Sakari

# Open Pit Thermal Coal Mining for Export from Indonesia

## A Change in Step - FAQs

## Update and Investor Roadshow

June 2012

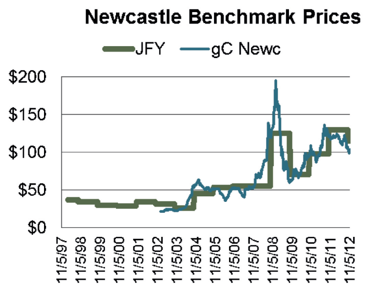
# Rules, Regulations & Rumours

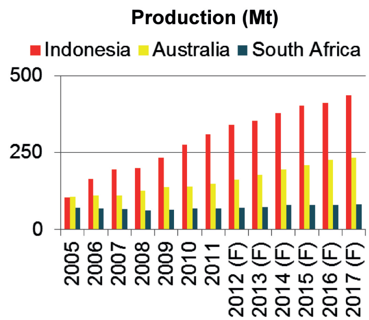
| FAQ | FGA | Comment |
|---|---|---|
| **Export tax?** | The new tax applies to other bulk materials, metals and minerals but not coal (yet – position still under review). | It seems the reluctance to invest in processing facilities spurred the introduction of the tax. An export tax would also (arguably) harmonise taxes applicable to COWs & IUPs (see also divestment below). |
| **Export ban?** | It's an upgrading requirement. Regulations have been introduced requiring upgrading of other bulk materials, metals & minerals but not coal (yet). | Indications are that the upgrade rules are being considered to affect coal with CV of 5000 and below, GAR basis not ADB (NB: check what CV basis is being quoted by suppliers). **Sakari's coals are higher than 5000CV**. |
| **Divestment?** | The new law requires PMA companies (not PMDN companies) to divest 51% 10 years after production starts. The sell down starts at 20% after 5 years & increases each year. **Sakari's mines are held through PMDN companies**. | COWs have divestment provisions inside the contract. IUPs, which originally escaped the divestment provisions, have been brought into line with COWs by this new law. The law seems consistent with Indonesia's wish to harmonise its mining licences & applicable regulations. (See also export tax.) |
| **Regulatory uncertainty?** | Resources nationalism is a political topic worldwide. Indonesia is in the spotlight because of abundant resources. | The transparent process where Ministers & Officials discuss regulations before the implementation process begins causes confusion, rumours & uncertainty. |

## IMPORTANT NOTICE

# The Seaborne Thermal Coal Market

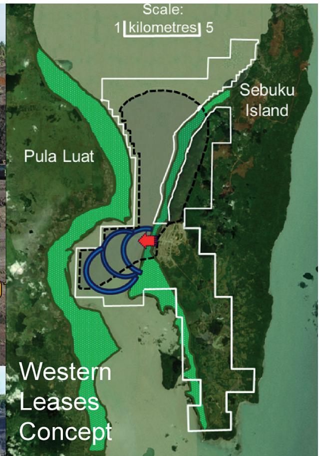
| FAQ | Response | Comment |
|---|---|---|
| **Why the price drop?** | Supply is outpacing demand. Indonesia Q1 production increased 9% to 101Mt. "Distressed" coal is reaching Asia, helped by low freight rates. | Demand (India excepted) is solid. Surplus product from Americas / Europe / South Africa / Russia can currently target Asia. |
| **China deliveries?** | None of Sakari's deliveries have been declined. China <10% of Sakari's portfolio. | Contract problems often occur – the supply side (when prices rise) & the buy side (when prices fall). |
| **India?** | None of Sakari's deliveries have been declined. The problems of Rupee depreciation, cash flow & profit issues for power providers remain to be resolved. | The need for tariff increases is clear, but is a politically difficult decision. How long can a population stand for black-outs and brown-outs? |
| **USA today?** | Utilities are selling unwanted coal into Asia. Producers may cut back by ~100Mt this year (~10%). | Whilst unwanted stock remains, Europe demand is low & freight rates depressed, dumping into Asia will occur. |
| **USA tomorrow?** | The export model to Asia depends on low freight rates & requires more infrastructure to be a long-term threat. Some niche export models will succeed long-term. | Investors may resist financing a business model dependent on low freight costs & rail support. Similar models failed in the past. |
| **South Africa / Colombia** | SA & Colombia sales to Europe have dropped. ~20 SA cape cargoes into Asia in 2012. Colombia production rising ~10% pa. | Colombia needs low freight costs to be competitive in Asia. SA has limited infrastructure to increase exports to Asia. |
| **Gas?** | US prices hit $1.86 in April but rallied to $2.70 recently. Barclays: "..above $2.50, some US coal plants would be back in the money, reducing natural gas demand." 2012 is trading at $2.88, 2013 at $3.54, which may help reduce the aggressive nature of US coal offerings into Asia-Pac. | The base load for electric power creation in Asia remains coal. Recent events have not changed the demand dynamics. It will take years before utilities in Asia's developing countries create the infrastructure to use shale gas. |



# Sebuku

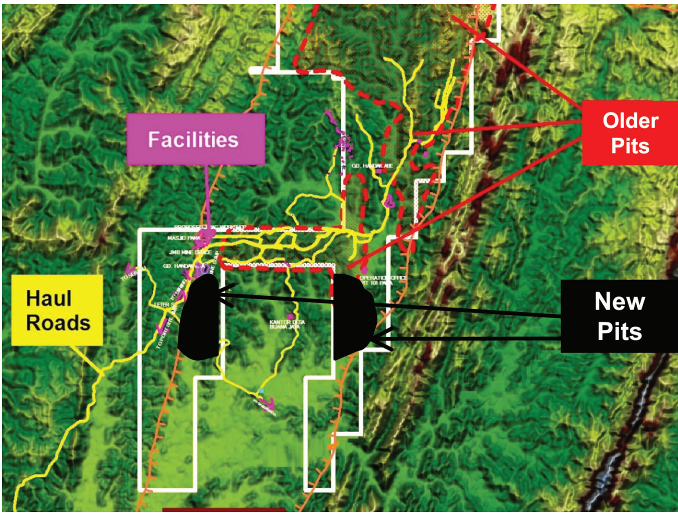
| FAQ | Response | Comment |
|---|---|---|
| **How's it going?** | Weather – as expected.<br>Production – better than expected.<br>See progress pictures below. | Every panamax from Sebuku adds significantly to Sakari's results. |
| **The ramp-up?** | Now "not less than" 2.5Mt for 2012<br>Targets to steady state (4.0 - 4.5Mt):<br>2013: 3.5Mt<br>2014: 4-4.5Mt | Mine plan will be detailed once exploration & reserves are finalised later in 2012. |
| **Reserve life?** | Announcement in H2'12. | Guide 20-30Mt holds. |
| **Costs?** | Costs remain at about 2011 levels.<br>Volume increases help to contain costs. | Margin: Sebuku's margins are among the highest in Indonesia (high grade coal, short logistics, low strip ratio). |
| **Western Leases?** | Discussions with local community, provincial mayors & regional politicians have begun. | Remains a long process – 3 to 5 years. |



# Jembayan

| FAQ | Response | Comment |
|---|---|---|
| **Q2'12?** | On track under new plan.<br>April: the best monthly production YTD. | "No pain, no gain". The new pits are now contributing. |
| **Ramp-up?** | Steady state target remains ~12Mt.<br><br>Little point in extra volumes when customers are pushing back on prices.<br><br>2012: <9Mt.<br><br>Rate of increase & timing will depend on market conditions. | Volume increases must be achieved with focus on margin.<br>e.g. $2 cost efficiencies on producing 9Mt (=$18m) can be more profitable than producing an extra 1Mt in the sub-bit sector. |
| **Costs?** | On track under new plan.<br>Mine-wide review continues. | Possible start of owner-operate in limited area. |
| **M&A?** | Still a key focus. | Consolidation will help costs, increase volumes & allow economies through larger infrastructure. |

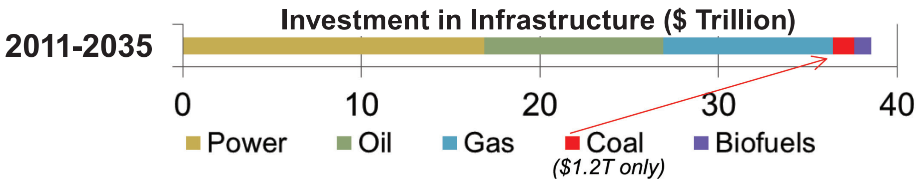



# Outlook

| Sakari Group 2012 Guidance is Unchanged | | |
|---|---|---|
| | Jembayan | Sebuku |
| Production Target | 9.0Mt | Not less than 2.5Mt |
| Group ASP | $85-90/t | |
| Cash Costs | $62-65/t | Low $40/t |
| | Based on gasoil at 106 cents/litre.<br>With higher gasoil prices, costs increase. | |
| Capex | $60m | $80m |
| Other Operating Goals | Review of efficiency, including logistics & mine plan.<br><br>Open new pits. | Advance plans for the Western Leases.<br><br>Complete mine plan for Northern Leases. |

| Notes / Updates | |
|---|---|
| Production Target | **Jembayan's** production is on an upward trend now that new pits are open.<br>**Sebuku's** ramp-up continues to outperform the mine plan. |
| Group ASP | Guidance is based on a 2012 NEWC average of $115/t. Despite recent prices & forecasts, Sakari's guidance is unchanged. |
| Cash Costs | Pressure from higher oil prices & inflation.<br>Jembayan began 2012 with a strip of nearly 20:1.<br>Shallower new pits & shorter dumping will lead to cost containment going forward (no pain no gain). |
| Capex | Possible increase for improving long-term planning through land compensation. |
| Other Operating Goals | **Jembayan's** new pits are open and will supplement work from older pits in the North.<br>Results of efficiency review will show through in costs in H2 and beyond.<br>Positive reaction to proposals for **Western Leases** from local & regional discussions. 2014 is the window for submitting the licence applications (3-5 year process). |

# Postscripts




The West Australian

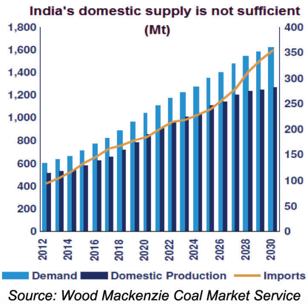
JESSICA TAKES BABY HOME

NEWS PAGE 3

PERTH'S NEW-LOOK SKYLINE

NEWS PAGE 11

$450m cost blowout of green electricity scheme

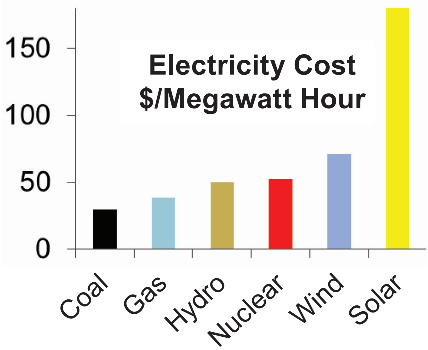



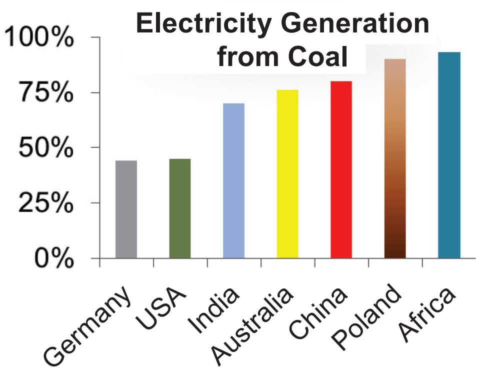

Tue, May 8 2012

European slump leads utilities to burn more coal

Source: Reuters

"If you have anything that's coal-fired in your generation park at the moment - be it lignite or hard coal - you will take advantage of the high margins and burn the stuff," a trader with a major German utility said.



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