



Management Discussion & Analysis – First Half 2018
PT Toba Bara Sejahtera Tbk and Subsidiaries

30th June 2018

SUMMARY

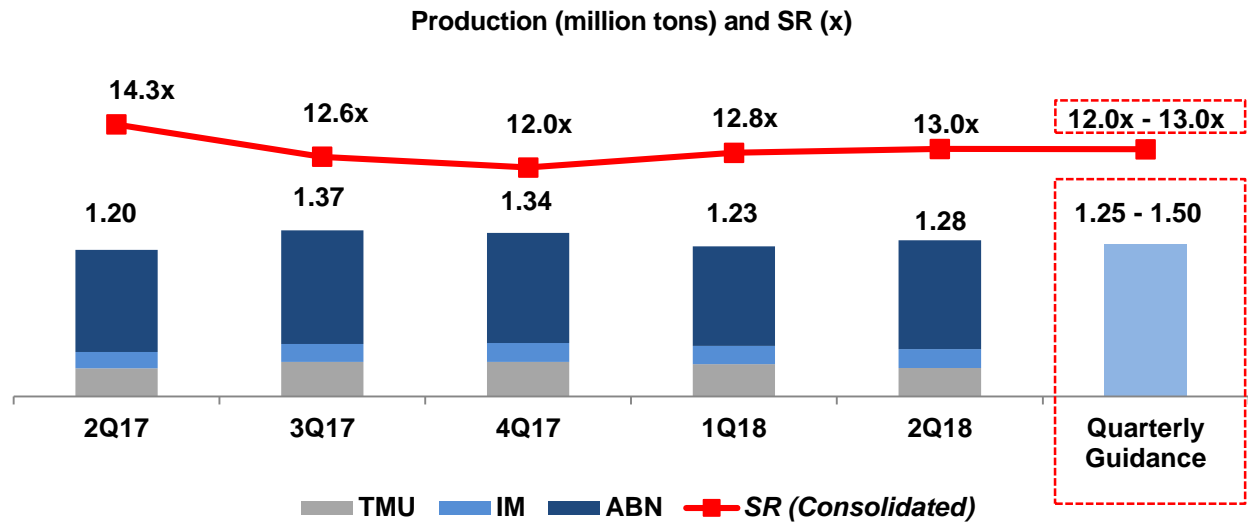
The reference Newcastle (NEWC) Index price rose 28.7% from US\$ 80.6/ton in 1H17 to US\$ 103.7/ton in 1H18. During 1H18 period, the global coal price remained resiliently strong notably due to combination of supply shortage from production disruption in China plus major coal exporters, and China's strong coal import demand. This was reflected by China's relatively flat y-o-y domestic coal production growth versus its positive y-o-y thermal power demand growth. China government's continuous capacity reduction and strict environmental and safety inspections on coal mines curbed meaningful domestic production over this period. From the exporters side, Indonesian exporters were faced with production ramp up limitations due to equipment availability and prolonged wet weather, the latter more so in 1Q18 than in 2Q18. The capacity reduction and safety campaigns on coal mines have curbed China's domestic production.

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. Sulbagut-1 achieved financial close in July 2017 and has started its construction phase. Meanwhile, Sulut-3 is 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 June 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).*

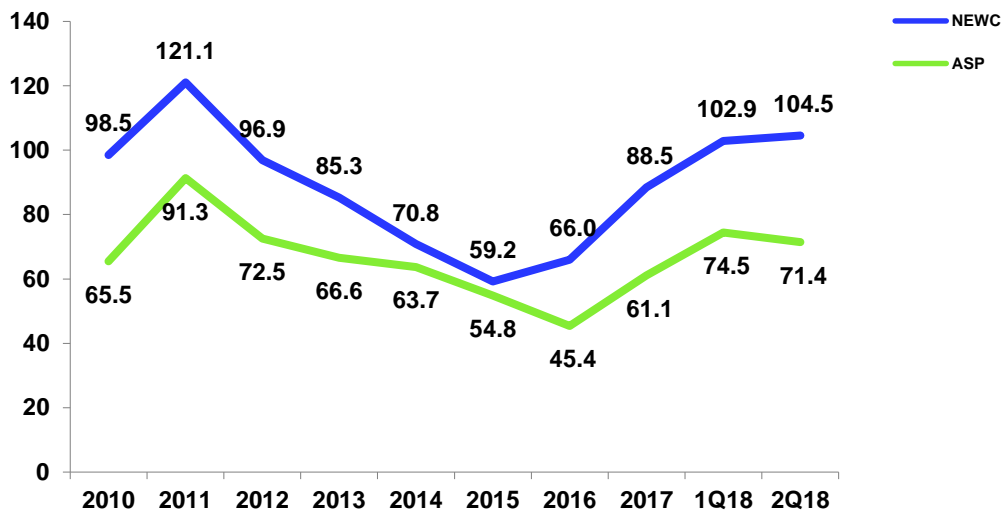
PRODUCTION & OPERATION

The Company's production volume of 1.28 million tons in 2Q18 was generated by all three subsidiaries of ABN, IM, and TMU, contributing 0.89 million tons, 0.16 million tons, and 0.23 million tons respectively. ABN remained the largest contributor to the Company's overall production volume, accounting for 69.6% of total 2Q18 production followed by TMU and IM at 18.2% and 12.2%, respectively. The Company's annual production guidance for 2018 is estimated at 5 - 6 million tons.



Such production number of 1.28 million tons and SR of 13.0x 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 2Q18 was slightly higher than that in 1Q18 despite seasonal wet weather affecting the operational activity during the first quarter period. 2Q18 production was higher than that in 2Q17.

NEWC Index Price vs ASP (US\$ per ton)



ASP rose by 27.7% y-o-y from US\$ 57.3 per ton in 1H17 to US\$ 73.2 per ton in 1H18, in line with the rise in NEWC Index price over the same period. This was due to higher portion of index-linked sales volume in 2H18 compared to 2H17, hence reflecting the higher ASP during the period.

Financial and Operational Highlights				
<i>All figures are in million US\$ unless otherwise stated</i>		1H17	1H18	Changes
Operation				
Sales Volume	mn ton	2.2	2.4	9.1 %
Production Volume	mn ton	2.3	2.5	8.7 %
Stripping Ratio (SR)	x	14.0	13.0	(7.1)%
FOB Cash Cost ^{a)}	US\$/ton	38.8	45.3	16.8 %
NEWC Index Price	US\$/ton	80.6	103.7	28.7 %
Average Selling Price (ASP)	US\$/ton	57.3	73.2	27.7 %
Financial Performance				
Profit (Loss)		1H17	1H18	Changes
Sales ^{b)}	US\$ mn	127.9	187.3	46.4 %
Cost of Goods Sold ^{b)}	US\$ mn	91.2	125.3	37.4 %
Gross Profit ^{b)}	US\$ mn	36.6	62.0	69.4 %
Operating Profit ^{b)}	US\$ mn	23.5	48.1	104.7 %
EBITDA ^{b) & c)}	US\$ mn	28.4	53.8	89.4 %
Profit for the Period	US\$ mn	14.6	31.2	113.7 %
Profit for the Period after MI	US\$ mn	8.0	16.0	100.0 %
EBITDA/ton ^{d)}	US\$/ton	13.4	22.3	66.4 %
Operating Cash Flows ^{e)}	US\$ mn	18.1	21.9	21.0%
Capex ^{f)}	US\$ mn	6.9	7.3	5.8%
Balance Sheet		Dec'17	Jun' 18	Changes
Interest Bearing Debt	US\$ mn	98.8	95.7	(3.1)%
Cash and Cash Equivalents	US\$ mn	74.7	76.9	2.9 %
Net Debt ^{g)}	US\$ mn	24.1	18.8	(22.0)%
Total Assets	US\$ mn	348.3	370.9	6.5 %
Total Liabilities	US\$ mn	173.5	173.3	(0.1)%
Total Equity	US\$ mn	174.8	197.6	13.0 %
Financial Ratios				
Gross Profit Margin	%	28.6%	33.1%	
EBITDA Margin	%	22.2%	28.7%	
Operating Profit Margin	%	18.4%	25.7%	

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 1H18

^(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\$ 3.6 million in 1H18

^(f) Includes payment in relation to Sulbagut-1 and Sulut-3 project amounting to US\$ 3.6 million in 1H18

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

FINANCIAL

PROFIT (LOSS)

SALES

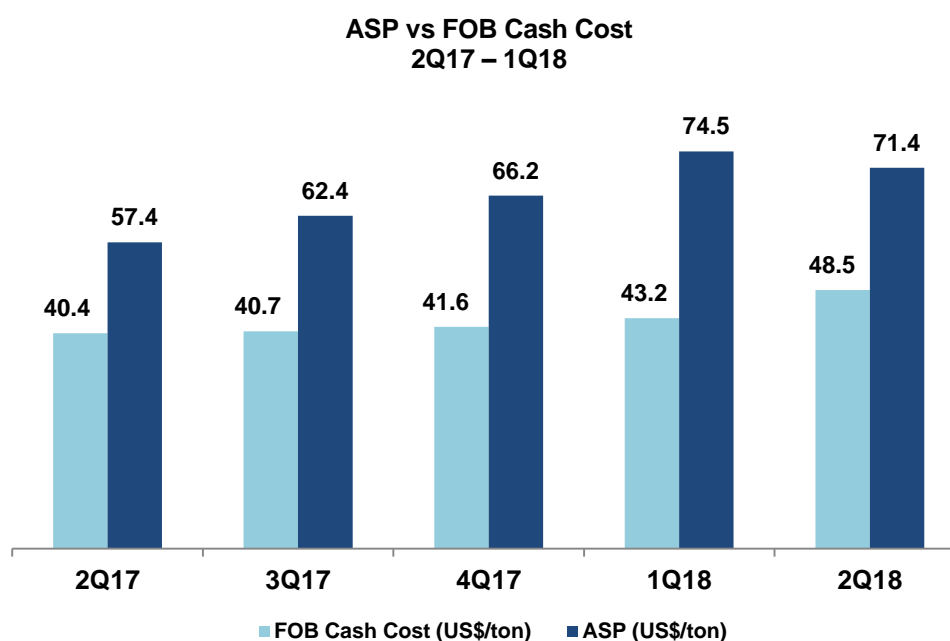
The Company recorded sales of US\$ 187.3 million in 1H18, or 46.4% higher compared to that in 1H17, as a result of much higher ASP, higher sales volume, and recognition of revenue from construction of Sulbagut-1 power project (based on accounting treatment PSAK 34 and ISAK 16).

COST OF GOODS SOLD

Cost of goods sold rose by 37.4% y-o-y, reflecting a combination of higher sales volume in 1H18, adjusted mining contractor tariff in 2H17 due to the higher coal index price, and construction cost of Sulbagut-1 power project.

EBITDA

A 89.4% y-o-y increase in EBITDA to US\$ 53.8 million in 1H18 from US\$ 28.4 million in 1H17 significantly increased EBITDA margin from 22.2% to 28.7% over the period.



PROFIT FOR THE PERIOD

After taking into account finance cost of US\$ 4.2 million and tax expense of US\$ 13.9 million, the Company booked total profit for the period of US\$ 31.2 million in 1H18, up 113.7% y-o-y from the previous year.

FINANCIAL RATIOS

Gross profit margin, EBITDA margin, and operating margin rose y-o-y from 28.6% in 1H17 to 33.1% in 1H18, from 22.2% in 1H17 to 28.7% in 1H18, and from 18.4% in 1H17 to 25.7% in 1H18, respectively. This was mainly attributable to the higher ASP and higher sales volume.

BALANCE SHEET

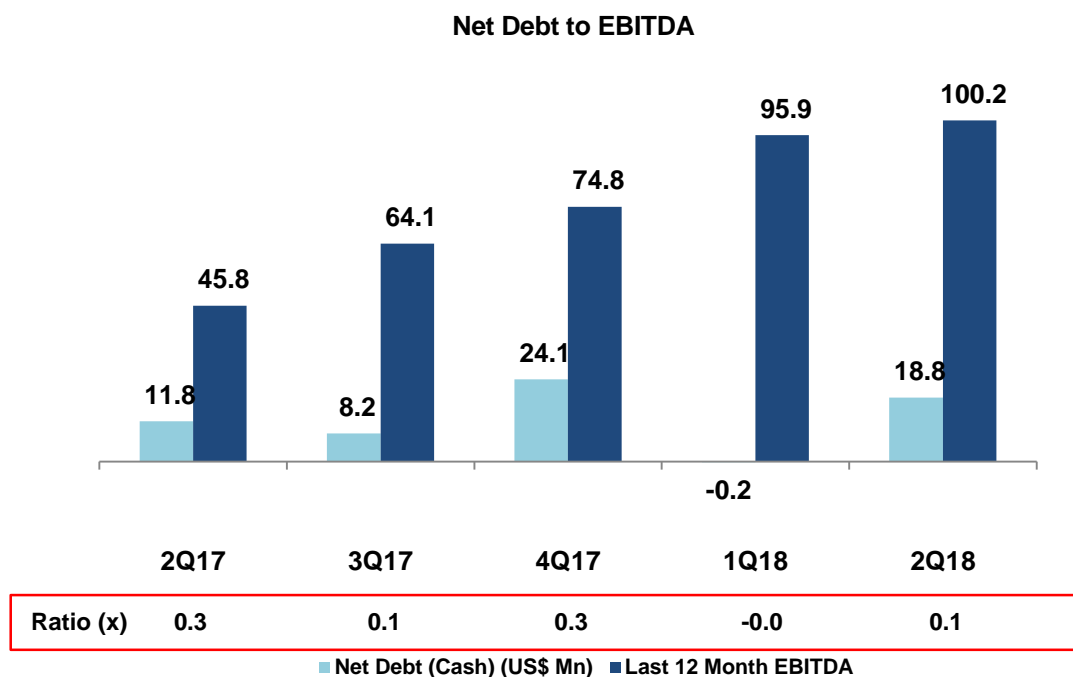
ASSETS

Total assets as at 30th June 2018 compared to 31st December 2017 rose by 6.5% to US\$ 370.9 million, mainly due to higher sales performance in 1H18, which translated to 50.8% higher trade receivables to US\$ 17.8 million, 54.2% higher unbilled receivables of Sulbagut-1 to US\$ 21.9 million, and 48.6% higher inventories to US\$ 36.7 million.

LIABILITIES

Total liabilities as at 30th June 2018 remained stable at US\$ 173.3 million from US\$ 173.5 million as at 31st December 2017.

Meanwhile, leverage metrics, such as net debt to EBITDA ratio, have constantly recorded stability from 2Q17 to 2Q18 at below 0.5x.



EQUITY

Total equity as at 30th June 2018 increased by 13.0% to US\$ 197.6 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 1H18 came in at US\$ 21.9 million, 21.0% higher than US\$ 18.1 million in 1H17. For mining business operation, this was mainly due to cash received from customer rising 31.4% from US\$ 132.5 million in 1H17 to US\$ 174.1 million in 1H18, despite cash payments to suppliers increasing 27.5% from US\$ 88.8 million in 1H17 to US\$ 113.2 million in 1H18 and payment for corporate income tax increasing 134.5% from US\$ 5.8 million in 1H17 to US\$ 13.6 million in 1H18.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash flows from investing activities were realized at US\$ 13.0 million in 1H18, an increase from US\$ 4.7 million in 1H17. This was mainly due to placement in restricted cash in bank in 1H18 related to Sulbagut-1 power project amounting to US\$ 9.4 million.

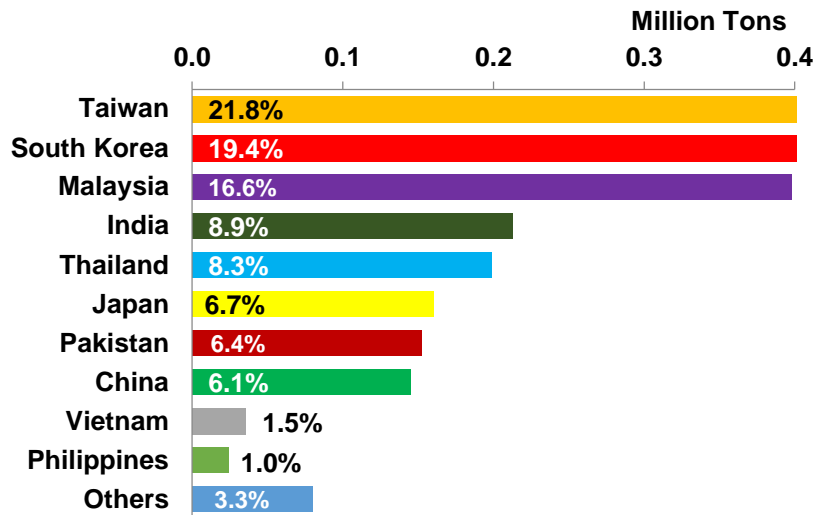
CASH FLOWS FROM FINANCING ACTIVITIES

Net cash flows use for financing activities increased from US\$ 1.6 million in 1H17 to US\$ 12.3 million in 1H18, mainly due to lower proceeds from bank loans from US\$ 39.4 million to US\$ 1.5 million in 1H18, despite repayment of bank loans from US\$ 30.0 million to US\$ 4.4 million and payment of dividends to non-controlling shareholders of subsidiaries from US\$ 9.8 million to US\$ 9.3 million over the period.

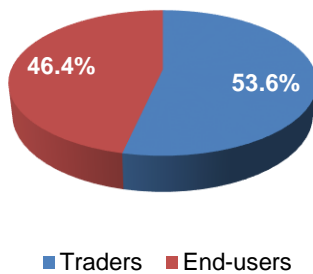
MARKETING

In 1H18, 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 1H18 came in at 46.4% and 53.6%, respectively, compared to 22.6% and 77.4%, respectively in 1H17. As of 1H18, a mix of mid-upper quality of 5200 - 5800 GAR coal still accounted for the Company's largest product composition. Around 48.4% of total sales volume by product was contributed by the 5600 GAR, 23.5% by the higher 5200 GAR, 14.6% by the higher 4900 GAR, and 13.5% 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.

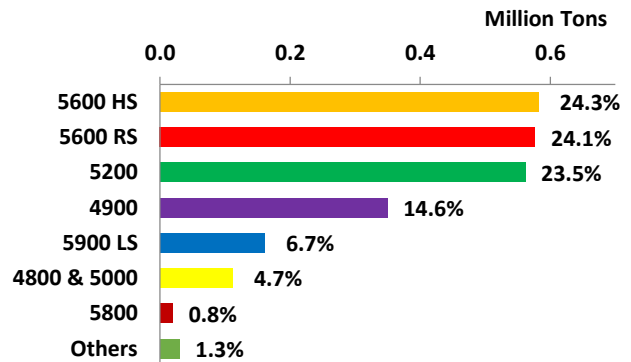
Sales Destinations by Country as per 1H18
Total Sales Volume : 2.4 Million Tons



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%.

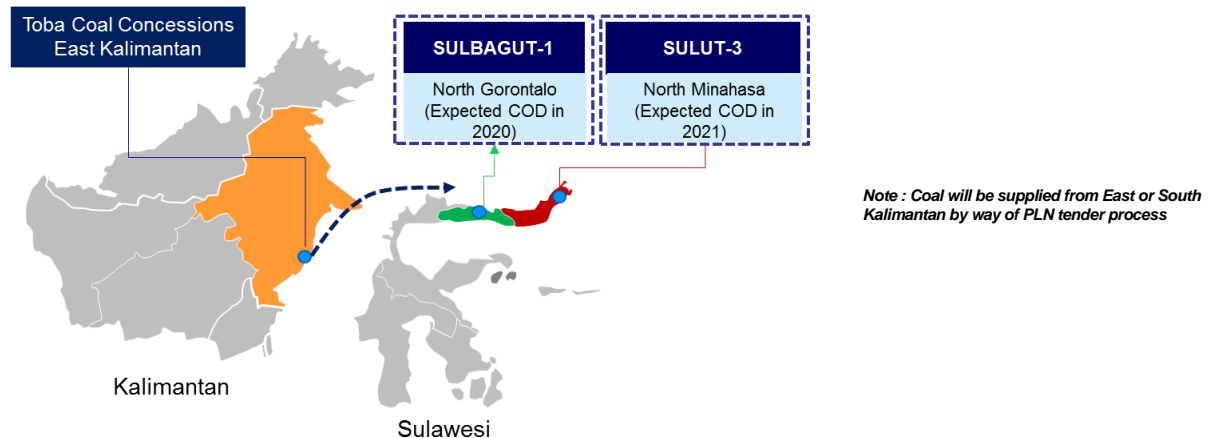
SEPC is the Engineering, Procurement, and Construction (EPC) contractor. The signing of the Power Purchase Agreement (PPA) with the State Utility PT Perusahaan Listrik Negara (PLN) was held on 14th July 2016, following the Company's participation in PLN's open tender process through the Independent Power 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.



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):

- PT Adimitra Baratama Nusantara received Gold rating (GOLD PROPER);
- PT Indomining received Green rating (GREEN PROPER); and
- 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\$ 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

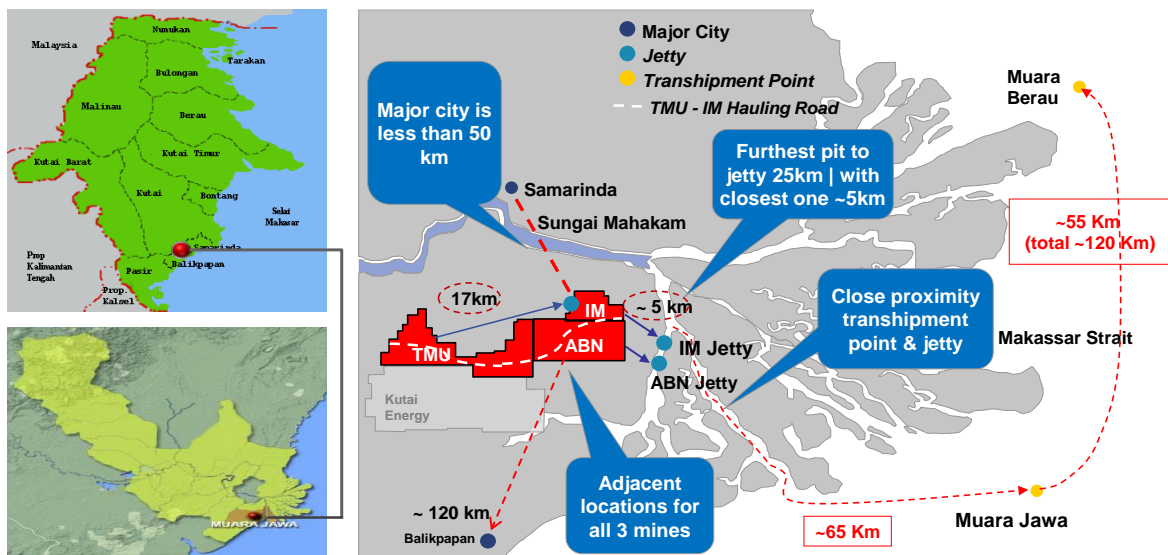
On 9th July, 2018, MCL entered into Construction Contract Agreement with Joint Operation Sinohydro Corporation Limited and PT Teknik Lancar Mandiri, and Supply Contract Agreement with Sinohydro Corporation Limited, for construction of the 2 x 50 MW Coal Fired Power Plant in the North Minahasa Regency, North Sulawesi Province.

On 7th August, 2018, ABN signed a notarial Deed No. 6 of Provision of Non-Cash Loan Facility with Bank Mandiri made before Fathiah Helmi, SH., Notary in Jakarta, for facilities (1) Non Cash Loan facility with a limit of US\$12,000,000 with condition that US\$ 7,000,000 can be used by ABN together with PT Adimitra Niaga and amounting to US\$ 5,000,000 to be used by Adimitra Resources Pte. Ltd; and (2) Trust Receipt facility as a sub limit of Non Cash Loan facilities amounting to US\$ 5,000,000. The maturity of this agreement is up to 6th August, 2019. This loan is not guaranteed.

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) (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 Sejahtera 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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