Management Discussion & Analysis – First Quarter 2018
PT Toba Bara Sejahtra Tbk and Subsidiaries

31st March 2018

SUMMARY

The reference Newcastle (NEWC) Index price rose 26.3% from US$ 81.5 million in 1Q17 to US$ 102.9 million in 1Q18. During 1Q18 period, the global coal price remained strong due to China's prolonged winter demand as well as due to seasonally low production period for coal miners in general. Coal prices slipped from the highs of February of above US$ 100 to the US$ 90 level, due to among others, seasonality and softening demand coinciding with China's broadening of its coal import restrictions to stem the strong imports during 1Q18. As some of these ports introduced tighter controls over shipments from overseas, most major South China ports have since been subject to some form of limitation over all types of coal imports.

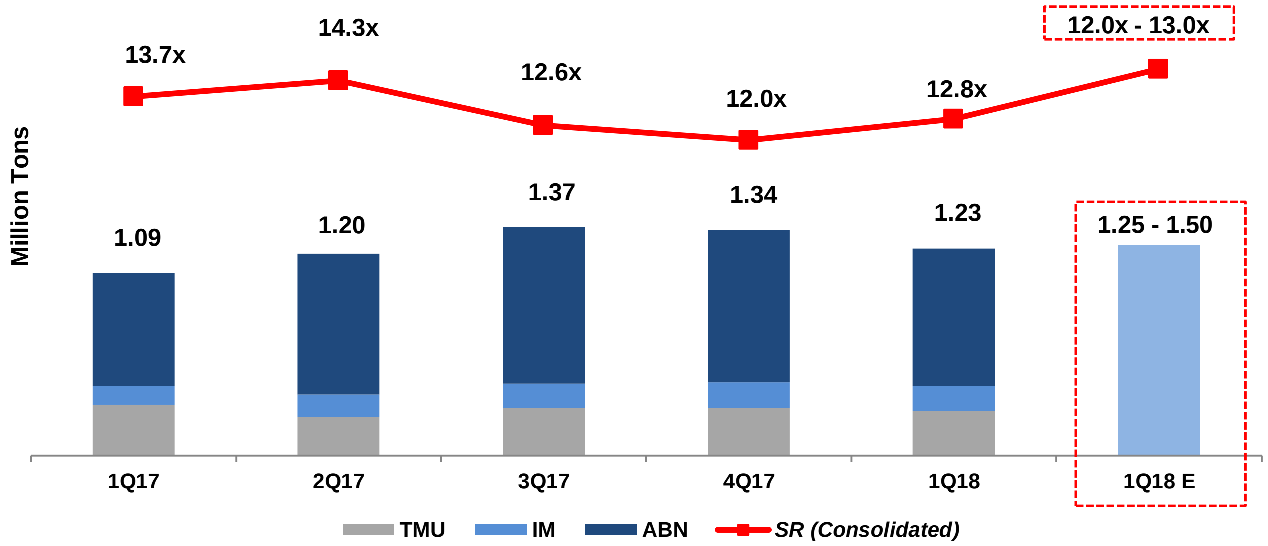
Amidst the still overall positive coal price prospects in the medium term, PT Toba Bara Sejahtra Tbk (Company) has registered healthy 1Q18 operational and financial performance for the mining business. As for the power projects, the Company has continued to make advances with its coal-fired power plant projects (CFPP) of 2x50 MW, Sulbagut-1 in North Gorontalo, Gorontalo Province, and Sulut-3 in Minahasa, North Sulawesi Province.

In retrospect, the achievements in 2017 for the Sulbagut-1 project, included, among others, Engineering Procurement Contract (EPC) contract signing with Shanghai Electric Power Construction Co. Ltd. (SEPC), Project Financing signing with Bank Mandiri worth US$ 171.8 million, and Financial Close achievement with PT Perusahaan Listrik Negara (PLN). Meanwhile, the Sulut-3 project secured its Power Purchase Agreement (PPA) in April 2017, and received its Certificate of Effectiveness from PLN in January 2018.

Special Note: *The following discussion on the Company's performance is based on the Consolidated Financial Statements as per 31st March 2018 (unaudited), which mainly focuses on the operational 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

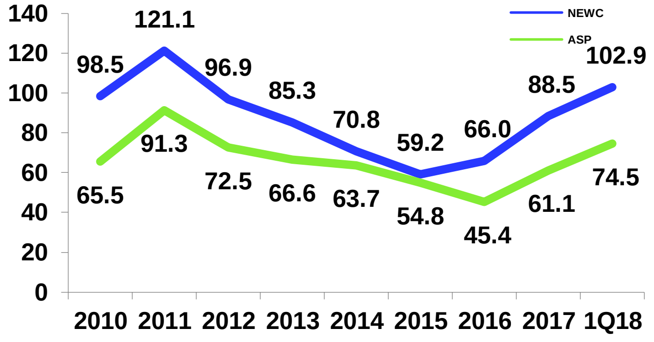
The Company's production volume of 1.23 million tons in 1Q18 was generated by all three subsidiaries of ABN, IM and TMU, contributing 0.82 million tons, 0.15 million tons, and 0.26 million tons respectively. ABN remained the largest contributor to the Company's overall production volume, accounting for 66.4% of total 1Q18 production followed by TMU and IM at 21.4% and 12.2%, 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 1.23 million tons and SR of 12.8x came in within 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 1Q18 was just slightly lower than that in 4Q17 due to seasonal wet weather conditions affecting the operational activity during the first quarter period. However, 1Q18 production was higher than that in 1Q17.

NEWC Index Price vs ASP (US$ per ton)



ASP rose by 30.2% y-o-y from US$ 57.2 per ton in 1Q17 to US$ 74.5 per ton in 1Q18, while NEWC Index price rose slightly less by 26.3% y-o-y over the same period. This was due to higher portion of index-linked sales volume in 1Q18 compared to 1Q17, hence reflecting the higher ASP during the period.

Financial and Operational Highlights				
All figures are in million US$ unless otherwise stated		**1Q17**	**1Q18**	***Changes***
Operation				
Sales Volume	mn ton	1.1	1.4	*27.3 %*
Production Volume	mn ton	1.1	1.2	*9.1 %*
Stripping Ratio (SR)	x	13.7	12.8	*(6.6)%*
FOB Cash Cost [a)]	US$/ton	36.9	43.2	*17.1 %*
NEWC Index Price	US$/ton	81.5	102.9	*26.3 %*
Average Selling Price (ASP)	US$/ton	57.2	74.5	*30.2 %*
Financial Performance				
Profit (Loss)		**1Q17**	**1Q18**	***Changes***
Sales [b)]	US$ mn	62.7	108.4	*72.9 %*
Cost of Goods Sold [b)]	US$ mn	42.6	65.9	*54.7 %*
Gross Profit [b)]	US$ mn	20.1	42.5	*111.4 %*
Operating Profit [b)]	US$ mn	14.9	36.0	*141.6 %*
EBITDA [b) & c)]	US$ mn	17.1	38.2	*123.4 %*
Profit for the Period	US$ mn	10.2	25.2	*147.1 %*
Profit for the Period after MI	US$ mn	6.0	14.0	*133.3 %*
EBITDA/ton [d)]	US$/ton	16.0	26.8	*67.5 %*
Operating Cash Flows [e)]	US$ mn	9.9	28.4	*186.9 %*
Capex [f)]	US$ mn	1.8	1.7	*(5.6)%*
Balance Sheet		**Dec'17**	**Mar' 18**	***Changes***
Interest Bearing Debt	US$ mn	98.8	96.8	*(2.0)%*
Cash and Cash Equivalents	US$ mn	74.7	97.0	*29.9 %*
Net Debt [g)]	US$ mn	24.1	-0.2	*(100.8)%*
Total Assets	US$ mn	348.3	379.6	*9.0 %*
Total Liabilities	US$ mn	173.5	177.1	*2.1 %*
Total Equity	US$ mn	174.8	202.6	*15.9 %*
Financial Ratios				
Gross Profit Margin	%	32.1%	39.2%	
EBITDA Margin	%	27.3%	35.2%	
Operating Profit Margin	%	23.8%	33.2%	

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 1Q18*

(c) *EBITDA = Gross profit – selling expenses G&A + depreciation and amortization*

(d) *EBITDA/ton = Coal mining business only*

(e) *Includes payment in relation to land acquisition for Sulut-3 project amounting to US$ 1.6 million in 1Q18, and adjusted with change in deferred stripping during the period*

(f) *Excludes payment in relation to land acquisition for Sulut-3 project amounting to US$ 1.6 million, and excludes addition in deferred stripping during the period*

(g) *Net Debt = interest bearing debt – cash and cash equivalents*

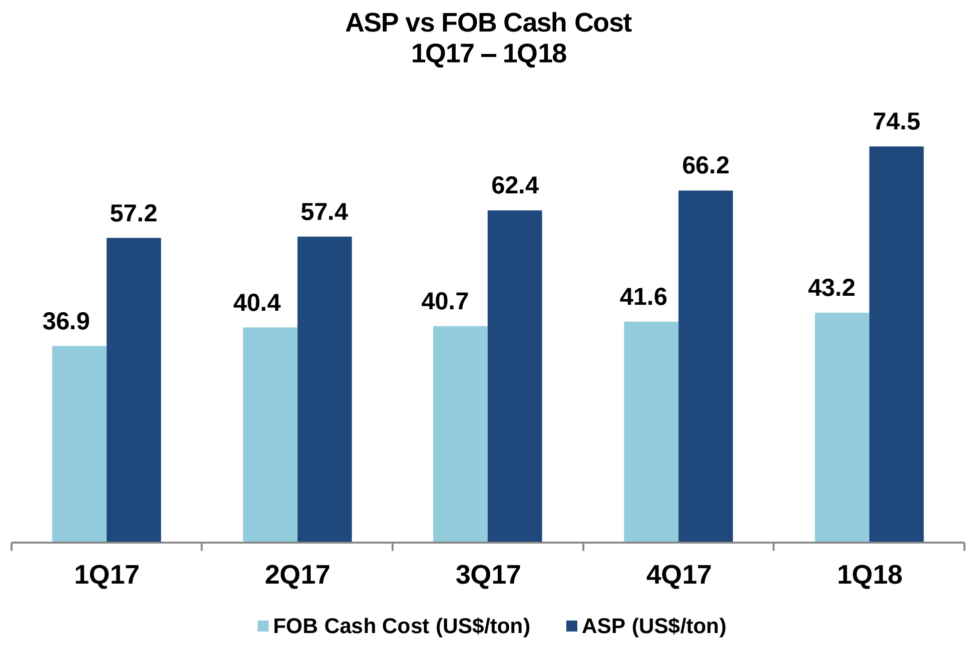
FINANCIAL

PROFIT (LOSS)

SALES
The Company recorded sales of US$ 108.4 million in 1Q18, or 72.9% higher compared to that in 1Q17, 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 54.7% y-o-y, reflecting a combination of higher sales volume in 1Q18, adjusted mining contractor tariff due to the higher coal index price, and construction cost of Sulbagut-1 power project.

EBITDA
A 123.4% y-o-y increase in EBITDA to US$ 38.2 million in 1Q18 from US$ 17.1 million in 1Q17 significantly increased EBITDA margin from 27.3% to 35.2% over the period.



PROFIT FOR THE PERIOD
After taking into account finance cost of US$ 2.2 million and tax expense of US$ 9.0 million, the Company booked total profit for the period of US$ 25.2 million in 1Q18, up 147.1% y-o-y from the previous year.

FINANCIAL RATIOS
Gross profit margin, EBITDA margin, and operating margin rose y-o-y from 32.1% in 1Q17 to 39.2% in 1Q18, from 27.3% in 1Q17 to 35.2% in 1Q18, and from 23.8% in 1Q17 to 33.2% in 1Q18, respectively. This was mainly attributable to the higher ASP and higher sales volume.

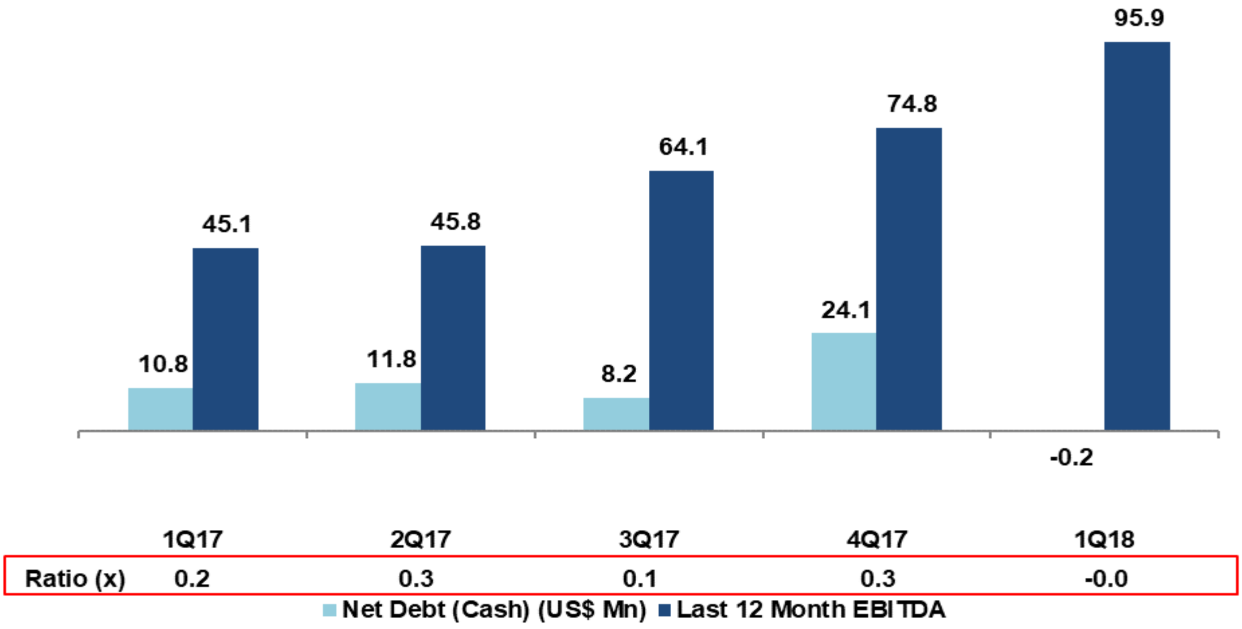
BALANCE SHEET

ASSETS
Total assets as at 31st March 2018 compared to 31st December 2017 rose by 9.0% to US$ 379.6 million, mainly due to higher sales performance in 1Q18, which translated into 29.9% higher cash and cash equivalent position to USS 97.0 million, and 93.2% higher trade receivables to US$ 22.8 million.

LIABILITIES
Total liabilities as at 31st March 2018 increased 2.1% to US$ 177.1 million from US$ 173.5 million as at 31st December 2017, mainly due to 82.7% higher taxes payable position to US$ 14.8 million over the period.

Meanwhile, leverage metrics, such as net debt to EBITDA ratio shows significant improvement of -0.0x in 1Q18, as a result of higher cash and cash equivalent position. During 1Q17-1Q18, net debt to EBITDA ratios have constantly recorded stability at below 0.5x.

Net Debt to EBITDA



EQUITY
Total equity as at 31st March 2018 increased by 15.9% to US$ 202.6 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 1Q18 came in at US$ 28.4 million, 186.9% higher than US$ 9.9 million in 1Q18. For mining business operation, this was mainly due to cash received from customers rising 48.7% from US$ 63.8 million in 1Q17 to US$ 94.9 million in 1Q18, despite payments to suppliers increasing 23.4% from US$ 41.9 million to US$ 51.7 million over the same period. In 1Q18, a US$ 1.6 million cash outflow was part of a series of payments for the construction of Sulbagut-1, and Sulut-3 power projects.

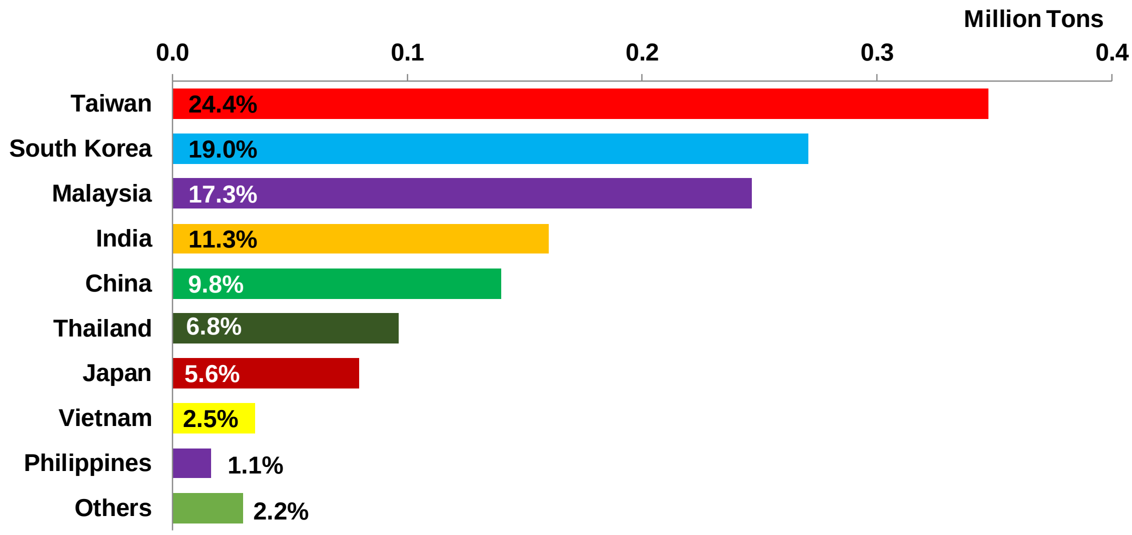
CASH FLOWS FROM INVESTING ACTIVITIES
Net cash flows from investing activities were realized at US$ 3.2 million in 1Q18, an increase from US$ 2.6 million in 1Q17. This was due to higher cash outflow resulting from addition to fixed asset from US$ 0.4 million in 1Q17 to US$ 1.4 million in 1Q18.

CASH FLOWS FROM FINANCING ACTIVITIES
Net cash flows use for financing activities decreased from US$ 8.7 million in 1Q17 to US$ 4.2 million in 1Q18, mainly due to lower payment of dividends to non-controlling shareholders of subsidiaries from US$ 4.9 million to US$ 2.0 million over the period.

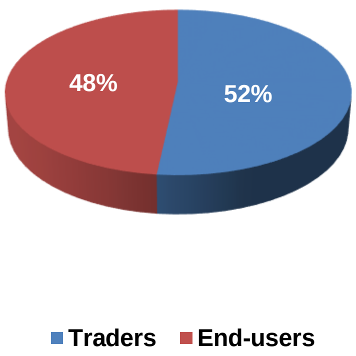
MARKETING

In 1Q18, the company predominantly sold its coal to Taiwan, South Korea, Malaysia, and India. As a percentage of total customer base, the compositions of end-users and traders in 1Q18 remained stable, which were at 48.3% and 51.7%, respectively, compared to 14.2% and 85.8%, respectively in 1Q17. As of 1Q18, a mix of mid-upper quality of 5200 - 5800 GAR coal still accounted for the Company's largest product composition. Around 47.5% of total sales volume by product was contributed by the 5600 GAR, 28.1% by the higher 5200 GAR, 6.7% by the higher 5800 GAR and 5900 GAR low sulfur (LS), and 17.7% by the lower 4800 - 5000 GAR coal. Major international traders and notable end-users, such as major regional power generation companies, accounted for the Company's main dedicated customers.

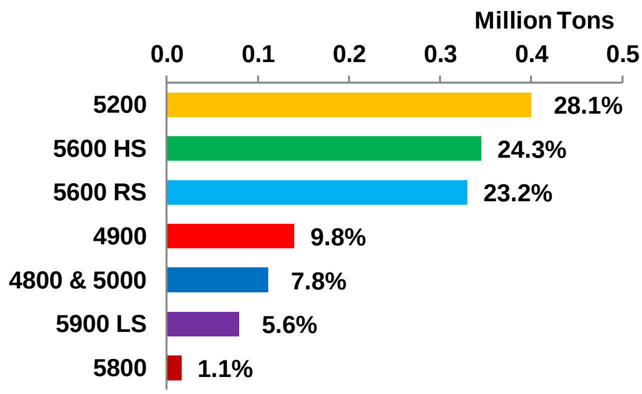
Sales Destinations by Country as per 1Q18
Total Sales Volume : 1.4 Million Tons



Total Sales by Customer



Total Sales by Product



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

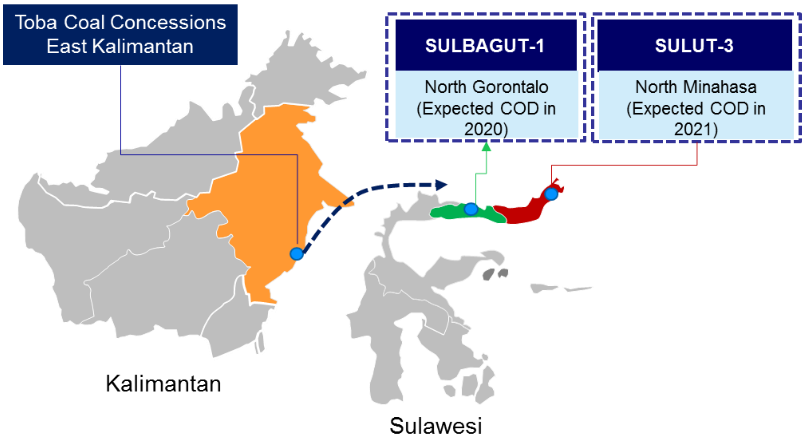
POWER PLANT PROJECTS

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 [h)] 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 13th June 2017 in Samarinda, following its participation in Provincial Government Program that assessed its performance rating based on environmental management (PROPER):

a. PT Adimitra Baratama Nusantara received Gold rating (GOLD PROPER);
b. PT Indomining received Green rating (GREEN PROPER); and
c. PT Trisensa Mineral Utama received Green rating (GREEN PROPER).

Note:
[(h)] *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.

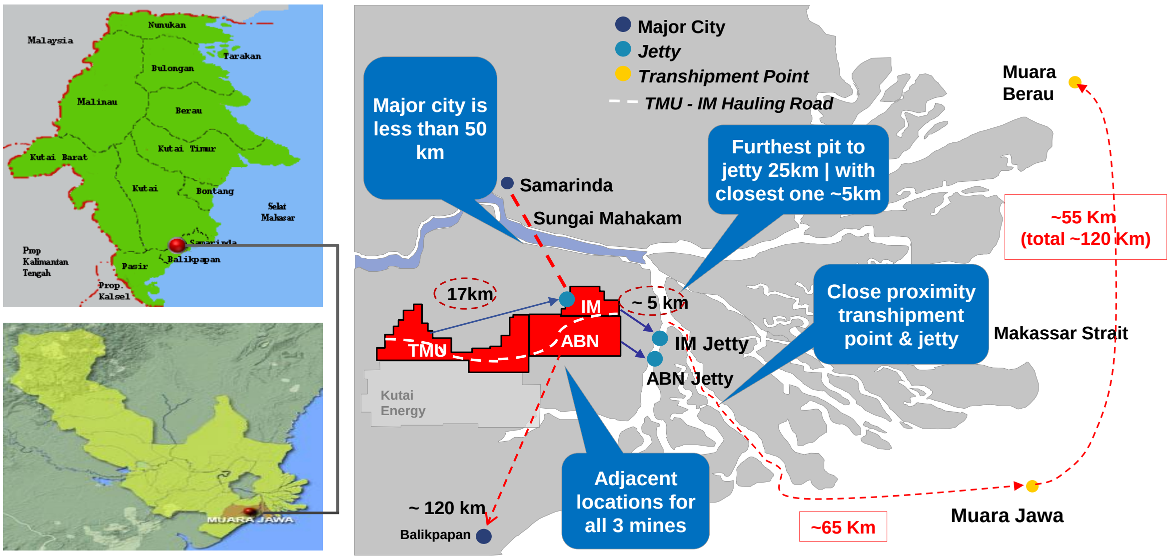
- **Capital Expenditure**
  Total Capex for 2018 is estimated at US$ 90 - 100 million, of which 80% - 90% will be allocated for the Sulbagut-1 and Sulut-3 power projects, with the balance for the mining business, i.e. land acquisition, and infrastructure/heavy equipment.

- **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.

SNAPSHOT OF PT TOBA BARA SEJAHTRA TBK

The Company currently has five operating subsidiaries, three in coal mining namely PT Adimitra Baratama Nusantara (ABN), PT Indomining (IM), PT Trisensa Mineral Utama (TMU), 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, and MCL are 51%, 99%, 99%, 90%, 80%, and 90% 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.

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