



**SAKARI RESOURCES LIMITED**

**SUSTAINABILITY REPORT 2012**

## *To enrich and improve lives through the reliable and responsible delivery of energy products*

**Sustainability** in the Group centres on a desire to see that Sakari's work practices have the ability to meet the needs of the present generation without compromising the ability of future generations to meet their needs. Sustainability is a fundamental part of Sakari's corporate culture by which we strive to ensure our successes are shared in a balanced way to give long term benefits to all stakeholders, including the environment and local communities.

Last year's Annual Report (available for reference or download through our website <http://www.sakariresources.com>) contained Sakari's first formal consolidated Sustainability Report. In that report, we explained our key areas of focus for sustainable practices, set out our achievements during 2011 and commitments for 2012. Later in this report we will examine our 2012 achievements and comment on how far we succeeded in attaining our goals.

We stated that one goal for 2012 was to formalise the standards to which Sakari must aspire.

A key development in 2012 was a decision to implement a sustainability programme using ISO26000 as the platform for our work. ISO26000 has helped us to formalise and understand our standards and aspirations in sustainable work practices. The framework provides stakeholders with increased awareness and comfort on Sakari's strong commitment in this area. A process of assessing existing business performance against robust external guidelines now drives the sustainability process and positions the activity among Sakari's continuous improvement initiatives.

We have not yet decided to adopt the Global Reporting Initiative (**GRI**) as our reporting platform, in part because sustainable practices have been a cornerstone of Sakari's business ethic since we first began mining at Sebuk in 1998, but also because GRI does require a significant new investment. At a time when margins have been under pressure, we felt that ISO26000 provides a very appropriate measure for assessment that enables us to reach a higher standard of reporting without increasing costs, a decision that is itself is a sustainable practice

Using ISO 26000, we made an analysis of the Group and its sustainable practices and found that we are well compliant in all areas, which our stakeholders are entitled to expect. However we did conclude that, whilst the Group does produce large amounts of data to monitor all parts of its business, our monitoring, analysis and reporting of that data can be improved. We have therefore begun developing a centralized process for gathering, analysing and reporting on the very extensive data that we already have in our operations.

### **Sustainable Planning Foundations**

With the adoption of ISO26000, we have created a formal Sustainability Committee, chaired by the Group CEO, with members comprising various division heads from our leadership team. The Committee has confirmed our basic premise that Sakari's programmes and reviews should be based on how we make money as well as how we spend it; and programmes and deliverables should target long-term, permanent improvements for stakeholders with local communities set as key stakeholders to benefit from our health and well-being programmes. The values that Sakari applies in its sustainability programmes are based on the Group's stated values.

Under ISO26000, we have segmented our Sustainability reporting initiatives into 7 categories which are reported on below:

## Community

Our commitment to the development of the stakeholder communities surrounding our mines transcends compliance with relevant laws and regulations.

Sakari is well known for being a leader in community work, particularly at Sebuk where our healthcare and education programmes (explained in 2011's Sustainability Report) have met with many successes. Jembayan is a much bigger mine and we have found it more difficult to define exactly how best to define the local communities who are stakeholders of the mine. It was this difficulty that has led to Sakari forming a CGLM (Community, Government and Land Management) department with employees devoted to handling community relations and empowerment programmes.

This division is tasked with ensuring that Sakari's community development activities are formed through an improved planning process and efficiently implemented against targets. Reporting on progress and analysing the level of success of any programme is now an important part of the division's work that is incorporated into the ISO26000 process.

One of the decisions of the division has been to place community development programmes into two categories. The first category relates to small-scale programmes: these tend to be programmes that are considered as social responsiveness and provide more immediate assistance to overcome special problems and needs. These programmes are more likely to be proposed through the sites and are also managed by the sites. CGLM division will monitor these various programmes. The second category is larger scale programmes whose effects are more likely to be focussed on the longer term for success. This kind of programme is usually approved at a senior level within the Group and managed or monitored by CGLM division.

### *Social Mapping*

Recognising the importance of better defining Jembayan's stakeholders, we undertook a social mapping survey for the Jembayan mine communities in 2012. The survey was undertaken in conjunction with Universitas Mulawarman, a local university, and focussed on two key targets, firstly mapping actual living conditions and, secondly, identifying important needs of the communities for long-term benefits.

A similar survey will be conducted on Sebuk in 2013 involving Universitas Lambung Mangkurat. Both surveys will be used as the foundation for planning community development initiatives. Further, the data we have collected will enable us to evaluate the success of our programmes and the impact of our operations (positives and negatives) on the community.

### *2012 Programmes*

Programmes that we initiated at Jembayan during 2012 included the establishment of 3 Sekolah Lapangan Pertanian (Agricultural Field Schools) to support farmer groups. Following up on our commitment to extend the integrated farming system that we had successfully introduced at Sebuk, we also conducted starter programmes for livestock husbandry (mainly lambs and goats) using the integrated farming system.

At Sebuku, we trained volunteers from 5 villages on the Island in the integrated farming system. With these individuals, we went on to create a demonstration farm that will give a practical introduction and education to Island farmers about the benefits and methods of integrated farming. By the end of 2012, the farm had been duplicated in 3 villages. We have targets for more demonstration farms in more villages with a goal that each village will have its own farm to market and sell a specific product outside Sebuku (the concept being one village, one product).

In prior years we have done much to reduce child mortality rates at Sebuku. Following up on these initiatives in the wider community, for midwives in Kotabaru, Samarinda and Balikpapan, we sponsored a programme with KK Hospital, Singapore that focussed on reducing maternal mortality rate. The programme aimed to support the Government of Indonesia's target in the Millenium Development Goals. This collaboration with KK Hospital will be implemented regularly.

Our employees carried out many spontaneous activities in assisting with natural disaster victims, such as blood donations and support for flood victims in Balikpapan.

We said in 2011 that we planned to sponsor an eye cataract removal clinic. We had set up an arrangement for a venture led by a renowned charity that had organised similar, very successful clinics in Sumatera, treating over 1,000 people over 3-5 days in each clinic. Organising such an event requires significant planning and help from various sections of government. Unfortunately, due to changes at senior government levels, the charity was unable to confirm involvement from all the key departments and we could not bring the plan to fruition.

2012 Commitments	Outcomes
<p>Sakari will continue its commitments in community development in 2012. While maintaining the existing programmes, Sakari has planned some new programs in 2012 like the eye camp and mother/child health programmes. The integrated farming system will also be duplicated in villages and upscaled if necessary. The key personnel will be trained further to ensure the mastery of this farming system.</p>	<p>Sakari has continued its community programmes as it intended. These are long-term plans designed to enrich and improve lives.</p> <p>The eye cataract camp was postponed for reasons explained above.</p> <p>The integrated farming programme has also expanded and is mentioned above.</p>
<p>An initiative to synchronize the understanding of sustainable practices between the management, middle management and site front-liners has been designed. In 2012 Sakari will hold a workshop for CGLM personnel to minimize the gap within the Group regarding CGLM issues.</p>	<p>This work was done in 2012 with exceptional results. Land management and land compensation are one of the most sensitive areas for the Group at the present time and the issue is receiving much attention from management.</p>

### 2013 Commitments

Sakari intends to:

- ✦ continue to improve the Standard Operation Procedures for implementation for community development programmes through the CGLM department
- ✦ extend the integrated farm education programmes in Sebuku and Jembayan
- ✦ donate sports equipment to high schools in Kotabaru and Sebuku. The programme is intended to encourage high school students to do sport and achieve recognition in, at least, provincial sporting events
- ✦ improve the analysis of its work in community development by evaluation of the effectiveness of its various community programmes.

## Consumer

2012 Commitments	Outcomes
For 2012 we expressed our intention to make a formal evaluation and assessment of how our customers and their practices should be included into the context of sustainability.	We have begun a formal process of informing each of our customers about Sakari's sustainability programmes.

We have found increasing interest from our customers in Sakari's work in this area and are now well prepared to answer customers' queries and to begin to encourage them to be more transparent about their own programmes.

We have considered our products carefully and concluded that nothing we sell is inherently dangerous to customers in the form in which it is sold. It is organically and chemically stable and can be handled, stored and stockpiled safely with low risk to the environment and people, provided normal industry safety standards are followed.

Sakari discloses specifications for its products in a clear and transparent manner. Independent analysis of the products prior to sale ensures that customers are able to be assured about quality and that a fair price is achieved for each sale. Any discrepancies between quoted and actual specifications are openly resolved with customers.

Many of Sakari's customers request multi-year contracts so that they can enjoy assured supplies and a long-term relationship with Sakari. These long-term relationships evidence the value we place on consumer service, support and responsibility when making sales.

## Environment

Environmental care and protection present important challenges to Sakari. If we fail in our obligations in any one of a multitude of expectations and regulations, we would place our ability to continue mining at risk and, if that happened, so the livelihoods of many people, communities and biodiverse systems would be similarly at risk. For that reason Sakari remained as vigilant as ever in 2012 towards the environment.

In addition to regular federal, state and local audits we continued our own audit programme using independent environmental auditors, Environmental Resource Management. All the audits confirmed the good state of our environmental work and only minor issues were proposed for review or improvement. Actions were immediately instigated in accordance with the recommendations of each audit.

We continued our proactive work of reviewing our potential effect on the environment including biodiversity and greenhouse gases. In this area we worked with Mulawarman University of Samarinda for a study on biodiversity at Jemberan, with Mulawarman University and the Indonesian Institute of Science, Jakarta, for a study of baseline counting of greenhouse gas emissions.

### 2012 Awards and Certifications

Jemberan successfully attained ISO 14001:2004 certification by Lloyd's Register Quality. ISO 14001:2004 is the internationally recognized standard for environmental management systems.

Both mines received the Blue Rank Environmental Assessment Award (PROPER) from the Ministry for the Environment, which is the clearest signal that our operations comply with all environmental regulations. Both mines also received PRATAMA Reclamation Award (3<sup>rd</sup> place) from the Ministry of Mines and Energy Resources.

## Hydroseeding

We found that reclamation in some parts of Sebuk at the old Tanah Putih pit was slow mainly due to the limited top soil in the area. In order to improve the pace of rehabilitation we successfully tried and began hydroseeding. During 2012, as our confidence in the practice of the rehabilitation method increased, we progressively rehabilitated about 100ha of the Tanah Putih pit. We also began to introduce the same methods into rehabilitation work at Jembayan where we covered a total of about 87 hectares by hydroseeding.

2012 Commitments	Outcomes
The need for environmental care, respect and protection is something about which Sakari has always been acutely aware. We expressed no formal commitments for 2012, preferring to have our work progress organically, as it has done over the years, under our mantra of Continuous Improvement.	The Group encountered no significant or unusual environmental issues in 2012 and won awards from government for its work in this area.

### 2013 Commitments:

Sakari intends to:

- ❖ conduct a study of its carbon footprint with a target of setting goals for reduction or control
- ❖ increase the quality of analysis of the large amount of data that is produced by the mine sites to monitor our effect on the environment and compliance with standards. The goal of this work is to consider where we might improve our practices in order to reduce the effect that our mines have on the environment.

## Fair Operating Practices

2012 Commitments	Outcomes
FOP was not singled out for discussion with no specific targets set.	NA

With the adoption of ISO26000, FOP is now a core area that Sakari will monitor centrally and report publicly upon. FOP covers 5 main areas: anti-corruption, responsible political involvement, fair competition, promoting social responsibility and respect for property rights.

As with other matters related to Sustainability, Sakari has been committed to FOP since its incorporation in 1995 and we have not encountered any significant failings in our work and practice in terms of fulfilling FOP expectations. Our review under ISO26000 did conclude that we need to give our staff a greater understanding of FOP, which will be attained through more training in our relevant policies

### 2013 Commitments:

Sakari intends to:

- ❖ conduct greater socialisation of its policies relating to FOP, in particular anti-corruption policies
- ❖ begin a process of auditing its supply chain on their commitment to FOP
- ❖ create a central Group Contacts Register which will allow us to monitor contact with government officials and government bodies, so that the extent of contact and regularity is monitored.

## Human Rights

2012 Commitments	Outcomes
Human Rights was not an area that we had singled out for discussion last year. As such there were no specific targets.	NA

With the adoption of ISO26000, we have identified areas where our practice can be formalized and should be publicly reported upon. There is no doubt that Sakari respects human rights and, in practice, it adheres to the United Nations' Universal Declaration of Human Rights. Our Charter, which is set out in this Sustainability Report indirectly reflects our commitment to observing human rights. However, we recognize that we have not incorporated fundamental human rights' statements into our formal policies. This is something that we are addressing although formal adoption will not mean Sakari will need to change any of its current practices.

We have noted that we have relatively low levels of female employees in the mining operations, despite having been an equal opportunity employer. However this low level is not unexpected in Indonesia and the mining industry but is an area we intend to consider closely for improvements.

### 2013 Commitments:

Sakari intends to:

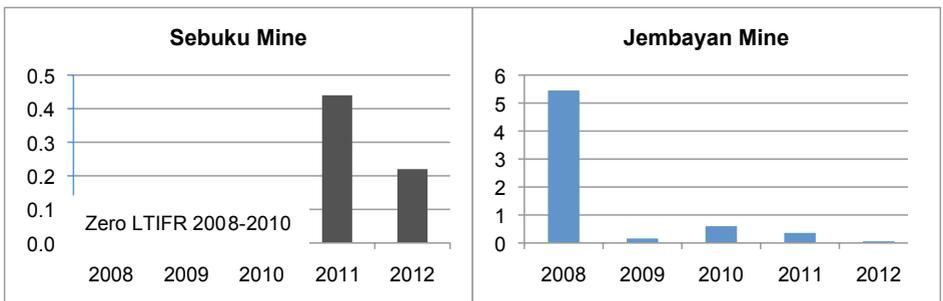
- ✚ formally incorporate human rights statements into its policies to avoid any doubt that we adhere to these practices
- ✚ formally adopt a regular process to evaluate human rights risks
- ✚ audit all our main suppliers for their approach to human rights
- ✚ seek ways to increase the level of female employment in the mining operations
- ✚ consider opportunities to employ disabled staff.

## Labour

Labour matters were addressed last year under the heading "People". The change of designation reflects the commitment to ISO 26000 as our standard for sustainable practice reporting.

### Safety

Sakari's commitment to safety is at the absolute centre of our work ethic. The key statistic that we use for measuring safety at our mines is LTIFR (lost time injury frequency rate). The 5-year LTIFR history of each of our mines is set out in the graphs below:



In March 2012, Sebuku suffered a fatality in our contractor's workforce. We reported the incident in our Q1 2012 Financial Report. All parts of Sakari's incident management team were immediately mobilised when the event happened and we have since been providing support and counselling to the deceased's family.

The accident that occurred, took place outside the mining area, in the old Tanah Putih pit. The reasons for the accident have been analysed and we have required corrective actions to be taken with our contractor, PAMA.

Jembayan's safety record improved further in 2012 and the mine received a 3rd place safety award from The Ministry for Mines and Natural Resources, the first time it has received the accolade.

### Employees

Analysis of our workforce is set out in the table below:

As at 31 December 2012	Indonesia			Singapore		Australia	TOTAL
	Jembayan Mine	Sebuku Mine	Technical & Support	Head Office	Tiger Energy		
Direct Headcount	397	341	140	27	10	11	926
Contractor (PAMA) Headcount	3076	843	0	NA	NA	NA	3,919
Other Contractors' Headcount	497	173	0	NA	NA	NA	670
Group: Local Employment (%)	91%	83%	68%	70%	90%	100%	88%
Group: Women Employed (%)	6%	4%	75%	48%	40%	9%	8%
Group: Disabled Employed (%)	0%	0%	0%	0%	0%	0%	0%
<b>During 2012</b>							
Average Training per Employee (Hours)	35	36	35	12	17	34	34
Whistleblower Complaints	0	0	0	0	0	0	0
Other Formal Complaints	0	0	0	0	0	0	0
Employees With Written Contracts (%)	100%	100%	100%	100%	100%	100%	100%
Unionised Employees (%)	53%	6%	0%	0%	0%	0%	26%

We encourage equal opportunities at all levels in the Group.

Courses that employees have attended in 2012 were both internally organized or selected from external providers and included:

-  Various coal-related forums and education programmes
-  MBA programme
-  Management and leadership courses

- ✦ Safety Programmes
- ✦ Mining Certification
- ✦ Crisis and Emergency Management
- ✦ Personal Communications
- ✦ Defensive Driving
- ✦ Technical improvement courses
- ✦ Taxation and financial workshops
- ✦ Information technology courses

At 31 December 2012, the Management team held 7,797,884 shares issued to them under EXSAP and 1,626,469 options under ESOP. Non-executive Directors had been issued options to subscribe a total of 870,544 shares.

#### *Employee Communication Practices*

- ✦ Safety, being a key matter, is promoted to employees of the mines through a variety of ways but including a weekly safety talk at the mine sites and a monthly safety talk at the Technical Centre Office in Balikpapan.
- ✦ Union and management hold regular bipartite sessions, which serve to keep an open communication channel and avoid surprise conflicts and misunderstandings.
- ✦ Once every 2 months, we hold a Group Operation Management meeting involving the COO and all the managers involved in operations. This meeting make take place physically or by tele-conference.
- ✦ We begun to hold formal sessions with all staff to explain the purpose of some key policies, in particular the whistleblower policy. This process will continue in 2013.
- ✦ We hold annual family days for employees of the mines to encourage trust and openness in the communications and relationships between employees and their managers and supervisors.
- ✦ We have noticeboards at all sites to keep employees notified of general announcements.
- ✦ In 2012 we issued a Sakari Newsletter to communicate the message of Sakari's Charter and its Vision and Mission statements.

<i>2012 Commitments</i>	<i>Outcomes</i>
Continue to work with local communities to maintain our high levels of local employment.	Achieved (see table above).
Undertake a survey of employees to identify opportunities to further improve employee engagement and retention.	After discussions with employees: we developed staff KPIs so that employees would be clearer as to the Group's business plan and their contribution;  we have decided to conduct special business planning sessions with staff to ensure that they are engaged in and understand plans during formation stages;  we have developed a succession planning tool to help identify key talent and to improve career development and counseling.
Continue our commitment to developing staff by formalising a competency matrix to further enhance the ability for employees to develop the skills required to progress through the company.	All department heads are required to develop the competency matrix for their departments and each employee's competency level will be mapped using this matrix.

We have considered all the key expectations in terms of labour: employment relationships, working conditions, social dialogue, health and safety, development and training and found that Sakari is delivering on those expectations.

*2013 Commitments:*

Sakari intends to:

- ✚ increase our emphasis on human resources development – focusing on succession planning and career development
- ✚ introduce a process for more regular charting and communication of operational performance
- ✚ continue our work in improving employee engagement through more employee programmes
- ✚ continue to educate employees and local communities about health awareness.

## Organisational Governance

<i>2012 Commitments</i>	<i>Outcomes</i>
This was not an area that we had singled out for discussion last year. As such there were no specific targets.	NA

We have now created a Sustainability Committee (see above) that reports to the Board’s Risk Management Committee, a key aspect for ensuring that systems are in place for managing and implementing decisions.

Our review of how Sakari is faring in terms of Organisational Governance in 2012 found that we do engage all stakeholders regularly, both formally and informally. Our internal structures are also robust.

*2013 Commitments:*

Sakari intends to:

- ✚ continue an open dialog with shareholders who wish to know about the business, despite the Group’s delisting from the SGX
- ✚ improve the quality of its website materials to underline the organisation’s commitment to sustainability.

# The Sakari Charter



## WHO WE ARE:

Sakari Resources, an emerging international coal company with an Asian focus

Our **PURPOSE** is contained in our Vision and Mission statements

*To be recognised as the Best Coal Company in Asia, for the value we deliver to all our stakeholders*

*To enrich and improve lives through the reliable and responsible delivery of energy products*

**DELIVERY** of Sakari's Purpose requires Sakari to

*Achieve consistent operational and corporate excellence with sustainable outcomes and value for our stakeholders*

*Outperform our peers on agreed measures*

*Make the best of our opportunities*

*Attract and retain competent and engaged employees*

**GOALS** we must achieve to reach our Purpose

*Build an Iconic Brand recognised for delivering value*

*Take responsibility, motivate improvement and embrace change*

**VALUES** that Sakari applies in all relationships:

*Trust, Teamwork, Resolve, Respect, Responsibility, Ethics, Enthusiasm, Excellence*

**PEOPLE** who will achieve the expectations in Sakari's Charter will be

*Focused,*

*Communicative, Safety Minded,*

*Positive, Confident, Open, Responsible,*

*Trustworthy, Passionate, Self-aware, Inspirational, Inclusive*

and we encourage everyone to

***STEP UP, SPEAK UP AND MAKE A DIFFERENCE!***



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