



Management Discussion & Analysis – 3 months ending 31st March 2019
PT Toba Bara Sejahtera Tbk and Subsidiaries

30th April 2019

SUMMARY

Global seaborne thermal coal prices, represented by the benchmark Newcastle (NEWC) Index, posted a 22.3% decline from the July 2018 high of US\$ 119.8 per ton to 31st March 2019's US\$ 93.1 per ton, and a 3.4% y-o-y decrease from US\$ 96.4 per ton on 31st March 2018. Such price weakness emanated from short term surplus due to China's restrictions on Australian coal imports (mostly thermal), which began in December 2018 by way of slow customs clearance of 40-90 days. The other factor was due to structurally weak coal demand in the Atlantic seaborne market. Two large mine accidents in its major coal-producing provinces impacted domestic supply, hence sustaining domestic price at a high of RMB 620 per ton level (much above the tolerated green zone). Nevertheless, the country's overall demand for coal over the period weakened due to its stronger hydro power performance compared in 1Q18 and China's slower industrial activity. This reduced the coal-fired power plant generation in general. Other substitute, such as coal-to-gas switching, was more evident in 1Q19 period compared to previously as a result of LNG price correction from oversupply in Europe.

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 IPPs would still prefer imported coal to domestic coal due to its cleaner and better quality. Their preference for import is further supported by the prevailing price differentials between the current high domestic price and lower imported price, and by China's relatively high production costs.

As still the largest consumer and importer of coal, China's future demand is expected to grow albeit at a slower pace. Meanwhile, India continues to need 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 plays 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 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 3 months ending 31st March 2019, PT Toba Bara Sejahtera Tbk (the "Company") produced and sold 1.0 million tons of coal and recorded consolidated Sales and EBITDA of US\$109.8 million and US\$17.4 million, respectively, of which coal business recorded Sales and EBITDA of US\$88.2 million and US\$13.0 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 January 2019, Sulbagut-1 completed its on-shore piling works. Meanwhile, Sulut-3 is also currently in construction phase and has commenced foundation works in February 2019, after securing project financing facility of US\$158 million and achieving financial close in December 2018.

The Company completed the acquisition of PT Batu Hitam Perkasa ("BHP") on 12th December, 2018, 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 3 months ending 31st March 2019, BHP received US\$ 4.1 million dividend payments from Paiton.

Financial and Operational Highlights				
<i>All figures are in million US\$ unless otherwise stated</i>		1Q18	1Q19	Changes
Operation				
Sales Volume	mn ton	1.4	1.0	(28.6)%
Production Volume	mn ton	1.2	1.0	(16.7)%
Stripping Ratio (SR)	x	12.8	14.3	11.7 %
FOB Cash Cost ^{a)}	US\$/ton	43.2	50.1	16.0 %
EBITDA/ton ^{d)}	US\$/ton	26.8	11.9	(55.6)%
NEWC Index Price	US\$/ton	102.9	95.9	(6.8)%
Average Selling Price (ASP)	US\$/ton	74.5	67.4	(9.5)%
Financial Performance				
Profit (Loss)		1Q18	1Q19	Changes
Sales ^{b)}	US\$ mn	108.4	109.8	1.3 %
Cost of Goods Sold ^{b)}	US\$ mn	65.9	88.3	34.0 %
Gross Profit ^{b)}	US\$ mn	42.5	21.5	(49.4)%
Operating Profit ^{b)}	US\$ mn	35.9	16.3	(54.6)%
EBITDA ^{b) & c)}	US\$ mn	38.2	17.4	(54.5)%
Profit for the Year	US\$ mn	25.2	9.9	(60.7)%
Profit for the Year after MI	US\$ mn	14.0	6.1	(56.4)%
Operating Cash Flows ^{e)}	US\$ mn	31.6	(5.7)	(118.0)%
Capex ^{f)}	US\$ mn	4.9	16.2	230.6 %
Balance Sheet		Dec' 18	Mar' 19	Changes
Interest Bearing Debt	US\$ mn	155.1	193.5	24.8 %
Cash and Cash Equivalents	US\$ mn	82.2	94.4	14.8 %
Net Debt ^{g)}	US\$ mn	72.9	99.1	35.9 %
Total Assets	US\$ mn	501.9	520.8	3.8 %
Total Liabilities	US\$ mn	286.3	296.2	3.5 %
Total Equity	US\$ mn	215.6	224.6	4.2 %
Financial Ratios				
Gross Profit Margin	%	39.2%	19.6%	
EBITDA Margin	%	35.2%	15.8%	
Operating Profit Margin	%	33.1%	14.8%	

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 3M19

(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\$ 14.5 million in 2019 and US\$ 1.6 million in 2018, respectively

(f) Includes payment in relation to Sulbagut-1 and Sulut-3 projects amounting to US\$ 14.5 million in 2019 and US\$ 1.6 million in 2018, respectively

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

Operating Segment Information					
<i>All figures are in million US\$ unless otherwise stated</i>		1Q19			
		Coal ^(h)	Power Generation ⁽ⁱ⁾	Plantation	Consolidated
Profit (Loss)					
Sales	mn ton	88.2	20.2	1.4	109.8
Cost of Goods Sold	mn ton	71.5	15.3	1.5	88.3
Gross Profit	mn ton	16.7	4.9	(0.1)	21.5
Operating Profit	mn ton	10.6	6.1	(0.4)	16.3
EBITDA	mn ton	13.0	4.6	(0.2)	17.4
Profit for the Period	mn ton	6.7	4.3	(1.1)	9.9
Profit for the Period after MI	mn ton	3.9	3.2	(1.0)	6.1

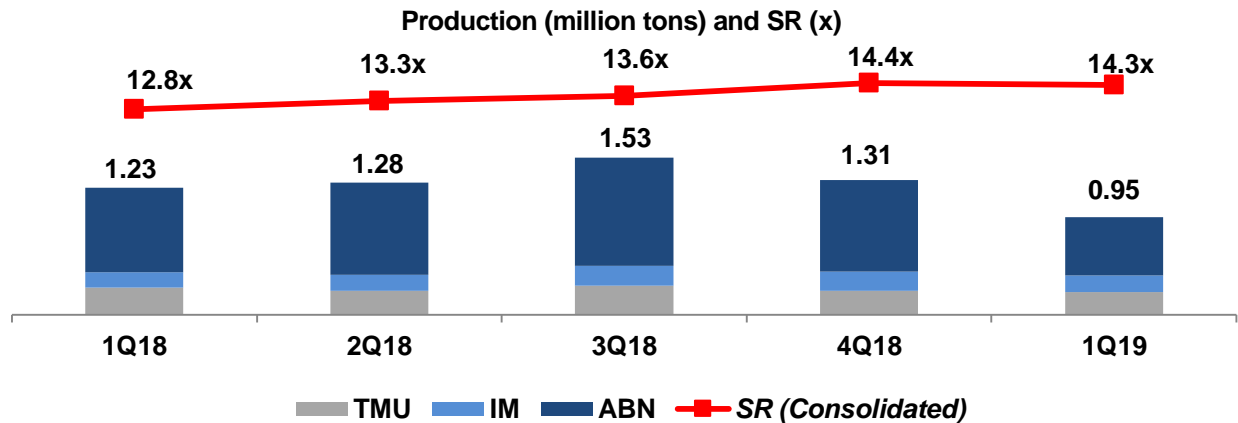
Notes:

^(h) *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.*

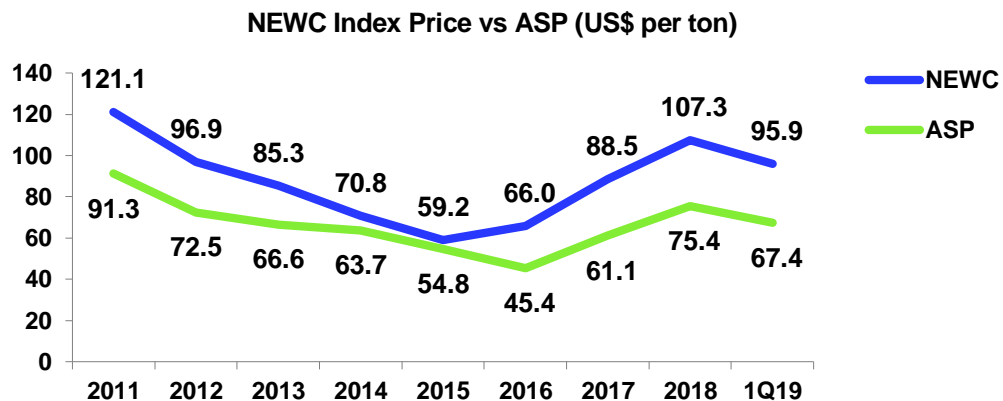
COAL MINING

The Company's production volume of 1 million tons in 1Q19 was generated by all three mining subsidiaries of ABN, IM, and TMU, contributing 0.62 million tons, 0.16 million tons, and 0.22 million tons, respectively. ABN remained as the largest contributor to the Company's overall production volume, accounting for 60.0% of total 4Q18 production, followed by TMU and IM at 23.2% and 16.8%, respectively.



The quarterly SR was lower by 0.9% than in 4Q18, while y-o-y SR was up by 11.7% compared to in 1Q18 due to utilization of extra fleet of heavy equipment at ABN pit during 1Q19.

ASP decreased by 9.5% y-o-y from US\$ 74.5 per ton in 1Q18 to US\$ 67.4 per ton in 1Q19, in line with the decline in NEWC Index over the same period.

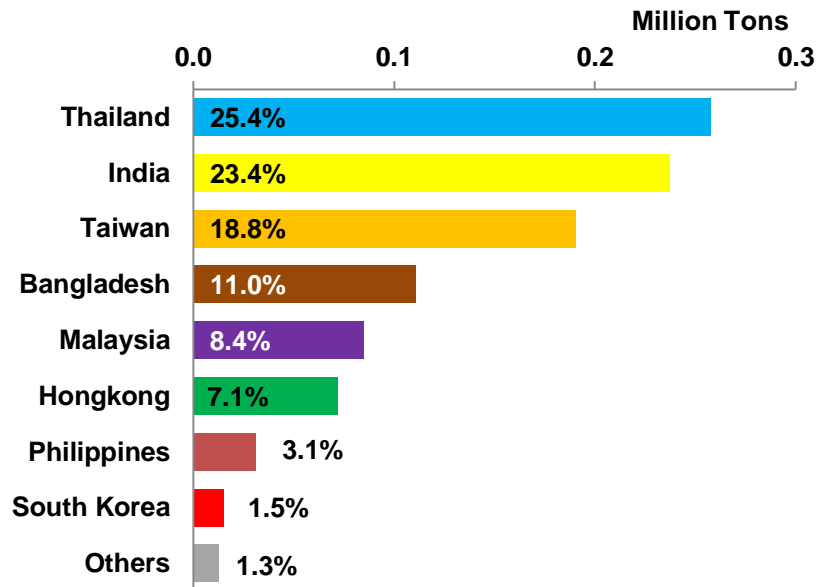


COAL MARKETING

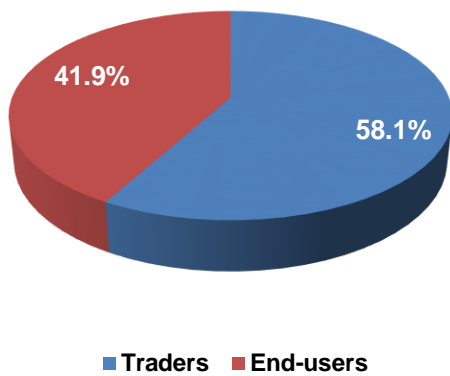
In 1Q19, the company predominantly sold its coal to Thailand, India, Taiwan and Bangladesh. As a percentage of total customer base, the composition of traders and end-users in 1Q19 came in at 58.1% and 41.9%, respectively, compared to 51.7% and 48.3% in 1Q18, respectively. As of 1Q19, a mix of 4900 GAR and 5200 - 5800 GAR coal still accounted for the Company's largest product composition. Around 33.3% of total sales volume by product was contributed by 5600 GAR, 32.3% by 4900 GAR, 14.5% by 5200 GAR, 14.0% by 5800 GAR, and 5.9% by the lower 5700 GAR and 5400 GAR 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 1Q19

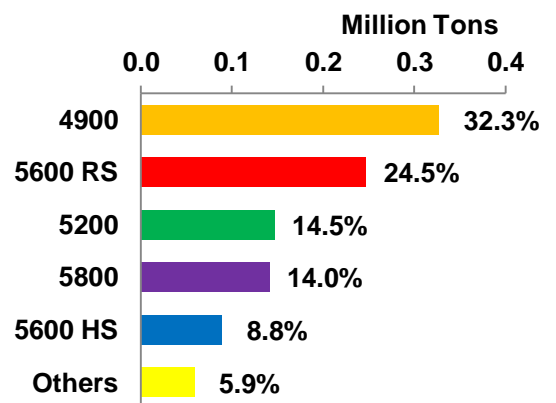
Total Sales Volume: 1.0 Million Tons



Total Sales by Customer 1Q19



Total Sales by Product 1Q19



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

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 with 80% majority^(k) and Shanghai Electric Power Construction Co. Ltd (“SEPC”) with 20%.

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, with project value estimated at US\$ 210 - US\$ 220 million.

Sulbagut-1 is currently under construction with expected Commercial Operation Date (“COD”) in 2020

PT Minahasa Cahaya Lestari (“MCL”)

On 31st March 2017, MCL was established and 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, with project value estimated at US\$ 205 - US\$ 215 million.

Sulut-3 is currently under construction with expected COD in 2021

PT Batu Hitam Perkasa (“BHP”)

On 12th December, 2018, the Company completed the acquisition of BHP. BHP owns 5% stake in PT Paiton Energy, the largest private independent power producer in Indonesia that 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 Power Purchase Agreement.

In 2018, EBITDA from BHP amounted to US\$ 13.4 million, which mainly derived from dividend declared by Paiton. In 3 months ending 31st March 2019, BHP received US\$ 4.1 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

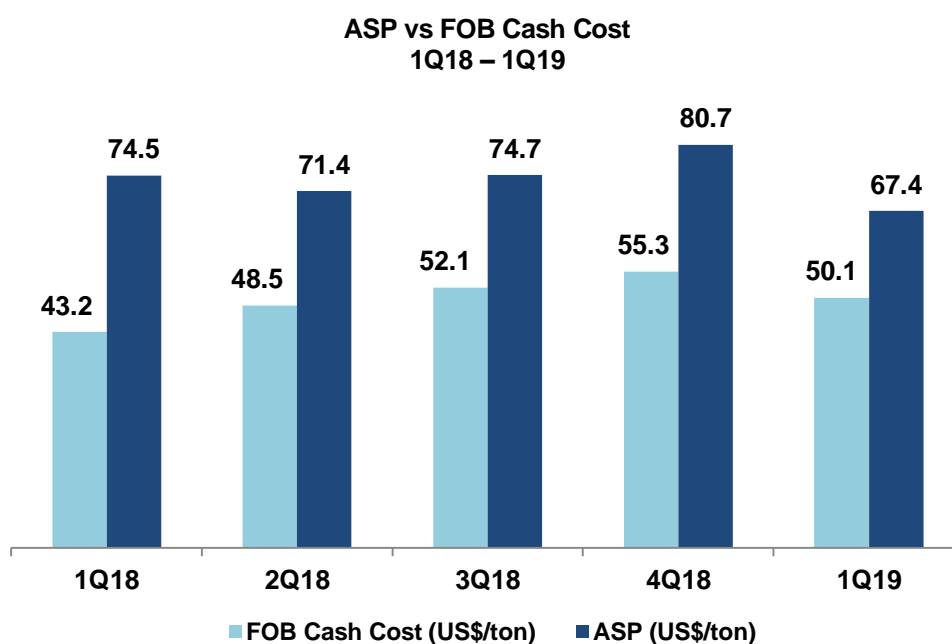
The Company recorded sales of US\$ 109.8 million in 1Q19, or 1.3% higher compared to that in 1Q18, stemming from much higher recognition of revenue from construction of Sulbagut-1 and Sulut-3 power projects (based on accounting treatment PSAK 34 and ISAK 16). Construction revenue recognized for both projects during 1Q19 stood at US\$ 20.3 million.

COST OF GOODS SOLD

Cost of goods sold rose by 34.0% y-o-y, as a result of higher production cost due to adjusted mining contractor tariff from the higher coal index price, and construction cost of Sulbagut-1 and Sulut-3 power projects. Construction cost during 1Q19 was realized at US\$ 15.3 million.

EBITDA

A 54.5% y-o-y decrease in EBITDA to US\$ 17.4 million in 1Q19 from US\$ 38.2 million in 1Q18 decreased EBITDA margin from 35.2% to 15.8% over the period.



PROFIT FOR THE PERIOD

After taking into account finance cost of US\$ 4.1 million and tax expense of US\$ 2.9 million, the Company booked total profit for the year of US\$ 9.9 million in 1Q19, a 60.7% 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 39.2% in 1Q18 to 19.6% in 1Q19, from 35.2% in 1Q18 to 15.8% in 1Q19, and from 33.1% in 1Q18 to 14.8% in 1Q19, respectively. This was mainly attributable to the lower ASP and lower sales volume.

BALANCE SHEET

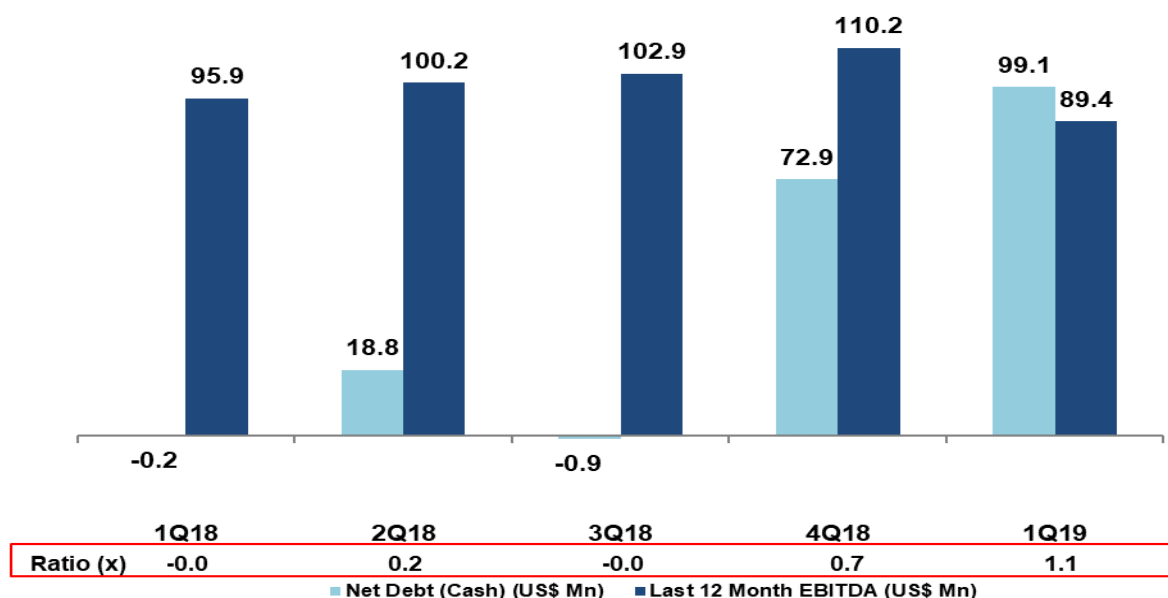
ASSETS

Total assets as at 31st March 2019 compared to 31st December 2018 rose by 3.8% to US\$ 520.8 million. This was mainly due to 38.7% higher unbilled receivables of Sulbagut-1 and Sulut-3 to US\$ 78.1 million, 21.1% higher trade receivables to US\$ 24.1 million, and 14.8% higher cash and cash equivalents to US\$ 94.4 million. This also came in on the back of 16.3% lower inventories to US\$ 41.7 million and 8.7% lower other receivables to US\$ 42.0 million.

LIABILITIES

Total liabilities as at 31st March 2019 compared to 31st December 2018 rose by 3.5% to US\$ 296.2 million, mainly due to 24.8% higher interest bearing debt position to US\$ 193.5 million over the period, despite 44.3% lower accrued expenses to US\$ 12.7 million and 40.1% lower other payable to US\$ 12.1 million. During 1Q19, Net proceeds from bank loan to the Company, MCL, GLP and ABN amounted to US\$ 4.9 million, US\$ 29.6 million, US\$ 6.4 million and US\$ (0.3) million, respectively. Net debt to EBITDA ratio stood at 1.1x in during the period.

Net Debt to EBITDA



EQUITY

Total equity as at 31st March 2019 increased by 4.2% to US\$ 224.6 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 were realized at US\$ 5.7 million in 1Q19ⁱ⁾, 118.0% lower than US\$ 31.6 million in 1Q18. This was mainly due to cash received from customer decreasing 10.9% from US\$ 94.9 million in 1Q18 to US\$ 84.6 million in 1Q19, cash payments to suppliers increasing 39.7% from US\$ 51.7 million in 1Q18 to US\$ 72.2 million in 1Q19, and payment for corporate income tax increasing 133.3% from US\$ 2.7 million in 1Q18 to US\$ 6.3 million in 1Q19.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash flows used in investing activities were realized at US\$ 36.6 million in 1Q19ⁱ⁾, an increase from US\$ 4.8 million in 1Q18. This was mainly due to placement of US\$ 24.6 million in restricted cash in bank in 1Q19 for Sulbagut-1 and Sulut-3 power projects, despite dividend receipt from PT Paiton Energy amounting to US\$ 4.1 million in 1Q19.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash flows from financing activities increased from US\$ (4.2) million in 1Q18 to US\$ 29.8 million in 1Q19, mainly due to proceeds from bank loans amounting to US\$ 47.3 million in 1Q19, despite higher payment of bank loan from US\$ 2.2 million in 1Q18 to US\$ 6.7 million in 1Q19, and higher dividends to non-controlling shareholders of subsidiaries from US\$ 2.0 million to US\$ 2.5 million over the period.

Notes:

ⁱ⁾ Net cash flows from operating activities exclude payment in relation to Sulbagut-1 and Sulut-3 projects amounting to US\$ 14.5 million in 2019 and US\$ 1.6 million in 2018, respectively

ⁱⁱ⁾ Net cash flows from investing activities includes payment in relation to Sulbagut-1 and Sulut-3 projects amounting to US\$ 14.5 million in 2019 and US\$ 1.6 million in 2018, respectively

AWARDS AND ACCOLADES

In January 2019, the Company was awarded as one of the Fastest Growing Companies in Mining Sector by Infobank Magazine (on the 100 Fastest Growing Companies in 2018). Inauguration took place on 31st January 2019.

2019 GUIDANCE

- **Mining Business Production**
2019 production and SR are projected at 4-5 million tons and 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**
Total Capex for 2019 is estimated at US\$ 190 - 200 million, 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.

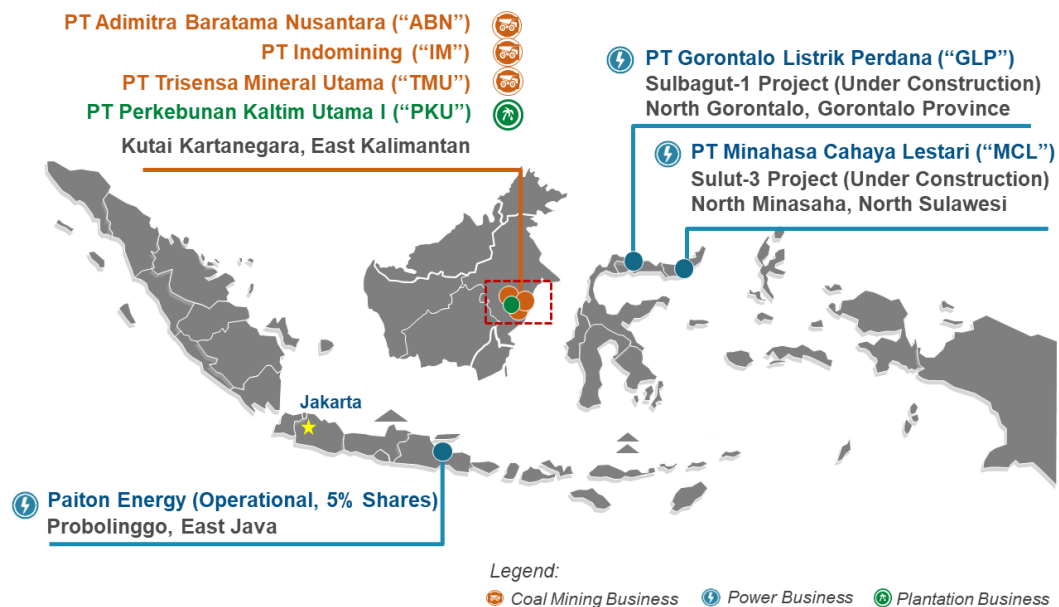
SUBSEQUENT EVENTS

- i. On 18th April, 2019, MCL has drawn down Bank Guarantee facility from Bank Mandiri amounting to US\$ 18,800,000.
- ii. On 24th April, 2019, the Company, IM, and TMU entered into amendment of Non-Cash Loan Facility Agreement or Bank Guarantee with Bank Mandiri, among others, related with the extension of the Non-Cash Loan Facility to 1st May, 2020 and a reduction in the facility limit from US\$ 25,000,000 to US\$ 5,000,000.

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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