



Management Discussion & Analysis – Full Year 2017  
PT Toba Bara Sejahtera Tbk and Subsidiaries

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*31<sup>st</sup> December 2017*

## SUMMARY

The coal price in general showed continued strength throughout 2017 as reference NEWC Index price rose from US\$ 83.7 on 6<sup>th</sup> January 2017 to US\$ 100.8 on 31<sup>st</sup> December 2017 on the back of combination of supply disruptions (i.e. drastic wet weather in Indonesia and strikes in Australia) and stable import demand from China. In 1H17, China did not stockpile coal but focused on safety inspections and mine production quotas, while the nation's coal imports faced cumbersome restrictions from customs authority. On the other hand, major producers stopped selling on spot in order to meet contracts, resulting in domestic prices exceeding Rmb 600 level, breaching the target range of Rmb 500 - 570 QHD. While elsewhere in Indonesia and Australia, production in 1Q17 in particular underperformed due to bad wet weather. Going into 2Q17, Indonesia production remained lackluster due to prolonged heavy rainfall and producers' conservative stance on production expansion.

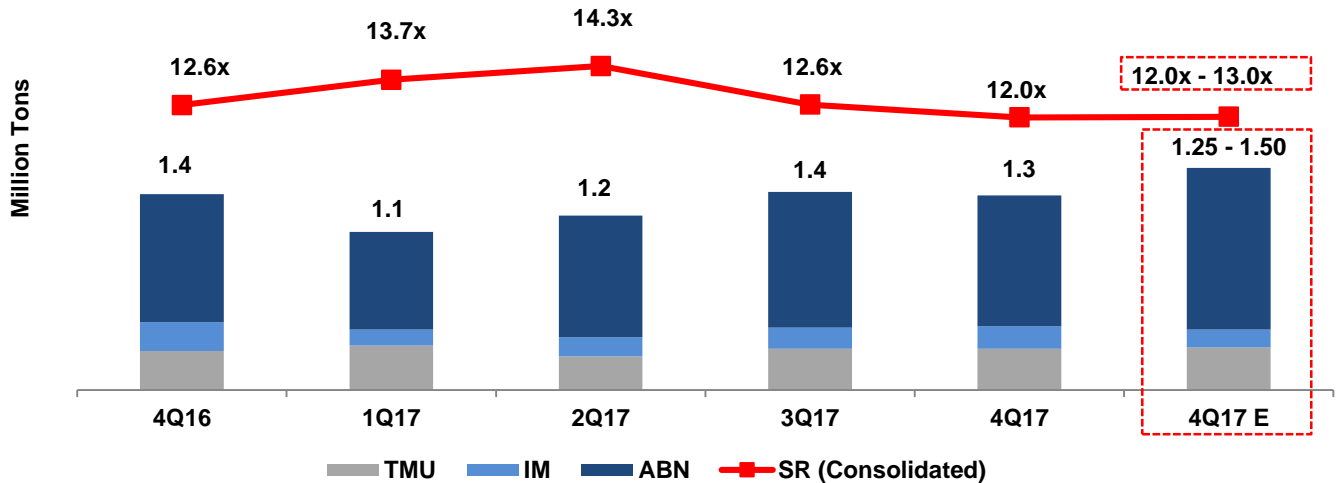
Meanwhile in 3Q and 4Q17, unfavorable weather conditions affected China's hydro power plant performance, strengthening coal-fired power plants' utilization rate and demand for more coal. This resulted from China's failure to partially shift from thermal to gas as the energy source due to insufficient infrastructure capacity and especially amidst China's colder than expected winter. Given that coal as the primary source of energy accounts for ~70% of total energy mix, the transition to a cleaner energy would pose a difficult challenge. For the short-term, the transition to cleaner coal would be the appropriate solution. China should prefer to import coal with higher calorific value (CV) with lower sulphur making Indonesia coal miners with high CV as key beneficiaries. As a result of the above, the 2017 period saw the global coal price hovering within favorable range of US\$ 70 - 90 levels.

Given the still positive coal price prospects, PT Toba Bara Sejahtera Tbk (Company) has continued to make further 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. For the Sulbagut-1 project, the achievements in 2017 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).

**Special Note:** *The following discussion on the Company's performance is based on the Consolidated Financial Statements as per 31<sup>st</sup> December 2017 (audited), 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

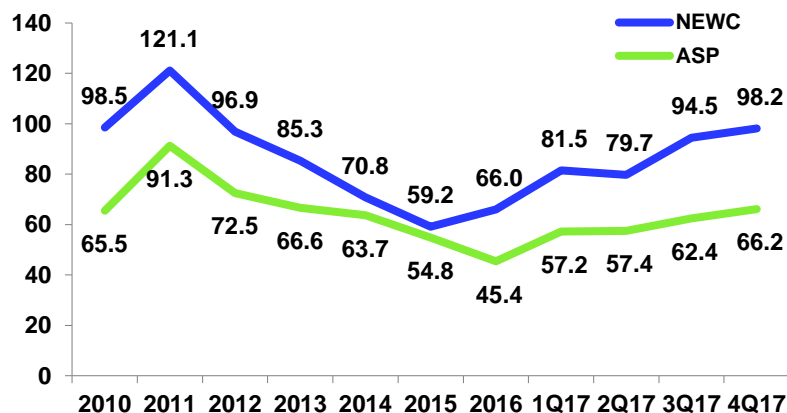
The Company's production volume of 1.34 million tons in 4Q17 was generated by all three subsidiaries of ABN, IM and TMU, contributing 0.91 million tons, 0.15 million tons, and 0.28 million tons respectively. ABN remained the largest contributor to the Company's overall production volume, accounting for 67.9% of total 4Q17 production followed by TMU and IM at 20.9% and 11.2% respectively. The Company's annual production guidance for 2017 was estimated at 5 - 6 million tons.



Production (million tons) and SR (x)

Such production number of 1.34 million tons and SR of 12.0x 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 stable quarterly performance was due to some improvement in production activity despite relatively high rainfall, particularly in November and December of 2017.

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



ASP rose by 34.6% y-o-y from US\$ 45.4 per ton in 2016 to US\$ 61.1 per ton in 2017, while NEWC Index price rose slightly less by 34.1% y-o-y over the same period. The Company's marketing initiative of securing 2017 sales volume contracts with customers mainly during the second semester of 2016 with majority at fixed price enabled it to secure relatively higher ASP in 2017 compared to in 2016 as the benchmark NEWC Index price rose significantly in second semester 2016 relative to the first semester 2016.

<b>Financial and Operational Highlights</b>				
<i>All figures are in million US\$ unless otherwise stated</i>		<b>2016</b>	<b>2017</b>	<b>Changes</b>
<b>Operation</b>				
Sales Volume	mn ton	5.7	4.8	(15.8)%
Production Volume	mn ton	5.5	5.0	(9.1)%
Stripping Ratio (SR)	x	12.9	13.1	1.6 %
FOB Cash Cost <sup>a)</sup>	US\$/ton	34.5	40.0	15.9 %
NEWC Index Price	US\$/ton	66.0	88.5	34.1 %
Average Selling Price (ASP)	US\$/ton	45.4	61.1	34.6 %
<b>Financial Performance</b>				
<b>Profit (Loss)</b>		<b>2016</b>	<b>2017</b>	<b>Changes</b>
Sales <sup>b)</sup>	US\$ mn	258.3	310.7	20.3 %
Cost of Goods Sold <sup>b)</sup>	US\$ mn	205.0	216.6	5.7%
Gross Profit <sup>b)</sup>	US\$ mn	53.3	94.1	76.5 %
Operating Profit <sup>b)</sup>	US\$ mn	30.1	64.1	113.0 %
EBITDA <sup>b) &amp; c)</sup>	US\$ mn	39.2	74.8	90.8 %
Profit for the Period	US\$ mn	14.6	41.4	183.6 %
Profit for the Period after MI	US\$ mn	2.8	21.4	664.3 %
EBITDA/ton <sup>d)</sup>	US\$/ton	7.1	15.3	115.5 %
Operating Cash Flows <sup>e)</sup>	US\$ mn	28.3	16.5	(41.7)%
Capex	US\$ mn	9.3	9.0	(3.2) %
<b>Balance Sheet</b>		<b>Dec'16</b>	<b>Dec' 17</b>	<b>Changes</b>
Interest Bearing Debt	US\$ mn	51.3	98.8	25.1 %
Cash and Cash Equivalents	US\$ mn	37.6	74.7	98.7 %
Net Debt <sup>f)</sup>	US\$ mn	13.7	24.1	75.9 %
Total Assets	US\$ mn	261.6	348.4	33.2 %
Total Liabilities	US\$ mn	113.8	173.6	52.5 %
Total Equity	US\$ mn	147.7	174.8	18.3 %
<b>Financial Ratios</b>				
Gross Profit Margin	%	20.6%	30.3%	
EBITDA Margin	%	15.2%	24.1%	
Operating Profit Margin	%	11.7%	20.6%	

**Notes:**

<sup>(a)</sup> FOB Cash Cost = COGS including royalty and selling expense – depreciation and amortization

<sup>(b)</sup> Includes profit from construction of Sulbagut-1 power project (based on accounting treatment PSAK 34 and ISAK 16)

<sup>(c)</sup> EBITDA = Gross profit – selling expenses G&A + depreciation and amortization

<sup>(d)</sup> EBITDA/ton = Coal mining business only

<sup>(e)</sup> Includes advance paid to SEPC for construction of Sulbagut-1 power project amounting to US\$ 38.6 mn and adjusted with change in deferred stripping during the year

<sup>(f)</sup> Net Debt = interest bearing debt – cash and cash equivalents

## FINANCIAL

### PROFIT (LOSS)

#### SALES

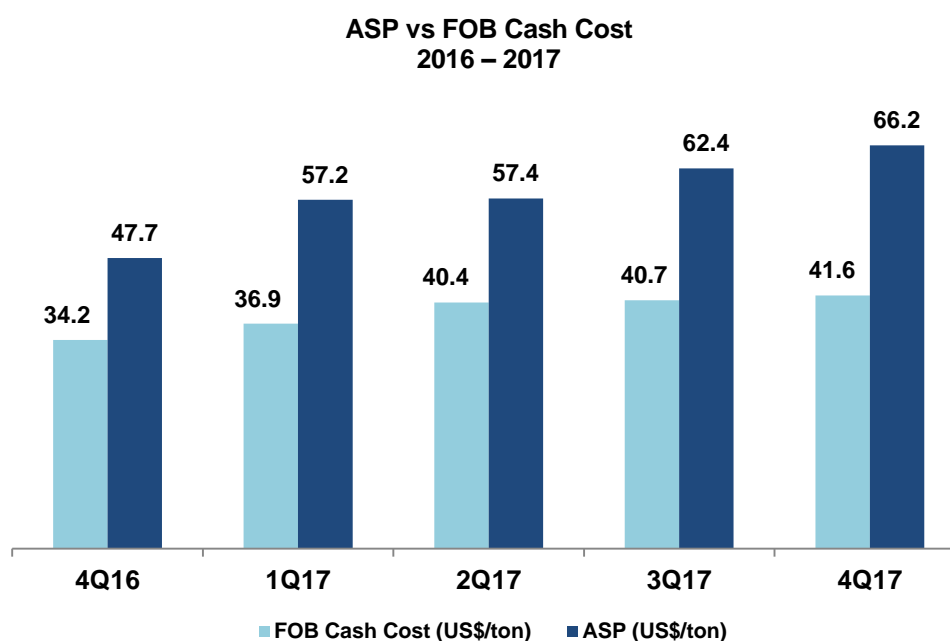
The Company recorded sales of US\$ 310.7 million in 2017, or 20.3% higher compared to that in 2016 as a result of much higher ASP despite lower sales volume and recognition of revenue from construction of Sulbagut-1 power project (based on accounting treatment PSAK 34 and ISAK 16).

#### COST OF GOODS SOLD

Cost of goods sold rose slightly by 5.7% y-o-y, reflecting a combination of construction cost of Sulbagut-1 power project and to a lesser extent, adjusted mining contractor tariff due to the higher coal index price.

#### EBITDA

A 90.8% y-o-y increase in EBITDA to US\$ 74.8 million in 2017 from US\$ 39.2 million in 2016 significantly increased EBITDA margin from 15.2% to 24.1% over the period.



#### PROFIT FOR THE PERIOD

After taking into account finance cost of US\$ 6.0 million and tax expense of US\$ 18.8 million, the Company booked total profit for the period of US\$ 41.4 million in 2017, up 183.6% y-o-y from the previous year.

#### FINANCIAL RATIOS

Gross profit margin, EBITDA margin, and operating margin rose y-o-y from 20.6% in 2016 to 30.3% in 2017, from 15.2% in 2016 to 24.1% in 2017, and from 11.7% in 2016 to 20.6% in 2017 respectively. This was mainly attributable to the higher ASP.

## BALANCE SHEET

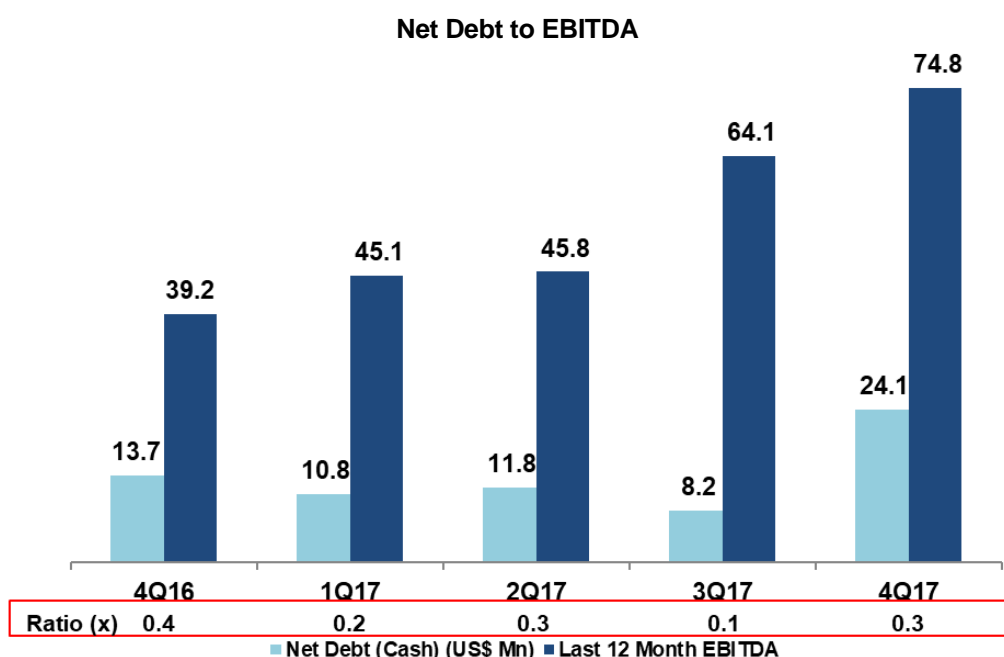
### ASSETS

Total assets as at 31<sup>st</sup> December 2017 compared to 31<sup>st</sup> December 2016 rose by 33.1% to US\$ 348.3 million mainly due to 98.7% higher cash and cash equivalent position to US\$ 74.7 million, 284.6% higher advances to US\$ 40.0 million, 57.3% higher inventories to US\$ 24.7 million, and receivables from construction of Sulbagut-1 power plant worth US\$ 14.2 million.

### LIABILITIES

Total liabilities as at 31<sup>st</sup> December 2017 increased 52.5% to US\$ 173.5 million from US\$ 113.8 million as at 31<sup>st</sup> December 2016, mainly due to 92.6% higher interest bearing debt position to US\$ 98.8 million over the period. In 2017, the Company and PT Gorontalo Listrik Perdana (GLP) secured loan facility of US\$ 50.0 million and US\$ 171.8 million from Bank Mandiri respectively. The nominal amount of loan to the Company and GLP as of 31<sup>st</sup> December 2017 amounted to US\$ 48.8 million and US\$ 28.1 million respectively.

Meanwhile, leverage metrics, such as Net Debt to EBITDA ratio, have constantly recorded stability from quarter to quarter since 4Q16 at below 0.5x.



### EQUITY

Total equity as at 31<sup>st</sup> December 2017 increased by 18.3% to US\$ 174.8 million, from US\$ 147.7 million as at 31<sup>st</sup> December 2016, which was attributable to current earnings over the period.

## CASH FLOWS

### CASH FLOWS FROM OPERATING ACTIVITIES

Net cash flows from operating activities in 2017 came in at US\$ 16.5 million, 41.7% lower than US\$ 28.3 million in 2016. This was mainly due to US\$ 38.6 million cash outflow as part of a series of payments for the construction of Sulbagut-1 and Sulut-3 power projects. In terms of operations from the mining business, cash received from customers rose 7.0% from US\$ 272.7 million in 2016 to US\$ 291.3 million in 2017, while payments to suppliers declined 8.0% from US\$ 192.9 million to US\$ 177.4 million over the same period.

### CASH FLOWS FROM INVESTING ACTIVITIES

Net cash flows from investing activities were realized at US\$ 28.2 million in 2017, an increase from US\$ 11.0 million in 2016. This was due to placement in restricted cash in bank in 2017 related to Sulbagut-1 power project amounting to US\$ 16.7 million.

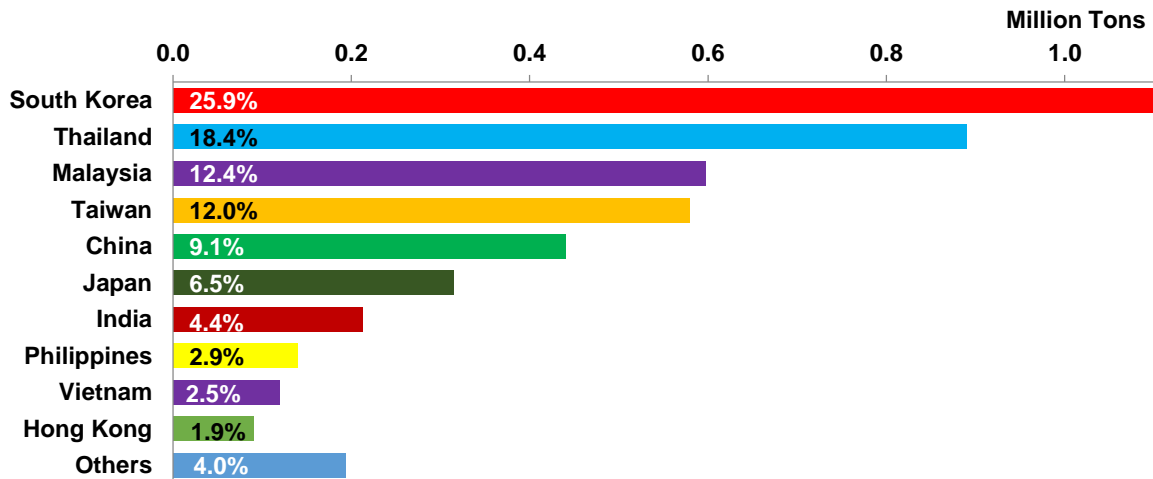
## CASH FLOWS FROM FINANCING ACTIVITIES

Net cash flows from financing activities increased from (US\$ 28.0) million in 2016 to US\$ 29.0 million in 2017 mainly resulting from net proceeds of Bank Mandiri's loans and payment of dividends to non-controlling shareholders of subsidiaries.

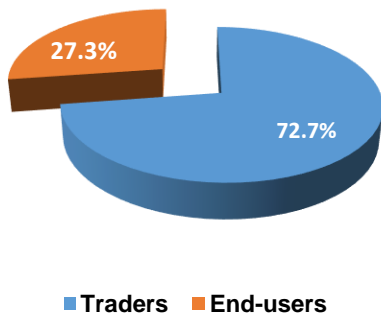
## MARKETING

In 2017, the company predominantly sold its coal to South Korea, Thailand, Malaysia, and Taiwan. As a percentage of total customer base, the compositions of end-users and traders in 2017 remained stable, which were recorded at 27.3% and 72.7% respectively compared to 28.5% and 71.5% respectively in 2016. As of 2017, a predominant mixture of mid-upper quality of 5600 - 5800 GAR coal still accounted for TOBA's largest product composition. Around 39.0% of total sales volume by product was contributed by the 5600 GAR CV, 14.0% by the higher 5800 GAR and 5900 GAR low sulphur (LS), and 43.6% by the lower 4800 - 5200 GAR coal. Major international traders and notable end-users, such as major regional power generation companies, account for the Company's main dedicated customers.

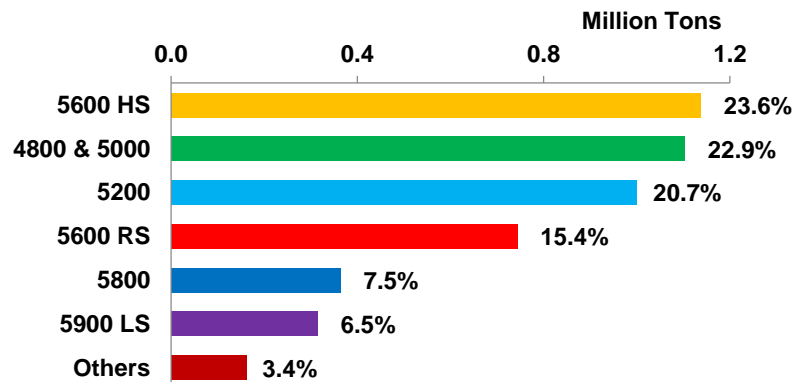
**Sales Destinations by Country as per 2017**  
Total Sales Volume : 4.8 Million Tons



**Total Sales by Customer Type**



**Total Sales by Product**



Note : High Sulphur (max 2.0%), Regular Sulphur (max 1.0%),  
Low Sulphur (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<sup>9)</sup> and Shanghai Electric Power Construction Co. Ltd (SEPC) with 20%.

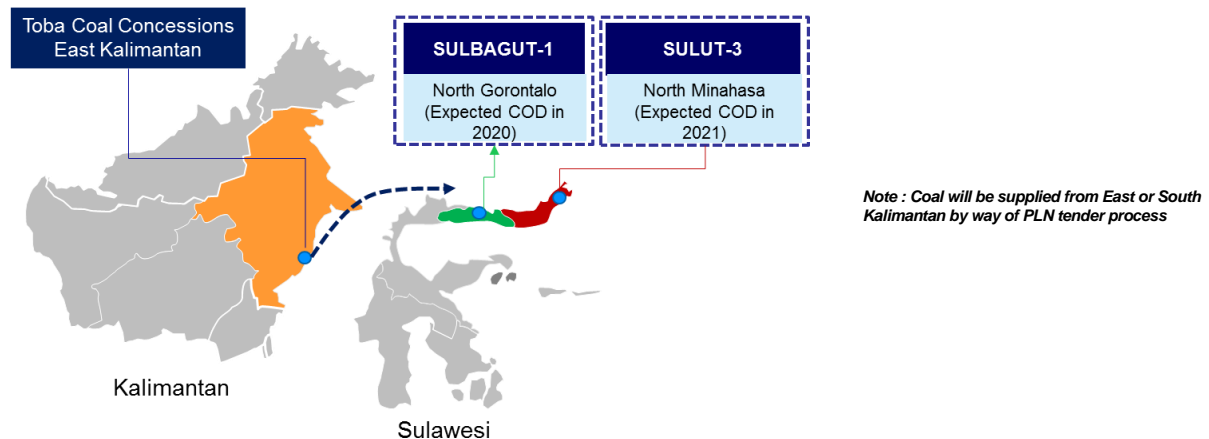
SEPC is the Engineering, Procurement, and Construction (EPC) contractor. The signing of the Power Purchase Agreement (PPA) with the State Utility PT Perusahaan Listrik Negara (PLN) was held on 14<sup>th</sup> July 2016, following the Company's participation in PLN's open tender process through the Independent 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 1<sup>st</sup> 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 31<sup>st</sup> March 2017, MCL was established as an IPP through Toba Energi (90%) and Sinohydro Corporation Limited (10.0%) to develop a 2x50 MW CFPP Sulut-3 project in North Minahasa Regency, North Sulawesi Province. On 7<sup>th</sup> April 2017, MCL signed a 25-year PPA with PLN with the condition of fulfilling certain requirement as per the PPA. 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 13<sup>th</sup> 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:

<sup>(9)</sup> This includes 20% of PT Toba Sejahtra's (TS) ownership in GLP. On 4<sup>th</sup> February, 2016, the Company has 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.

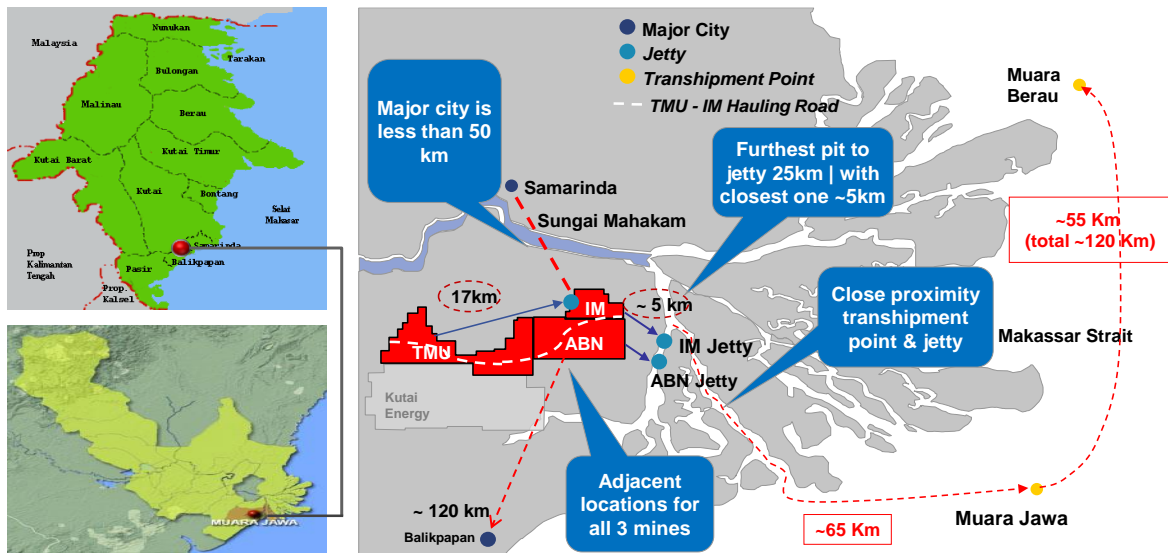
## SUBSEQUENT EVENT

On 10<sup>th</sup> January, 2018, MCL issued bank guarantee amounting to US\$ 18.8 million to PLN in relation to the requirement under PPA using the non-cash loan facility of US\$ 25.0 million from Bank Mandiri. This guarantee will be valid at maximum until the commercial operation date (COD) of the power plant. Following the issuance of such bank guarantee and fulfillment of other requirements, MCL has received from PLN the Certificate of Effectiveness of PPA dated 10<sup>th</sup> January, 2018.

## 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 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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