Management Discussion & Analysis – Nine Months 2018
PT Toba Bara Sejahtra Tbk and Subsidiaries

30th September 2018

SUMMARY

In 9M18, the reference Newcastle (NEWC) index price remained relatively strong, hovering above US$ 100 at US$ 108.3 as compared to US$ 85.2 in 9M17. This was because during 3Q18, the 6300 GAR high calorie value (CV) seaborne coal faced supply tightness arising from Australia's weather-related issues as well as a more concentrated supply out of fewer producers. Meanwhile, seaborne demand for such high quality coal from the notable North East Asian markets of Japan, South Korea, and Taiwan was relatively more brisk than normal. A contrary situation evolved in the lower CV seaborne market, where during the same period, China's regulatory restrictions such as environmental inspections and safety checks on most mining activity in its coal producing provinces impeded meaningful domestic production. Moreover, import controls at major coastal ports, better performance of hydro power generation, and weakening Chinese currency (RMB) against US$ muted import demand for seaborne coal, particularly from Indonesia and Australia. In Indonesia, strong dry weather allowed for better equipment productivity, hence resulting in higher output of the mid-lower CV coal destined for the seaborne market.

Nevertheless, China's need for coal remains underrated as the country's regulatory restrictions are preventing domestic production from meeting the power demand from current industrial activity pick-up. India's demand for seaborne coal continues to prevail on the back of domestic power shortages as well as the ending of the monsoon season. The markets of South East Asia are expected to be ideal destinations for seaborne coal due to proximity to such major supplier as Indonesia, given their continued demand traction growth from coal-fired power plants in Vietnam, Malaysia, Thailand, and the Philippines.

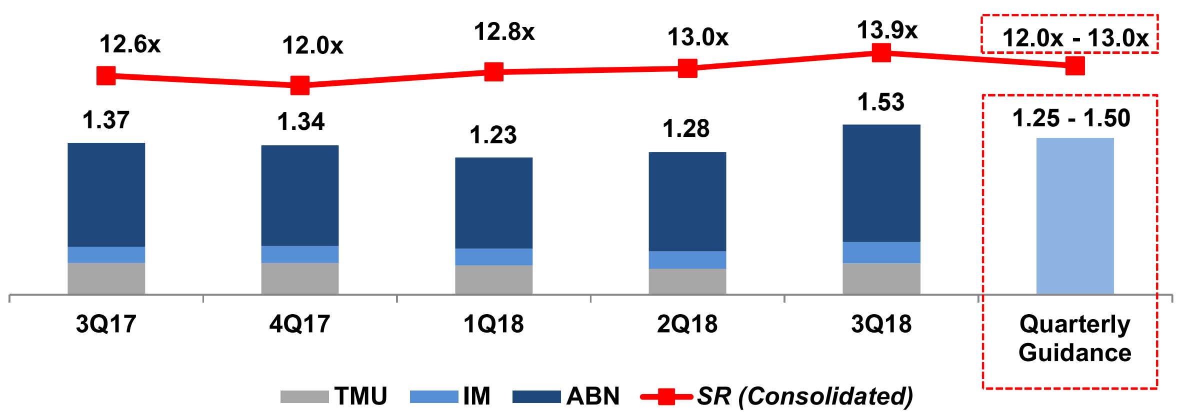
Against the backdrop of the still prospective market outlook above, PT Toba Bara Sejahtra Tbk (Company) has continued to make advances with its coal-fired power plant projects (CFPP) of 2x50 MW, Sulbagut-1 in North Gorontalo, Gorontalo Province, and Sulut-3 in Minahasa, North Sulawesi Province. Sulbagut-1, having achieved financial close in July 2017, is currently under construction phase. Piling works for the plant structure commenced in September 2018. Meanwhile, Sulut-3 is currently under pre-construction phase and expected to achieve its financial close by early 2019.

Special Note: *The following discussion on the Company's performance is based on the Consolidated Financial Statements as per 30th September 2018 (unaudited), which mainly focuses on the operational*
1.1 *and financial performances of all three of its coal mining subsidiaries: PT Adimitra Baratama Nusantara (ABN), PT Indomining (IM), and PT Trisensa Mineral Utama (TMU).*

PRODUCTION & OPERATION

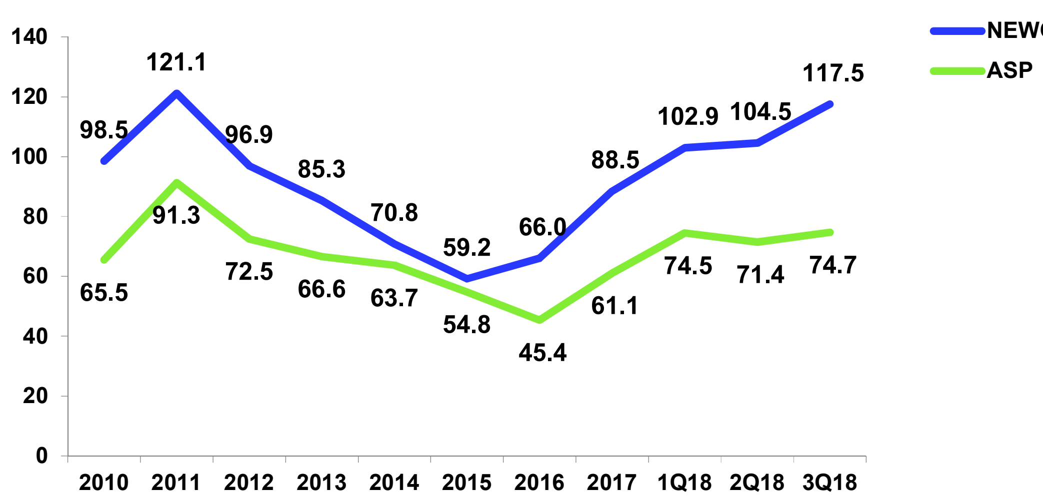
The Company's production volume of 1.53 million tons in 3Q18 was generated by all three mining subsidiaries of ABN, IM, and TMU, contributing 1.06 million tons, 0.19 million tons, and 0.28 million tons respectively. ABN remained the largest contributor to the Company's overall production volume, accounting for 69.0% of total 3Q18 production followed by TMU and IM at 18.4% and 12.6%, respectively. The Company's annual production guidance for 2018 is estimated at 5 - 6 million tons.

Production (million tons) and SR (x)



Such production number of 1.53 million tons and SR of 13.9x came in slightly higher the quarterly production guidance of 1.25 - 1.50 million tons and quarterly SR guidance of 12.0x - 13.0x respectively. The quarterly performance in 3Q18 was much higher than that in 2Q18 due to seasonal dry weather conditions and better overall operational productivity during the period. Y-o-y 3Q18 performance also came in better than in 3Q17.

NEWC Index Price vs ASP (US$ per ton)



ASP rose by 24.5% y-o-y from US$ 59.2 per ton in 9M17 to US$ 73.7 per ton in 9M18, in line with the rise in NEWC Index price over the same period.

Financial and Operational Highlights				
All figures are in million US$ unless otherwise stated		**9M17**	**9M18**	***Changes***
Operation				
Sales Volume	mn ton	3.5	3.8	8.6 %
Production Volume	mn ton	3.7	4.0	8.1 %
Stripping Ratio (SR)	x	13.5	13.3	(1.5)%
FOB Cash Cost [a)]	US$/ton	39.3	47.8	21.6 %
NEWC Index Price	US$/ton	85.2	108.3	27.1 %
Average Selling Price (ASP)	US$/ton	59.2	73.7	24.5 %
Financial Performance				
Profit (Loss)		**9M17**	**9M18**	***Changes***
Sales [b)]	US$ mn	211.3	304.1	43.9 %
Cost of Goods Sold [b)]	US$ mn	148.0	213.3	44.1 %
Gross Profit [b)]	US$ mn	63.2	90.8	43.7 %
Operating Profit [b)]	US$ mn	44.4	70.6	59.0 %
EBITDA [b) & c)]	US$ mn	51.9	79.9	53.9 %
Profit for the Period	US$ mn	29.0	45.9	58.3 %
Profit for the Period after MI	US$ mn	15.9	23.4	47.2 %
EBITDA/ton [d)]	US$/ton	15.1	20.8	37.7 %
Operating Cash Flows [e)]	US$ mn	36.5	54.9	50.4 %
Capex [f)]	US$ mn	11.6	12.0	3.4 %
Balance Sheet		**Dec'17**	**Sep' 18**	***Changes***
Interest Bearing Debt	US$ mn	98.8	93.3	(5.6)%
Cash and Cash Equivalents	US$ mn	74.7	94.3	26.2 %
Net Debt [g)]	US$ mn	24.1	-1.0	(104.1)%
Total Assets	US$ mn	348.3	390.2	12.0 %
Total Liabilities	US$ mn	173.5	187.3	8.0 %
Total Equity	US$ mn	174.8	202.9	16.1 %
Financial Ratios				
Gross Profit Margin	%	29.9%	29.9%	
EBITDA Margin	%	24.6%	26.3%	
Operating Profit Margin	%	21.0%	23.2%	

Notes:
[(a)] FOB Cash Cost = COGS including royalty and selling expense – depreciation and amortization
[(b)] Includes profit from construction of Sulbagut-1 project (based on accounting treatment PSAK 34 and ISAK 16) in 9M18
[(c)] EBITDA = Gross profit – selling expenses G&A + depreciation and amortization
[(d)] EBITDA/ton = Coal mining business only
[(e)] Exclude payment in relation to Sulbagut-1 and Sulut-3 project amounting to US$ 6.0 million in 9M18
[(f)] Includes payment in relation to Sulbagut-1 and Sulut-3 project amounting to US$ 6.0 million in 9M18
[(g)] Net Debt = interest bearing debt – cash and cash equivalents

FINANCIAL

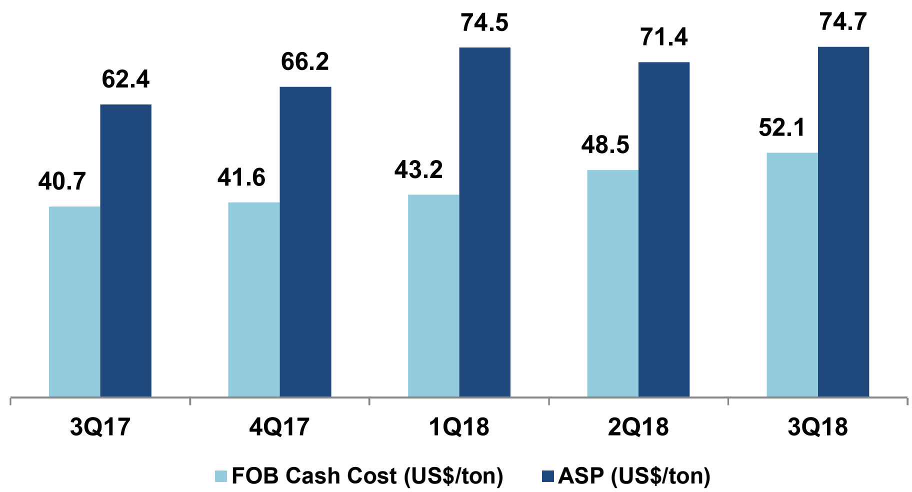
PROFIT (LOSS)

SALES
The Company recorded sales of US$ 304.1 million in 9M18, or 43.9% higher compared to that in 9M17, as a result of much higher ASP, higher sales volume, and recognition of revenue from construction of Sulbagut-1 power project (based on accounting treatment PSAK 34 and ISAK 16).

COST OF GOODS SOLD
Cost of goods sold rose by 44.1% y-o-y, reflecting a combination of higher sales volume in 9M18, adjusted mining contractor tariff in 2H17 due to the higher coal index price, and construction cost of Sulbagut-1 power project.

EBITDA
A 53.9% y-o-y increase in EBITDA to US$ 79.9 million in 9M18 from US$ 51.9 million in 9M17 significantly increased EBITDA margin from 24.6% to 26.3% over the period.

ASP vs FOB Cash Cost
3Q17 – 3Q18



PROFIT FOR THE PERIOD
After taking into account finance cost of US$ 6.4 million and tax expense of US$ 20.0 million, the Company booked total profit for the period of US$ 45.9 million in 9M18, up 58.3% y-o-y from the previous year.

FINANCIAL RATIOS
Gross profit margin 29.9% in 9M18 was in line with 9M17. EBITDA margin and operating margin rose y-o-y from 24.6% in 9M17 to 26.3% in 9M18, and from 21.0% in 9M17 to 23.2% in 9M18, respectively. This was mainly attributable to the higher ASP and higher sales volume.

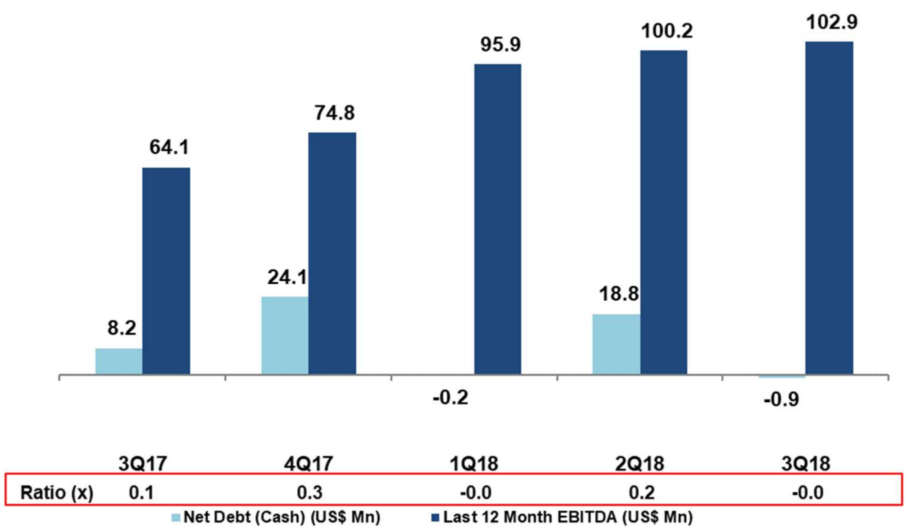
BALANCE SHEET

ASSETS
Total assets as at 30th September 2018 compared to 31st December 2017 rose by 12.0% to US$ 390.2 million, mainly due to higher sales performance in 9M18, which translated to 72.1% higher inventories to US$ 42.5 million, 66.2% higher unbilled receivables of Sulbagut-1 to US$ 23.6 million and 26.2% higher cash and cash equivalents to US$ 94.3 million.

LIABILITIES
Total liabilities as at 30th September 2018 compared to 31st December 2017 rose by 8.0% to US$ 187.3 million, mainly due to 45.1% higher trade payables to US$ 51.5 million in 30th September 2018.

Meanwhile, leverage metrics, such as net debt to EBITDA ratio, have constantly recorded stability from 3Q17 to 3Q18 at below 0.5x.

Net Debt to EBITDA



EQUITY
Total equity as at 30th September 2018 increased by 16.1% to US$ 202.9 million, from US$ 174.8 million as at 31st December 2017, which was attributable to current earnings over the period.

CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES
Net cash flows from operating activities in 9M18 came in at US$ 54.9 million [h)], 50.4% higher than US$ 36.5 million in 9M17. For mining business operation, this was mainly due to cash received from customers rising 35.2% from US$ 214.2 million in 9M17 to US$ 289.7 million in 9M18, despite cash payments to suppliers increasing 31.6% from US$ 137.7 million to US$ 181.2 million, and payment for corporate income tax increasing 103.3% from US$ 9.1 million to US$ 18.5 million over the same period.

CASH FLOWS FROM INVESTING ACTIVITIES
Net cash flows from investing activities were realized at US$ 21.1 million in 9M18 [i)], a decrease from US$ 24.4 million in 9M17. This was mainly due to lower placement in restricted cash in bank amounting to US$ 9.3 million in 9M18 related to Sulbagut-1 power project.

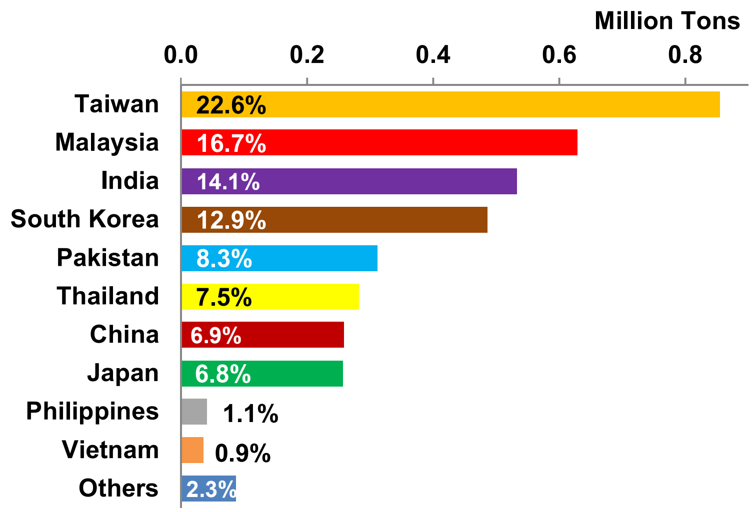
CASH FLOWS FROM FINANCING ACTIVITIES
Net cash flows used for financing activities increased from US$ 7.1 million in 9M17 to US$ 21.9 million in 9M18, mainly due to lower net proceeds from bank loans from US$ 9.4 million to negative US$ 5.2 million in 9M18 and higher payment of dividends to non-controlling shareholders of subsidiaries from US$ 18.6 million to US$ 20.6 million over the same period.

Notes:
[(h)] *Net cash flows from operating activities exclude payment in relation to Sulbagut-1 and Sulut-3 project amounting to US$ 6.0 million in 9M18*
[(i)] *Net cash flows from investing activities includes payment in relation to Sulbagut-1 and Sulut-3 project amounting to US$ 6.0 million in 9M18*

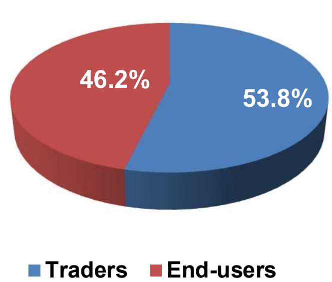
MARKETING

In 9M18, the company predominantly sold its coal to Taiwan, Malaysia, India, and South Korea. As a percentage of total customer base, the compositions of traders and end-users in 9M18 came in at 53.8% and 46.2%, respectively, compared to 74.7% and 25.3%, respectively in 9M17. As of 9M18, a mix of mid-upper quality of 5200 - 5800 GAR coal still accounted for the Company's largest product composition. Around 53.9% of total sales volume by product was contributed by 5600 GAR, 21.3% by the higher 5200 GAR, 13.5% by 4900 GAR, 11.3% by the lower 4700 - 5000 GAR, 5800 GAR, and 5900 low sulfur (LS) coal. Major international traders and end-users, such as major regional power generation companies, accounted for the Company's main customers.

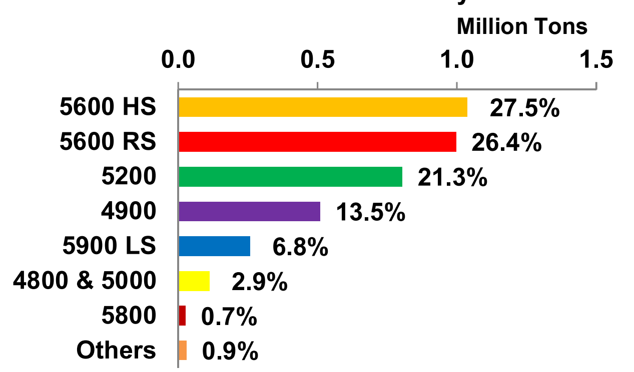
Sales Destinations by Country as per 9M18
Total Sales Volume : 3.8 Million Tons



Total Sales by Customer 9M18



Total Sales by Product 9M18



Note : High Sulfur (max 2.0%), Regular Sulfur (max 1.0%), Low Sulfur (max 0.6%)

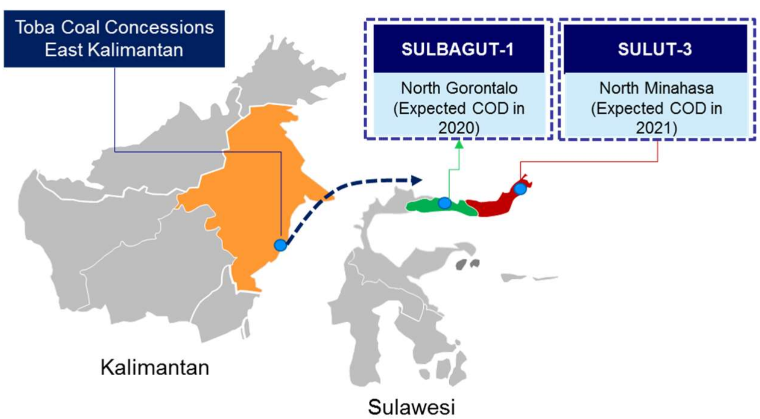
POWER PLANT PROJECTS

PT Gorontalo Listrik Perdana (GLP)
GLP was established in February 2016 to develop a coal-fired power plant project (CFPP) with net capacity of 2x50 megawatts (MW) (Sulbagut-1) located in the Gorontalo Province, Sulawesi. GLP is owned by the Company with 80% majority [i] and Shanghai Electric Power Construction Co. Ltd (SEPC) with 20%.

SEPC is the Engineering, Procurement, and Construction (EPC) contractor. The signing of the Power Purchase Agreement (PPA) with the State Utility PT Perusahaan Listrik Negara (PLN) was held on 14th July 2016, following the Company's participation in PLN's open tender process through the Independent Power Producer (IPP) scheme. The Sulbagut-1 project has PPA term of 25 years, and project value estimated at US$ 210 - US$ 220 million.

PT Toba Bara Energi (Toba Energi)
On 1st December 2016, Toba Energi was established to conduct investment in the power generation sector. Toba Energi is 99.6% owned by the Company and 0.4% by Toba Bumi Energi (TBE). Toba Energi, in turn, owns 90.0% of PT Minahasa Cahaya Lestari.

PT Minahasa Cahaya Lestari (MCL)
On 31st March 2017, MCL was established as an IPP through Toba Energi (90.0%) and Sinohydro Corporation Limited (10.0%) to develop a 2x50 MW CFPP Sulut-3 project in North Minahasa Regency, North Sulawesi Province. On 7th April 2017, MCL signed a 25-year PPA with PLN with the condition of fulfilling certain requirements as per the PPA. The PPA effectively prevailed on 10th January 2018, after MCL fulfilled those requirements. The Sulut-3 project value is estimated at US$ 205 - US$ 215 million.



Note : Coal will be supplied from East or South Kalimantan by way of PLN tender process

AWARDS AND ACCOLADES

The Company, through its three coal mining subsidiaries, received environmental awards by the Provincial Government of East Kalimantan on 5th June 2018 in Samarinda, following its participation in Provincial Government Program that assessed its performance rating based on environmental management (PROPER). ABN, IM and TMU received green rating (GREEN PROPER).

Note:
[i] This includes 20% of PT Toba Sejahtra's (TS) ownership in GLP. On 4th February, 2016, the Company entered into sales and purchase agreement with TS to acquire TS' 20% ownership in GLP. (Subject to approval from PLN)

2018 GUIDANCE

- **Mine Plan Execution and Cost Management Discipline**
  2018 production and SR are projected at similar numbers as in 2017 of 5 - 6 million tons and 12x - 13x respectively. The Company will maintain its cash cost at stable level, since it has continuously lowered its overall cash cost over the last 4 consecutive years through cost management initiatives.

- **Marketing Strategy**
  The Company plans to continue building well-diversified market destinations and customer base, maintaining product quality and timely delivery, as well as optimizing the current favorable coal price into the Company's ASP.

- **Capital Expenditure**
  Total Capex for 2018 is estimated at US$ 50 - 60 million, of which 80% - 90% will be allocated for the Sulbagut-1 and Sulut-3 power projects, with the balance for the mining business, i.e. land acquisition, and infrastructure/heavy equipment.

- **Sourcing of Potential Assets**
  In translating the Company's vision, the Company will continuously seek for opportunities in sourcing potential projects and brownfield assets, both for power and mining.

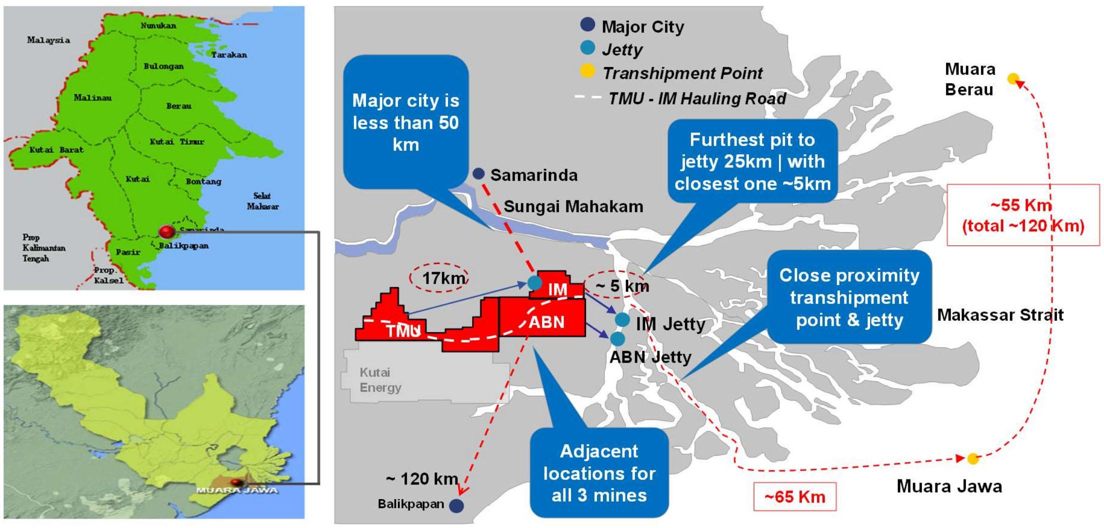
SUBSEQUENT EVENT

On 3rd October, 2018, ABN signed a contract with PT Putra Perkasa Abadi ("PT PPA") in relation with the moving of waste material for a period up to 31st December, 2022, or up to the date that PT PPA has fulfilled the obligation to move waste material of 55,000,000 BCM ± 5%, whichever occurs first.

SNAPSHOT OF PT TOBA BARA SEJAHTRA TBK

The Company currently has eight operating subsidiaries, three entities in coal mining namely PT Adimitra Baratama Nusantara (ABN), PT Indomining (IM) (indirectly through PT Toba Bumi Energi (TBE)), PT Trisensa Mineral Utama (TMU), two entities in coal trading namely PT Adimitra Baratama Niaga (Adimitra Niaga) and Adimitra Resources Pte. Ltd. (Adimitra Resources) (both indirectly through ABN), one entity in palm oil plantation namely PT Perkebunan Kaltim Utama I (PKU), and two entities in power generation, PT Gorontalo Listrik Perdana (GLP) and PT Minahasa Cahaya Lestari (MCL) (indirectly through PT Toba Bara Energi (Toba Energi)). The Company's ownerships in ABN, IM, TMU, PKU, GLP, MCL, Adimitra Niaga and Adimitra Resources are 51%, 99%, 99%, 90%, 80%,90%, 51% and 51% respectively.

Locations of PT Toba Bara Sejahtra Tbk's Concessions



Three operating coal mine concessions located in Sangasanga District, Kutai Kartanegara Regency, East Kalimantan, with total concession areas of approximately 7,087 hectares. These adjacent concessions, all enjoy highly favorable mine locations, with close proximity to local river ports.

- ABN started operations in September 2008 and covers an area reaching 2,990 hectares. It has estimated coal reserves of around 45 million tons (JORC data as of 2018).
- IM started operations in August 2007 and covers 683 hectares of land. It has estimated coal reserves of 13.1 million tons (JORC data as of 2018).
- Meanwhile, TMU started operations in October 2011 and covers 3,414 hectares of land and has estimated coal reserves of 5.8 million tons (JORC data as of 2018).

Altogether, total Company's coal reserves are estimated at 63.9 million tons (JORC data as of 2018).

PKU holds a Palm Commodity Plantation Cultivation Business License covering HGU area totaling 8,633 hectares in Muara Jawa, Sangasanga, and Loa Janan District, Kutai Kartanegara Regency, East Kalimantan.

GLP's CFPP (IPP) project is located in the Gorontalo Province, Sulawesi, while MCL's CFPP (IPP) project is located in the North Sulawesi Province.

For further information, please contact:
PT Toba Bara Sejahtra Tbk

Alvin Sunanda	**Iwan Sanyoto**	**Novi Aruan**
Independent Director	Head of Investor Relations	Corporate Secretary
(Direktur Independen)	(Kepala Hubungan Investor)	(Sekretaris Perusahaan)
Email: corsec@tobabara.com	Email: iwan.sanyoto@tobabara.com	Email: novi.aruan@tobabara.com