



Management Discussion & Analysis – 6 months ending 30th June 2019
PT Toba Bara Sejahtera Tbk and Subsidiaries

SUMMARY

Global seaborne thermal coal prices, represented by the benchmark Newcastle (NEWC) Index, posted a 42.6% decline from the July 2018 high of US\$ 119.8 per ton to 30th June 2019 price of US\$ 68.8 per ton, and a 33.7% y-o-y decrease from US\$ 103.7 per ton on 30th June 2018. Meanwhile over 1H19, the price declined 31.7% from US\$ 100.8 per ton on 2nd January 2019 to US\$ 68.8 per ton on 30th June 2019. The softening of the seaborne coal prices over the first semester period was due in part to the weak domestic Chinese coal demand, stemming from lackluster end-use power consumption and robust hydropower generation (up 11% in 1H19 y-o-y). Domestic coal supply, on the other hand, faced significant challenges from stricter safety inspections resulting from a series of mine accidents, albeit output improved due to newly commissioned mines and rail lines. Import restrictions through customer controls on largely Australian coal took its toll on coal imports by around 10-12% over the first semester. The collapse of global natural gas prices since 4Q18 due to LNG surplus as well as rising coal supply from Russia, South Africa, and Colombia into Asia also contributed to the lower thermal coal prices to date.

This year, while China's consumption is expected to remain flat, its government (NDRC) may increase its domestic production, hence reducing the need for imported coal at below the 2018's quota target of 280 million tons. Nevertheless, the majority of China's coastal IPPs would still prefer imported coal compared with domestic coal due in part to its cleaner and better quality, as well as due to the attractive prevailing price differentials of up to US\$ 20 between the high domestic price (high production costs) and lower imported price.

As the largest consumer and importer of coal, China's future demand is expected to grow albeit at a slower pace. Meanwhile, India continues to call for seaborne coal given its ongoing domestic power shortages, hence remains as the wild card to complement China as the second largest importer of seaborne coal. The South East Asian (SEA) markets are expected to serve as ideal destinations for Indonesian coal due to proximity advantage and specification compatibility. In addition, the SEA markets show continued demand traction growth from existing as well as new coal-fired power plant capacity, particularly in Vietnam, Malaysia, Thailand, and the Philippines.

In Indonesia, coal continues to play a very important role, both as income generator to the government budget as well as energy supplier to the country. In 2018, the usage of coal for domestic consumption increased from 97 to 115 million tons, with 2019 expectation to be around 120-130 million tons. According to the latest PLN's RUPTL, coal makes up for 54% - 68% of current and future generating power plant energy source, given its competitive cost as a base load. Furthermore, in the Northern Sulawesi (consisting of North Sulawesi Province and Gorontalo Province grid system), the average GDP growth of 6% - 7% is coupled with the increase in demand for power in the area, which is typically 1 - 1.5x GDP growth.

In 6 months ending 30th June 2019, PT Toba Bara Sejahtera Tbk (the "Company") produced and sold 2.0 million tons of coal and recorded consolidated sales and EBITDA of US\$ 230.7 million and US\$38.1 million, respectively, of which coal business recorded sales and EBITDA of US\$166.5 million and US\$26.6 million, respectively.

The Company has continued to register positive progress with its coal-fired power plant projects (CFPP) of 2x50 MW, Sulbagut-1 in North Gorontalo, Gorontalo Province through PT Gorontalo Listrik Perdana ("GLP"), and Sulut-3 in North Minahasa, North Sulawesi Province through PT Minahasa Cahaya Lestari ("MCL"). After achieving financial close in July 2017, Sulbagut-1 is currently in construction phase. As of 30th June 2019, Sulbagut-1 has completed its main plant site piling, and nearly completed its boiler #1 steel structure. Meanwhile, Sulut-3 is also currently in construction phase and has completed the foundation of its boiler and power house, after securing project financing facility of US\$158 million and achieving financial close in December 2018.

On 12th December, 2018, the Company completed the acquisition of PT Batu Hitam Perkasa ("BHP"), which owns a 5% stake in PT Paiton Energy ("Paiton"), the largest private independent power producer (IPP) in Indonesia, with total net capacity of 2,045 MW. In 6 months ending 30th June 2019, BHP received US\$ 6.0 million of dividend payments from Paiton.

Financial and Operational Highlights				
<i>All figures are in million US\$ unless otherwise stated</i>		1H18	1H19	Changes
Operation				
Sales Volume	mn ton	2.4	2.0	(16.7)%
Production Volume	mn ton	2.5	2.0	(20.0)%
Stripping Ratio (SR)	x	13.0	13.8	6.2 %
FOB Cash Cost ^{a)}	US\$/ton	45.3	50.5	11.5 %
EBITDA/ton ^{d)}	US\$/ton	22.3	14.1	(36.8)%
NEWC Index Price	US\$/ton	103.7	87.9	(15.2)%
Average Selling Price (ASP)	US\$/ton	73.2	68.7	(6.1)%
Financial Performance				
Profit (Loss)		1H18	1H19	Changes
Sales ^{b)}	US\$ mn	187.3	230.7	23.2 %
Cost of Goods Sold ^{b)}	US\$ mn	125.3	184.6	47.3 %
Gross Profit ^{b)}	US\$ mn	62.0	46.1	(25.6)%
Operating Profit ^{b)}	US\$ mn	48.1	37.7	(21.6)%
EBITDA ^{b) & c)}	US\$ mn	53.8	38.1	(29.2)%
Profit for the Period	US\$ mn	31.2	23.2	(25.6)%
Profit for the Period after MI	US\$ mn	16.0	12.9	(19.4)%
Operating Cash Flows ^{e)}	US\$ mn	21.9	4.2	(80.8)%
Capex ^{f)}	US\$ mn	7.3	60.9	734.2 %
Balance Sheet		Dec' 18	Jun' 19	Changes
Interest Bearing Debt	US\$ mn	155.1	204.0	31.5 %
Cash and Cash Equivalents ^{g)}	US\$ mn	82.2	67.5	(17.9)%
Net Debt ^{h)}	US\$ mn	72.9	136.5	87.2 %
Total Assets	US\$ mn	501.9	521.2	3.8 %
Total Liabilities	US\$ mn	286.3	292.3	2.1 %
Total Equity	US\$ mn	215.6	228.9	6.2 %
Financial Ratios				
Gross Profit Margin	%	33.1%	20.0%	
EBITDA Margin	%	28.7%	16.5%	
Operating Profit Margin	%	25.7%	16.3%	

Notes:

(a) FOB Cash Cost = COGS including royalty and selling expense - depreciation and amortization

(b) Includes profit from construction of Sulbagut-1 and Sulut-3 project (based on accounting treatment PSAK 34 and ISAK 16) in 1H19 and 1H18

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

(d) EBITDA/ton = Coal mining business only

(e) Excludes payment in relation to Sulbagut-1 and Sulut-3 projects amounting to US\$ 3.6 million in 1H18 and US\$ 57.1 million in 1H19, respectively

(f) Includes payment in relation to Sulbagut-1 and Sulut-3 projects amounting to US\$ 3.6 million in 1H18 and US\$ 57.1 million in 1H19, respectively

(g) Includes restricted cash in Bank

(h) Net Debt = interest bearing debt - cash and cash equivalents

Operating Segment Information					
<i>All figures are in million US\$ unless otherwise stated</i>		1H19			
		Coal ⁽ⁱ⁾	Power Generation ⁽ⁱ⁾	Plantation	Consolidated
Profit (Loss)					
Sales	US\$ mn	166.5	61.6	2.6	230.7
Cost of Goods Sold	US\$ mn	132.9	48.9	2.8	184.6
Gross Profit	US\$ mn	33.6	12.7	(0.2)	46.1
Operating Profit	US\$ mn	22.8	15.7	(0.8)	37.7
EBITDA	US\$ mn	26.6	11.9	(0.4)	38.1
Profit for the Period	US\$ mn	14.2	11.2	(2.2)	23.2
Profit for the Period after MI	US\$ mn	6.7	8.2	(2.0)	12.9

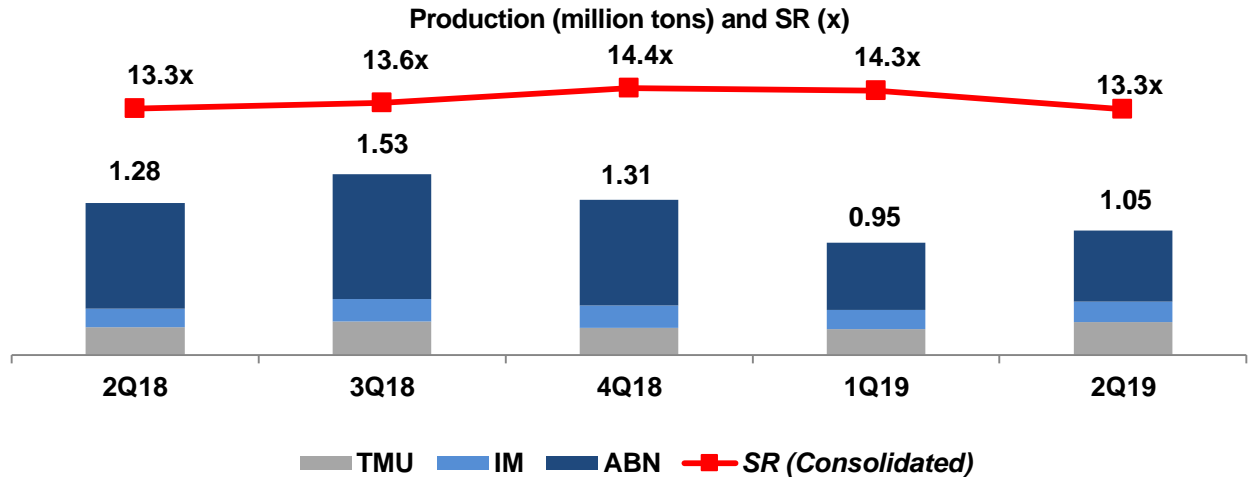
Notes:

⁽ⁱ⁾ Coal Segment including mining and trading

⁽ⁱ⁾ Power Generation figures mainly come from the financials of GLP and MCL, which are under construction. Revenues are recognized from construction services conducted under service concession agreement with PLN using percentage of completion method. These construction services revenues are expected to be paid through receivable settlement by PLN after commercial operation date. Any construction costs are recognized as incurred on the accrual basis.

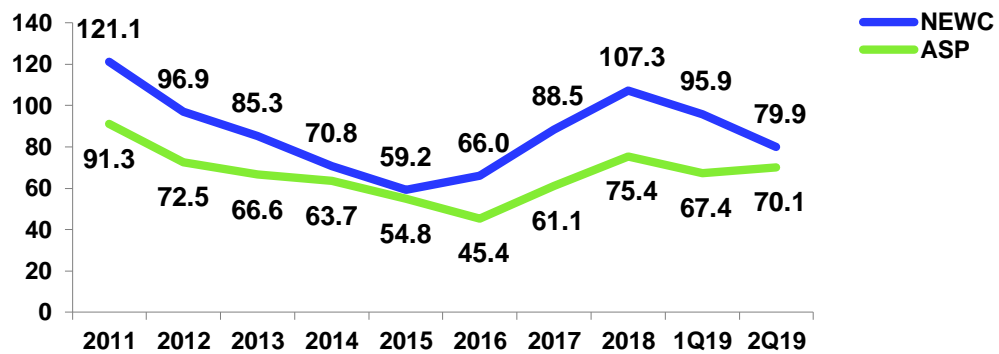
COAL MINING

The Company's production volume of 1.05 million tons in 2Q19 was generated by all three mining subsidiaries of ABN, IM, and TMU, contributing 0.60 million tons, 0.17 million tons, and 0.28 million tons, respectively. ABN remained as the largest contributor to the Company's overall production volume, accounting for 57.1% of total 2Q19 production, followed by TMU and IM at 26.7% and 16.2%, respectively.



The quarterly SR was lower by 7.1% than in 1Q19 due to higher seasonal wet weather affecting the operational activity during the second quarter 2019 period. Y-o-y quarterly SR in 2Q19 remained the same compared to 2Q18.

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



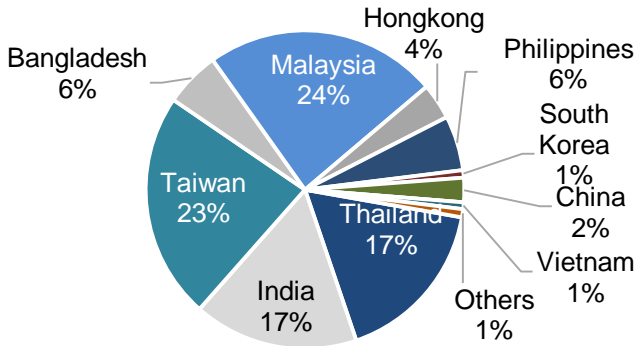
ASP decreased by 6.1% y-o-y from US\$ 73.2 per ton in 1H18 to US\$ 68.7 per ton in 1H19, in tandem with the decline in NEWC Index over the same period.

COAL MARKETING

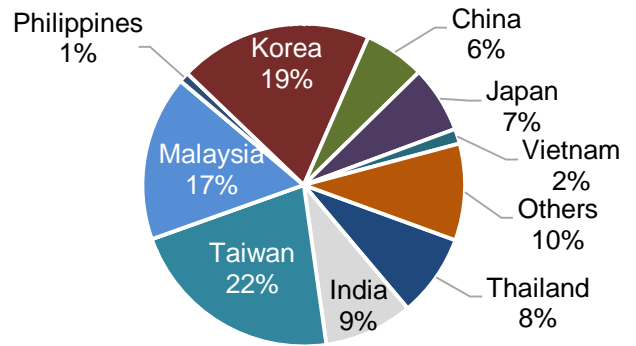
In 1H19, the Company predominantly sold its coal to Malaysia, Taiwan, Thailand and India, representing 64% of sales volume. As a percentage of total customer base, the composition of traders and end-users in 1H19 came in at 42.8% and 57.2%, respectively, compared to 53.6% and 46.4% in 1H18, respectively, aligned with the Company's objective to increase the proportion of end-users customers. Major international traders and end-users, such as major regional power generation companies, accounted for the Company's main customers. As of 1H19, a mix of 4900 GAR and 5200 - 5800 GAR coal still accounted for the Company's largest product composition. Around 38.9% of total sales volume by product was contributed by 5600 GAR, 24.2% by 5200 GAR, 23.7% by 4900 GAR, 10.1% by 5800 GAR, and 3.1% by the lower 5700 GAR and 5400 GAR coal.

Sales Destinations by Country

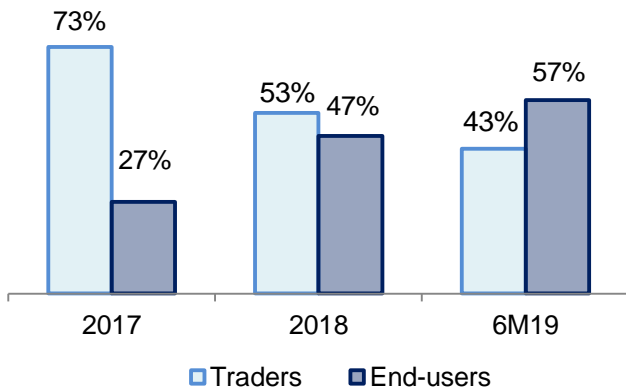
6M19, 100% = 2.0 million tons



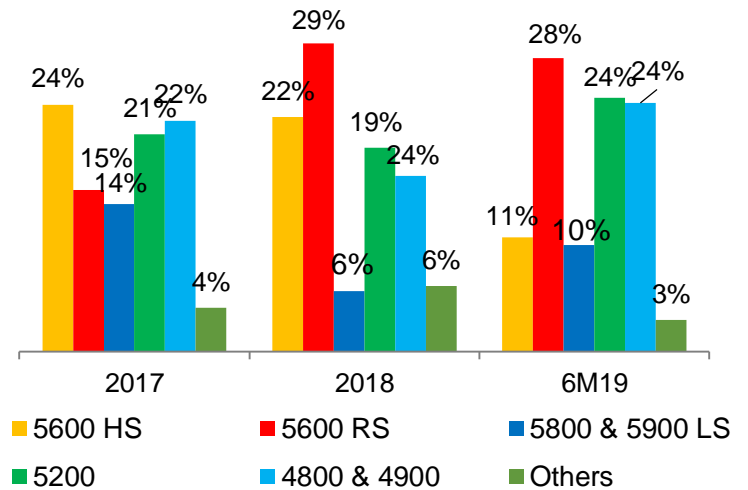
6M18, 100% = 2.4 million tons



Trader vs End User Composition



Product Composition



POWER GENERATION

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 (80.0%)^(k) and Shanghai Electric Power Construction Co. Ltd (“SEPC”) (20.0%).

SEPC is also the Engineering, Procurement, and Construction (“EPC”) contractor of Sulbagut-1 project. The Power Purchase Agreement (“PPA”) with the State Utility PT Perusahaan Listrik Negara (PLN) was signed 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 a PPA term of 25 years after Commercial Operation Date (“COD”), with project costs estimated at US\$ 224 million (including land, development costs and Interests During Construction – IDC).

Sulbagut-1 is currently under construction with expected COD in 2020. As of 30 June 2019, the status of the plant construction are summarized below:

Land	Land acquisition completed
Engineering	Detailed engineering ongoing targeted completion in October 2019
Boiler, Turbine, Generator (“BTG”)	BTG manufacturing by Dong Fang Boiler Group Co., Ltd.; Main plant design unit by Southwest Electric Power Design Institute Co., Ltd.
Procurement	4 out of 10 project shipments arrived on site
Construction	Boiler structure installation in progress, chimney foundation completed, foundation of steel FGD support #1 completed, WTP plant foundation in progress

PT Minahasa Cahaya Lestari (“MCL”)

MCL was established in March 2017 and is owned indirectly by the Company (90.0%) and Sinohydro Corporation Limited (“SCL”) (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 that became effective on 10th January 2018. The Sulut-3 has a PPA term of 25 years after COD, with project costs estimated at US\$ 209 million (including land, development costs and IDC).

Sulut-3 is currently under construction with expected COD in 2021. As of 30 June 2019, the status of the plant construction are summarized below:

Land	Land acquisition completed
Engineering	Started detailed engineering design, estimated completion in January 2020
BTG	BTG equipment by Harbin Electric Co. Ltd.
Procurement	2 nd shipment (out of 14) including steel structure arrived and partially used on site
Construction	Boiler foundation and main powerhouse foundation completed; Steel structure erection for boiler and main power house ongoing

PT Batu Hitam Perkasa (“BHP”)

The Company acquired BHP in December 2018. BHP owns 5% stake in PT Paiton Energy, the largest private independent power producer (“IPP”) in Indonesia which was established in February 1994. Paiton owns three units of power plant (Unit 7, Unit 8, and Unit 3) with total capacity of 2,045 MW in Probolinggo Regency, East Java. Unit 7 (615 MW) and 8 (615 MW) started commercial operation in May and July 1999, respectively, while Unit 3 (815 MW) started commercial operation in March 2012.

In terms of operation, Paiton utilizes sub-critical boiler technology in Unit 7 and 8 and supercritical technology in Unit 3. Unit 3 is the first power plant in Indonesia that utilizes supercritical technology, generating higher efficiency, lower fuel (coal) consumption, and lower CO₂ emissions. With such technologies, Paiton is capable of generating approximately 13,500 GWh of electricity per year, contributing to around 10% of the annual electricity production on Java Island. This contribution marks Paiton as one of the most reliable sources of electricity to PLN under long term PPA. Paiton PPA will expire in 2042.

In 2018, EBITDA from BHP amounted to US\$ 13.4 million, which mainly derived from dividend declared by Paiton. In 6 months ending 30th June 2019, BHP received US\$ 6.0 million dividend payments from Paiton.

Note:

^(k) This includes 20% of PT Toba Sejahtera’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, which would be effective after approval from PLN.

FINANCIAL

PROFIT (LOSS)

SALES

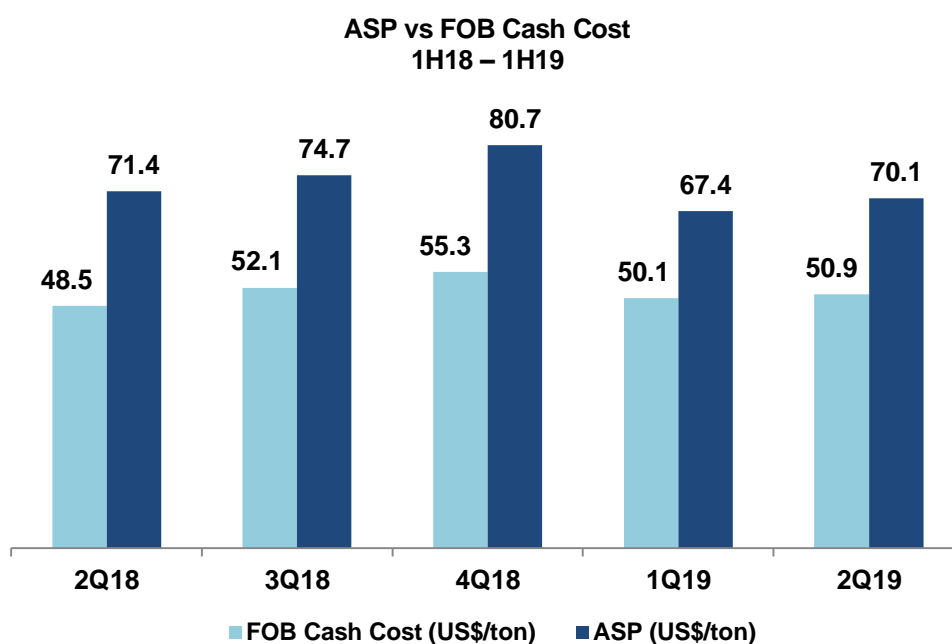
The Company recorded sales of US\$ 230.7 million in 1H19, or 23.2% higher compared to that in 1H18, stemming from much higher recognition of revenue from construction of Sulbagut-1 and Sulut-3 power projects (based on accounting treatment PSAK 34 and ISAK 16). Construction revenue recognized for both projects during 1H19 stood at US\$ 61.6 million.

COST OF GOODS SOLD

Cost of goods sold rose by 47.3% y-o-y, as a result of higher coal purchased for coal trading and construction cost of Sulbagut-1 and Sulut-3 power projects. Construction cost during 1H19 was realized at US\$ 48.9 million.

EBITDA

A 29.2% y-o-y decrease in EBITDA to US\$ 38.1 million in 1H19 from US\$ 53.8 million in 1H18 reduced EBITDA margin from 28.7% to 16.5% over the period.



PROFIT FOR THE PERIOD

After taking into account finance cost of US\$ 9.0 million and tax expense of US\$ 6.7 million, the Company booked total profit for the period of US\$ 23.2 million in 1H19, a 25.6% y-o-y decrease from the previous year.

FINANCIAL RATIOS

Gross profit margin, EBITDA margin, and operating profit margin were lower y-o-y from 33.1% in 1H18 to 20.0% in 1H19, from 28.7% in 1H18 to 16.5% in 1H19, and from 25.7% in 1H18 to 16.3% in 1H19, respectively. This was mainly attributable to the lower ASP and lower sales volume.

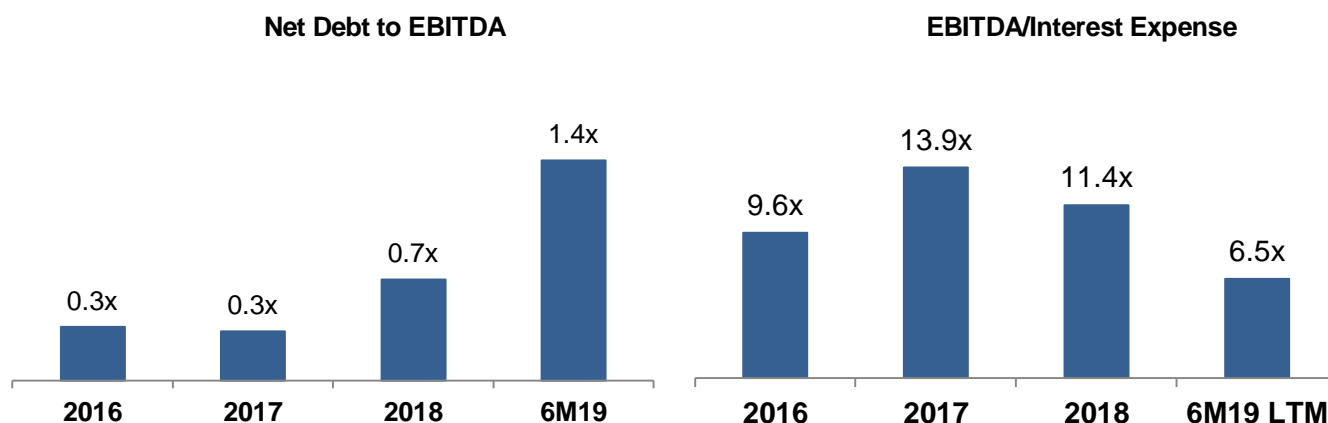
BALANCE SHEET

ASSETS

Total assets as at 30th June 2019 compared to 31st December 2018 rose by 3.8% to US\$ 521.2 million. This was mainly due to 116.5% higher unbilled receivables of Sulbagut-1 and Sulut-3 to US\$ 121.9 million, 50.8% lower trade receivables to US\$ 9.8 million, 17.9% lower cash and cash equivalents to US\$ 67.5 million, 16.5% lower inventories to US\$ 41.6 million, and 12.2% lower other receivables to US\$ 40.4 million.

LIABILITIES

Total liabilities as at 30th June 2019 compared to 31st December 2018 rose by 2.1% to US\$ 292.3 million, mainly due to 31.5% higher interest bearing debt position to US\$ 204.0 million over the period, despite 62.7% lower accrued expenses to US\$ 8.5 million, 36.4% lower trade payable to US\$ 28.5 million and 21.8% lower other payable to US\$ 15.8 million. During 1H19, net proceeds from bank loan to the Company, MCL, GLP and ABN amounted to US\$ (50) thousand, US\$ 30.9 million, US\$ 19.2 million and US\$ (0.7) million, respectively. Net debt to last 12 months EBITDA ratio stood at 1.4x over the period.



EQUITY

Total equity as at 30th June 2019 increased by 6.2% to US\$ 228.9 million from US\$ 215.6 million as at 31st December 2018, which was attributable to current earnings over the period.

CASH FLOWS

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash flows used in operating activities in 1H19^{l)} came in at US\$ 4.2 million, 80.8% lower than US\$ 21.9 million in 1H18^{l)}. This was mainly due to cash payments to suppliers increasing 20.8% from US\$ 113.2 million in 1H18 to US\$ 136.8 million in 1H19; payment of interest, bank charges, and finance cost increasing 93.3% from US\$ 3.0 million in 1H18 to US\$ 5.8 million in 1H19; despite receipt from customers increasing 2.4% from US\$ 174.1 million in 1H18 to US\$ 178.2 million in 1H19, payment for royalty decreasing 29% from US\$ 10.0 million in 1H18 to US\$ 7.1 million in 1H19 and payment for corporate income tax (net claim for tax refund) decreasing 8.8% from US\$ 11.3 million in 1H18 to US\$ 10.3 million in 1H19.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash flows used in investing activities were realized at US\$ 65.2 million in 1H19^{m)}, an increase from US\$ 16.6 million in 1H18^{m)}. This was mainly due to payments for construction of Sulbagut-1 and Sulut-3 power projects amounting to US\$ 57.1 million in 1H19, placement of US\$ 10.5 million in restricted cash in bank in 1H19 for Sulbagut-1 and Sulut-3 power projects, despite dividend received from PT Paiton Energy amounting to US\$ 6.0 million in 1H19.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash flows from financing activities increased from US\$ (12.3) million in 1H18 to US\$ 35.9 million in 1H19, mainly due to proceeds from bank loans amounting to US\$ 61.3 million in 1H19, despite higher payment of bank loan from US\$ 4.4 million in 1H18 to US\$ 11.9 million in 1H19 and repayment (net proceeds) of borrowing from third parties of US\$ 4.9 million in 1H19.

Notes:

^{l)} Net cash flows from operating activities excludes payment in relation to Sulbagut-1 and Sulut-3 projects amounting to US\$ 57.1 million in 1H19 and US\$ 3.6 million in 1H18, respectively

^{m)} Net cash flows from investing activities includes payment in relation to Sulbagut-1 and Sulut-3 projects amounting to US\$ 57.1 million in 1H19 and US\$ 3.6 million in 1H18, respectively

AWARDS AND ACCOLADES

The Company, through its three coal mining subsidiaries (ABN, IM and TMU) received Green Rating, environmental awards by the Provincial Government of East Kalimantan on 5th June 2019 in Samarinda, following its participation in Provincial Government Program that assessed its performance rating based on environmental management (PROPER).

2019 GUIDANCE

- **Mining Business Production**
The Company is on track to achieve 2019 production target of 4-5 million tons and projected SR of 13x, respectively.
- **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**
The Company has spent \$60.9 million capex in 2019 out of estimated US\$ 170 - 180 million total capex , of which 90% - 95% 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/operating assets, both in power and mining sectors.

SUBSEQUENT EVENTS

On 15th July 2019, ABN entered into Loan Agreement with Citibank for the revolving credit facility without collateral amounting to US\$ 10 million.

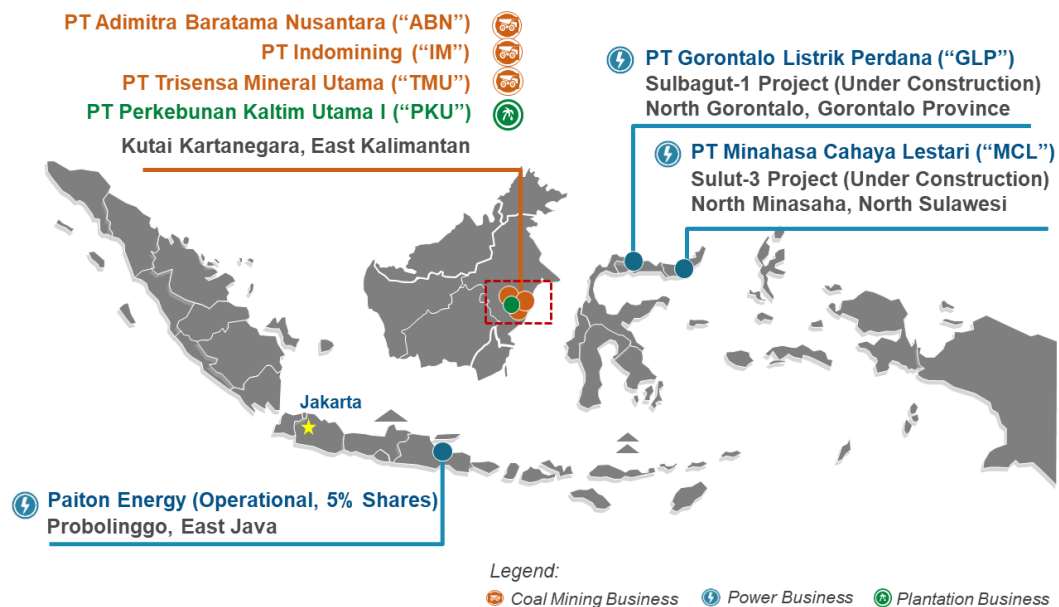
Proceeds of this loan will be used for ABN's working capital and general corporate purposes.

This loan will be due for final payment on 15th July 2020 and for every withdrawal shall be paid within 3 months. The facility is charged with annual interest at LIBOR one month plus a certain percentage, which shall be paid on biweekly basis (14 calendar days).

SNAPSHOT OF PT TOBA BARA SEJAHTRA TBK

The Company currently has nine 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), three entities in power generation namely PT Gorontalo Listrik Perdana (GLP) and PT Minahasa Cahaya Lestari (MCL) (indirectly through PT Toba Bara Energi (Toba Energi)), and one entity in investment on power generation namely PT Batu Hitam Perkasa (BHP) (indirectly through Toba Energi). The Company's ownerships in ABN, IM, TMU, PKU, GLP, MCL, Adimitra Niaga, Adimitra Resources and BHP are 51%, 99%, 99%, 90%, 80%, 90%, 51%, 51% and 100% respectively.

Locations of PT Toba Bara Sejahtera Tbk's Businesses



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.

BHP owns 5% of shares in PT Paiton Energy, an independent power producer that owns 2,045 MW power plant in Probolinggo Regency, East Java.

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