily help valid comparisons to be made given the different dates throughout the year at which companies have their year ends. Allowing companies to use different prices makes comparison difficult and since a major reason for these disclosures is comparison between companies SEC forecasts would be beneficial. Alternatively using prices at a fixed date, for example January 1, every year for all reporting during that calendar year, would be convenient and aid comparison.



SASOL LIMITED SUBMISSION ON CONCEPT RELEASE FILE NO S7-29-07

Question 11

Should we consider eliminating any of the current exclusions from proved reserves? How could removing these exclusions affect disclosure quality?

Response

- Yes. All classes and categories of conventional resources should be reportable.
- It will improve disclosure quality by more accurately reflecting the business.

See Response to Question 2.

Question 12

Should we consider eliminating any of the current exclusions from oil and gas activities? How could removing these exclusions affect disclosure quality?

Response

- Yes. All classes and categories of resources which are saleable as produced should be reportable.
- If such activities are the business of the company then it will only improve the quality of reporting by more accurately reflecting the business.

SEC should permit reporting of any liquid or gaseous petroleum volumes which are saleable as produced. That is coal-bed methane, oil from shale etc. produced through wells should be reportable but oil shale which is essentially 'mined' should not be. Once again this will introduce greater complexity but as long as the associated regulations for how these are disclosed are clear analysts will be able to compare companies with greater accuracy.

Question 13

Should we consider eliminating the current restrictions on including oil and gas reserves from sources that require further processing, e.g., tar sands? If we were to eliminate the current restrictions, how should we consider a disclosure framework for those reserves? What physical form of those reserves should we consider in evaluating such a framework? Is there a way to establish a disclosure framework that accommodates unforeseen resource discoveries and processing methods?

Response

- No. Oil and gas activities should be restricted to recovery of petroleum through wells.
- N/A
- Only recovery of petroleum through wells.
- Recovery of oil and gas through wells is an "oil and gas activity" recovery by other means is not.

Allowing reporting of petroleum recovered through 'mining' as an oil & gas activity would raise the possibility of concurrent recovery of petroleum and minerals, greatly complicating comparison between companies. It is suggested that production of oil from processing of tar sands is more a mineral extraction activity.



SASOL LIMITED SUBMISSION ON CONCEPT RELEASE FILE NO S7-29-07

Question 14

What aspects of technology should we consider in evaluating a disclosure framework? Is there a way to establish a disclosure framework that accommodates technological advances?

Response

- None, see Response to Question 4.
- A principles-based system will be technology-blind and therefore automatically permit reporting of volumes recovered using new technology to the extent that companies involved in developing the resource have approved its use.

Question 15

Should we consider requiring companies to engage an independent third party to evaluate their reserves estimates in the filings they make with us? If yes, what should that party's role be? Should we specify who would qualify to perform this function? If so, who should be permitted to perform this function and what professional standards should they follow? Are there professional organizations that the Commission can look to set and enforce adherence to those standards?

Response

- No
- N/A
- N/A
- N/A
- No

If PRMS is adopted by SEC this proposal would become problematic as evaluation of compliance with a principles-based system is more complex and time-consuming than with a rules-based system. There is presently a dearth of qualified professionals able to carry out resource estimation, a situation which will only worsen as geologists and petroleum engineers are applied to sub-surface carbon sequestration challenges. To add to the work burden by requiring additional work by a limited number of professionals will only result in a lower standard of study by the industry. Requiring companies to engage third parties will also raise the question as to the qualifications of the third-party and how to resolve valid interpretational differences. It would be unacceptable that a company's disclosure could be held up by a valid technical difference of opinion between two conscientious professionals.

In a properly managed oil and gas company estimation of reserves and resources will be subject to internal controls and although SEC requires that internal controls be in place those relating to the presentation of supplementary information need not be encompassed in management's assessment of internal control over financial reporting. If a principles-based system were introduced it is suggested that, reserves being one of the most significant assets of an oil and gas company, management's assessment of internal control over financial reporting should include an assessment of controls over determination of supplementary information.



SASOL LIMITED SUBMISSION ON CONCEPT RELEASE FILE NO S7-29-07

GENERAL COMMENTS

Reporting of a whole range of classes and categories of reserves and resources will reveal, over the course of the years, how good company management is. At present “Proved Reserves” will unavoidably become production over the course of time. By reporting a complete spectrum of reserves and resources it will become clear how effective company management is in assessing resources, converting them into reserves and thence production whilst at the same time accurately assessing risk.

Of primary importance in the reporting of reserves is comparability between different companies and comparability year on year within a specific company. A broader spectrum of reporting will introduce greater complexity but if the regulators can learn from existing markets that have successfully introduced broader portfolios whilst maintaining sufficient control through clear guidelines then it will be to the benefit of all companies. It is imperative however that the principles-based submission does not become vague and therefore misleading, this is the benefit of using a complete resource management system together with application guidelines.

Of no less importance are the assumptions used in the economic evaluation of the resources. Consistent application of pricing as well as clear definition of market variables and constraints must be implemented and strictly adhered to. If companies are given too much freedom to submit their own assumptions the results become incomparable and the point of the exercise is lost. This is why we suggest SEC issues price forecasts for use in disclosures and provides clear guidance on the basis for classification of resources.